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, 2014 AND 2013

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, 2014 AND 2013

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HBL CPAs, P.C.
Certified Public Accountants

Gerald H. Beal, CPA
Randall L. Brookshier, CPA
Marianne E. 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 organizations), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, 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. 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 of 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, 2014 and 2013, 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 January 6, 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.

January 6, 2015

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 536,210	$ 611,737
Contracts and grants receivable, net of $32,956 allowance for doubtful accounts for both years	593,612	434,853
Unconditional promises to give	12,156	622,066
Other receivables	7,034	590
Prepaid expenses	16,962	47,646
Property held for sale	-	210,489
Other assets	2,537	7,460
Note receivable	-	1,555,531
Property and equipment	4,623,663	3,017,342
Beneficial interest in funds held by others	332,105	298,623
	$ 6,124,279	$ 6,806,337
LIABILITIES AND NET ASSETS		
Accounts payable	$ 82,501	$ 165,215
Accrued payroll and other expenses	205,243	131,120
Deferred revenue	31,089	1,494
Custodial liabilities	19,268	20,263
Tenant security deposits	10,150	10,600
Notes payable	1,044,908	1,749,670
	1,393,159	2,078,362
Net assets:		
Unrestricted:		
Available for operations	448,781	825,918
Board-designated reserve	126,260	55,546
Expended for property and equipment, note receivable and property held for sale	3,578,755	3,033,692
	4,153,796	3,915,156
Temporarily restricted	316,382	551,977
Permanently restricted	260,942	260,842
	4,731,120	4,727,975
	$ 6,124,279	$ 6,806,337

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
Government 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 ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Public support and revenues:				
Government grants	$ 2,110,413	$ -	$ -	$ 2,110,413
Government vendor contracts	1,429,633	-	-	1,429,633
Capital campaign revenues	-	894,949	-	894,949
Contributions and grants	201,195	444,323	800	646,318
Program income	341,667	-	-	341,667
Donated materials and services	278,718	-	-	278,718
United Way	8,988	-	-	8,988
Special events, net of $7,931 direct donor benefit costs	15,297	-	-	15,297
Poinsettia sales, net of $25,512 cost of goods sold	25,920	-	-	25,920
Rental income	5,665	-	-	5,665
Other support and revenue	24,006	-	-	24,006
Change in value of property held for sale	169,693	-	-	169,693
Investment income	74	28,437	-	28,511
	4,611,269	1,367,709	800	5,979,778
Net assets released from restrictions	1,081,625	(1,081,625)	-	-
Total public support and revenues	5,692,894	286,084	800	5,979,778
Expenses and losses:				
Expenses:				
Program services	3,882,354	-	-	3,882,354
Management and general	847,721	-	-	847,721
Merger	34,999	-	-	34,999
Fundraising	333,751	-	-	333,751
Total expenses and losses	5,098,825	-	-	5,098,825
Change in net assets	594,069	286,084	800	880,953
Net assets, beginning of year	3,321,087	265,893	260,042	3,847,022
Net assets, end of year	$ 3,915,156	$ 551,977	$ 260,842	$ 4,727,975

