

**LUTHERAN SOCIAL SERVICES
OF THE SOUTHWEST**

**FINANCIAL STATEMENTS,
INDEPENDENT AUDITOR'S REPORT
AND SINGLE AUDIT REPORTS**

**FOR THE SIX MONTH PERIOD ENDED
JUNE 30, 2013**

January 16, 2014

**Lumbard & Associates, P.L.L.C.
4143 North 12th Street, Suite 100
Phoenix, AZ 85014
(602) 274-9966
Fax (602) 265-0021
www.lumbard.com**

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
TABLE OF CONTENTS
JUNE 30, 2013

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3 - 4
Statement of Activities	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 17
SUPPLEMENTARY INFORMATION	
Schedule of Functional Expenses	18
Schedule of Program Revenues, Operating, and Capitalized Expenses	19
Schedule of Expenditures of Federal Awards	20 - 21
Notes to Schedule of Expenditures of Federal Awards	22
SINGLE AUDIT SECTION	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	23 - 24
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	25 - 26
Summary of the Auditor's Results	27
Summary Schedule of Prior-Year Audit Findings and Questioned Costs	28



Lisa B. Lumbarb, C.P.A., C.G.F.M.

Carlos E. Valdivia, C.P.A.
C. Cristine Swan, C.P.A.
A. Jake Litwiller
Jeffrey D. Cospier
Maria G. Ward

Stephanie M. Canez

American Institute of
Certified Public
Accountants
Government Audit
Quality Center

Government Finance
Officers Association

Arizona Society of
Certified Public
Accountants

Association of
Government
Accountants

Arizona Hispanic
Chamber of
Commerce

Independent Auditor's Report

To the Board of Directors of
Lutheran Social Services of the Southwest

Report on the Financial Statements

We have audited the accompanying financial statements of Lutheran Social Services of the Southwest (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the six month period then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.

Auditor's Responsibility (Continued)

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Social Services of the Southwest as of June 30, 2013, and the changes in its net assets and its cash flows for the six month period then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, the schedule of functional expenses, and the schedule of program revenues, and operating and capitalized expenses, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2014, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control over financial reporting and compliance.

Lumbard & Associates, PLLC

January 16, 2014
Phoenix, Arizona

FINANCIAL STATEMENTS

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013**

<u>ASSETS</u>	<u>2013</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 397,977
Investments	20,480
Accounts receivable from grantors (net of allowance)	1,136,506
Pledges receivable	650
Other receivables	23,979
Prepaid and other current assets	<u>102,611</u>
TOTAL CURRENT ASSETS	<u>1,682,203</u>
PROPERTY AND EQUIPMENT	
Equipment	44,831
Software	49,411
Vehicles	755,698
Leasehold improvements	<u>19,298</u>
TOTAL PROPERTY AND EQUIPMENT	869,238
Less: Accumulated depreciation	<u>(482,750)</u>
NET PROPERTY AND EQUIPMENT	<u>386,488</u>
TOTAL ASSETS	<u>\$ 2,068,691</u>

Read the accompanying notes to the financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013**

<u>LIABILITIES</u>	<u>2013</u>
CURRENT LIABILITIES	
Accounts payable	\$ 284,412
Accrued payroll and taxes	284,678
Compensated absences	93,081
Other accrued liabilities	4,774
Deferred revenue	129,590
Line of credit	100,000
Current portion of long-term debt	<u>42,253</u>
TOTAL CURRENT LIABILITIES	<u>938,788</u>
LONG-TERM LIABILITIES	
Capital leases payable	27,287
Notes payable	91,075
Less: Current portion of long-term debt	<u>(42,253)</u>
TOTAL LONG-TERM DEBT	<u>76,109</u>
TOTAL LIABILITIES	<u>1,014,897</u>
NET ASSETS	
Unrestricted	866,038
Temporarily restricted	182,276
Permanently restricted	<u>5,480</u>
TOTAL NET ASSETS	<u>1,053,794</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,068,691</u>

