

**LUTHERAN SOCIAL SERVICES
OF THE SOUTHWEST**

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

YEAR ENDED JUNE 30, 2014

January 15, 2015

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Independent Auditor's Report

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

Report on the Financial Statement

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, 2014, and the related statements of activities and cash flows for the year 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. 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 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 entity'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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Other Information

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 15, 2015, on our consideration of Lutheran Social Services of the Southwest'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 Lutheran Social Services of the Southwest's internal control over financial reporting and compliance.

Shumard & Associates, PLLC

January 15, 2015
Phoenix, Arizona

FINANCIAL STATEMENTS

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014**

ASSETS

CURRENT ASSETS

| | |
|--|---------------|
| Cash and cash equivalents | \$ 448,354 |
| Investments | 23,442 |
| Accounts receivable from grantors (net of allowance) | 1,530,607 |
| Pledges receivable | 150 |
| Other receivables | 21,233 |
| Prepaid and other current assets | <u>83,142</u> |

| | |
|-----------------------------|------------------|
| TOTAL CURRENT ASSETS | <u>2,106,928</u> |
|-----------------------------|------------------|

PROPERTY AND EQUIPMENT

| | |
|------------------------|---------------|
| Equipment | 78,023 |
| Software | 49,411 |
| Vehicles | 773,037 |
| Leasehold improvements | <u>19,298</u> |

| | |
|-------------------------------------|---------|
| TOTAL PROPERTY AND EQUIPMENT | 919,769 |
|-------------------------------------|---------|

| | |
|--------------------------------|------------------|
| Less: Accumulated depreciation | <u>(577,573)</u> |
|--------------------------------|------------------|

| | |
|-----------------------------------|----------------|
| NET PROPERTY AND EQUIPMENT | <u>342,196</u> |
|-----------------------------------|----------------|

OTHER ASSETS

| | |
|----------|---------------|
| Goodwill | <u>75,121</u> |
|----------|---------------|

| | |
|---------------------|----------------------------|
| TOTAL ASSETS | <u><u>\$ 2,524,245</u></u> |
|---------------------|----------------------------|

Read the accompanying notes to the financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014**

LIABILITIES

CURRENT LIABILITIES

| | |
|-----------------------------------|---------------|
| Accounts payable | \$ 372,503 |
| Accrued payroll and taxes | 418,518 |
| Compensated absences | 74,599 |
| Other accrued liabilities | 14,707 |
| Deferred revenue | 116,434 |
| Line of credit | 150,000 |
| Current portion of long-term debt | <u>44,027</u> |

| | |
|----------------------------------|-------------------------|
| TOTAL CURRENT LIABILITIES | <u><u>1,190,788</u></u> |
|----------------------------------|-------------------------|

LONG-TERM LIABILITIES

| | |
|---|-----------------|
| Capital leases payable | 28,592 |
| Notes payable | 112,704 |
| Less: Current portion of long-term debt | <u>(44,027)</u> |

| | |
|-----------------------------|----------------------|
| TOTAL LONG-TERM DEBT | <u><u>97,269</u></u> |
|-----------------------------|----------------------|

| | |
|--------------------------|-------------------------|
| TOTAL LIABILITIES | <u><u>1,288,057</u></u> |
|--------------------------|-------------------------|

NET ASSETS

| | |
|------------------------|--------------|
| Unrestricted | 933,932 |
| Temporarily restricted | 295,162 |
| Permanently restricted | <u>7,094</u> |

| | |
|-------------------------|-------------------------|
| TOTAL NET ASSETS | <u><u>1,236,188</u></u> |
|-------------------------|-------------------------|

| | |
|---|----------------------------|
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 2,524,245</u></u> |
|---|----------------------------|