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

	Clinical services	Community services	Senior services	Emergency shelter services	Transitional and affordable housing	Children's program	Homeless prevention	Homeless youth services	United Way/ Siemer project	Rapid rehousing	Supportive services to Veterans and their families	Total program services	Management and general	Fundraising	Total
Contract employees and personnel costs	$ 637,543	$ 303,649	$ 82,434	$ 106,108	$ 119,075	$ 18,250	$ 33,858	$ 892,509	$ 13,513	$ 105,780	$ 29,243	$ 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	197	254	36	52	2,733	36	93	48	5,928	2,925	433	9,286
Client housing	-	-	-	135,788	1,055	-	44,998	187,434	3,331	186,502	-	559,108	-	-	559,108
Cost of poinsettia sales	-	-	-	-	-	-	-	-	-	-	-	-	-	24,279	24,279
Depreciation	14,334	5,648	2,389	4,247	54,051	641	1,157	41,047	215	2,439	620	126,788	29,818	4,494	161,100
Direct donor benefit costs	-	-	-	-	-	-	-	-	-	-	-	-	-	9,705	9,705
Equipment	8,310	4,464	1,037	8,493	2,502	257	886	14,725	156	1,372	288	42,490	12,889	3,113	58,492
Facilities	17,934	10,287	2,939	15,190	147,058	500	1,805	62,954	209	2,459	1,052	262,387	42,709	5,044	310,140
Insurance	14,002	5,612	1,661	4,371	3,615	379	553	22,791	-	1,866	163	55,013	4,890	3,944	63,847
Interest	7,937	2,789	1,534	4,428	12,524	284	930	20,674	14	1,937	325	53,376	23,876	2,716	79,968
Membership, dues and licensing	2,493	2,316	194	427	1,916	38	65	6,885	12	73	81	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	494	906	49	140	9,405	61	3,686	126	27,566	10,043	15,684	53,293
Other client expenses	5,653	36,192	6,772	66,818	22,569	-	2,306	94,418	160	18,243	165	253,296	4,431	78	257,805
Professional and outside services	26,828	20,667	2,945	8,555	8,155	577	838	66,587	530	8,820	787	145,289	37,571	8,458	191,318
Recruitment and staff development	3,539	2,826	1,222	684	1,361	84	102	13,164	80	116	168	23,346	10,075	6,637	40,058
Telephone	7,370	4,422	763	1,531	1,873	120	178	12,608	68	428	138	29,499	4,338	1,059	34,896
Travel and auto	35,647	12,102	240	4,498	1,735	-	374	23,713	117	1,141	2,485	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	361,909	378,649	21,215	88,242	1,504,831	18,502	334,955	35,689	4,230,033	768,811	328,624	5,327,468
Less cost of poinsettia sales	-	-	-	-	-	-	-	-	-	-	-	-	-	(24,279)	(24,279)
Less direct donor benefit costs netted against revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	(9,705)	(9,705)
Total expenses	$ 784,558	$ 423,041	$ 278,442	$ 361,909	$ 378,649	$ 21,215	$ 88,242	$ 1,504,831	$ 18,502	$ 334,955	$ 35,689	$ 4,230,033	$ 768,811	$ 294,640	$ 5,293,484

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

	Clinical services	Community services	Senior services	Emergency shelter services	Transitional and affordable housing	Children's program	Homeless prevention	Homeless youth services	Total program services	Management and general	Merger costs	Fundraising	Total
Contract employees and personnel expense	$ 589,146	$ 296,237	$ 283,842	$ 248,982	$ 178,337	$ 18,221	$ 6,371	$ 710,760	$ 2,331,896	$ 598,414	$ -	$ 237,435	$ 3,167,745
Advertising and public relations	-	40	-	-	-	-	-	-	40	-	5,622	9,745	15,407
Amortization of loan costs	-	-	-	433	-	-	-	-	433	-	-	-	433
Bad debt	4,650	-	624	-	-	-	-	34,211	39,485	-	-	486	39,971
Bank fees	1,407	609	729	128	412	46		1,872	5,203	2,004	-	482	7,689
Client housing	525	-	-	-	1,431	-	14,027	132,206	148,189	-	-	-	148,189
Cost of poinsettia sales	-	-	-	-	-	-	-	-	-	-	-	25,512	25,512
Depreciation	17,073	8,135	8,217	12,619	61,652	1,601	-	21,619	130,916	28,003	-	6,159	165,078
Direct donor benefit costs	-	-	-	-	-	-	-	-	-	-	-	7,931	7,931
Equipment	8,194	6,302	3,846	3,988	840	123	-	12,566	35,859	9,370	8,663	814	54,706
Facilities	15,085	12,758	7,877	117,210	245,224	518	27	37,285	435,984	48,854	2,752	1,896	489,486
Insurance	12,558	5,388	5,673	6,625	6,784	575	416	14,682	52,701	7,819	-	3,022	63,542
Interest	14,551	4,503	7,419	305	12,549	85	-	77	39,489	34,201	-	297	73,987
Membership, dues and licensing	195	1,167	120	888	346	-	-	2,658	5,374	34,638	918	1,656	42,586
Miscellaneous	154	-	75		888			900	2,017	260	1,175	44	3,496
Office supplies	1,732	12,744	1,184	597	1,272	25	37	1,935	19,526	15,733	534	16,844	52,637
Other client expenses	16,597	18,528	14,830	24,949	42,028	56	133	85,953	203,074	-	-	9,120	212,194
Payments to subrecipients	-	-	-	-	-	-	-	17,627	17,627	-	-	-	17,627
Professional and outside services	20,476	17,472	9,226	15,022	10,927	1,128	-	24,383	98,634	44,470	11,235	36,834	191,173
Recruitment and staff development	4,388	1,797	2,650	1,769	2,989	81	66	5,620	19,360	12,393	4,100	5,660	41,513
Telephone	9,267	2,954	5,159	5,141	3,166	160	-	10,822	36,669	6,169	-	926	43,764
Travel and auto	29,765	9,204	8,974	2,780	618	-	119	26,928	78,388	5,393	-	2,331	86,112
Volunteer	-	-	181,490	-	-	-	-	-	181,490	-	-	-	181,490
Total functional expenses	745,763	397,838	541,935	441,436	569,463	22,619	21,196	1,142,104	3,882,354	847,721	34,999	367,194	5,132,268
Less cost of poinsettia sales	-	-	-	-	-	-	-	-		-	-	(25,512)	(25,512)
Less direct donor benefit costs netted against revenues	-	-	-	-	-	-	-	-		-	-	(7,931)	(7,931)
Total expenses	$ 745,763	$ 397,838	$ 541,935	$ 441,436	$ 569,463	$ 22,619	$ 21,196	$ 1,142,104	$ 3,882,354	$ 847,721	$ 34,999	$ 333,751	$ 5,098,825