Read the accompanying notes to the financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
STATEMENT OF ACTIVITIES
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2013**

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND OTHER SUPPORT				
Contributions from :				
Churches	\$ 52,899	\$ 53,862	\$ -	\$ 106,761
Corporations	4,262	17,333	-	21,595
Individuals	6,523	3,166	-	9,689
United Way	5,427	18,044	-	23,471
Foundations	1,500	22,186	-	23,686
Federal grants	-	4,496,680	-	4,496,680
Other grants	-	682,051	-	682,051
Program fees	-	112,329	-	112,329
Interest and dividend income	(543)	1,197	-	654
Investment income/(loss)	-	-	370	370
Other income	5,674	5,761	-	11,435
Net assets released from restrictions	5,399,808	(5,399,808)	-	-
TOTAL REVENUES AND OTHER SUPPORT	5,475,550	12,801	370	5,488,721
EXPENSES				
Program costs:				
Aging and disability services	2,165,274	-	-	2,165,274
Partners in caring	173,513	-	-	173,513
Children and youth	618,529	-	-	618,529
Refugee focus	1,995,172	-	-	1,995,172
Administrative support	605,850	-	-	605,850
Fund development	52,487	-	-	52,487
TOTAL EXPENSES	5,610,825	-	-	5,610,825
CHANGE IN NET ASSETS FROM OPERATIONS	(135,275)	12,801	370	(122,104)
TOTAL CHANGE IN NET ASSETS	(135,275)	12,801	370	(122,104)
NET ASSETS, Beginning of year	1,001,313	169,475	5,110	1,175,898
NET ASSETS, End of year	\$ 866,038	\$ 182,276	\$ 5,480	\$ 1,053,794

Read the accompanying notes to the financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2013**

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2013</u>
Change in Net Assets	\$ (122,104)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:	
Change to allowance for denied claims	1,233
Depreciation	61,090
Unrealized (gain) / loss on investments	(370)
(Increase)/decrease in:	
Grants receivable	(134,422)
Pledges receivable	2,050
Other receivables	(7,090)
Prepaid expenses	18,296
Increase/(decrease) in:	
Accounts payable	87,543
Accrued payroll and taxes	(2,689)
Compensated absences	60,711
Other accrued liabilities	(4,857)
Deferred revenues	68,241
NET CASH PROVIDED / (USED) BY OPERATING ACTIVITIES	<u>27,632</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of property and equipment	(23,770)
NET CASH PROVIDED / (USED) BY IN INVESTING ACTIVITIES	<u>(23,770)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Advances on line of credit	130,000
Payments on line of credit	(85,000)
Repayments of debt	(16,201)
Capital lease payments	(6,802)
NET CASH PROVIDED / (USED) BY FINANCING ACTIVITIES	<u>21,997</u>
Net increase (decrease) in cash and cash equivalents	25,859
Cash and cash equivalents at beginning of year	<u>372,118</u>
Cash and cash equivalents at end of year	<u>\$ 397,977</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid during the year for interest	<u>\$ 2,413</u>
NON-CASH TRANSACTIONS	
Acquisition of vehicle	
Vehicle	\$ 20,830
Vehicle loan	(20,830)

Read the accompanying notes to the financial statements.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Lutheran Social Services of the Southwest, a not-for-profit corporation, hereinafter referred to as "the Organization," is committed to providing quality human care services that build and strengthen individuals, families and communities. In pursuit of this goal, the Organization offers a multitude of programs and services. *Refugee and Immigration Services* and *Aged and Disability Services* are the Organization's two largest programs.

Other programs serve community members by providing professional counseling, employment services, various senior services, comprehensive case management and basic needs assistance, which consist of distributing food boxes and financial assistance.

The Organization uses a variety of methods to fund its many programs. For the six month period ended June 30, 2013, sources of revenue included contributions from congregations, federal and state contracts, fees for service, and contributions from individuals, foundations, corporations and the United Way.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other assets and liabilities. Revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements of Not-for-Profit Entities*. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor imposed stipulations that they be maintained permanently by the Organization. Generally the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all cash balances with original maturities of less than ninety days to be cash equivalents.

