

SANTA MARIA COMMUNITY SERVICES, INC.
FINANCIAL STATEMENTS
December 31, 2008

SANTA MARIA COMMUNITY SERVICES, INC.

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REPORT OF INDEPENDENT ACCOUNTANTS

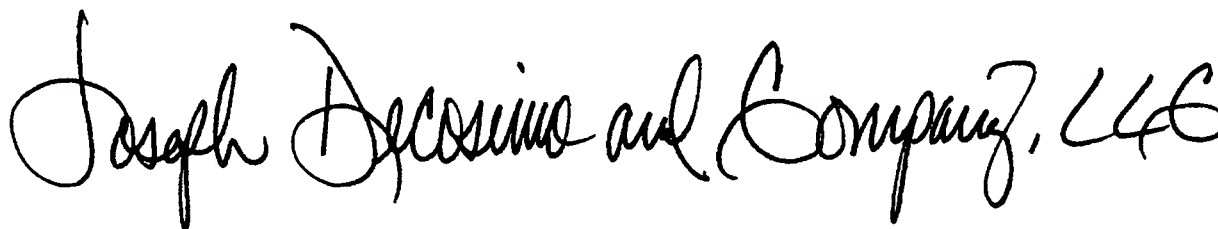
Board of Directors
Santa Maria Community Services, Inc.
Cincinnati, Ohio

We have audited the accompanying statement of financial position of Santa Maria Community Services, Inc., an Ohio not-for-profit organization, as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Santa Maria Community Services, Inc. as of and for the year ended December 31, 2007, were audited by other auditors, whose report dated June 16, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Maria Community Services, Inc. as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2009, on our consideration of Santa Maria Community Service, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A large, stylized handwritten signature in black ink that reads "Joseph Decosimo and Company, LLC". The signature is written in a cursive, flowing style with large loops and is positioned above the printed name of the firm.