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ 3,145	$ 880,953
Adjustments to reconcile change in net assets to net cash from operating activities:		
Donated marketable securities	(23,651)	-
Realized losses on marketable securities	78	-
Provision for discount to present value for unconditional promises to give	(1,065)	1,065
Change in value of property held for sale	-	(169,693)
Amortization of loan costs	433	433
Depreciation	161,100	165,078
Loss on disposal of property and equipment	51,247	-
Change in value of beneficial interest in funds held by others	(41,941)	(28,437)
(Increase) decrease in operating assets:		
Contracts and grants receivable	(158,759)	137,802
Other receivables	(6,444)	3,313
Prepaid expenses	30,684	(4,285)
Other assets	4,490	(2,788)
Increase (decrease) in operating liabilities:		
Accounts payable	(82,714)	46,489
Accrued payroll and related expenses	74,123	(8,309)
Deferred revenue	29,595	(17,770)
Custodial liabilities	(995)	(19,914)
Tenant security deposits	(450)	450
Contributions restricted for long-term purposes	(306,267)	(895,749)
Net cash provided by (used in) operating activities	(267,391)	88,638
Cash flows from investing activities:		
Proceeds of sales of marketable securities	23,573	-
Proceeds from note receivable	84,964	-
Proceeds of sales of property held for sale	210,489	-
Purchases of property and equipment	(22,013)	(558,839)
Distributions from beneficial interest in funds held by others	8,559	5,491
Additions to beneficial interest in funds held by others	(100)	(4,440)
Net cash provided by (used in) investing activities	305,472	(557,788)
Cash flows from financing activities:		
Contributions restricted for long-term purposes	100	800
Capital campaign collections	322,472	271,818
Borrowings against line of credit	-	13,833
Repayment of lines of credit	-	(203,301)
Borrowings against notes payable	-	351,095
Repayment of notes payable	(436,180)	(86,130)
Net cash provided by (used in) financing activities	(113,608)	348,115
Change in cash and cash equivalents	(75,527)	(121,035)
Cash and cash equivalents, beginning of year	611,737	732,772
Cash and cash equivalents, end of year	$ 536,210	$ 611,737

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. See Note 3.

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:

Emergency shelter services – 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.

Transitional and affordable housing – 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.

Children's program – 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.

Homeless prevention – 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.

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.

United Way/Siemer Project – 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.

Rapid rehousing – 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.

Supportive services to Veterans and their families – Homeless prevention and assistance for families with an identified Veteran. Rental assistance, utility assistance and case management for Veterans and their families.

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.

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, 2014, uninsured cash was $486,782.

Contracts and grants receivable

Contracts and grants 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 grants 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.

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

NOTE 2 – Summary of significant accounting policies, continued

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.

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.

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.

NOTE 2 – Summary of significant accounting policies, continued

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.