Read the accompanying notes to the financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| REVENUES AND OTHER SUPPORT | | | | |
| Contributions from : | | | | |
| Churches | \$ 95,842 | \$ 224,015 | \$ - | \$ 319,857 |
| Corporations | 13,566 | 11,969 | - | 25,535 |
| Individuals | 64,500 | 25,884 | - | 90,384 |
| United Way | 9,490 | 36,962 | - | 46,452 |
| Foundations | 250 | 24,290 | - | 24,540 |
| Federal grants and service contracts | - | 9,706,391 | - | 9,706,391 |
| Other grants | - | 2,369,432 | - | 2,369,432 |
| Program fees | - | 252,503 | - | 252,503 |
| Interest and dividend income | 138 | 890 | - | 1,028 |
| Investment income/(loss) | - | - | 1,614 | 1,614 |
| Other income | 4,076 | 13,285 | - | 17,361 |
| Net assets released from restrictions | 12,552,735 | (12,552,735) | - | - |
| TOTAL REVENUES AND OTHER SUPPORT | <u>12,740,597</u> | <u>112,886</u> | <u>1,614</u> | <u>12,855,097</u> |
| EXPENSES | | | | |
| Program costs: | | | | |
| Aging and disability services | 5,678,891 | - | - | 5,678,891 |
| Partners in caring | 241,543 | - | - | 241,543 |
| Children and youth | 1,090,480 | - | - | 1,090,480 |
| Refugee focus | 4,267,674 | - | - | 4,267,674 |
| Administrative support | 1,283,864 | - | - | 1,283,864 |
| Fund development | 110,251 | - | - | 110,251 |
| TOTAL EXPENSES | <u>12,672,703</u> | <u>-</u> | <u>-</u> | <u>12,672,703</u> |
| CHANGE IN NET ASSETS FROM OPERATIONS | <u>67,894</u> | <u>112,886</u> | <u>1,614</u> | <u>182,394</u> |
| TOTAL CHANGE IN NET ASSETS | <u>67,894</u> | <u>112,886</u> | <u>1,614</u> | <u>182,394</u> |
| NET ASSETS, Beginning of year | <u>866,038</u> | <u>182,276</u> | <u>5,480</u> | <u>1,053,794</u> |
| NET ASSETS, End of year | <u>\$ 933,932</u> | <u>\$ 295,162</u> | <u>\$ 7,094</u> | <u>\$ 1,236,188</u> |

Read the accompanying notes to the financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|--|------------|
| Change in Net Assets | \$ 182,394 |
| Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities: | |
| Change to allowance for denied claims | 4,568 |
| Depreciation | 114,935 |
| Unrealized (gain) / loss on investments | (2,962) |
| Disposal of fixed assets | 11,089 |
| (Increase)/decrease in: | |
| Grants receivable | (398,669) |
| Pledges receivable | 500 |
| Other receivables | 2,746 |
| Prepaid expenses | 19,469 |
| Goodwill | (75,121) |
| Increase/(decrease) in: | |
| Accounts payable | 88,091 |
| Accrued payroll and taxes | 133,840 |
| Compensated absences | (18,482) |
| Other accrued liabilities | 9,933 |
| Deferred revenues | (13,156) |

NET CASH PROVIDED / (USED) BY OPERATING ACTIVITIES 59,175

CASH FLOWS FROM INVESTING ACTIVITIES:

| | |
|---------------------------------------|-----------------|
| Acquisition of property and equipment | <u>(51,269)</u> |
|---------------------------------------|-----------------|

NET CASH PROVIDED / (USED) BY IN INVESTING ACTIVITIES (51,269)

CASH FLOWS FROM FINANCING ACTIVITIES:

| | |
|------------------------------|-----------------|
| Proceeds from long term debt | 55,121 |
| Advances on line of credit | 250,000 |
| Payments on line of credit | (200,000) |
| Repayments of debt | (48,136) |
| Capital lease payments | <u>(14,514)</u> |

NET CASH PROVIDED / (USED) BY FINANCING ACTIVITIES 42,471

Net increase (decrease) in cash and cash equivalents 50,377

Cash and cash equivalents at beginning of year 397,977

Cash and cash equivalents at end of year \$ 448,354

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | |
|--|------------------------|
| Cash paid during the year for interest | <u><u>\$ 3,973</u></u> |
|--|------------------------|