Investments

Investments are recorded at fair value in the accompanying statement of financial position in accordance with ASC 958-320 *Investments – Debt and Equity Securities for Not-for-Profit Entities*. The fair value of investments with readily determinable fair values is based on quoted market prices. Investment income including interest, dividends, and realized/unrealized gains and losses on investments is included in operating income.

The Financial Accounting Standards Board ASC 820 *Fair Value Measurements and Disclosures*, as codified by the Financial Accounting Standards Board, defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

- **Level 1 investments** – Valuation based on unadjusted quoted prices within active markets for identical assets accessible by the Organization (e.g., prices derived from the New York Stock Exchange, NASDAQ, or Chicago Board of Trade).
- **Level 2 investments** – Valuation based on quoted market prices for similar assets within active or inactive markets or information other than quoted market prices observable through market data for substantially the full term of the asset.
- **Level 3 investments** – Valuation based on inputs other than market prices that reflect assumptions about the asset that market participants would use when performing the valuation based on the best information available in the circumstances.

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

Property, Equipment, and Depreciation

Building, equipment, vehicles, and furniture are recorded at cost. Donated assets are recorded at the estimated fair value at the date of gift. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Equipment, and Depreciation (continued)

The Organization's policy at June 30, 2013 was to capitalize assets costing \$5,000 or more and a useful life of more than one year. Depreciation was calculated on the straight-line basis for all assets, as follows:

Vehicles	5-10 years
Furniture and Equipment	3-5 years
Leasehold Improvements	3-5 years

Impairment of long-lived assets – The Organization accounts for long-lived assets in accordance with FASB ASC 360-10-35 *Property, Plant and Equipment – Subsequent Measurement – Impairment or Disposal of Long-Lived Assets*. ASC 360-10-35 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by the amount by which the carrying amount of assets exceeds the fair value of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. Management did not believe impairment indicators were present as of June 30, 2013.

Contributions and Grant Revenues

The Organization accounts for contributions, grants and investment revenues in accordance with the recommendations of the Financial Accounting Standards Board in ASC 958-605-25 *Revenue Recognition of Contributions Received in Not-for-Profit Entities*. As required by ASC 958-605-25, contributions are recognized as revenues or gains in the period in which they are received and grant revenues and investment income received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor or grantor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Deferred Revenue

Resources received are recognized as deferred revenue to the extent that the earnings process has not been completed. These resources are recorded as revenue when the related obligations have been satisfied.

Income Taxes

Income taxes are not provided for in the financial statements since the Organization is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Organization is not classified as a private foundation.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Indirect Costs

The Organization has a federally approved indirect cost rate that is charged to all programs and grants as a reimbursement of general operating costs not directly identifiable with a particular program or grant. Various funders limit the indirect rate that can be charged to their grant funded programs at a rate lower than the federally approved rate of the organization. This situation results in a deficit for the program/grant, unless the Organization is able to acquire additional funding through their fundraising efforts.

NOTE 2- CASH AND CASH EQUIVALENTS

As of June 30, 2013, the carrying amount of the Organization's unrestricted deposits was \$388,777 and cash on hand was \$9,200. Bank balances at June 30, 2013 totaled \$489,656 and were held in long established banking institutions, and management believes risk of loss is minimal. Of the bank balances, 59 percent was covered by federal depository insurance.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 3- RECEIVABLES

Accounts receivable at June 30, 2013 consisted of the following:

