

**LUTHERAN SOCIAL SERVICES
OF THE SOUTHWEST**

**YEARS ENDED JUNE 30, 2016
AND 2015**

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

YEARS ENDED JUNE 30, 2016 AND 2015

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Independent Auditors' Report

Board of Directors and Management
Lutheran Social Services of the Southwest
Phoenix, Arizona

We have audited the accompanying financial statements of Lutheran Social Services of the Southwest (the Organization), which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years 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 U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards 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 from 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 auditors' 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 Organization'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. 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, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 18, 2017, 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 the 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.

Beach Fleishman PC

Phoenix, Arizona
January 18, 2017

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

ASSETS

	2016	2015
Current assets:		
Cash and cash equivalents	\$ 224,587	\$ 367,996
Accounts receivable, net of \$50,837 allowance for doubtful accounts	1,743,481	1,684,767
Pledges receivable, current portion	57,118	39,150
Other receivables	29,885	35,799
Prepaid expenses and deposits	105,262	101,038
Total current assets	2,160,333	2,228,750
Property and equipment, net	408,413	392,296
Pledges receivable, net of current portion	109,143	108,393
Other assets	67,224	74,651
	\$ 2,745,113	\$ 2,804,090

LIABILITIES AND NET ASSETS

Current liabilities:		
Current portion of long-term debt	\$ 58,671	\$ 46,043
Current portion of capital lease obligations	4,320	14,850
Accounts payable	453,186	304,980
Accrued expenses	514,733	499,440
Deferred revenue	43,575	43,793
Total current liabilities	1,074,485	909,106
Note payable, bank		175,000
Long-term debt, net of current portion	207,628	105,862
Capital lease obligations, net of current portion	5,163	10,828
	1,287,276	1,200,796
Commitments and contingencies		
Net assets:		
Unrestricted:		
Undesignated	1,057,883	1,153,273
Net invested in property and equipment	132,631	214,713
	1,190,514	1,367,986
Temporarily restricted	260,229	228,214
Permanently restricted	7,094	7,094
	1,457,837	1,603,294
	\$ 2,745,113	\$ 2,804,090

See notes to financial statements.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and support:				
Contracts with governmental and other agencies	\$ 14,206,887	\$ -	\$ -	\$ 14,206,887
Program fees	266,479	-	-	266,479
Churches	233,922	-	-	233,922
Corporate	17,680	6,000	-	23,680
Individuals	257,118	103,566	-	360,684
United Way	34,270	-	-	34,270
Donated goods and services	31,378	-	-	31,378
Other revenue	22,599	-	-	22,599
Net assets released from restrictions	77,551	(77,551)	-	-
	<u>15,147,884</u>	<u>32,015</u>	<u>-</u>	<u>15,179,899</u>
Expenses:				
Program services	13,620,718	-	-	13,620,718
Supporting services	1,706,806	-	-	1,706,806
	<u>15,327,524</u>	<u>-</u>	<u>-</u>	<u>15,327,524</u>
Changes in net assets before nonoperating activities	<u>(179,640)</u>	<u>32,015</u>	<u>-</u>	<u>(147,625)</u>
Nonoperating income:				
Interest income	106	-	-	106
Gain on disposal of assets	2,062	-	-	2,062
	<u>2,168</u>	<u>-</u>	<u>-</u>	<u>2,168</u>
Increase (decrease) in net assets	<u>(177,472)</u>	<u>32,015</u>	<u>-</u>	<u>(145,457)</u>
Net assets, beginning	<u>1,367,986</u>	<u>228,214</u>	<u>7,094</u>	<u>1,603,294</u>
Net assets, ending	<u>\$ 1,190,514</u>	<u>\$ 260,229</u>	<u>\$ 7,094</u>	<u>\$ 1,457,837</u>

