OUR FAMILY SERVICES, INC. AND OUR FAMILY SERVICES FOUNDATION, INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND A-133 SINGLE AUDIT REPORTS AND SCHEDULES YEARS ENDED JUNE 30, 2015 AND 2014

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND
A-133 SINGLE AUDIT REPORTS AND SCHEDULES
YEARS ENDED JUNE 30, 2015 AND 2014

TABLE OF CONTENTS

Gerald H. Beal, CPA
Randall L. Brookshier, CPA
Marianne E. DeVries, CPA
Michael J. DeVries, CPA
Coleen A. Krogen, CPA
John P. Lauer, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Our Family Services, Inc.
and Our Family Services Foundation, Inc.
Tucson, Arizona

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Our Family Services, Inc. and Our Family Services Foundation, Inc. (Arizona nonprofit corporations), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, issued by the Comptroller General of the United States. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

5656 E. Grant Road, Suite 200 · Tucson, Arizona 85712 · www.hblcpa.com · Ph. 520-886-3181 · Fx. 520-885-3699

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Our Family Services, Inc. and Our Family Services Foundation, Inc. as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal and other governmental awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 December 17, 2015 on our consideration of Our Family Services, Inc.'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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Our Family Services, Inc.'s internal control over financial reporting and compliance.

HBL CPAs, P.C.

HBL CPAs, P.C.

December 17, 2015

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	$ 893,045	$ 536,210
Contracts and accounts receivable	468,389	600,646
Unconditional promises to give	-	12,156
Prepaid expenses	57,884	16,962
Other assets	1,907	2,537
Property and equipment	4,372,106	4,623,663
Beneficial interest in funds held by others	319,041	332,105
	$ 6,112,372	$ 6,124,279
LIABILITIES AND NET ASSETS		
Accounts payable	$ 157,757	$ 82,501
Accrued payroll and other expenses	226,399	205,243
Deferred revenue	2,385	31,089
Custodial liabilities	7,783	19,268
Tenant security deposits	6,825	10,150
Notes payable	946,039	1,044,908
	1,347,188	1,393,159
Net assets:		
Unrestricted:		
Available for operations	623,363	448,781
Board-designated reserve	161,725	126,260
Expended for property and equipment	3,426,067	3,578,755
	4,211,155	4,153,796
Temporarily restricted	292,747	316,382
Permanently restricted	261,282	260,942
	4,765,184	4,731,120
	$ 6,112,372	$ 6,124,279

The accompanying notes are an integral part of these financial statements.

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Public support and revenues:				
Government grants	$ 2,490,697	$ -	$ -	$ 2,490,697
Vendor contracts	1,127,722	-	-	1,127,722
Contributions, bequests and grants	303,663	598,711	340	902,714
Program income	395,477	-	-	395,477
Donated materials and services	76,741	-	-	76,741
United Way	85,899	-	-	85,899
Special events, net of $15,344 direct donor benefit costs	48,993	-	-	48,993
Poinsettia sales, net of $23,023 cost of goods sold	24,421	-	-	24,421
Other support and revenue	26,096	-	-	26,096
Gain on sale of property and equipment	127,575			127,575
Investment income	619	2,709	-	3,328
	4,707,903	601,420	340	5,309,663
Net assets released from restrictions	625,055	(625,055)	-	-
Total public support and revenues	5,332,958	(23,635)	340	5,309,663
Expenses:				
Program services	4,129,396	-	-	4,129,396
Management and general	850,961	-	-	850,961
Fundraising	295,242	-	-	295,242
Total expenses	5,275,599	-	-	5,275,599
Change in net assets	57,359	(23,635)	340	34,064
Net assets, beginning of year	4,153,796	316,382	260,942	4,731,120
Net assets, end of year	$ 4,211,155	$ 292,747	$ 261,282	$ 4,765,184

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Public support and revenues:				
Government grants	$ 1,831,227	$ -	$ -	$ 1,831,227
Vendor contracts	1,947,460	-	-	1,947,460
Capital campaign revenues	-	306,167	-	306,167
Contributions and grants	207,234	499,731	100	707,065
Program income	329,480	-	-	329,480
Donated materials and services	88,696	-	-	88,696
United Way	27,371	-	-	27,371
Special events, net of $9,705 direct donor benefit costs	22,015	-	-	22,015
Poinsettia sales, net of $24,279 cost of goods sold	15,557	-	-	15,557
Other support and revenue	30,917	-	-	30,917
Investment income (loss)	(20)	41,941	-	41,921
	4,499,937	847,839	100	5,347,876
Net assets released from restrictions	1,083,434	(1,083,434)	-	-
Total public support and revenues	5,583,371	(235,595)	100	5,347,876
Expenses and losses:				
Expenses:				
Program services	4,230,033	-	-	4,230,033
Management and general	768,811	-	-	768,811
Fundraising	294,640	-	-	294,640
	5,293,484	-	-	5,293,484
Loss on disposal of property and equipment	51,247			51,247
Total expenses and losses	5,344,731	-	-	5,344,731
Change in net assets	238,640	(235,595)	100	3,145
Net assets, beginning of year	3,915,156	551,977	260,842	4,727,975
Net assets, end of year	$ 4,153,796	$ 316,382	$ 260,942	$ 4,731,120