Bridgeway Health Solutions	\$ 324,366
First Things First	191,405
United Healthcare - Evercare	140,694
Arizona Department of Economic Security	132,871
Pima Council On Aging	78,115
Administrative Office of the Courts	55,868
Church World Services	54,151
Lutheran Immigration and Refugee Services	47,378
Pinal/Gila Council for Senior Services	26,787
International Rescue Committee	26,187
SEAGO	25,067
Episcopal Migration Ministry	14,769
Area Organization on Aging	11,357
Arizona Youth Partnership	8,222
Maricopa County	6,212
Arizona Community Action Association	5,937
United Way of Southern Arizona	3,188
Phoenix Health Plan	1,047
Jewish Family and Children's Services	144
Mercy Care	83
	<hr/>
Total accounts receivable from grantors at June 30, 2013	1,153,848
Less: Allowance for denials	<u>(17,342)</u>
	<hr/>
Net accounts receivable from grantors at June 30, 2013	<u>\$ 1,136,506</u>
	<hr/>
Other receivables	<u>\$ 23,979</u>

The allowance for denials is calculated based on previous experience. Bad debts are written off after the expiration of the denial rebilling period.

NOTE 4- PLEDGES RECEIVABLES

Pledges receivable at June 30, 2013 consisted of pledges totaling \$650. All pledges are expected to be collected within the next year. Therefore, they were not discounted.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5- PROPERTY AND EQUIPMENT

Property and equipment titled to the Organization as of June 30, 2013 are as follows:

	Balance 12/31/12	Additions	Deletions	Balance 6/30/13
Equipment	\$ 47,852	\$ -	\$ (3,021)	\$ 44,831
Software	58,290		(8,879)	49,411
Vehicles	711,796	43,902	-	755,698
Leasehold improvements	19,298	-	-	19,298
Total Cost	837,236	43,902	(11,900)	869,238
Less: Accumulated depreciation	(434,258)	(61,090)	12,598	(482,750)
Net Property and Equipment	\$ 402,978	\$ (17,188)	\$ 698	\$ 386,488

Vehicles and equipment at a cost of \$53,167 were acquired through capital leases and are included in property and equipment. Accumulated amortization of \$23,684 related to capital leases is included in accumulated depreciation. Depreciation expense for the six month period ended June 30, 2013 was \$61,090, all of which was reflected in net income from operations. Amortization expense of \$4,490 related to capital leases is included in depreciation expense.

NOTE 6- COMPENSATED ABSENCES

The Organization's policy is that upon termination, an employee would be paid for any earned but unused leave time. Accrued compensated absences totaled \$93,081 as of June 30, 2013.

NOTE 7- RETIREMENT PLAN

The Organization has a defined contribution 401(K) plan (the "Plan") covering all eligible employees who participate in the Plan. Eligible plan participants are those employees with at least one year of service, who have worked 1,000 or more hours, and who are age 21 or older. Plan participants can defer from 0% to 17% of their taxable income each year, with a potential match that is determined at the Board's discretion. Participant contributions are 100% vested and matching Organization contributions are vested over a five year period, at a rate of 20% per year. Due to economic conditions, the Organization declared no matching contributions during the first six months of 2013 and as a result there was no retirement contribution expense for the six month period ended June 30, 2013. The Organization does not provide any other post-retirement benefits.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 8- PROGRAM MATCHING REVENUES

The Organization, in fulfilling its grant obligations to Lutheran Immigration and Refugee Services, Church World Services and Episcopal Migration Ministries and the U.S. Department of Housing and Urban Development, is required to obtain in-kind and cash matching dollars. These contributions are deemed not to meet reporting requirements in accordance with the recommendations of the Financial Accounting Standards Board in ASC 958-605-25 *Revenue Recognition in Not-for-Profit Entities* and are, therefore, not included on the Statement of Financial Activities. The Organization's program participants received \$268,888 in total match dollars in the six month period ended June 30, 2013.

NOTE 9- RELATED PARTY TRANSACTIONS

Contributions -The Organization received contributions of \$684 from the Pacific Southwest District and \$6,741 from the English District of the Lutheran Church Missouri Synod (LCMS), and \$40,000 from the Grand Canyon Synod of the Evangelical Lutheran Church of America (ELCA). The Bishop of the ELCA Synods and the President of the LCMS Synods appoint or recommend some of the Organization's Board of Directors. During the six month period ended June 30, 2013, the Organization received contributions from Lutheran congregations in the amount of \$36,689 from the ELCA congregations and \$1,350 from the LCMS congregations.