NON-CASH TRANSACTIONS

| | |
|-----------------------------|-----------|
| Acquisition of vehicle | |
| Vehicle | \$ 14,644 |
| Vehicle loan | (14,644) |
| Acquisition of phone system | |
| Phone system | \$ 15,819 |
| Capital lease | (15,819) |

Read the accompanying notes to the financial statements.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 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 year ended June 30, 2014, 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

The financial statements are presented in accordance with U.S. generally accepted accounting principles. 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.

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.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are recorded at fair value in the accompanying statement of financial position in accordance with U.S. generally accepted accounting principles. 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.

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 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.

The Organization's policy at June 30, 2014 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 |

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Equipment, and Depreciation (continued)

Impairment of long-lived assets – The Organization accounts for long-lived assets in accordance with U.S. generally accepted accounting principles, which 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, 2014.

Contributions and Grant Revenues

The Organization accounts for contributions, grants and investment revenues in accordance with U.S. generally accepted accounting principles. 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.

The Organization follows the guidance issued by the FASB related to accounting for income tax uncertainties. Under this guidance, uncertain tax positions are accounted for based on whether it is "more-likely-than-not" that the position will be upheld by the taxing authority upon examination. The Organization has determined that its tax exempt position does not result in an uncertainty that requires recognition in the financial statements.

The Organization files informational returns in the U.S. federal jurisdiction and in the state of Arizona. As of June 30, 2014, U.S. federal informational returns for years ended prior to June 30, 2011 and state returns for years ended prior to June 30, 2010 were closed to assessment. Interest and penalties, if any, are accrued as a component of management and general expenses when assessed. As of June 30, 2014, the Organization has not accrued interest or penalties related to uncertain tax positions.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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, 2014, the carrying amount of the Organization's unrestricted deposits was \$439,104 and cash on hand was \$9,250. Bank balances at June 30, 2014 totaled \$619,344 and were held in long established banking institutions, and management believes risk of loss is minimal. Of the bank balances, 49 percent was covered by federal depository insurance.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3- RECEIVABLES

Accounts receivable at June 30, 2014 consisted of the following:

| | |
|--|----------------------------|
| Arizona Department of Economic Security | \$ 388,205 |
| First Things First | 198,518 |
| Bridgeway Health Solutions | 183,917 |
| Lutheran Immigration and Refugee Services | 154,765 |
| United Healthcare - Evercare | 139,591 |
| Pima Council On Aging | 138,852 |
| Church World Services | 111,695 |
| Administrative Office of the Courts | 69,988 |
| Pinal/Gila Council for Senior Services | 65,109 |
| Episcopal Migration Ministry | 45,250 |
| SEAGO | 15,238 |
| Maricopa County | 12,437 |
| Area Agency on Aging | 11,984 |
| Arizona Youth Partnership | 8,497 |
| International Rescue Committee | 5,072 |
| Arizona Community Action Association | 1,924 |
| Phoenix Health Plan | 1,047 |
| Catholic Community Services | 357 |
| Mercy Care | <u>71</u> |
| Total accounts receivable from grantors at June 30, 2014 | 1,552,517 |
| Less: Allowance for denials | <u>(21,910)</u> |
| Net accounts receivable from grantors at June 30, 2014 | <u><u>\$ 1,530,607</u></u> |
| Other receivables | <u><u>\$ 21,233</u></u> |

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

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 4- PLEDGES RECEIVABLES

Pledges receivable at June 30, 2014 consisted of pledges totaling \$150. All pledges are expected to be collected within the next year. Therefore, they were not discounted.