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Strong communities division			New beginnings division					
	Clinical services	Community services	Senior services	Family housing	Homeless youth services	Total program services	Management and general	Fundraising	Total
Contract employees and personnel costs	$ 376,194	$ 323,384	$ 94,461	$ 474,337	$ 831,574	$ 2,099,950	$ 621,328	$ 223,678	$ 2,944,956
Advertising and public relations	-	10	-	20	-	30	40	9,981	10,051
Amortization of loan costs	-	-	-	-	-	-	433	-	433
Bad debt	3,759	-	-	178	22	3,959	-	-	3,959
Bank fees	951	1,217	197	992	2,303	5,660	2,968	1,789	10,417
Client housing	-	-	-	425,654	197,729	623,383	-	-	623,383
Cost of poinsettia sales	-	-	-	-	-	-	-	23,023	23,023
Depreciation	6,952	4,036	2,018	103,100	44,716	160,822	28,239	4,602	193,663
Direct donor benefit costs	-	-	-	-	-	-	-	15,344	15,344
Equipment	4,489	9,910	1,693	9,120	13,271	38,483	14,282	3,192	55,957
Facilities	10,655	10,944	2,869	168,649	64,701	257,818	53,101	6,028	316,947
Insurance	9,214	7,450	2,011	11,982	23,764	54,421	11,884	4,544	70,849
Interest	4,307	1,914	1,436	17,965	957	26,579	24,887	3,350	54,816
Membership, dues and licensing	2,631	4,641	582	4,220	10,026	22,100	10,365	6,384	38,849
Miscellaneous	-	-	-	-	-	-	5,793	846	6,639
Office supplies	2,231	8,743	991	4,896	3,463	20,324	6,924	19,018	46,266
Other client expenses	4,280	55,890	8,368	144,173	141,313	354,024	980	70	355,074
Professional and				-		-			
outside services	23,223	43,424	3,331	19,893	57,938	147,809	38,263	7,231	193,303
Recruitment and staff				-		-			
development	3,508	4,135	3,725	6,725	7,373	25,466	10,015	2,828	38,309
Subrecipient payments	-	-	-	13,707	-	13,707	-	-	13,707
Telephone	4,089	4,926	1,210	6,178	13,907	30,310	5,853	1,427	37,590
Travel and auto	16,460	19,472	2,112	8,290	25,498	71,832	15,606	-	87,438
Volunteer	-	25	172,643	41	10	172,719	-	274	172,993
Total functional expenses	472,943	500,121	297,647	1,420,120	1,438,565	4,129,396	850,961	333,609	5,313,966
Less expenses netted against revenues:									
Cost of poinsettia sales	-	-	-	-	-	-	-	(23,023)	(23,023)
Direct donor benefit costs	-	-	-	-	-	-	-	(15,344)	(15,344)
Total expenses	$ 472,943	$ 500,121	$ 297,647	$ 1,420,120	$ 1,438,565	$ 4,129,396	$ 850,961	$ 295,242	$ 5,275,599

The accompanying notes are an integral part of these financial statements.

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	Strong communities division			New beginnings division					
	Clinical services	Community services	Senior services	Family housing	Homeless youth services	Total program services	Management and general	Fundraising	Total
Contract employees and personnel expense	$ 637,543	$ 303,649	$ 82,434	$ 425,827	$ 892,509	$ 2,341,962	$ 552,821	$ 228,497	$ 3,123,280
Advertising and public relations	-	426	-	-	9	435	239	5,380	6,054
Amortization of loan costs	-	-	-	-	-	-	433	-	433
Bad debt	179	4	-	80	32,956	33,219	410	429	34,058
Bank fees	1,489	806	184	716	2,733	5,928	2,925	433	9,286
Client housing	-	-	-	371,674	187,434	559,108	-	-	559,108
Cost of poinsettia sales	-	-	-	-	-	-	-	24,279	24,279
Depreciation	14,334	5,648	2,389	63,370	41,047	126,788	29,818	4,494	161,100
Direct donor benefit costs	-	-	-	-	-	-	-	9,705	9,705
Equipment	8,310	4,464	1,037	13,954	14,725	42,490	12,889	3,113	58,492
Facilities	17,934	10,287	2,939	168,273	62,954	262,387	42,709	5,044	310,140
Insurance	14,002	5,612	1,661	10,947	22,791	55,013	4,890	3,944	63,847
Interest	7,937	2,789	1,534	20,442	20,674	53,376	23,876	2,716	79,968
Membership, dues and licensing	2,493	2,316	194	2,612	6,885	14,500	22,988	5,717	43,205
Miscellaneous	-	118	-	-	219	337	3,223	27	3,587
Office supplies	1,300	10,190	1,209	5,462	9,405	27,566	10,043	15,684	53,293
Other client expenses	5,653	36,192	6,772	110,261	94,418	253,296	4,431	78	257,805
Professional and outside services	26,828	20,667	2,945	28,262	66,587	145,289	37,571	8,458	191,318
Recruitment and staff development	3,539	2,826	1,222	2,595	13,164	23,346	10,075	6,637	40,058
Telephone	7,370	4,422	763	4,336	12,608	29,499	4,338	1,059	34,896
Travel and auto	35,647	12,102	240	10,350	23,713	82,052	5,132	2,820	90,004
Volunteer	-	523	172,919	-	-	173,442	-	110	173,552
Total functional expenses	784,558	423,041	278,442	1,239,161	1,504,831	4,230,033	768,811	328,624	5,327,468
Less expenses netted against revenues:									
Cost of poinsettia sales	-	-	-	-	-	-	-	(24,279)	(24,279)
Direct donor benefit costs	-	-	-	-	-	-	-	(9,705)	(9,705)
Total expenses	$ 784,558	$ 423,041	$ 278,442	$ 1,239,161	$ 1,504,831	$ 4,230,033	$ 768,811	$ 294,640	$ 5,293,484