NOTE 10- REVOLVING LINE OF CREDIT

The Organization has a \$500,000 revolving line of credit, of which \$400,000 was unused at June 30, 2013. Bank advances are payable on demand and carry a variable interest rate, the rate was 4.750% at June 30, 2013. The credit line is secured by substantially all assets of the Organization.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 11- NOTES PAYABLE

Outstanding notes payable and current portions are summarized as follows:

	<u>CURRENT PORTION</u>	<u>LONG TERM PORTION</u>	<u>TOTAL</u>
Note payable, secured by equipment, for \$38,846 dated October 28, 2010. Note is due in monthly installments of \$678.98 including principal and interest at 1.9% for 60 months.	\$ 7,862	\$ 10,828	\$ 18,690
Note payable, secured by equipment, for \$24,075 dated April 8, 2010. Note is due in monthly installments of \$420.94 including principal and interest at 1.9% for 60 months.	4,921	4,243	9,164
Note payable, secured by equipment, for \$20,811 dated May 10, 2010. Note is due in monthly installments of \$346.85 including principal and interest at 0.0% for 60 months.	4,162	3,816	7,978
Note payable, secured by equipment, for \$10,000 dated May 25, 2011. Note is due in monthly installments of \$235.75 including principal and interest at 6.1% for 47 months.	2,604	2,012	4,616
Note payable, secured by equipment, for \$27,057 dated April 27, 2011. Note is due in monthly installments of \$450.95 including principal and interest at 0.0% for 60 months.	5,411	9,921	15,332
Note payable, secured by equipment, for \$21,014 dated May 12, 2012. Note is due in monthly installments of \$367.41 including principal and interest at 1.9% for 60 months.	4,129	12,159	16,288
Note payable, secured by equipment, for \$20,830 dated January 3, 2013. Note is due in monthly installments of \$400.68 including principal and interest at 5.79% for 60 months.	3,788	15,219	19,007
Total Notes Payable	<u>\$ 32,877</u>	<u>\$ 58,198</u>	<u>\$ 91,075</u>

The future scheduled maturities of long-term debt are as follows.

Six Month Period Ending June 30,

2014	\$ 32,877
2015	31,718
2016	15,866
2017	8,168
2018	<u>2,446</u>
Total	<u>\$ 91,075</u>

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 12- CAPITAL LEASES

Capital leases payable and current portions are summarized as follows:

	<u>CURRENT PORTION</u>	<u>LONG TERM PORTION</u>	<u>TOTAL</u>
Capital lease, for vehicle, in the amount of \$14,626 dated September 16, 2011. Lease is payable in monthly installments of \$316.60 including principal, taxes, and interest at 7.0% for 60 months.	\$ 2,925	\$ 4,932	\$ 7,857
Capital lease, for vehicle, in the amount of \$15,739 dated August 19, 2011. Lease is payable in monthly installments of \$339.79 including principal, taxes, and interest at 7.0% for 60 months.	3,148	5,231	8,379
Capital lease, for phone system, in the amount of \$8,272 dated January 1, 2010. Lease is payable in monthly installments of \$229.78 including principal, taxes, and interest for 36 months.	68	-	68
Capital lease, for phone system, in the amount of \$14,530 dated September 13, 2012. Lease is payable in monthly installments of \$396.69 including principal and interest for 48 months.	<u>3,235</u>	<u>7,748</u>	<u>10,983</u>
Total Capital Leases	<u>\$ 9,376</u>	<u>\$ 17,911</u>	<u>\$ 27,287</u>

Capital lease service requirements on all leases to maturity are shown below.

Six Month Period Ending June 30,

2014	\$ 9,376
2015	9,789
2016	<u>8,122</u>
Total	<u>\$ 27,287</u>

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 13- OPERATING LEASES

The Organization has several operating leases for equipment and facilities under various month to month agreements. Minimum future lease payments under the non-cancelable operating leases are as follows:

Six Month Period Ending June 30,

2014	\$ 283,622
2015	17,633
2016	11,591
2017	<u>8,694</u>
Total	<u>\$ 321,540</u>

Operational lease expense for the six month period ended June 30, 2013 was \$286,083.