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).

In accordance with generally accepted accounting principles, Our Family holds no uncertain tax positions and, therefore, has no policy for evaluating them. Our Family's Forms 990, *Return of Organization Exempt from Income Taxes*, and Arizona Forms 99, *Arizona Exempt Organization Annual Information Return*, are generally subject to examination by the Internal Revenue Service for three years and the Arizona Department of Revenue for four years, respectively, after the date filed.

Advertising

Our Family expenses all advertising costs as incurred.

NOTE 3 – Unconditional promises to give

Unconditional promises to give consist of pledges for a capital campaign at June 30, 2014 and 2013 as follows:

	2014	2013
Due in less than one year	$ 12,156	$ 611,674
Due in one to five years	-	11,457
	12,156	623,131
Less discount to present value at 5%	-	(1,065)
	$ 12,156	$ 622,066

NOTE 4 – Note receivable

A promissory note was executed for certain construction costs advanced for one of Our Family's apartment facilities known as Phase II of the La Promesa Apartments (Phase II). Title to Phase II was held by TSH-PEI Limited Partnership, LLP (TSH-PEI), a separate entity for which Our Family owned a minority interest through its membership in an LLC. The note matured in January 2014 and was settled during the year ended June 30, 2014 with the transfer of ownership of the apartments to Our Family Services, along with cash and the liabilities related to tenant security deposits. The balance of the note receivable was $0 and $1,555,531 at June 30, 2014 and 2013, respectively.

NOTE 5 – Other assets

Other assets consist of the following at June 30, 2014 and 2013:

	2014	2013
Amortized loan costs	$ 6,500	$ 6,500
Accumulated amortization	(4,519)	(4,086)
	1,981	2,414
Gift cards for distribution to clients	556	5,046
	$ 2,537	$ 7,460

NOTE 6 – Property and equipment

Property and equipment at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Land	$ 424,150	$ 424,150
Building and improvements	5,565,120	2,989,972
Leasehold improvements	13,189	32,017
Furniture, equipment and computers	437,020	453,185
Vehicles	66,099	46,300
	6,505,578	3,945,624
Less accumulated depreciation	(1,881,915)	(1,795,131)
Construction in process	-	866,849
	$ 4,623,663	$ 3,017,342

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's property held for sale was valued using Level 2 inputs, based on the sales price of the property subsequent to June 20, 2013, less sellers' commission and closing costs.

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 (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, 2014 and 2013 consisted of the following:

	2014	2013		
	Level 3	Level 2	Level 3	Total
Property held for sale	$ -	$ 210,489	$ -	$ 210,489
Note receivable	-	-	1,555,531	1,555,531
Beneficial interest in funds held by others	332,105	-	298,623	298,623
	$ 332,105	$ 210,489	$ 1,854,154	$ 2,064,643

Activity in assets measured on a recurring basis utilizing Level 3 inputs was as follows for the years ended June 30, 2014 and 2013:

	Note receivable	Beneficial interest in funds held by others	Total
Beginning balance	$ 1,555,531	$ 298,623	$ 1,854,154
Additions	-	100	100
Change in value	-	41,941	41,941
Distributions/proceeds	(84,964)	(8,559)	(93,523)
Assets received in lieu of cash proceeds	(1,470,567)	-	(1,470,567)
Ending balance	$ -	$ 332,105	$ 332,105

Investment income for the years ended June 30, 2014 and 2013 was as follows:

	2014	2013
Interest and dividends	$ 58	$ 74
Realized (losses) on sale of donated marketable securities	(78)	-
Change in value of beneficial interest in funds held by others	41,941	28,437
	$ 41,921	$ 28,511

Assets measured on a non-recurring basis utilizing Level 3 inputs at a discounted rate of 5% consisted of unconditional promises to give totaling $12,156 and $622,066, respectively, at June 30, 2014 and 2013.

NOTE 8 – Custodial liabilities

Our Family had custodial liabilities totaling $19,268 and $20,263 at June 30, 2014 and 2013, respectively, related to its role as a fiscal agent for two nonprofit organizations.

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 1.5% (5% at June 30, 2014), collateralized by real property and maturing in March 2014. The outstanding balance for the line of credit was $0 at both June 30, 2014 and 2013.