NOTE 5- PROPERTY AND EQUIPMENT

Property and equipment titled to the Organization as of June 30, 2014 are as follows:

| | Balance 6/30/13 | Additions | Deletions | Balance 6/30/14 |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|
| Equipment | \$ 44,831 | \$ 39,317 | \$ (6,125) | \$ 78,023 |
| Software | 49,411 | - | - | 49,411 |
| Vehicles | 755,698 | 42,415 | (25,076) | 773,037 |
| Leasehold improvements | 19,298 | - | - | 19,298 |
| Total Cost | 869,238 | 81,732 | (31,201) | 919,769 |
| Less: Accumulated depreciation | (482,750) | (114,935) | 20,112 | (577,573) |
| Net Property and Equipment | <u>\$ 386,488</u> | <u>\$ (33,203)</u> | <u>\$ (11,087)</u> | <u>\$ 342,196</u> |

Property and equipment includes \$60,714 of vehicles and equipment currently under capital lease. Accumulated amortization of \$22,556 related to capital leases is included in accumulated depreciation. Depreciation expense for the year ended June 30, 2014 was \$114,935, all of which was reflected in net income from operations. Amortization expense of \$9,243 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 \$74,599 as of June 30, 2014.

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 for fiscal year 2014 and as a result there was no retirement contribution expense for the year ended June 30, 2014. The Organization does not provide any other post-retirement benefits.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 U.S. generally accepted accounting principles and are, therefore, not included on the Statement of Financial Activities. The Organization's program participants received \$550,638 in total match dollars in the year ended June 30, 2014.

NOTE 9- RELATED PARTY TRANSACTIONS

Contributions -The Organization received contributions of \$650 from the Pacific Southwest District and \$6,850 from the English District of the Lutheran Church Missouri Synod (LCMS), and \$80,000 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 year ended June 30, 2014, the Organization received contributions from Lutheran congregations in the amount of \$219,462 from the ELCA congregations and \$2,641 from the LCMS congregations.

NOTE 10- REVOLVING LINE OF CREDIT

The Organization has a \$500,000 revolving line of credit, of which \$350,000 was unused at June 30, 2014. Bank advances are payable on demand and carry a variable interest rate, which was 4.625% at June 30, 2014. The credit line is secured by substantially all assets of the Organization.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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 vehicles, for \$38,846 dated October 28, 2010, matures December 20, 2015. Note is due in monthly installments of \$678.98 including principal and interest at 1.9% for 60 months. | \$ 8,014 | \$ 3,079 | \$ 11,093 |
| Note payable, secured by vehicle, for \$20,811 dated May 10, 2010, matures May 10, 2015. Note is due in monthly installments of \$346.85 including principal and interest at 0.0% for 60 months. | 3,815 | - | 3,815 |
| Note payable, secured by vehicle, for \$10,000 dated May 25, 2011, matures May 25, 2015. Note is due in monthly installments of \$235.75 including principal and interest at 6.1% for 47 months. | 1,998 | - | 1,998 |
| Note payable, secured by vehicle, for \$27,057 dated April 27, 2011, matures April 27, 2016. Note is due in monthly installments of \$450.95 including principal and interest at 0.0% for 60 months. | 5,411 | 4,510 | 9,921 |
| Note payable, secured by vehicle, for \$21,014 dated May 12, 2012, matures May 11, 2017. Note is due in monthly installments of \$367.41 including principal and interest at 1.9% for 60 months. | 4,208 | 11,185 | 15,199 |
| Note payable, secured by vehicle, for \$20,830 dated January 3, 2013, matures January 8, 2018. Note is due in monthly installments of \$400.68 including principal and interest at 5.79% for 60 months. | 4,014 | 7,951 | 12,159 |
| Note payable, secured by vehicle, for \$14,644 dated February 26, 2014, matures February 26, 2019. Note is due in monthly installments of \$262.75 including principal and interest at 2.94% for 60 months. | 2,787 | 10,946 | 13,733 |
| Note payable for CASS Asset Purchase Agreement of \$55,121 dated December 5, 2013, matures December 5, 2017. Note is due in monthly installments of \$1,148.35 including principal and interest at 0.00% for 48 months. | 13,780 | 31,006 | 44,786 |
| Total Notes Payable | <u>\$ 44,027</u> | <u>\$ 68,677</u> | <u>\$ 112,704</u> |