NOTE 14- CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. Expenditures which may be disallowed by the grantor cannot be fully determined at this time. An allowance has been established for any material disallowed claims for which the Organization suspects it may not be successful in disputing. The Organization expects additional disallowed claims, if any, to be immaterial.

The Organization was not involved, as of the close of field work, in any pending or threatened litigation that could materially affect the Organization's financial position and results of operations at June 30, 2013.

NOTE 15- ADVERTISING

The Organization uses advertising to promote its community programs. Advertising costs are expensed as incurred. For the six month period ended June 30, 2013, advertising and promotions expense totaled \$6,783.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 16- RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets:

Program	Balance 12/31/12	Net Activity	Balance 6/30/13
Partners in Caring	\$ 8,580	\$ -	\$ 8,580
Refugee & Immigration Services	72,075	16,838	88,913
Children and Youth	88,820	(4,037)	84,783
Total	<u>\$ 169,475</u>	<u>\$ 12,801</u>	<u>\$ 182,276</u>

The net activity for the six month period represents the difference between the amount of temporarily restricted donations received for the program and expenses incurred in carrying out the program for the six month period.

Permanently Restricted Net Assets:

Program	Balance 12/31/12	Net (Loss)	Balance 6/30/13
Endowment Fund	\$ 5,110	\$ 370	\$ 5,480

NOTE 17- CONCENTRATION OF RISK

During the fiscal six month period ended June 30, 2013, the Organization received approximately 40% of its funding from Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Citizens. Loss of these programs could adversely impact the Organization's current programs.

NOTE 18- SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 16, 2014, which is the date the financial statements were available to be issued.

As part of the Organization's strategy to expand its Aging and Disability Services program areas, the Organization is in the process of completing an asset purchase of an entity delivering services to individuals with developmental disabilities. As of the report date, the Organization is unable to estimate the full financial impact of this event on its operations.

SUPPLEMENTARY INFORMATION

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2013**

	Program Costs					Total Program Costs	Support Services		Fund Development	Total
	Aging and Disability Services	Partners in Caring	Children and Youth	Refugee Focus			Administrative Costs			
Salaries and wages	\$ 1,568,675	\$ 71,939	\$ 302,841	\$ 770,375	\$ 2,713,830	\$ 308,194	\$ 32,295	\$ 3,054,319		
Fringe benefits	305,253	12,908	58,761	148,175	525,097	60,176	9,844	595,117		
Occupancy	38,838	19,575	36,622	138,099	233,134	49,495	70	282,699		
Telephone	16,622	6,171	10,149	11,193	44,135	19,107	2,124	65,366		
Travel	3,620	2,775	18,500	9,132	34,027	1,355	954	36,336		
Transportation	23,194	6,805	8,237	40,206	78,442	2,963	1,919	83,324		
Supplies	13,762	4,615	72,340	25,986	116,703	23,114	942	140,759		
Contractual	10,387	21,541	15,755	48,977	96,660	124,572	2,070	223,302		
Training	1,815	-	1,032	280	3,127	3,620	-	6,747		
Supportive services	139,709	24,308	93,804	772,980	1,030,801	-	-	1,030,801		
Interest	808	15	93	-	916	1,329	168	2,413		
Depreciation	14,040	2,861	395	29,769	47,065	11,925	2,101	61,091		
Bad debt	28,551	-	-	-	28,551	-	-	28,551		
Total Expenses	\$ 2,165,274	\$ 173,513	\$ 618,529	\$ 1,995,172	\$ 4,952,488	\$ 605,850	\$ 52,487	\$ 5,610,825		

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF PROGRAM REVENUES, OPERATING, AND CAPITALIZED EXPENSES
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2013**