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ 34,064	$ 3,145
Adjustments to reconcile change in net assets to net cash from operating activities:		
Donated marketable securities	(23,761)	(23,651)
Realized losses on marketable securities	692	78
Provision for discount to present value for unconditional promises to give	-	(1,065)
Amortization of loan costs	433	433
Depreciation	193,663	161,100
Loss (gain) on sale and disposal of property and equipment	(127,575)	51,247
Change in value of beneficial interest in funds held by others	(2,709)	(41,941)
(Increase) decrease in operating assets:		
Contracts and accounts receivable	132,257	(165,203)
Prepaid expenses	(40,922)	30,684
Other assets	197	4,490
Increase (decrease) in operating liabilities:		
Accounts payable	75,256	(82,714)
Accrued payroll and related expenses	21,156	74,123
Deferred revenue	(28,704)	29,595
Custodial liabilities	(11,485)	(995)
Tenant security deposits	(3,325)	(450)
Proceeds from sale of donated marketable securities	23,069	23,573
Contributions restricted for long-term purposes	(340)	(306,267)
Net cash provided by (used in) operating activities	241,966	(243,818)
Cash flows from investing activities:		
Proceeds from note receivable	-	84,964
Proceeds from sale of building	291,314	-
Proceeds of sales of property held for sale	-	210,489
Purchases of property and equipment	(105,845)	(22,013)
Distributions from beneficial interest in funds held by others	16,113	8,559
Additions to beneficial interest in funds held by others	(340)	(100)
Net cash provided by investing activities	201,242	281,899
Cash flows from financing activities:		
Contributions restricted for long-term purposes	340	100
Capital campaign collections	12,156	322,472
Repayment of notes payable	(98,869)	(436,180)
Net cash (used in) financing activities	(86,373)	(113,608)
Change in cash and cash equivalents	356,835	(75,527)
Cash and cash equivalents, beginning of year	536,210	611,737
Cash and cash equivalents, end of year	$ 893,045	$ 536,210

NOTE 1 – Organization

Our Family Services, Inc. (Our Family Services) is a nonprofit incorporated in Arizona to provide counseling, community services, and services to teens in transition, families and senior/older and disabled adults in Southern Arizona. Funding is received principally from government grants and vendor contracts, as well as contributions and grants. Our Family Services was formed July 1, 2012, as a result of a merger of two nonprofit entities.

Our Family Services has the following programs under the Strong Communities Division:

Clinical services – General mental health counseling, psycho-educational groups, life skills, and parenting services help to strengthen families and youth.

Community services – Group and educational-based programs build skills, resiliency, resources and connections within our community. Services include Information and Referral, The Center for Community Dialogue and our Prevention program.

Senior services – Supports vulnerable elders and helps them to live independently for as long as is safely possible through the services of trained senior volunteers.

Our Family Services has the following programs under the New Beginnings Division:

Family Housing programs, which include:

- <u>*Emergency shelter services*</u> – This 120-day program is the first part of a multi-phase program to help families achieve financial self-sufficiency. The average family enters the shelter after weeks or months of homelessness. During this crisis phase, Our Family provides clients with all of their basic needs.
- <u>*Transitional and affordable housing*</u> – This program is for families leaving the shelter or those coming straight from homelessness. The program gives families time and supportive services to enable them to save money and improve their earning ability before having to support their families in a market-rate environment.
- <u>*Children's program*</u> – The goal of the children's program is to promote one of the most powerful longer-term solutions to homelessness – breaking the generational cycle of dependency.
- <u>*Homeless prevention*</u> – Prevents families from becoming homeless by engaging them in case management and preventing eviction and covering costs (utility shut offs, daycare, food, car repairs, etc.) that could lead a family to become homeless.
- <u>*United Way/Siemer Project*</u> – Our Family works with 3 area elementary schools to prevent families from becoming homeless and moving their children to another school. Provides case management and some financial assistance to clients.
- <u>*Rapid rehousing*</u> – Provides short-term rental assistance and/or utility assistance to homeless families to obtain apartments with their own leases, moving quickly from homelessness to stable housing.
- <u>*Supportive services to Veterans and their families*</u> – Homeless prevention and assistance for families with an identified Veteran. Rental assistance, utility assistance and case management for Veterans and their families.

Homeless youth services – Helps homeless and near-homeless youth ages 13 to 21 stay in school and gain the life skills they need through case management, counseling, education and career planning, shelter, housing and help with basic skills.

Our Family Services Foundation (Foundation) was incorporated in 1996 to raise contributions for Our Family Services. Our Family Services and the Foundation are collectively referred to as Our Family. In April 2015, the Foundation was voluntarily dissolved. The Foundation had no activity or net assets at either June 30, 2015 or June 30, 2014.

NOTE 2 – Summary of significant accounting policies

Financial statement presentation

Our Family is required under generally accepted accounting principles to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Our Family Services and the Foundation. Inter-organization transactions and balances have been eliminated in combination.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Our Family considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. Our Family maintains its cash in brokerage accounts and in bank deposit accounts which may exceed federally insured limits. At June 30, 2015, uninsured cash was $685,074.