NOTE 10 – Notes payable

Notes payable at June 30, 2014 and 2013 consisted of the following:

Note holder	Maturity date	Interest rate	Payments	2014	2013
Bank	Sep 2018	4.75%	$6,896 monthly	$ 741,148	$ 770,992
Bank	*	4.75%	*	-	275,272
Bank	Oct 2018	4.44%	$3,412 monthly	151,702	183,090
Bank	Nov 2018	5.00%	$7,020 monthly	-	344,438
Bank	Aug 2019	5.82%	$2,261 monthly	113,428	131,672
Bank	Apr 2022	6.00%	$401 monthly	27,251	32,827
City of Tucson	Aug 2020	0%	$1,422 annually	11,379	11,379
				$ 1,044,908	$ 1,749,670

* Interest-only payments were required - principal balance was paid off in December 2013.

Two of the notes payable to banks are subject to certain financial covenants, with which Our Family was in compliance at June 30, 2014.

Future maturities of the notes payable are as follows at June 30, 2014:

Year ending June 30, 2015	$ 100,415
2016	94,377
2017	100,265
2018	106,403
2019	630,151
Thereafter	13,297
	$ 1,044,908

NOTE 11 – Permanently restricted net assets

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 11 – Permanently restricted net assets, continued

Permanently restricted net asset activity was as follows during the year ended June 30, 2013:

	Beginning balance	Contributions	Ending balance
Operating endowment	$ 48,161	$ 200	$ 48,361
Lacy endowment - earnings restricted for homeless teens	211,881	600	212,481
	$ 260,042	$ 800	$ 260,842

NOTE 12 – Temporarily restricted net assets

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 referra	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
Reunion House	2,930	5,710	-	(8,640)	-
New Reunion House shelter	359,300	306,168	-	(665,468)	-
Emergency shelter services	-	69,190	-	(69,190)	-
Rapid rehousing	-	9,629	-	(9,629)	-
Homelss youth service	47,819	107,425	-	(79,496)	75,748
Homeless prevention	-	58	-	(58)	-
Transitional and affordable housing	4,443	27,000	-	(21,586)	9,857
Senior companion program	39,250	47,105	-	(45,855)	40,500
	515,242	805,898	-	(1,074,494)	246,646
Accumulated endowment earnings:					
Operating endowment	5,387	-	7,892	-	13,279
Homess teens endowment	31,348	-	34,049	(8,940)	56,457
	36,735	-	41,941	(8,940)	69,736
	$ 551,977	$ 805,898	$ 41,941	$ (1,083,434)	$ 316,382

NOTE 12 – Temporarily restricted net assets, continued

Temporarily restricted net asset activity was as follows during the year ended June 30, 2013:

	Beginning balance	Contributions	Investment income	Releases/ appropri-ations	Ending balance
Purpose-restricted by donor:					
Counseling	$ -	$ 331	$ -	$ (331)	$ -
Information and referra	51,495	59,000		(80,995)	29,500
Prevention	40,008	92,344		(117,352)	15,000
The Center for Community Dialogue	10,362	36,214		(29,576)	17,000
Reunion House	-	3,230		(300)	2,930
New Reunion House shelter	-	894,949		(535,649)	359,300
Emergency shelter services	6,810	55,574		(62,384)	-
Common Unity Progra	17,498	700		(18,198)	-
Homeless services	13,700	-		(13,700)	-
Homeless youth servic	28,380	84,420		(64,981)	47,819
Transitional and affordable housing	25,952	1,000		(22,509)	4,443
Senior companion program	32,784	76,510		(70,044)	39,250
Merger	25,115	35,000	-	(60,115)	-
	252,104	1,339,272	-	(1,076,134)	515,242
Accumulated endowment earnings:					
Operating endowment	315	-	5,072	-	5,387
Homeless teens endowment	13,474	-	23,365	(5,491)	31,348
	13,789	-	28,437	(5,491)	36,735
	$ 265,893	$ 1,339,272	$ 28,437	$ (1,081,625)	$ 551,977

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, 2014 or 2013.

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.

NOTE 13 – Endowments, continued

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.