	Aging and Disability Services	Partners in Caring	Children and Youth	Refugee and Immigration Services	Administrative Services	Fund Development	Total
Program revenues and support Gains	\$ 2,320,385 39	\$ 176,462 -	\$ 675,316 -	\$ 2,239,902 -	\$ 9,274 331	\$ 67,012 -	\$ 5,488,351 370
Total program revenues, gains, and support	<u>2,320,424</u>	<u>176,462</u>	<u>675,316</u>	<u>2,239,902</u>	<u>9,605</u>	<u>67,012</u>	<u>5,488,721</u>
Direct expenses	2,165,274	173,513	618,529	1,995,172	605,850	52,487	5,610,825
Indirect expenses	234,990	15,979	61,916	141,969	(461,034)	6,180	-
Total direct and indirect expenses	<u>2,400,264</u>	<u>189,492</u>	<u>680,445</u>	<u>2,137,141</u>	<u>144,816</u>	<u>58,667</u>	<u>5,610,825</u>
Program revenues over (under) program operating and capitalized expenses	\$ (79,840)	\$ (13,030)	\$ (5,129)	\$ 102,761	\$ (135,211)	\$ 8,345	\$ (122,104)

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Six Month Period Ended June 30, 2013

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenses Recognized
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through the Department of Economic Security Refugee Resettlement Program Refugee and Entrant Assistance - Discretionary Grants	93.576	DE081194001/DE091194001/DE081955001/DE091195001	\$ 68,840
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	DE081194001/DE091194001/DE081955001/DE091195001	349,438
Refugee and Entrant Assistance - State Administered Programs	* 93.566	DES0700001A1/DE081194001/DE091194001/DE081955001/DE091195001	372,836
Passed through Lutheran Immigration Refugee Service Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	90RV0048/02, 90RV0048/03, 90RV0062/01	260,816
Passed through Church World Service Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	90RV0052/90RV0120	225,261
Passed through Area Agency on Aging Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers, Special Programs for the Aging-Title III, Part C, Nutrition Services	* 93.044	2011-25-LSS HOME CARE AND 2012-30-LSS HOME CARE	36,062
Passed through Southeastern Arizona Governments Organization Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers, Special Programs for the Aging-Title III, Part C, Nutrition Services	* 93.044	17-11 and 17-12	46,362
Passed through Pinal - Gila Council for Senior Citizens Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers, Special Programs for the Aging-Title III, Part C, Nutrition Services	* 93.044	0010-2302 AMENDMENT #2 and AMENDMENT #4	9,307
Passed through Bridgeway Health Solutions Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Citizens, Special Programs for the Aging-Title III, Part C, Nutrition Services	* 93.044	HEALTH PROVIDER AGREEMENT	923,093
Passed through Evercare of Arizona Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Citizens, Special Programs for the Aging-Title III, Part C, Nutrition Services	* 93.044	HEALTH PROVIDER AGREEMENT	702,601
Passed through Pima Council on Aging Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Citizens, Special Programs for the Aging-Title III, Part C, Nutrition Services	* 93.044	LSS FY2011-2012	208,657
Passed through Episcopal Migration Ministry Refugee and Entrant Assistance - Voluntary Agency Programs	93.567	90RV0053/01/02/3 90RP0052/01/03	83,941
Passed through Pima Council on Aging Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers, Special Programs for the Aging-Title III, Part C - Nutrition Services	* 93.045	HOME DELIVERED MEALS FY 10-11 AND FY11-12	\$ 274,813
Passed through Arizona Youth Partnership Administration for Children and Families Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086	MOU	33,899
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>3,595,926</u>

LUTHERAN SOCIALSERVICES OF THE SOUTHWEST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
For The Six Month Period Ended June 30, 2013