Contracts and accounts receivable

Contracts and accounts receivable are stated at the amount that Our Family expects to collect from various governmental entities and other funding sources on outstanding balances, net of an allowance for doubtful accounts. Our Family provides for losses on contracts and accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of funding sources to meet their obligations. Receivables are considered impaired if payments are not received in accordance with grant terms. It is Our Family's policy to charge off uncollectible receivables when management determines the receivable will not be collected.

Contributions/restricted revenue

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. Time and purpose restrictions are reported as temporarily restricted support and then reclassified to unrestricted net assets upon expiration of the time or purpose restriction.

New accounting pronouncement

In October 2012, the Financial Accounting Standards Board issued Accounting Standards Update 2012-05, Statement of Cash Flows (Topic 230): Not for Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows (ASU 2012-05). ASU 2012-05 stipulates that proceeds from the sale of donated financial assets should be classified within operating activities, financing activities or investing activities, depending on the intentions and actions of Our Family and/or donor imposed restrictions. This standard was effective for Our Family's fiscal year 2015 and 2014 financial statements. Adoption of this standard did not have a material impact on these financial statements.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2 – Summary of significant accounting policies, continued

Property and equipment

Our Family capitalizes all expenditures for property and equipment in excess of $1,000 with a useful life greater than one year. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is calculated using the straight-line method over the estimated useful life of the asset, as follows:

Buildings and improvements	7-40 years
Furniture and equipment	3-7 years
Vehicles	5 years

Donated goods, facilities and services

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although Our Family utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Income tax status

Our Family Services and the Foundation are exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to Our Family's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, Our Family qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Endowments

Our Family's endowments consist of funds held at the Jewish Community Foundation (JCF). As required by generally accepted accounting principles, net assets associated with endowment funds (including funds designated by the Board of Directors to function as endowments) are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of Our Family has interpreted the State of Arizona's Prudent Management of Institutional Funds Act (PMIFA) (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, Our Family classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Our Family in a manner consistent with the standard of prudence prescribed by the Act.

NOTE 2 – Summary of significant accounting policies, continued

Endowments, continued

In accordance with the Act, Our Family considers the following factors in making a determination to appropriate or accumulate endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization.

Functional expenses

The costs of providing the various program services and supporting activities of Our Family have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services benefited.

Advertising

Our Family expenses all advertising costs as incurred.

NOTE 3 – Contracts and accounts receivable

Contracts and accounts receivable consist of the following at June 30, 2015 and 2014:

	2015	2014
Contracts receivable	$ 467,401	$ 626,565
Other receivables	988	7,034
	468,389	633,599
Less allowance for doubtful accounts	-	(32,953)
	468,389	600,646

NOTE 4 – Unconditional promises to give

Unconditional promises to give consist of pledges for a capital campaign at June 30, 2015 and 2014 as follows:

	2015	2014
Due in less than one year	$ -	$ 12,156
Due in one to five years	-	-
	-	12,156
Less discount to present value at 5%	-	-
	$ -	$ 12,156

NOTE 5 – Other assets

Other assets consist of the following at June 30, 2015 and 2014:

	2015	2014
Amortized loan costs	$ 6,500	$ 6,500
Accumulated amortization	(4,953)	(4,519)
	1,547	1,981
Gift cards for distribution to clients	360	556
	$ 1,907	$ 2,537

NOTE 6 – Property and equipment

Property and equipment at June 30, 2015 and 2014 consisted of the following:

	2015	2014
Land	$ 393,993	$ 424,150
Building and improvements	5,209,665	5,565,120
Leasehold improvements	-	13,189
Furniture, equipment and computers	388,752	437,020
Vehicles	50,540	66,099
	6,042,950	6,505,578
Less accumulated depreciation	(1,670,844)	(1,881,915)
	$ 4,372,106	$ 4,623,663

NOTE 7 – Fair value measurements and beneficial interest in funds held by others

Fair value measurements are determined based on the assumptions—referred to as inputs—that market participants would use in pricing the asset. Generally accepted accounting principles establish a fair value hierarchy that distinguishes between market participant assumptions and Our Family's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are Our Family's own assumptions about what market participants would assume based on the best information available in the circumstances.

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. Our Family does not utilize Level 1 inputs.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. Our Family does not utilize Level 2 inputs

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available. Our Family has established beneficial interest in various endowment funds held at the Jewish Community Foundation of Southern Arizona (JCF). JCF does not have variance power related to these endowments. These beneficial interests are considered as valued based on Level 3 inputs, because Our Family owns units of pooled funds held JCF, and relies on JCF to provide the value of those funds. At JCF, these pooled investments are primarily held in marketable securities and are considered to be valued based on Level 1 inputs.

NOTE 7 – Fair value measurements and beneficial interest in funds held by others, continued

The fair value of assets measured on a recurring basis at June 30, 2015 and 2014 consisted of the following:

	2015 Level 3	2014 Level 3
Beneficial interest in funds held by others	$ 319,041	$ 332,105

Activity in assets measured on a recurring basis utilizing Level 3 inputs was as follows for the years ended June 30, 2015 and 2014:

	2015	2014	
	Beneficial interest in funds held by others	Note receivable	Beneficial interest in funds held by others
Beginning balance	$ 332,105	$ 1,555,531	$ 298,623
Additions	340	-	100
Change in value	2,709	-	41,941
Distributions/proceeds	(16,113)	(84,964)	(8,559)
Assets received in lieu of cash proceeds	-	(1,470,567)	-
Ending balance	$ 319,041	$ -	$ 332,105

Investment income for the years ended June 30, 2015 and 2014 was as follows:

	2015	2014
Interest and dividends	$ 1,311	$ 58
Realized (losses) on sale of donated marketable securities	(692)	(78)
Change in value of beneficial interest in funds held by others	2,709	41,941
	$ 3,328	$ 41,921

Assets measured on a non-recurring basis utilizing Level 3 inputs at a discounted rate of 5% consisted of unconditional promises to give totaling $0 and $12,156, respectively, at June 30, 2015 and 2014.