See notes to financial statements.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues and support:				
Contracts with governmental and other agencies	\$ 13,161,694	\$ 6,740	\$ -	\$ 13,168,434
Program fees	286,101	-	-	286,101
Churches	210,632	-	-	210,632
Corporate	28,487	5,000	-	33,487
Individuals	303,830	67,424	-	371,254
Foundations	2,305	-	-	2,305
United Way	31,220	-	-	31,220
Donated goods and services	7,938	-	-	7,938
Other revenue	117,370	-	-	117,370
Net assets released from restrictions	146,112	(146,112)	-	-
	14,295,689	(66,948)	-	14,228,741
Expenses:				
Program services	12,505,951	-	-	12,505,951
Supporting services	1,365,599	-	-	1,365,599
	13,871,550	-	-	13,871,550
Changes in net assets before nonoperating activities	424,139	(66,948)	-	357,191
Nonoperating revenue (expense):				
Other	(1,354)	-	-	(1,354)
Gain on disposal of assets	11,269	-	-	11,269
	9,915	-	-	9,915
Increase (decrease) in net assets	434,054	(66,948)	-	367,106
Net assets, beginning	933,932	295,162	7,094	1,236,188
Net assets, ending	\$ 1,367,986	\$ 228,214	\$ 7,094	\$ 1,603,294

See notes to financial statements.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	Program services				Supporting services			Total expenses	
	Aging and Disability Services	Partners in Caring	Children and Family Services	Refugee Focus	Total program services	Management and general	Fundraising/marketing		Total supporting services
Salaries	\$ 4,631,205	\$ 87,001	\$ 734,235	\$ 1,818,669	\$ 7,271,110	\$ 714,114	\$ 217,435	\$ 931,549	\$ 8,202,659
Employee benefits	679,192	9,611	106,576	298,873	1,094,252	100,668	41,321	141,989	1,236,241
Occupancy	5,310,397	96,612	840,811	2,117,542	8,365,362	814,782	258,756	1,073,538	9,438,900
Telephone	82,938	12,476	50,308	313,268	458,990	109,727	13,191	122,918	581,908
Travel	35,665	6,585	26,661	33,909	102,820	24,206	3,920	28,126	130,946
Transportation	29,319	4,700	48,370	23,160	105,549	25,643	11,279	36,922	142,471
Supplies (including in-kind \$31,378)	44,433	11,478	13,488	104,315	173,714	4,072	3,967	8,039	181,753
Contractual	77,745	5,423	72,273	151,542	306,983	62,394	9,095	71,489	378,472
Training	120,796	18,673	781,032	104,737	1,025,238	294,741	32,465	327,206	1,352,444
Supportive services	4,143	-	1,480	7,740	13,363	220	1,163	1,383	14,746
Interest	289,508	31,982	576,910	1,835,756	2,734,156	142	-	142	2,734,298
Depreciation and amortization	1,006	108	844	213	2,171	9,056	126	9,182	11,353
Bad debts	26,875	4,551	13,705	53,953	99,084	23,271	4,590	27,861	126,945
	231,913	-	-	1,375	233,288	-	-	-	233,288
	<u>\$ 6,254,738</u>	<u>\$ 192,588</u>	<u>\$ 2,425,882</u>	<u>\$ 4,747,510</u>	<u>\$ 13,620,718</u>	<u>\$ 1,368,254</u>	<u>\$ 338,552</u>	<u>\$ 1,706,806</u>	<u>\$ 15,327,524</u>

See notes to financial statements.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2015

	Program services				Supporting services			Total expenses
	Aging and Disability Services	Partners in Caring	Children and Family Services	Refugee Focus	Total program services	Management and general	Fundraising/marketing	
Salaries	\$ 4,583,110	\$ 87,274	\$ 540,931	\$ 1,746,668	\$ 6,957,983	\$ 583,428	\$ 82,898	\$ 7,624,309
Employee benefits	654,040	9,776	80,484	281,990	1,026,290	80,655	22,471	1,129,416
Occupancy costs	5,237,150	97,050	621,415	2,028,658	7,984,273	664,083	105,369	8,753,725
Telephone	85,313	12,645	42,887	244,883	385,728	101,072	6,848	493,648
Travel	43,862	6,778	16,826	26,484	93,950	36,015	2,278	132,243
Transportation	31,895	9,128	31,523	26,221	98,767	17,715	2,231	118,713
Supplies (including in-kind \$7,938)	42,639	13,687	11,500	106,302	174,128	4,277	3,251	181,656
Contractual	68,633	8,062	50,558	113,269	240,522	63,492	5,750	309,764
Training	52,896	34,595	597,460	120,080	805,031	264,206	34,824	1,104,061
Supportive Services	2,902	12,000	428	1,950	17,280	123	600	18,003
Interest	310,628	33,010	164,109	1,957,566	2,465,313	-	-	2,465,313
Depreciation and amortization	588	151	630	-	1,369	31,080	203	32,652
Bad debts	34,683	6,145	5,356	49,716	95,900	15,789	4,203	115,892
	122,346	-	6,156	15,188	143,690	-	2,190	145,880
	<u>\$ 6,033,535</u>	<u>\$ 233,251</u>	<u>\$ 1,548,848</u>	<u>\$ 4,690,317</u>	<u>\$ 12,505,951</u>	<u>\$ 1,197,852</u>	<u>\$ 167,747</u>	<u>\$ 13,871,550</u>