Federal Grantor/Pass Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenses Recognized
<u>U.S. DEPARTMENT OF STATE</u>			
Passed through Episcopal Migration Ministry U.S. Refugee Admissions Program	19.510	SPRMC010CA012	104,937
Passed through Lutheran Immigration and Refugee Services U.S. Refugee Admissions Program	19.510	SPRMC010CA044/SPRMC011CA008/SPRMC012CA006	347,730
Passed Through Church World Service U.S. Refugee Admissions Program	19.510	SPRMC010CA005	<u>287,390</u>
TOTAL U.S. DEPARTMENT OF STATE			<u>740,057</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed through WHEAT Emergency Food and Shelter National Board Program	97.024		<u>26,218</u>
TOTAL US DEPARTMENT OF HOMELAND SECURITY			<u>26,218</u>
<u>DEPARTMENT OF AGRICULTURE</u>			
Passed through Arizona Community Action Association Supplemental Nutrition Assistance Program Administrative Match	10.561	MOU	<u>9,760</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>9,760</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 4,371,961</u></u>

* Denotes a major program
 Read the accompanying notes to the Schedule of Expenditures of Federal Awards

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lutheran Social Services of the Southwest and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SINGLE AUDIT SECTION



Lisa B. Lumbard, C.P.A., C.G.F.M.

Carlos E. Valdivia, C.P.A.

C. Cristine Swan, C.P.A.

A. Jake Litwiller

Jeffrey D. Cospers

Maria G. Ward

Stephanie M. Canez

American Institute of
Certified Public
Accountants
Government Audit
Quality Center

Government Finance
Officers Association

Arizona Society of
Certified Public
Accountants

Association of
Government
Accountants

Arizona Hispanic
Chamber of
Commerce

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Lutheran Social Services of the Southwest

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lutheran Social Services of the Southwest (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the six month period then ended, and the related notes to the financial statements, and have issued our report thereon dated January 16, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lutheran Social Services of the Southwest's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lutheran Social Services of the Southwest's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors of
Lutheran Social Services of the Southwest

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lutheran Social Services of the Southwest's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lumbard & Associates, PLLC

Phoenix, Arizona

January 16, 2014



Lisa B. Lumbard, C.P.A., C.G.F.M.

Carlos E. Valdivia, C.P.A.
C. Cristine Swan, C.P.A.
A. Jake Litwiller
Jeffrey D. Cospier
Maria G. Ward

Stephanie M. Canez

American Institute of
Certified Public
Accountants
Government Audit
Quality Center

Government Finance
Officers Association

Arizona Society of
Certified Public
Accountants

Association of
Government
Accountants

Arizona Hispanic
Chamber of
Commerce

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Lutheran Social Services of the Southwest

Report on Compliance for Each Major Federal Program

We have audited Lutheran Social Services of the Southwest's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lutheran Social Services of the Southwest's major federal programs for the six month period ended June 30, 2013. Lutheran Social Services of the Southwest's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lutheran Social Services of the Southwest's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lutheran Social Services of the Southwest's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lutheran Social Services of the Southwest's compliance.

To the Board of Directors of
Lutheran Social Services of the Southwest

Opinion on Each Major Federal Program

In our opinion, Lutheran Social Services of the Southwest complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the six month period ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Lutheran Social Services of the Southwest is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lutheran Social Services of the Southwest's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lutheran Social Services of the Southwest's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Stumbar & Associates, PLLC

Phoenix, Arizona
January 16, 2014

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SUMMARY OF AUDITOR'S RESULTS
as of June 30, 2013**

Financial Statements

Type of auditor's report issued: Unqualified opinion

Internal control over financial reporting:

Material weaknesses identified: No

Significant deficiencies identified: No

Noncompliance material to financial statements noted: No

Single Audit

Internal control over major programs:

Material weaknesses identified: No

Significant deficiencies identified: No

Type of report issued on compliance for major programs: Unqualified opinion

Findings reported under Section 510(a): None

Major programs: Special Programs for the Aging - CFDA #93.044 and #93.045

Refugee and Entrant Assistance - CFDA #93.566

Dollar threshold distinguishing between Type A and Type B programs: \$300,000

Auditee risk: The auditee did not qualify as a low-risk auditee under §.530.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013**

There were no findings reported in the prior year.