NOTE 8 – Custodial liabilities

Our Family had custodial liabilities totaling $7,783 and $19,268 at June 30, 2015 and 2014, respectively, related to its role as a fiscal agent for one organization (two at June 30, 2014).

NOTE 9 – Lines of credit

Our Family has a $250,000 revolving line of credit that bears variable interest at the lender's prime rate plus 2.0% (4.75% at June 30, 2015), collateralized by real property and maturing in May 2016. The outstanding balance for the line of credit was $0 at both June 30, 2015 and 2014.

NOTE 10 – Notes payable

Notes payable at June 30, 2015 and 2014 consisted of the following:

Note holder	Maturity date	Interest rate	Payments	2015	2014
Bank	Sep 2018	5.75%	$6,376 monthly	$ 704,114	$ 741,148
Bank	Oct 2018	4.44%	$3,274 monthly	121,392	151,702
Bank	Aug 2019	4.73%	$2,127 monthly	93,682	113,428
Bank	Apr 2022	6.00%	$401 monthly	26,851	27,251
City of Tucson	Aug 2020	0%	$1,422 annually	-	11,379
				$ 946,039	$ 1,044,908

One of the notes payable to banks are subject to certain financial covenants, with which Our Family was in compliance at June 30, 2015.

Future maturities of the notes payable are as follows at June 30, 2015:

Year ending June 30, 2016	$ 94,816
2017	100,104
2018	105,576
2019	629,797
2020	7,554
Thereafter	8,192
	$ 946,039

NOTE 11 – Permanently restricted net assets

Permanently restricted net asset activity was as follows during the year ended June 30, 2015:

	Beginning balance	Contributions	Ending balance
Operating endowment	$ 48,461	$ 240	$ 48,701
Lacy endowment - earnings restricted for homeless teens	212,481	100	212,581
	$ 260,942	$ 340	$ 261,282

NOTE 11 – Permanently restricted net assets, continued

Permanently restricted net asset activity was as follows during the year ended June 30, 2014:

	Beginning balance	Contributions	Ending balance
Operating endowment	$ 48,361	$ 100	$ 48,461
Lacy endowment - earnings restricted for homeless teens	212,481	-	212,481
	$ 260,842	$ 100	$ 260,942

NOTE 12 – Temporarily restricted net assets

Temporarily restricted net asset activity was as follows during the year ended June 30, 2015:

	Beginning balance	Contributions	Investment income	Releases/ appropri- ations	Ending balance
Purpose-restricted by donor:					
Counseling	$ 17,226	$ 14,649	$ -	$ (19,375)	$ 12,500
Information and referral	28,500	54,069	-	(55,569)	27,000
Prevention	44,540	52,500	-	(84,540)	12,500
The Center for Community Dialogue	30,275	46,552	-	(51,327)	25,500
Senior companion program	40,500	41,905	-	(62,405)	20,000
Homeless youth services	75,366	139,005	-	(172,054)	42,317
Family housing	9,857	250,031	-	(163,672)	96,216
	246,264	598,711	-	(608,942)	236,033
Accumulated endowment earnings:					
Operating endowment	13,279	-	505	(7,173)	6,611
Homeless teens endowment	56,839	-	2,204	(8,940)	50,103
	70,118	-	2,709	(16,113)	56,714
	$ 316,382	$ 598,711	$ 2,709	$ (625,055)	$ 292,747

NOTE 12 – Temporarily restricted net assets, continued

Temporarily restricted net asset activity was as follows during the year ended June 30, 2014:

	Beginning balance	Contributions	Investment income	Releases/ appropri- ations	Ending balance
Purpose-restricted by donor:					
Counseling	$ -	$ 29,307	$ -	$ (12,081)	$ 17,226
Parenting	-	20,000	-	(20,000)	-
Information and referral	29,500	57,120	-	(58,120)	28,500
Prevention	15,000	68,115	-	(38,575)	44,540
The Center for Community Dialogue	17,000	59,071	-	(45,796)	30,275
Senior companion program	39,250	47,105	-	(45,855)	40,500
Homeless youth services	410,048	419,303	-	(753,985)	75,366
Family housing	4,443	105,877	-	(100,463)	9,857
	515,241	805,898	-	(1,074,875)	246,264
Accumulated endowment earnings:					
Operating endowment	5,387	-	7,892	-	13,279
Homeless teens endowment	31,349	-	34,049	(8,559)	56,839
	36,736	-	41,941	(8,559)	70,118
	$ 551,977	$ 805,898	$ 41,941	$ (1,083,434)	$ 316,382

NOTE 13 – Endowments

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires Our Family to retain as a fund of perpetual duration. There were no deficiencies of this nature to be reported as of either June 30, 2015 or 2014.

Return objectives and risk parameters

Our Family has no formally adopted investment policies for the endowment assets. Endowment assets include those assets of donor-restricted funds that Our Family must hold in perpetuity or for a donor-specified period, as well as board-designated funds.