See notes to financial statements.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (145,457)	\$ 367,106
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	126,945	115,892
Bad debts	233,288	145,880
Gain on disposal of assets	(2,062)	(11,269)
Changes in operating assets and liabilities:		
Accounts receivable	(292,002)	(300,040)
Pledges receivable	(18,718)	(147,393)
Other receivables	5,914	(10,749)
Prepaid expenses and deposits	(4,224)	(21,714)
Other assets	(85)	1,400
Accounts payable	148,206	(67,523)
Accrued expenses	15,293	(8,384)
Deferred revenue	(218)	(72,641)
Net adjustments	212,337	(376,541)
Net cash provided by (used in) operating activities	66,880	(9,435)
Cash flows from investing activities:		
Purchases of property and equipment	(118,452)	(61,343)
Proceeds from disposal of assets	3,000	41,375
Net cash used in investing activities	(115,452)	(19,968)
Cash flows from financing activities:		
Principal payments on long-term debt	(53,642)	(73,041)
Proceeds from long-term debt	150,000	-
Principal payments on capital lease obligations	(16,195)	(2,914)
Borrowings on note payable, bank	125,000	525,000
Repayments on note payable, bank	(300,000)	(500,000)
Net cash used in financing activities	(94,837)	(50,955)
Net decrease in cash and cash equivalents	(143,409)	(80,358)
Cash and cash equivalents, beginning	367,996	448,354
Cash and cash equivalents, ending	\$ 224,587	\$ 367,996

See notes to financial statements.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

1. Description of organization and summary of significant accounting policies:

Organization:

Lutheran Social Services of the Southwest (LSS-SW or Organization) is a nonprofit organization 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. *Aging and Disability Services* and *Refugee Focus* are the Organization's two largest programs. Other programs serve community members by providing 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. Sources of revenue include contributions from congregations, federal and state contracts, fees for service and contributions from individuals, foundations corporations and the United Way.

Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial statement presentation:

The Organization reports 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. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics are combined into similar categories as follows:

- Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.
- Temporarily restricted - Net assets whose use by the Organization is subject to donor-imposed stipulations that are fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time.
- Permanently restricted - Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the investment return of these assets on continuing operations which may be subject to certain restrictions. These have been classified and reported based on the existence or absence of donor-imposed restrictions.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

1. Description of organization and summary of significant accounting policies (continued):

Revenues and support:

Revenues from governmental and other pass-through agency contracts are reported as exchange transactions based on the contract provisions. Revenues derived from contracts that are based on units of service and fee-for-service are recorded in the period in which the service is provided to eligible recipients. Revenues resulting from cost reimbursement contracts are recorded in the period in which allowable costs are incurred.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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. Endowment contributions are reported as additions to permanently restricted net assets.

Support arising from donated goods and services is recognized in the financial statements at its fair value. Donated services are recognized when the services received meet one of the following criteria:

- (a) create or enhance nonfinancial assets
- (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of all these services may not be reflected in the financial statements because the above criteria are not met.

Program service revenue is recognized when services are provided.

Cash and cash equivalents:

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

All cash and cash equivalents are placed with various credit institutions. At times, such amounts may be in excess of the FDIC insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable:

LSS-SW grants unsecured credit under contracts to its customers that are primarily governmental and nonprofit agencies. LSS-SW considers accounts over 30 days to be past due.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

1. Description of organization and summary of significant accounting policies (continued):

Accounts receivable (continued):

LSS-SW provides an allowance for doubtful accounts based upon prior experience and management's assessment of the collectibility of existing specific accounts. Doubtful accounts are periodically reviewed for collectibility and written off to the allowance when management determines that all reasonable collection efforts were exhausted.