Cincinnati, Ohio
July 20, 2009

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 290,023	\$ 406,913
Investments	173,125	256,587
Grants receivable	155,216	144,612
Prepaid expenses	<u>36,992</u>	<u>30,405</u>
Total current assets	655,356	838,517
PROPERTY AND EQUIPMENT, net	475,844	488,008
OTHER ASSETS		
Deposits	<u>4,080</u>	<u>4,080</u>
TOTAL ASSETS	\$ <u>1,135,280</u>	\$ <u>1,330,605</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 25,100	\$ 24,153
Accrued vacation	<u>77,232</u>	<u>61,361</u>
Total liabilities	<u>102,332</u>	<u>85,514</u>
NET ASSETS		
Unrestricted	730,213	1,038,511
Temporarily restricted	295,735	199,580
Permanently restricted	<u>7,000</u>	<u>7,000</u>
Total net assets	<u>1,032,948</u>	<u>1,245,091</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>1,135,280</u>	\$ <u>1,330,605</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
United Way allocations	\$ 825,838	\$ 184,296	\$ -	\$ 1,010,134
Contributions	209,290	229,567	-	438,857
Special events, net of direct costs of \$20,782	34,485	-	-	34,485
Investment income	(74,840)	-	-	(74,840)
In-kind donations	2,375	-	-	2,375
Total public support and revenue	<u>997,148</u>	<u>413,863</u>	<u>-</u>	<u>1,411,011</u>
PROGRAM SERVICE AND REVENUE				
Government grants	872,234	43,764	-	915,998
Service fees	20,202	-	-	20,202
Total program service and revenue	<u>892,436</u>	<u>43,764</u>	<u>-</u>	<u>936,200</u>
Net assets released from restriction	<u>361,472</u>	<u>(361,472)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND OTHER SUPPORT	<u>2,251,056</u>	<u>96,155</u>	<u>-</u>	<u>2,347,211</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES				
Program services				
Neighborhood Center - East Price Hill	\$ 1,104,754	\$ -	\$ -	\$ 1,104,754
Neighborhood Center - Price Avenue	313,636	-	-	313,636
Neighborhood Center - Lower Price Hill	337,591	-	-	337,591
Neighborhood Center - Sedamsville	408,618	-	-	408,618
Administrative	238,180	-	-	238,180
Development	169,415	-	-	169,415
Total expenses	<u>2,572,194</u>	<u>-</u>	<u>-</u>	<u>2,572,194</u>
OTHER INCOME (EXPENSE)				
Miscellaneous income	13,343	-	-	13,343
Loss on disposal of property and equipment	(503)	-	-	(503)
Total other income (expense)	<u>12,840</u>	<u>-</u>	<u>-</u>	<u>12,840</u>
CHANGE IN NET ASSETS				
	(308,298)	96,155	-	(212,143)
NET ASSETS - beginning of year	<u>1,038,511</u>	<u>199,580</u>	<u>7,000</u>	<u>1,245,091</u>
NET ASSETS - end of year	<u>\$ 730,213</u>	<u>\$ 295,735</u>	<u>\$ 7,000</u>	<u>\$ 1,032,948</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
PUBLIC SUPPORT AND REVENUE				
United Way allocations	\$ 934,116	\$ -	\$ -	\$ 934,116
Contributions	202,797	206,074	-	408,871
Special events, net of direct costs of \$28,484	23,073	4,630	-	27,703
Investment income	29,767	-	-	29,767
Total public support and revenue	<u>1,189,753</u>	<u>210,704</u>	<u>-</u>	<u>1,400,457</u>
PROGRAM SERVICE AND REVENUE				
Government grants	722,132	13,724	-	735,856
Service fees	22,692	-	-	22,692
Total program service and revenue	<u>744,824</u>	<u>13,724</u>	<u>-</u>	<u>758,548</u>
Net assets released from restriction	214,348	(214,348)	-	-
TOTAL REVENUES AND OTHER SUPPORT	<u>2,148,925</u>	<u>10,080</u>	<u>-</u>	<u>2,159,005</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES				
Program services				
Neighborhood Center - East Price Hill	\$ 796,723	\$ -	\$ -	\$ 796,723
Neighborhood Center - Price Avenue	364,060	-	-	364,060
Neighborhood Center - Lower Price Hill	334,467	-	-	334,467
Neighborhood Center - Sedamsville	328,803	-	-	328,803
Administrative	206,457	-	-	206,457
Development	171,615	-	-	171,615
Total expenses	<u>2,202,125</u>	<u>-</u>	<u>-</u>	<u>2,202,125</u>
OTHER INCOME (EXPENSE)				
Miscellaneous income	948	-	-	948
Loss on disposal of property and equipment	(9,193)	-	-	(9,193)
Total other income (expense)	<u>(8,245)</u>	<u>-</u>	<u>-</u>	<u>(8,245)</u>
CHANGE IN NET ASSETS				
	(61,445)	10,080	-	(51,365)
NET ASSETS - beginning of year	<u>1,099,956</u>	<u>189,500</u>	<u>7,000</u>	<u>1,296,456</u>
NET ASSETS - end of year	<u>\$ 1,038,511</u>	<u>\$ 199,580</u>	<u>\$ 7,000</u>	<u>\$ 1,245,091</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2008