Investment strategies

To satisfy its long-term rate-of-return objectives, Our Family relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Our Family targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 13 – Endowments, continued

Spending policy

Our Family has two endowment funds held at JCF, and has adopted the spending policy of the JCF for these funds. Accumulated earnings on these endowments are released as appropriations from temporarily restricted net assets when distributed by JCF and the related restriction (if any) has been met.

Endowment fund net assets

Net assets in the endowment funds consisted of the following at June 30, 2015:

	Temporarily restricted	Permanently restricted	Total
Beginning balance	$ 70,118	$ 260,942	$ 331,060
Contributions	-	340	340
Change in value of beneficial interest in funds held by others	2,709	-	2,709
Appropriations	(16,113)	-	(16,113)
Ending balance	$ 56,714	$ 261,282	$ 317,996

Net assets in the endowment funds consisted of the following at June 30, 2014:

	Temporarily restricted	Permanently restricted	Total
Beginning balance	$ 36,736	$ 260,842	$ 297,578
Contributions	-	100	100
Change in value of beneficial interest in funds held by others	41,941	-	41,941
Appropriations	(8,559)	-	(8,559)
Ending balance	$ 70,118	$ 260,942	$ 331,060

See Notes 11 and 12 for endowment-related activities in permanently and temporarily restricted net assets, respectively.

NOTE 14 – Retirement plan

Our Family has a 403(b) thrift plan that allows eligible employees to defer pretax annual compensation up to certain limitations imposed by the Internal Revenue Service. Our Family may also make matching contributions to the Plan. To be eligible, employees must be at least 18 years of age. The employer match begins after a year of service for employees at least 21 years of age. Our Family matches 50% of employee contributions up to 4% of annual compensation. Our Family's matching contributions for the years ended June 30, 2015 and 2014 were $21,691 and $22,176, respectively.

NOTE 15 – Donated materials and services

In-kind contributions for the years ended June 30, 2015 and 2014 consisted of the following:

	2015	2014
Advertising and public relations	$ 160	$ -
Information technology	4,040	-
Facilities	-	41,867
Office supplies	125	123
Other client expenses	68,657	49,019
Professional and outside services	2,935	1,179
Recruitment and staff development	363	1,105
Travel	-	40
Volunteer	657	633
In-kind expenses	76,937	93,966
Less usage of gift card inventory donated in prior years	(196)	(5,270)
	$ 76,741	$ 88,696

NOTE 16 – Lease commitments

Our Family leases office space and office equipment for its operation under non-cancelable operating leases expiring at various times through September 2017. Rent expense for the years ended June 30, 2015 and 2014 was as follows:

	2015	2014
In-kind rent included in facilities expense in donated services in Note 16	$ -	$ 41,667
Rent paid by the Organization	79,268	88,312
	$ 79,268	$ 129,979

Future minimum lease payments are as follows:

Year ending June 30, 2016	$ 19,434
2017	18,576
2018	2,322
	$ 40,332

NOTE 17 – Supplemental cash flow information

Non-cash investing and financing activity consisted of the following for the years ended June 30, 2015 and 2014:

	2015	2014
Property and equipment received in exchange for note payable	$ -	$ 326,088
Property and equipment received in lieu of payment on note receivable	-	1,470,567
Principal repayment of note payable made directly to note holder by an unrelated organization in lieu of payment on unconditional promise to give	-	594,670
	$ -	$ 2,391,325
Cash paid for interest	$ 54,816	$ 79,968

No cash paid for income taxes in 2015 or 2014.

NOTE 18 – Bequest

Our Family received partial bequest contributions from an estate in 2015. As an estimate of future bequest contributions was unable to be determined, no bequest receivable has been recorded in the statement of financial position as of June 30, 2015.

NOTE 19 - Contingencies

Our Family is involved in a legal claim arising in the ordinary course of business. In the opinion of management and based on consultation with legal counsel, any losses related to this matter are expected to be covered by insurance.

NOTE 20 – Subsequent events

Subsequent to year end, Our Family listed and sold real property included in property and equipment at the fair market value of $69,900 to a Board member. The sale was approved by the Board in accordance with its conflict of interest policy.

Subsequent events have been evaluated through December 17, 2015, which is the date the financial statements were available to be issued.

A-133 SINGLE AUDIT REPORTS AND SCHEDULES

HBL CPAs, P.C.
Certified Public Accountants

Gerald H. Beal, CPA
Randall L. Brookshier, CPA
Marianne E. DeVries, CPA
Michael J. DeVries, CPA
Coleen A. Krogen, CPA
John P. Lauer, CPA

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
Our Family Services, Inc.
Tucson, Arizona

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 consolidated financial statements of Our Family Services, Inc. and Our Family Services Foundation, Inc. as of and for the year ended June 30, 2015, and the related notes to the consolidated financial statements and have issued our report thereon dated December 17, 2015.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered Our Family Services, Inc.'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 Our Family Services, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Our Family Services, Inc.'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, and therefore material weaknesses or significant deficiencies may exist that were not identified. 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 Our Family Services, Inc.'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.

5656 E. Grant Road, Suite 200 · Tucson, Arizona 85712 · www.hblcpa.com · Ph. 520-886-3181 · Fx. 520-885-3699

Board of Directors
Our Family Services, Inc.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HBL CPAs, P.C.

HBL CPAs, P.C.