Pledges receivable:

Unconditional pledges receivable are recognized as revenues at their estimated net realizable value in the period received. Pledges receivable that are collectible over future periods are discounted to their net present value. The provision for uncollectible pledges is based on management's estimate of current economic factors, applied as a percentage of gross contribution revenues. Pledges are periodically reviewed for collectibility and written off to the provision at the time of such determination. At June 30, 2016 and 2015, pledges receivable are considered fully collectible, therefore, no allowance for uncollectible pledges has been provided.

Property, equipment, depreciation and amortization:

Property and equipment are stated at cost except for donated equipment, which is recorded at its fair market value at the date of gift. Property and equipment with a value of greater than or equal to \$5,000 and a useful life of more than one year is capitalized. Property and equipment under capital lease is stated at cost or the assets' net present value of future lease payments at the date of the lease. Depreciation and amortization are calculated using the straight-line method over the following estimated useful lives of the assets:

Furniture, fixtures and equipment	3 - 5 years
Leasehold improvements	3 - 5 years
Software	3 - 5 years
Vehicles	3 - 10 years

Deferred revenue:

Deferred revenue represents funding received primarily from the Organization's refugee programs. Revenues are recognized in the period when the related expenses are incurred.

Program expense allocations:

Expenses that can be identified with a specific program are charged directly to the program according to their natural expense classification. Costs incurred that share a common purpose are allocated to programs based on their most current negotiated indirect cost rate.

Income taxes:

The Organization is exempt from income taxes under both federal (Internal Revenue Code Section 501(c)(3)) and Arizona income tax laws, and is classified as other than private foundation. Accordingly, no provision for federal and state income taxes is made. Income from certain activities not directly related to the Organization's tax-exempt purpose, however, may be subject to taxation as unrelated business taxable income (UBTI).

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

1. Description of organization and summary of significant accounting policies (continued):

Income taxes (continued):

GAAP requires management to perform an evaluation of all tax positions taken or expected to be taken in the course of preparing the Organization's tax returns to determine whether the tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for federal and state purposes.

The Organization is only subject to income taxes on UBTI. As a result, the Organization is required to file informational returns for federal and state purposes and, if it has UBTI, federal and state income tax returns. Management has performed its evaluation of tax positions taken on all open tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard.

From time to time, the Organization may be subject to penalties and interest assessed by various taxing authorities, which are classified as management and general expenses, if they occur.

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to June 30, 2016 through January 18, 2017, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Pledges receivable:

	<u>2016</u>	<u>2015</u>
Pledges receivable in less than one year	\$ 57,118	\$ 39,150
Pledges receivable in one to five years	137,848	125,517
Less unamortized discount to present value	<u>(28,705)</u>	<u>(17,124)</u>
	166,261	\$ 147,543
Less current portion	<u>57,118</u>	<u>39,150</u>
Noncurrent portion	<u>\$ 109,143</u>	<u>\$ 108,393</u>

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

3. Property and equipment:

	2016	2015
Artwork	\$ 15,000	\$ 15,000
Equipment	98,736	80,781
Leasehold improvements	19,298	19,298
Software	120,900	49,411
Vehicles	831,631	798,788
	1,085,565	963,278
Less accumulated depreciation and amortization	677,152	570,982
	\$ 408,413	\$ 392,296

4. Note payable, bank:

LSS-SW has a \$500,000 revolving line of credit with Lutheran Church Extension Fund - Missouri Synod, which matures in February 2018. Interest is payable monthly at 4.375% at June 30, 2016 and 2015. The line is collateralized by substantially all assets of the Organization. At June 30, 2016 and 2015, the outstanding balance on the line of credit was \$0 and \$175,000.

5. Accrued expenses:

	2016	2015
Payroll and payroll taxes	\$ 364,548	\$ 356,671
Paid time off	93,869	78,294
Retirement	21,453	23,874
Workers compensation	33,063	38,801
Other	1,800	1,800
	\$ 514,733	\$ 499,440

6. Long-term debt:

	2016	2015
Note payable, Central Arizona Special Services, Inc., payable in monthly installments of \$1,148, without interest, through October 2017, unsecured.	\$ 17,226	\$ 31,006
Notes payable, Nissan Motor Acceptance Corporation, payable in aggregate monthly installments totaling \$3,263, including interest ranging from 0% to 3.99%, expiring at various dates through May 2021, collateralized by vehicles.	106,141	120,899

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

6. Long-term debt (continued):

Note payable, Lutheran Church Extension Fund - Missouri Synod, payable in monthly installments of \$1,545, including interest at 4.375%, through November 2025, collateralized by substantially all assets of the Organization.