	Neighborhood Center - East Price Hill	Neighborhood Center - Price Avenue	Neighborhood Center - Lower Price Hill	Neighborhood Center - Sedamsville	Administrative	Development	Total
SALARIES AND RELATED EXPENSES							
Salaries and wages	\$ 673,093	\$ 102,197	\$ 199,986	\$ 235,912	\$ 146,706	\$ 99,820	\$ 1,457,714
Employee benefits and taxes	<u>197,706</u>	<u>30,845</u>	<u>65,560</u>	<u>58,692</u>	<u>43,557</u>	<u>35,332</u>	<u>431,692</u>
	<u>870,799</u>	<u>133,042</u>	<u>265,546</u>	<u>294,604</u>	<u>190,263</u>	<u>135,152</u>	<u>1,889,406</u>
OPERATING EXPENSES							
Assistance to individuals	16,272	304	13,730	819	-	-	31,125
Awards and grants	7,903	58	109	129	60	3,347	11,606
Conferences, conventions and meetings	2,803	196	486	1,266	626	2,754	8,131
Insurance	11,287	1,663	3,030	4,060	1,664	1,232	22,936
Membership dues	1,106	101	390	234	576	910	3,317
Miscellaneous	6,265	488	911	1,732	6,931	410	16,737
Occupancy	15,808	8,707	13,147	16,519	8,716	6,457	69,354
Postage	3,108	308	1,224	394	1,387	3,077	9,498
Printing and publications	13,380	962	2,299	3,614	1,955	3,770	25,980
Professional services	53,000	2,322	12,179	15,687	11,247	3,015	97,450
Staff education	9,430	-	394	1,099	501	1,160	12,584
Office supplies	4,719	899	2,044	2,589	1,308	1,319	12,878
Supplies	35,514	155,003	11,536	24,010	8,096	4,374	238,533
Travel	18,344	1,461	393	1,262	2,017	683	24,160
Telephone	12,399	2,472	3,859	5,845	2,833	1,755	29,163
Youth activities	<u>290</u>	<u>-</u>	<u>767</u>	<u>28,210</u>	<u>-</u>	<u>-</u>	<u>29,267</u>
	<u>211,628</u>	<u>174,944</u>	<u>66,498</u>	<u>107,469</u>	<u>47,917</u>	<u>34,263</u>	<u>642,719</u>
DEPRECIATION							
	<u>22,327</u>	<u>5,650</u>	<u>5,547</u>	<u>6,545</u>	<u>-</u>	<u>-</u>	<u>40,069</u>
	<u>\$ 1,104,754</u>	<u>\$ 313,636</u>	<u>\$ 337,591</u>	<u>\$ 408,618</u>	<u>\$ 238,180</u>	<u>\$ 169,415</u>	<u>\$ 2,572,194</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2007

	Neighborhood Center - East Price Hill	Neighborhood Center - Price Avenue	Neighborhood Center - Lower Price Hill	Neighborhood Center - Sedamsville	Administrative	Development	Total
SALARIES AND RELATED EXPENSES							
Salaries and wages	\$ 492,548	\$ 136,369	\$ 184,731	\$ 183,715	\$ 135,929	\$ 91,558	\$ 1,224,850
Employee benefits and taxes	<u>121,562</u>	<u>40,071</u>	<u>67,565</u>	<u>51,680</u>	<u>38,820</u>	<u>31,378</u>	<u>351,076</u>
	<u>614,110</u>	<u>176,440</u>	<u>252,296</u>	<u>235,395</u>	<u>174,749</u>	<u>122,936</u>	<u>1,575,926</u>
OPERATING EXPENSES							
Assistance to individuals	5,659	8,095	17,730	(85)	-	-	31,399
Awards and grants	1,575	460	719	779	293	223	4,049
Conferences, conventions and meetings	1,052	157	696	308	634	1,798	4,645
Insurance	12,245	3,241	4,929	5,227	2,152	1,608	29,402
Investment expenses	-	-	-	-	2,038	-	2,038
Membership dues	473	127	295	198	83	688	1,864
Miscellaneous	2,989	3,157	1,002	1,310	1,091	717	10,266
Occupancy	16,793	10,491	11,427	15,456	7,233	5,633	67,033
Postage	3,361	1,001	1,331	923	1,324	4,203	12,143
Printing and publications	19,922	3,330	8,454	5,327	2,456	2,717	42,206
Professional services	37,816	11,141	11,909	8,154	3,833	24,133	96,986
Staff education	11,290	2,854	830	238	859	414	16,485
Office supplies	5,661	1,469	2,283	1,438	1,927	1,032	13,810
Supplies	26,817	134,036	8,028	21,170	1,996	2,969	195,016
Travel	12,865	1,354	781	980	1,905	158	18,043
Telephone	10,636	3,577	4,778	5,400	3,040	1,685	29,116
Youth activities	-	-	-	18,996	-	-	18,996
	<u>169,154</u>	<u>184,490</u>	<u>75,192</u>	<u>85,819</u>	<u>30,864</u>	<u>47,978</u>	<u>593,497</u>
DEPRECIATION							
	<u>13,459</u>	<u>3,130</u>	<u>6,979</u>	<u>7,589</u>	<u>844</u>	<u>701</u>	<u>32,702</u>
	<u>\$ 796,723</u>	<u>\$ 364,060</u>	<u>\$ 334,467</u>	<u>\$ 328,803</u>	<u>\$ 206,457</u>	<u>\$ 171,615</u>	<u>\$ 2,202,125</u>