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, 2014:

	Temporarily restricted	Permanently restricted	Total
Beginning balance	$ 36,735	$ 260,842	$ 297,577
Contributions	-	100	100
Change in value of beneficial interest in funds held by others	41,941	-	41,941
Appropriations	(8,940)	-	(8,940)
Ending balance	$ 69,736	$ 260,942	$ 330,678

Net assets in the endowment funds consisted of the following at June 30, 2013:

	Temporarily restricted	Permanently restricted	Total
Beginning balance	$ 13,789	$ 260,042	$ 273,831
Contributions	-	800	800
Change in value of beneficial interest in funds held by others	28,437	-	28,437
Appropriations	(5,491)	-	(5,491)
Ending balance	$ 36,735	$ 260,842	$ 297,577

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

NOTE 14 – Rental income

Our Family leases office space to a nonprofit organization on a month-to-month basis. Total rental income under this lease was $0 and $5,665 for the years ended June 30, 2014 and 2013, respectively.

NOTE 15 – Donated materials and services

In-kind contributions for the years ended June 30, 2014 and 2013 consisted of the following:

	2014	2013
Advertising and public relations	$ -	$ 3,304
Facilities	41,867	215,851
Office supplies	123	53
Other client expenses	49,019	41,442
Professional and outside services	1,179	14,169
Recruitment and staff development	1,105	1,337
Travel	40	-
Volunteer	633	-
In-kind expenses	93,966	276,156
Gift cards included in other assets	(5,270)	2,562
	$ 88,696	$ 278,718

NOTE 16 – 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, 2014 and 2013 were $22,176 and $32,143, respectively.

NOTE 17 – Lease commitments

Our Family leases office space and office equipment for its operation under non-cancelable operating leases expiring at various times through June 2017. Rent expense for the years ended June 30, 2014 and 2013 was as follows:

	2014	2013
In-kind rent included in facilities expense in donated services in Note 15	$ 41,667	$ 215,000
Rent paid by the Organization	88,312	109,877
	$ 129,979	$ 324,877

Future minimum lease payments are as follows:

Year ending June 30, 2015	$ 29,487
2016	29,058
2017	28,200
2018	4,729
	$ 91,474

NOTE 18 – Supplemental cash flow information

Non-cash investing and financing activity consisted of the following for the years ended June 30, 2014 and 2013:

	2014	2013
Property and equipment received in exchange for note payable	$ 326,088	$ 274,177
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	$ 274,177
Cash paid for interest	$ 79,968	$ 73,987

No cash paid for income taxes in 2014 or 2013.

NOTE 19 – Related party transactions

In addition to the note receivable reported in Note 4, Our Family received $19,942 and $10,388 from TSH-PEI for supplies and maintenance expenses made by Our Family on TSH-PEI's behalf for the years ended June 30, 2014 and 2013, respectively. Receivables from TSH-PEI at June 30, 2014 and 2013 totaled $0 and $119, respectively.

NOTE 20 – Subsequent events

Subsequent to year end, Our Family began negotiations on the sale of an apartment building. No agreement had been entered into as of January 6, 2015, and accordingly this has not been recorded in the financial statements.

Subsequent events have been evaluated through January 6, 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
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, 2014, and the related notes to the consolidated financial statements and have issued our report thereon dated January 6, 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2014-001 and 2014-002 that we consider to be significant deficiencies.

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

Formerly DeVries CPAs of Arizona, P.C. and Hammel, Beal & Lauer, P.C.
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Private Companies Practice Section of AICPA Division of Firms · Arizona Society of Certified Public Accountants

Our Family Services, Inc.'s responses to findings

Our Family Services, Inc.'s responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. Our Family Services, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

January 6, 2015

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, 2014. 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.

Basis for qualified opinion on major federal programs

As described in the accompanying schedule of findings and questioned costs, Our Family Services, Inc. did not comply with the allowable costs/cost principles requirements of the major federal programs, as described in finding number 2014-001 for failure to retain adequate and appropriate support for salaries charged to the major programs. Compliance with such requirements is necessary, in our opinion, for Our Family Services, Inc. to comply with the requirements applicable to that program.

Qualified opinion on major federal programs

In our opinion, except for the noncompliance described in the *Basis for qualified opinion* paragraph above, 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 the major federal programs for the year ended June 30, 2014.

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

Other matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is qualified with respect to this matter.

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 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 2014-001, that we consider to be a significant deficiency.