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11- NOTES PAYABLE (CONTINUED)

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

Year Ending June 30,

| | |
|-------|------------------|
| 2015 | \$ 44,027 |
| 2016 | 32,781 |
| 2017 | 24,903 |
| 2018 | 8,915 |
| 2019 | <u>2,078</u> |
| Total | <u>\$112,704</u> |

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 | \$ 1,166 | \$ 4,091 |
| 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 | 1,211 | 4,359 |
| 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. | 3,716 | 2,476 | 6,192 |
| Capital lease, for phone system, in the amount of \$9,085 dated October 3, 2013. Lease is payable in monthly installments of \$151.42 including principal and interest for 60 months. | 1,817 | 3,308 | 5,125 |
| Capital lease, for phone system, in the amount of \$9,733 dated May 7, 2014. Lease is payable in monthly installments of \$162.21 including principal and interest for 60 months. | <u>1,947</u> | <u>6,878</u> | <u>8,825</u> |
| Total Capital Leases | <u>\$ 13,553</u> | <u>\$ 15,039</u> | <u>\$ 28,592</u> |

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 12- CAPITAL LEASES (CONTINUED)

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

Year Ending June 30,

| | |
|------------|------------------|
| 2015 | \$ 13,553 |
| 2016 | 8,617 |
| 2017 | 3,438 |
| 2018 | 1,947 |
| Thereafter | <u>1,037</u> |
| Total | <u>\$ 28,592</u> |

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:

Year Ending June 30,

| | |
|------------|--------------------|
| 2015 | \$ 330,272 |
| 2016 | 366,018 |
| 2017 | 291,195 |
| 2018 | 187,913 |
| Thereafter | <u>187,079</u> |
| Total | <u>\$1,362,477</u> |

Operational lease expense for the year ended June 30, 2014 was \$572,541.

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, 2014.

NOTE 15- ADVERTISING

The Organization uses advertising to promote its community programs. Advertising costs are expensed as incurred. For the year ended June 30, 2014, advertising and promotions expense totaled \$25,284.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 16- RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets:

| Program | Balance 6/30/13 | Net Activity | Balance 6/30/14 |
|--------------------------------|--------------------|-------------------|--------------------|
| Partners in Caring | \$ 8,580 | \$ 45 | \$ 8,625 |
| Refugee & Immigration Services | 88,913 | 99,143 | 188,056 |
| Children and Youth | 84,783 | 13,698 | 98,481 |
| Total | <u>\$ 182,276</u> | <u>\$ 112,886</u> | <u>\$ 295,162</u> |

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

Permanently Restricted Net Assets:

| Program | Balance 6/30/13 | Net Gain | Balance 6/30/14 |
|----------------|--------------------|-------------|--------------------|
| Endowment Fund | \$ 5,480 | \$ 1,614 | \$ 7,094 |

NOTE 17- CONCENTRATION OF RISK

During the year ended June 30, 2014, the Organization received approximately 52% 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 by management through January 15, 2015, which is the date the financial statements were available to be issued. No significant events that would be expected to materially impact the financial statements were identified.