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

SANTA MARIA COMMUNITY SERVICES, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2008 and 2007

	2008	2007
OPERATING ACTIVITIES		
Change in net assets	\$ (212,143)	\$ (51,365)
Adjustments to reconcile change in net assets to net cash flows from operating activities -		
Depreciation	40,069	32,702
Unrealized loss (gain) on investments	88,725	(9,356)
Loss on disposal of property and equipment	503	9,193
Changes in operating assets and liabilities -		
Grants receivable	(10,604)	(1,574)
Prepaid expenses	(6,587)	(11,734)
Accounts payable	947	(21,929)
Accrued liabilities	<u>15,871</u>	<u>1,880</u>
Net cash flows from operating activities	<u>(83,219)</u>	<u>(52,183)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(28,408)	(35,881)
Proceeds from sale of property and equipment	-	200
Purchases of investments	<u>(5,263)</u>	<u>(5,588)</u>
Net cash flows from investing activities	<u>(33,671)</u>	<u>(41,269)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(116,890)	(93,452)
CASH AND CASH EQUIVALENTS - beginning of year	<u>406,913</u>	<u>500,365</u>
CASH AND CASH EQUIVALENTS - end of year	\$ <u>290,023</u>	\$ <u>406,913</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid during the year	\$ -	\$ 2,038

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

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and practices followed by Santa Maria Community Services, Inc. are as follows:

NATURE OF OPERATIONS - Santa Maria Community Services, Inc. (Organization) is a not-for-profit organization organized under the laws of the State of Ohio and operates four neighborhood-based resource centers in Cincinnati, Ohio. Neighborhood-based services, offered free of charge and in partnership with resident volunteers, include: early childhood development and parenting; wellness; housing programs; and youth development. The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

BASIS OF PRESENTATION - The Organization's financial statements are prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations and may be utilized at the discretion of the Board of Directors.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization satisfying the purpose or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that the principal must be maintained intact in perpetuity and that only the income from the investment thereof must be expended either for the general purpose of the Organization or for purposes specified by the donor.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Donor-restricted contributions whose restrictions are met during the same reporting period are reported as unrestricted support.

RECOGNITION OF DONATED ITEMS - The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donated materials and fixed assets are recorded at fair value as of the date of contribution.

RECOGNITION OF DONATED SERVICES - The Organization recognizes donated services as revenues in the period received only if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Revenue recognized for donated services for the year ended December 31, 2008, totaled \$2,375.

REVENUE RECOGNITION - The Organization recognizes revenue when services are performed. Grants are recognized in earnings in the period in which the related expenditures are incurred.

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

CASH AND CASH EQUIVALENTS - Cash and cash equivalents include all cash balances and highly liquid investments with an initial maturity of three months or less. The Organization places its temporary cash investments with high credit quality financial institutions. At times such investments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit. The Organization has not experienced any losses in such accounts and believes its exposure to significant credit risk on cash and cash equivalents is limited.