	<u>\$ 142,932</u>	<u>\$ -</u>
	266,299	151,905
Less current portion	<u>58,671</u>	<u>46,043</u>
	<u>\$ 207,628</u>	<u>\$ 105,862</u>

Future maturities of long-term debt are as follows:

Year ending <u>June 30,</u>	
2017	\$ 58,671
2018	45,846
2019	42,539
2020	26,390
2021	18,489
Thereafter	<u>74,364</u>
	<u>\$ 266,299</u>

7. Capital lease obligations:

The Organization leases vehicles and office equipment under various capital lease agreements payable in monthly installments through April 2019. The Organization has recorded asset costs of \$46,087 and \$60,713 and accumulated amortization of \$29,977 and \$34,699 at June 30, 2016 and 2015 related to these obligations.

Future minimum annual payments under these capital leases are as follows:

Year ending <u>June 30,</u>	
2017	\$ 5,033
2018	3,914
2019	<u>2,062</u>
	11,009
Less amounts representing interest	<u>1,526</u>
Present value of net minimum payments under capital leases	9,483
Less current portion	<u>4,320</u>
	<u>\$ 5,163</u>

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

8. Temporarily restricted net assets:

	2016			
	Beginning balance	Contributions/ increases	Releases	Ending balance
Fund development	\$ 15,730	\$ 18,109	\$ (12,569)	\$ 21,270
Refugee and immigration services	136,775	84,957	(53,700)	168,032
Partners in caring	<u>75,709</u>	<u>6,500</u>	<u>(11,282)</u>	<u>70,927</u>
	<u>\$ 228,214</u>	<u>\$ 109,566</u>	<u>\$ (77,551)</u>	<u>\$ 260,229</u>
	2015			
	Beginning balance	Contributions/ increases	Releases	Ending balance
Fund development	\$ 8,625	\$ 13,814	\$ (6,709)	\$ 15,730
Refugee and immigration services	188,056	58,917	(110,198)	136,775
Partners in caring	<u>98,481</u>	<u>6,433</u>	<u>(29,205)</u>	<u>75,709</u>
	<u>\$ 295,162</u>	<u>\$ 79,164</u>	<u>\$ (146,112)</u>	<u>\$ 228,214</u>

9. Commitments:

Operating leases:

The Organization leases offices and equipment under noncancelable operating leases expiring at various dates through July 2021. Rent expense for 2016 and 2015 was \$523,630 and \$458,507.

Future minimum lease payments under operating leases are as follows:

Year ending <u>June 30,</u>	
2017	\$ 358,170
2018	239,034
2019	245,007
2020	119,297
2021	<u>11,861</u>
	<u>\$ 973,369</u>

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

10. Contingencies:

Funding:

The Organization received a substantial amount (94% and 93% in 2016 and 2015) of its support from governmental and other pass-through agencies. A significant reduction in the level of this support, if it were to occur, would have a material effect on the programs and activities of the Organization. The governmental funding is subject to compliance audits by the respective governmental agencies. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable. Additionally, the Organization contracts with various agencies that require compliance of the service contract terms. Management believes that they have recorded all contract liabilities at June 30, 2016 and 2015.

11. Concentrations:

For 2016 and 2015, two agencies comprised 27% and three agencies comprised 41% of total revenue. At June 30, 2016, four agencies accounted for 50% of accounts receivable.

12. Program matching revenues:

As part of its grant obligations to Lutheran Immigration and Refugee Services, Church World Services and Episcopal Migration Ministries, and the U.S. Department of Health and Human Services, the Organization is required to obtain in-kind and cash matching dollars. The in-kind contributions do not meet the GAAP reporting requirements and, therefore, are not included in the statement of activities. For 2016 and 2015, the Organization's program participants received \$734,035 and \$700,376 in total matching contributions.