SUPPLEMENTARY INFORMATION

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014**

| | Program Costs | | | | | Support Services | | Total |
|-----------------------|-------------------------------|--------------------|---------------------|---------------------|----------------------|----------------------|-------------------|----------------------|
| | Aging and Disability Services | Partners in Caring | Children and Youth | Refugee Focus | Total Program Costs | Administrative Costs | Fund Development | |
| Salaries and wages | \$ 4,078,634 | \$ 88,328 | \$ 655,882 | \$ 1,602,801 | \$ 6,425,645 | \$ 676,363 | \$ 64,640 | \$ 7,166,648 |
| Fringe benefits | 609,218 | 11,000 | 103,862 | 256,328 | 980,408 | 134,834 | 17,471 | 1,132,713 |
| Occupancy | 96,345 | 26,380 | 67,130 | 288,002 | 477,857 | 106,242 | 3,014 | 587,113 |
| Telephone | 51,110 | 6,791 | 14,950 | 28,208 | 101,059 | 35,261 | 4,537 | 140,857 |
| Travel | 28,385 | 3,872 | 21,162 | 19,781 | 73,200 | 7,503 | 2,904 | 83,607 |
| Transportation | 50,066 | 16,315 | 10,624 | 94,014 | 171,019 | - | 3,492 | 174,511 |
| Supplies | 61,169 | 6,905 | 36,611 | 102,818 | 207,503 | 52,095 | 3,805 | 263,403 |
| Contractual | 326,028 | 37,139 | 13,460 | 86,815 | 463,442 | 244,353 | 5,905 | 713,700 |
| Training | 3,569 | 355 | 229 | 706 | 4,859 | - | - | 4,859 |
| Supportive services | 326,879 | 38,340 | 166,370 | 1,730,940 | 2,262,529 | 304 | - | 2,262,833 |
| Interest | 524 | 97 | - | - | 621 | 3,072 | 280 | 3,973 |
| Depreciation | 24,994 | 6,021 | 200 | 57,261 | 88,476 | 22,257 | 4,203 | 114,936 |
| Bad debt | 21,970 | - | - | - | 21,970 | - | - | 21,970 |
| Miscellaneous | - | - | - | - | - | 1,580 | - | 1,580 |
| Total Expenses | \$ 5,678,891 | \$ 241,543 | \$ 1,090,480 | \$ 4,267,674 | \$ 11,278,588 | \$ 1,283,864 | \$ 110,251 | \$ 12,672,703 |

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SCHEDULE OF PROGRAM REVENUES, OPERATING, AND CAPITALIZED EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

| | <u>Aging and Disability Services</u> | <u>Partners in Caring</u> | <u>Children and Youth</u> | <u>Refugee and Immigration Services</u> | <u>Administrative Services</u> | <u>Fund Development</u> | <u>Total</u> |
|---|--|-----------------------------------|-----------------------------------|---|------------------------------------|-----------------------------|----------------------|
| Program revenues and support | <u>\$ 6,433,819</u> | <u>\$ 290,363</u> | <u>\$ 1,192,245</u> | <u>\$ 4,748,441</u> | <u>\$ 10,129</u> | <u>\$ 180,100</u> | <u>\$ 12,855,097</u> |
| Direct expenses | 5,678,891 | 241,543 | 1,090,480 | 4,267,674 | 1,283,864 | 110,251 | 12,672,703 |
| Indirect expenses | <u>622,445</u> | <u>22,501</u> | <u>108,104</u> | <u>291,111</u> | <u>(1,057,154)</u> | <u>12,993</u> | <u>-</u> |
| Total direct and indirect expenses | <u>6,301,336</u> | <u>264,044</u> | <u>1,198,584</u> | <u>4,558,785</u> | <u>226,710</u> | <u>123,244</u> | <u>12,672,703</u> |
| Program revenues over (under) program operating and capitalized expenses | <u>\$ 132,483</u> | <u>\$ 26,319</u> | <u>\$ (6,339)</u> | <u>\$ 189,656</u> | <u>\$ (216,581)</u> | <u>\$ 56,856</u> | <u>\$ 182,394</u> |