December 17, 2015

HBL CPAs, P.C.
Certified Public Accountants

Gerald H. Beal, CPA
Randall L. Brookshier, CPA
Marianne E. DeVries, CPA
Michael J. DeVries, CPA
Coleen A. Krogen, CPA
John P. Lauer, CPA

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

Board of Directors
Our Family Services, Inc.
Tucson, Arizona

Report on compliance for each major federal program

We have audited Our Family Services, Inc.'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Our Family Services, Inc.'s major federal programs for the year ended June 30, 2015. Our Family Services, Inc.'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 each of its major federal programs.

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of Our Family Services, Inc.'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 requires examining, on a test basis, evidence about Our Family Services, Inc.'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 Our Family Services, Inc.'s compliance.

Opinion on each major federal program

In our opinion, Our Family Services, Inc. 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, 2015.

Report on internal control over compliance

Management of Our Family Services, Inc. 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 Our Family Services, Inc.'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

5656 E. Grant Road, Suite 200 · Tucson, Arizona 85712 · www.hblcpa.com · Ph. 520-886-3181 · Fx. 520-885-3699

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 Our Family Services, Inc.'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency.

Our Family Services, Inc.’s response to the finding

Our Family Services, Inc.’s response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Our Family Services, Inc.’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this report

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.

HBL CPAs, P.C.

HBL CPAs, P.C.

December 17, 2015

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial statements

Type of auditors' report issued:	Unmodified

Internal control over financial reporting:
No material weaknesses identified.
No significant deficiencies identified.

No noncompliance material to financial statements noted.

Federal awards

Internal control over major programs:	
No material weaknesses identified.	
One significant deficiency identified.	2015-001
Type of auditors' report issued on compliance for major programs:	Unmodified

No audit findings disclosed as required to be reported in accordance with Circular A-133, Section .510(a).

Identification of major programs:

93.276	Drug-Free Communities Support Program Grants
93.550	Transitional Living for Homeless Youth
93.558	Temporary Assistance for Needy Families
93.778	Medical Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000

Auditee does not qualify as a low risk auditee.

SECTION II – FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The following represents a significant deficiency in internal control over compliance in accordance with OMB Circular A-133:

Finding: 2015-001	**Program**: CFDA Nos. 93.550 and 93.558	**Questioned Cost**: None

Condition: During our compliance testing of the special tests and provisions of CFDA 93.550 and CFDA 93.558, for 2 out of 11 and for 23 out of 60 participant activity support tested, respectively, Our Family could not provide adequate supporting backup for various program requirements.

Criteria: Organizations receiving federal funding are required to maintain sufficient documentation to support compliance with program requirements. The requirements for these particular grants consisted of the following:

> Program 93.550 - Establishing various plans to develop life skills, job readiness skills and household management skills to support long term success after leaving the program.
> Program 93.558 - Maintaining a case file for each participant, regular case manager meetings and each participant having a signed lease agreement.

Cause and effect: Our Family moved to a new case management software during the year and was unable to pull documentation out of the previous software after terminating its agreement with the former software company. As a result, the organization could not substantiate that they were in compliance with various program requirements.

Perspective information: Not being able to support compliance program requirements could jeopardize future federal awards.

Recommendation: We recommend that the organization maintain documentation that supports that all requirements of the grant are being complied with, including ensuring access to any previous database programs used for client data.

Management response: This situation relating to a client and program tracking software change was an anomaly and is not expected to happen again. In October 2014, management started exploring alternative databases for client tracking. Certain programs within the agency had been using a database called Penelope by Athena Software. The interest was to find an agency wide data platform since Penelope did not meet all of our needs.
By January 2015, Social Solutions ETO (Efforts To Outcomes) was selected as the new database tracking system, to be implemented in 2016. The annual renewal for Penelope was in April 2015. The plan was to eliminate use of the Penelope software and use other available software (e.g. Excel) until the design and implementation of ETO was complete since Penelope was not meeting our needs and was used by so few programs. Prior to our license expiring there was a lot of back and forth communication with our representative from Athena Software in order to understand how our data stored in Penelope would be accessible to us. Our initial understanding was that our license would become inactive following non-renewal but that we would be able to access and view our client data. It was finally confirmed just a few days prior to license expiration that once our renewal date passed, we would not be able to access the database; it would be shut-down. Our data would be sent to us on a disc in Postgre SLQ format (an unusual format). Since the data would not be in a readable format, such as Excel csv, it would cost upwards to $10,000 to extract the data per our IT consultants. When we realized that we would not be able to easily access our data, program staff printed as many client files as possible, focusing priority on current clients, while the database was still active. We do currently have the disc with our data in our possession in a secure location. It should also be noted that regarding the 23 out of 60 participants files tested during the audit, per the provisions of CFDA 93.558, there was a monitoring visit by the grantor in January 2015. During that visit, 87 client files were reviewed. There were no findings or recommendations by the grantor.