13. Related party transactions:

The Organization receives contributions from various related party organizations. During the years ended June 30, 2016 and 2015, the Organization received \$10,925 and \$8,604 from the English District of the Lutheran Church Missouri Synod (LCMS) and \$81,793 and \$81,152 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 2016 and 2015, the Organization also received contributions from Lutheran congregations in the amount of \$92,705 and \$68,227 from the ELCA congregations and \$8,755 and \$2,750 from the LCMS congregations.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2016 AND 2015

14. Retirement plan:

LSS-SW has a 401(k) retirement plan for its eligible employees. Eligible employees may make contributions to the 401(k) plan not to exceed specified annual ceiling amounts. The Plan can make discretionary matching contributions approved each year by the Board of Directors. The Organization's matching contribution expense was \$12,753 and \$12,711 for 2016 and 2015.

15. Statement of cash flows:

Supplemental disclosure of cash flow information:

Cash paid for interest was \$11,354 and \$32,652 for 2016 and 2015.

Noncash investing and financing information:

During 2016 and 2015, the Organization acquired vehicles with debt totaling \$18,036 and \$112,242.

**LUTHERAN SOCIAL SERVICES OF
THE SOUTHWEST**

SINGLE AUDIT REPORTS

YEAR ENDED JUNE 30, 2016

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

SINGLE AUDIT REPORTS

YEAR ENDED JUNE 30, 2016

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**INDEPENDENT AUDITORS' 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**

Board of Directors and Management
Lutheran Social Services of the Southwest
Phoenix, Arizona

We have audited, in accordance with U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board 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 (the Organization) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 18, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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 the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 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.

Beach Fleischman PC

Phoenix, Arizona
January 18, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY UNIFORM GUIDANCE**

Board of Directors and Management
Lutheran Social Services of the Southwest
Phoenix, Arizona

Report on Compliance for Each Major Federal Program

We have audited Lutheran Social Services of the Southwest's (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization'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 U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Organization'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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization's 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 year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002 and 2016-003. Our opinion on each major federal program is not modified with respect to this matter.

The Organization's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Organization's 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 the Organization'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 circumstance 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 the Uniform Guidance, 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 the Organization'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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Organization as of and for the year ended June 30, 2016, and have issued our report thereon dated January 18, 2017, which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 U.S. generally accepted auditing standards established by the AICPA Accounting Standards Board. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Beach Fleischman PC

Phoenix, Arizona
January 18, 2017

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

Federal Grant/Pass-Through Grantor/Program or Cluster Title	Federal CFDA number	Pass-through entity identifying number	Passed through to subrecipients	Federal expenditures
<u>U.S. Department of Agriculture</u>				
State Administrative Matching Supplemental Nutrition Assistance Program	10.561			
Passed through:				
Arizona Community Action Association		Not available	\$ -	\$ 26,101
Total U.S. Department of Agriculture			-	26,101
<u>U.S. Department of State</u>				
U.S. Refugee Admissions Program	19.510			
Passed through:				
Church World Service		SPRMCO16CA1007	-	640,849
Episcopal Migration Ministry		SPRMCO16CA1008	-	396,231
Lutheran Immigration and Refugee Services		SPRMC016CA1002	-	1,092,554
Total U.S. Refugee Admissions Program			-	2,129,634
Total U.S. Department of State			-	2,129,634
<u>U.S. Department of Health and Human Services</u>				
<u>Aging Cluster:</u>				
Special Programs for the Aging_ Title III, Part B_ Grants for Supportive Services and Senior Centers	93.044			
Passed through:				
Area Agency on Aging		2016-25-LSSS	-	9,110
Bridgeway Health Solutions		Not available 860252302BY /	-	2,299,498
Northern Arizona Council		860252302BS	-	79,307
Pinal-Gila Council for Senior Citizens		014-2302	-	2,851
Southeastern Arizona Governments Organization		116-16/117-6	-	25,425
United Healthcare Community Plan		Not available	-	1,703,802
Total Special Programs for the Aging_ Title III, Part B_ Grants for Supportive Services and Senior Centers			-	4,119,993
Special Programs for the Aging_ Title III, Part C_ Nutrition Services	93.045			
Passed through:				
Pima Council on Aging		Not available	-	349,446
Nutrition Services Incentive Program	93.053			
Passed through:				
Pima Council on Aging		Not available	-	43,564
Total Aging Cluster			-	4,513,003
National Family Caregiver Support, Title III, Part E	93.052			
Passed through:				
Area Agency on Aging - Region One		Not available	-	213
Pinal-Gila Council for Senior Citizens		Not available	-	53,224
Southeastern Arizona Governments Organization		Not available	-	2,034
Total National Family Caregiver Support, Title III, Part E			-	55,471