LUTHERAN SOCIALSERVICES OF THE SOUTHWEST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2014

| Federal Grantor/Pass Through Grantor/Program Title | CFDA Number | Pass-Through Grantor's Number | Expenses Recognized |
|--|----------------|--|------------------------|
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | |
| Passed through the Department of Economic Security Refugee Resettlement Program Refugee and Entrant Assistance - Discretionary Grants | 93.576 | DE081194001/DE091194001/DE081955001/DE091195001 | \$ 226,591 |
| Refugee and Entrant Assistance - Targeted Assistance Grants | 93.584 | DE081194001/DE091194001/DE081955001/DE091195001 | 569,716 |
| Refugee and Entrant Assistance - State Administered Programs | 93.566 | DES0700001A1/DE081194001/DE091194001/DE081955001/DE091195001 | 488,820 |
| Passed through Lutheran Immigration Refugee Service Refugee and Entrant Assistance - Voluntary Agency Programs | 93.567 | 90RV0048/02, 90RV0048/03, 90RV0062/01 | 549,109 |
| Preferred Communities Program - Intensive Case Management | 93.576 | | 48,936 |
| Passed through Church World Service Refugee and Entrant Assistance - Voluntary Agency Programs | 93.567 | 90RV0052/90RV0120 | 376,027 |
| 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 | 51,738 |
| Passed through Northern Arizona Council of Governments Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Citizens | 93.044 | | 1,728 |
| 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 | 122,575 |
| 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 | 214,436 |
| National Family Care Giver Support, Title III, Part E | 93.052 | | 4,721 |
| 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 | 1,961,855 |
| 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 | 1,496,618 |
| 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 | 445,858 |
| National Family Care Giver Support, Title III, Part E | 93.052 | | 11,900 |
| Passed through Episcopal Migration Ministry Refugee and Entrant Assistance - Voluntary Agency Programs | 93.567 | 90RV0053/01/02/3 90RP0052/01/03 | 171,095 |
| Preferred Communities - Intensive Case Management | 96.576 | | 38,660 |
| 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 | 591,668 |
| Passed through Arizona Youth Partnership Administration for Children and Families Healthy Marriage Promotion and Responsible Fatherhood Grants | 93.086 | MOU | 45,951 |
| TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | 7,418,002 |

LUTHERAN SOCIALSERVICES OF THE SOUTHWEST
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
For The Year Ended June 30, 2014

| 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 | SPRMCO10CA012 | 278,749 |
| Passed through Lutheran Immigration and Refugee Services U.S. Refugee Admissions Program | 19.510 | SPRMCO10CA044/SPRMCO11CA008/SPRMCO12CA006 | 916,089 |
| Passed Through Church World Service U.S. Refugee Admissions Program | 19.510 | SPRMCO10CA005 | <u>732,030</u> |
| TOTAL U.S. DEPARTMENT OF STATE | | | <u>1,926,868</u> |
| <u>U.S. DEPARTMENT OF HOMELAND SECURITY</u> | | | |
| Passed through WHEAT Emergency Food and Shelter National Board Program | 97.024 | | <u>37,190</u> |
| TOTAL US DEPARTMENT OF HOMELAND SECURITY | | | <u>37,190</u> |
| <u>DEPARTMENT OF AGRICULTURE</u> | | | |
| Passed through Arizona Community Action Association Supplemental Nutrition Assistance Program Administrative Match | 10.561 | MOU | <u>20,039</u> |
| TOTAL DEPARTMENT OF AGRICULTURE | | | <u>20,039</u> |
| TOTAL FEDERAL AWARDS | | | <u><u>\$ 9,402,099</u></u> |

See following 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, 2014**

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. Cosper
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, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2015.

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 Lutheran Social Services of the Southwest'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.

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*.

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

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.

Lumbaro & Associates, PLLC

Phoenix, Arizona
January 15, 2015



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

Carlos E. Valdivia, C.P.A.

C. Cristine Swan, C.P.A.

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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 year ended June 30, 2014. 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.

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 year ended June 30, 2014.

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

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.

Shumbar & Associates, PLLC

Phoenix, Arizona
January 15, 2015

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST
SUMMARY OF AUDITOR'S RESULTS
as of June 30, 2014**

Financial Statements

Type of auditor's report issued: Unmodified 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: Unmodified opinion

Findings reported under Section 510(a): None

Major programs: U.S. Refugee Admissions Program - CFDA #19.510

Refugee and Entrant Assistance - CFDA #93.576, #93.584, #93.566, and #93.567

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

Auditee risk: The auditee qualified 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, 2014**

There were no findings reported in the prior year.