Our Family Services, Inc.’s responses to findings

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.

January 6, 2015

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
No material weaknesses identified.	
Two significant deficiencies identified.	2014-001, 2014-002
No noncompliance material to financial statements noted.	

Federal awards

Internal control over major programs:	
No material weaknesses identified.	
One significant deficiency identified.	2014-001
Type of auditors' report issued on compliance for major programs:	Qualified
One audit findings disclosed as required to be reported in accordance with Circular A-133, Section .510(a).	2014-001

Identification of major programs:

93.550 Transitional Housing for Homeless Youth
93.276 Drug-Free Communities Support Program Grants

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

Auditee qualified as a low risk auditee.

SECTION II – FINANCIAL STATEMENT FINDINGS AND QUESTIONS COSTS

The following represent significant deficiencies in internal control over financial reporting in accordance with Government Auditing Standards:

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.

Management response: It is our practice to ensure that salaries charged to programs reflect employee's actual hours worked as documented on their timesheet. In November of 2014 we changed payroll processing companies which allows for updates to staff allocations on the day payroll is being processed in order to reflect actual hours worked through the end of the pay period. In the prior system, hours had to be added at least a week prior to the end of the pay period with subsequent adjustments to account for the remainder of the pay period. This process had more room for error and thus was part of the reason payroll companies were changed.

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.

Management response: We agree with your recommendation and have since made adjustments to the process. The bank statements were reviewed and substantially reconciled within 30 days. We also regularly use online access to monitor banking activity.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

We consider finding 2014-001 to also be a significant deficiency in internal control over compliance required by OMB Circular A-133, as well as material noncompliance with the requirements applicable to its major federal programs.

INFORMATION PREPARED BY AUDITEE

OUR FAMILY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS
Year ended June 30, 2014

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass-through grantor's number	Expenditures Federal	Expenditures Other
U.S. Department of Housing and Urban Development				
Direct:				
Supportive Housing Program	14.235	AZ0048L9T011205	$ 63,992	$ -
Passed through City of Tucson:				
Community Development Block Grants/ Entitlement Grants	14.218	17555-1	67,631	-
Emergency Solutions Grant Program	14.231	17556	24,291	-
Emergency Solutions Grant Program	14.231	17795	96,173	-
Supportive Housing Program	14.235	17799	7,991	-
Passed through La Casita:				
Continuum of Care Program	14.267	CT-CS-13-848	90,546	-
Passed through Primavera Foundation:				
Supportive Housing Program	14.235	1345 / Bridges	8,000	-
U.S. Department of Health and Human Services				
Direct:				
Drug-free Communities Support Program Grants	93.276	5H79SP015916-05	129,800	-
Transitional Living for Homeless Youth	93.550	90CX6938-02-00	200,472	-
Transitional Living for Homeless Youth	93.550	90CX6972-01-01	207,013	-
Education and Prevention Grants to Reduce Sexual Abuse of Runaway, Homeless and Street Youth	93.557	90YO0138-03-00	48,989	-
Basic Center Grant	93.623	90CY6535-01-00	195,082	-
Passed through Casa de los Ninos:				
Medical Assistance Program	93.778	CDLN01	351,388	-
Passed through University of Arizona:				
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	Y553525	26,915	-
Corporation for National and Community Service				
Direct:				
Senior Companion Program	94.016	12SCWAZ001	210,232	-
Other governmental awards:				
City of Tucson:				
Housing	N/A	17561	-	30,000
TNT Case Management	N/A	17562-1	-	30,000
COT Parenting/Life Skills	N/A	17563	-	42,712
			$ 1,728,515	$ 102,712

OUR FAMILY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND OTHER GOVERNMENTAL AWARDS - continued
Year ended June 30, 2014

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
14.218	$ 67,631	$ -
14.231	120,464	-
14.235	79,983	63,992
14.267	90,546	-
93.243	26,915	-
93.276	129,800	129,800
93.550	407,485	407,485
93.557	48,989	48,989
93.623	195,082	195,082
93.778	351,388	-
94.016	210,232	210,232
	$ 1,728,515	$ 1,055,580

OUR FAMILY SERVICES, INC.
AND OUR FAMILY SERVICES FOUNDATION, INC.
SUMMARY OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2014

FINDING/NONCOMPLIANCE

None