See accompanying notes to schedule of expenditures of federal awards.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2016

<u>Federal Grant/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA number</u>	<u>Pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>Federal expenditures</u>
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086			
Passed through:				
Arizona Youth Partnership		Not available	-	<u>17,922</u>
Refugee and Entrant Assistance_State Administered Programs	93.566			
Passed through:				
Arizona Department of Economic Security		ADES13-038232/ ADES14-050747	-	<u>637,997</u>
Refugee and Entrant Assistance_Voluntary Agency Programs	93.567			
Passed through:				
Church World Service		90RV0120	-	416,280
Episcopal Migration Ministry		90RV0065/02-01	-	221,064
Lutheran Immigration and Refugee Services		90RV0071/02	-	<u>592,090</u>
Total Refugee and Entrant Assistance_Voluntary Agency Programs			-	<u>1,229,434</u>
Refugee and Entrant Assistance_Discretionary Grants	93.576			
Passed through:				
Arizona Department of Economic Security		ADES14-050747	-	194,867
Episcopal Migration Ministry		90RPP0105	-	49,122
International Rescue Committee		Not available	-	18,123
Lutheran Immigration and Refugee Services		90RP0101/03	-	<u>155,565</u>
Total Refugee and Entrant Assistance_Discretionary Grants			-	<u>417,677</u>
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584			
Passed through:				
Arizona Department of Economic Security		ADES14-050747	-	<u>362,337</u>
Social Services Block Grant Program	93.667			
Passed through:				
Area Agency on Aging		Not available	-	47,285
Arizona Department of Child Safety		Not available	-	946,611
Pima Council on Aging		Not available	-	34,921
Pinal-Gila Council for Senior Citizens		Not available	-	156,642
Southeastern Arizona Governments Organization		Not available	-	<u>29,493</u>
Total Social Services Block Grant Program			-	<u>1,214,952</u>
Total U.S. Department of Health and Human Services			-	<u>8,448,793</u>

See accompanying notes to schedule of expenditures of federal awards.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
YEAR ENDED JUNE 30, 2016

<u>Federal Grant/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA number</u>	<u>Pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>Federal expenditures</u>
<u>U.S. Department of Homeland Security</u>				
Citizenship Education and Training Direct	97.010	N/A	<u>-</u>	<u>144,137</u>
Total U.S. Department of Homeland Security			<u>-</u>	<u>144,137</u>
Total expenditures of federal awards			<u>\$ -</u>	<u>\$ 10,748,665</u>

See accompanying notes to schedule of expenditures of federal awards.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

1. Basis of presentation:

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Lutheran Social Services of the Southwest (the Organization) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Lutheran Social Services of the Southwest, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of significant accounting policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in *OMB Circular A-122, Cost Principles for Non-profit organizations* or the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization did not elect to use the ten percent de minimis indirect cost rate as allowed under the *Uniform Guidance*.

3. Catalog of Federal Domestic Assistance (CFDA) Numbers:

The program titles and CFDA numbers or federal identification numbers were obtained from the federal or pass-through grantor or the update to the 2016 *Catalog of Federal Domestic Assistance*.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

SUMMARY OF AUDITORS' RESULTS

Financial Statements

The auditors' report expressed an unmodified opinion on the financial statements of Lutheran Social Services of the Southwest

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	_____	No
Significant deficiency(ies) identified?	_____	Yes	_____	No

Noncompliance material to financial statements noted?	_____	Yes	_____	No
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Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	_____	Yes	_____	No
Significant deficiency(ies) identified?	_____	Yes	_____	No

The auditors' report on compliance for the major federal awards programs of Lutheran Social Services of the Southwest expressed an unmodified opinion on its major programs.

Audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)

	_____	X	Yes	_____	No
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Identification of major federal programs:

CFDA 19.510	U.S. Refugee Admissions Program
CFDA 93.567	Refugee and Entrant Assistance - Voluntary Agency Programs

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee?	_____	X	Yes	_____	No
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LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

FINDINGS - FINANCIAL STATEMENT AUDIT

None

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES AND U.S. DEPARTMENT OF STATE	Questioned Costs
	<hr/>
<p>2016-001 U.S. Refugee Admissions Program - CFDA 19.510 Refugee and Entrant Assistance - Voluntary Agency Programs - CFDA 93.567 Grant period - Year ended June 30, 2016</p> <p><i>Condition and criteria:</i></p> <p>Fingerprinting requirements stipulated by the grantor should be adhered to and retained in employee personnel files.</p> <p><i>Effect:</i></p> <p>Certain personnel files did not contain the appropriate documentation of fingerprint clearance.</p> <p><i>Population and items tested:</i></p> <p>Out of a sample of forty employees, four employee files did not have the required fingerprint documentation in the file.</p> <p><i>Cause:</i></p> <p>Fingerprint cards are often provided directly to staff and copies are not provided in a timely manner to the Human Resources Department, which is responsible for maintaining documentation of fingerprint clearance.</p> <p><i>Recommendation:</i></p> <p>We recommend the Organization establish a monitoring control to ensure copies of fingerprint cards are retained in the employee personnel files.</p> <p><i>Auditee response:</i></p> <p>We concur with the auditors' finding. The Organization will ensure compliance with contract requirements by establishing monitoring controls to verify fingerprint cards are obtained on a timely basis and copies are filed in the employee personnel files.</p>	<p style="margin-top: 100px;">None</p>

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

Questioned
Costs

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES AND U.S. DEPARTMENT OF STATE

2016-002 U.S. Refugee Admissions Program - CFDA 19.510
Refugee and Entrant Assistance_Voluntary Agency Programs - CFDA 93.567
Grant period - Year ended June 30, 2016

Condition and criteria:

Internal controls should be in place to provide reasonable assurance that payroll allocation rates and time cards are being properly documented and authorized.

Effect:

Certain personnel files did not contain the appropriate documentation of allocation rates and certain timecards did not contain appropriate employee signature.

Population and items tested:

Out of a sample of forty employees, nine employee files did not contain approval of the most current allocation rate and one employee file was missing proper employee signature on the employee's time card.

None

Cause:

Shortage of accounting staff.

Recommendation:

We recommend the Organization establish a monitoring control to ensure copies of the most current approved allocation rates are retained in the employee personnel files. Additionally, we recommend the Organization adhere to its policies and procedures for obtaining employee signature on employee time cards.

Auditee response:

We concur with the auditors' finding. The Organization will ensure copies of the most current approved allocation rates are retained in the employee personnel files and will also ensure employee signatures are obtained on all employee time sheets.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

	Questioned Costs
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES AND U.S. DEPARTMENT OF STATE	
<p>2016-003 U.S. Refugee Admissions Program - CFDA 19.510 Refugee and Entrant Assistance - Voluntary Agency Programs - CFDA 93.567 Grant period - Year ended June 30, 2016</p> <p><i>Condition and criteria:</i></p> <p>Reporting requirements stipulated by the grantor should be adhered to and retained in the refugee case files.</p> <p><i>Effect:</i></p> <p>Certain refugee case files did not contain the appropriate documentation of the initial expenditure summary report.</p> <p><i>Population and items tested:</i></p> <p>Out of a sample of forty refugee case files, three refugee case files did not have the required initial expenditure summary report documentation in the file.</p> <p><i>Cause:</i></p> <p>In certain instances refugees will refuse to sign the initial summary expenditure summary.</p> <p><i>Recommendation:</i></p> <p>We recommend the Organization establish a monitoring control to ensure signed initial summary expenditure forms are maintained in the refugee's case file and proper documentation is included in the form when refugee declines to sign.</p> <p><i>Auditee response:</i></p> <p>We concur with the auditors' finding. The Organization will ensure compliance with contract requirements by establishing controls to verify signed initial summary expenditure forms are maintained in the refugee's case file and proper documentation is included in the form when refugee declines or is no longer available to sign.</p>	<p style="margin-top: 400px;">None</p>

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2016

FINDING 2015-001:

Major Program Audit - Aging Cluster:

- Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers
- CFDA 93.044
- Special Programs for the Aging - Title III, Part C - Nutrition Services - CFDA 93.045
- Nutrition Services Incentive Program - CFDA 93.053

Condition:

Fingerprinting requirements stipulated by the grantor should be adhered to and retained in employee personnel files.

Recommendation:

The auditor recommended the Organization establish a monitoring control to ensure copies of fingerprint cards are retained in the employee personnel files.

Current status:

The current status at finding 2016-001 also applies to this finding.