INFORMATION PREPARED BY AUDITEE

OUR FAMILY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS
YEAR ENDED JUNE 30, 2015

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Expenditures Federal	Expenditures Other
U.S.Department of Agriculture Food and Nutrition Services				
Passed through Arizona Department of Education				
Child and Adult Care Food Program	10.558	AG KR02-1170-ALS	$ 35,149	$ -
U.S. Department of Housing and Urban Development				
Direct:				
Continuum of Care Program	14.267	AZ0048L9T011205	27,384	-
Continuum of Care Program	14.267	AZ0048L9T011306	30,228	-
Continuum of Care Program	14.267	AZ0143L9T011300	28,406	-
Continuum of Care Program	14.267	AZ0146L9T011300	24,256	-
Passed through City of Tucson:				
Community Development Block Grants/ Entitlement Grants	14.218	17921	48,880	-
Community Development Block Grants/ Entitlement Grants	14.218	17970	60,000	-
Emergency Solutions Grant Program	14.231	17960	52,571	-
Emergency Solutions Grant Program	14.231	17979	20,405	-
Emergency Solutions Grant Program	14.231	17980	29,981	-
Emergency Solutions Grant Program	14.231	17981	49,795	-
Passed through Pima County:				
Emergency Solutions Grant Program	14.231	CT-CD-15*145	14,267	-
Continuum of Care Program	14.267	CT-CD-15*70	133,984	-
Passed through Primavera Foundation:				
Emergency Solutions Grant Program	14.231	DES-13050-414	125,110	-
Continuum of Care Program	14.267	076-114-9624-761	651	-
Department of Veterans Affairs				
Passed through Primavera Foundation -				
VA Supportive Services for Veteran Families Program	64.033	11-AZ-331	55,729	-
U.S. Department of Health and Human Services				
Direct:				
Drug-free Communities Support Program Grants	93.276	2H79SP015916-06	134,705	-
Transitional Living for Homeless Youth	93.550	90CX6938-03-00	187,267	-
Transitional Living for Homeless Youth	93.550	90CX6972-03-00	188,804	-
Basic Center Grant	93.623	90CY6535-02-00	170,238	-

OUR FAMILY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS, CONTINUED
YEAR ENDED JUNE 30, 2015

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Expenditures Federal	Expenditures Other
U.S. Department of Health and Human Services, continued				
Passed through Casa de los Ninos -				
Medical Assistance Program	93.778	CDLN01	$ 363,455	$ -
Passed through Primavera Foundation -				
Temporary Assistance for Needy Families	93.558	DES-13050-414	449,801	20,852
Passed through Tumbleweed Center for Youth Development -				
Demonstration Grants for Domestic Victims of Human Trafficking	93.327	MOU	12,739	4,481
Passed through University of Arizona:				
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	Y553525	11,328	-
Corporation for National and Community Service				
Direct -				
Senior Companion Program	94.016	12SCWAZ001	210,231	-
			$ 2,465,364	$ 25,333

NOTE 1: Basis of accounting

The schedule of expenditures of federal and other governmental awards 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.

NOTE 2: Federal expenditures by CFDA #

CFDA #	Federal expenditures	Direct funds	Subrecipient payments
10.558	$ 35,149	$ -	$ -
14.218	108,880	-	-
14.231	292,129	-	-
14.267	244,909	110,274	13,707
64.033	55,729	-	-
93.243	11,328	-	-
93.276	134,705	134,705	-
93.327	12,739	-	-
93.550	376,071	376,071	-
93.558	449,801	-	-
93.623	170,238	170,238	-
93.778	363,455	-	-
94.016	210,231	210,231	-
	$ 2,465,364	$ 1,001,519	$ 13,707

Finding: 2014-001	**Program**: 93.276, 93.550, *Government Auditing Standards, OMB Circular A-122*	**Questioned Cost**: None

Condition: Salaries charged to the major programs under cost-reimbursement arrangement were not supported by employee timesheets indicating hours worked in each program.

Criteria: Attachment B, Paragraphs 8.m(2)(a) through 8.m(2)(c) Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*, require that support for charges to awards for salaries and wages must meet the following standards:

a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.
b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
c) The reports must be signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

Cause and effect: Our Family's policy is to establish a budget for each employee's hours by program (estimates determined before the services are performed as described in (a) above) and to charge such allocated to costs to the various programs, unless informed by the employee that actual hours worked were different from the budget. For 17 payroll transactions out of 60 tested, the amount charged to the major program was based on the pre-determined allocation, although time sheet indicating hours worked in each program, signed by the employee, indicated that the actual hours worked were different from the estimate determined in advance of the pay period. Additionally, for one transaction, there was no time sheet indicating actual hours worked in each program.

Perspective information: Although the net effect of the 17 known instances of actual hours worked differing from the amount billed to the major programs was a known undercharge of $731, in practice the organization is not updating the allocation of salaries to reflect actual hours worked. This deficiency in internal control could result in questioned costs reportable on the schedule of findings and questioned costs if more transactions were tested or if different employees' timesheets were tested, which could lead to the need to repay federal agencies for unallowed costs or could jeopardize future federal funding.

Recommendation: We recommend that all charges to federal awards for salaries be supported by time sheets signed by the employee and indicating the number of hours worked in each program, and that the allocation of hours to the various federal programs reflect these actual hours worked rather than the pre-determined budget.

Current year status: Resolved.

Finding: 2014-002	**Program**: *Government Auditing Standards*	**Questioned Cost**: None

Condition: During our review of bank reconciliations for the operating account during the year, 11 months out of 12 had not been reconciled until several months after the statement date. This is a repeat comment from the year ended June 30, 2012.

Criteria: Timely reconciliations of bank statements provide an important monitoring safeguard to prevent or detect fraudulent transactions in cash accounts and for an organization's internal controls over financial reporting.

Cause and effect: Fraudulent transactions could have occurred in the organization's bank accounts which would have gone undetected for a significant period of time.

Perspective information: Most financial institutions will not correct an error unless it is brought to their attention in writing within 30 days of the statement date. Because of this, timely reconciliation of the bank accounts is crucial to protect the assets of Our Family.

Recommendation: We recommend that all bank accounts be reconciled within 30 days of month end.

Current year status: Resolved.