INVESTMENTS - Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value.

In August 2008, the Financial Accounting Standards Board issued Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FAS 117-1). FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FAS 117-1 also improves disclosures about an organization's endowment funds (both donor-restricted and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The state of Ohio has not adopted UPMIFA as of December 31, 2008. However, on April 7, 2009, the state of Ohio did adopt UPMIFA principles with an effective date of June 1, 2009. The Board of Directors has defined the net asset classifications for the Organization as set forth in Note 1 - Summary of Significant Accounting Policies. For purposes of the FAS 117-1 disclosure, the Board of Directors has also adopted the FASB definition of an endowment fund; to encompass all funds established to provide income for the support of the Organization, including unrestricted funds set aside by the Board of Directors as endowed. Management is currently assessing the impact of FAS 117-1 on its financial position and results of operations and has not yet determined if the adoption of FAS 117-1 will have a material effect on its financial statements.

FAIR VALUE MEASUREMENTS - Effective January 1, 2008, the Organization adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (SFAS 157) for all financial instruments that are required to be reported at fair value and all nonfinancial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. The Organization has elected to defer application of SFAS 157 for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis until January 1, 2009. The adoption of SFAS 157 did not have a material effect on the Organization's financial statements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to inputs from observable data other than quoted prices (Level 2) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under SFAS 157 as assumptions market participants would use in pricing an asset or liability. The fair value of the Organization's investments as of December 31, 2008 and 2007, was determined using Level 1 inputs and such investments include equity securities and money market and mutual funds.

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

GRANTS RECEIVABLE - Grants receivable are stated at the amount management expects to collect from the granting agency. It is the opinion of management that all accounts and grants receivable are collectible. Accordingly, no allowance has been provided for such in the financial statements. No bad debts were charged against current operations for the years ended December 31, 2008 and 2007.

Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost at the date of acquisition or fair value at the date of gift, if donated. Depreciation is provided using the straight-line method and the following useful lives:

Buildings and improvements	5-32 years
Furniture and equipment	3-15 years
Vehicles	5 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in operations currently. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

DEPOSITS - Funds that are being held in a custodial nature related to workers compensation, building security and postal service are reported as deposits.

INCOME TAXES - The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. As such, the Organization is exempt from federal, state and local income taxes. The Organization is not considered a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected this deferral and, accordingly, will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to adoption of FIN 48, the Organization will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, *Accounting for Contingencies*, which requires the Organization to accrue for losses it believes are probable and can be reasonably estimated. Management is currently assessing the impact of FIN 48 on its financial position and results of operations and has not yet determined if the adoption of FIN 48 will have a material effect on its financial statements.

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

ALLOCATION OF FUNCTIONAL EXPENSES - Direct salaries and related expenses are charged to program services based upon time spent by personnel on the various programs. Direct expenses are charged to various programs based upon costs incurred when specifically identified with a program. Other costs are allocated to the programs based upon budgeted amounts as followed by the respective funding agency. This reporting requires the allocation of certain costs among various programs and supporting services as determined by management based on identifiable measures, such as percentage of staff on location, percentage of expense to total expense and management's estimate of actual time worked in each program area. In management's opinion, these are reasonable measures to use to allocate costs.

ESTIMATES AND UNCERTAINTIES - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS - Certain reclassifications have been made to the 2007 financial statements in order for them to conform to the 2008 financial statements.

NOTE 2 - ECONOMIC DEPENDENCE

A substantial portion of the Organization's revenue comes from government grants and the United Way of Greater Cincinnati (United Way) program. Approximately 38% and 35% of total revenues and support came from government grants for 2008 and 2007, respectively, and 42% and 44% of total revenues and support came from United Way for 2008 and 2007, respectively.

NOTE 3 - INVESTMENTS

Investments are reported at fair value and consist of the following:

	2008		2007	
	Unrestricted Board Designated	Permanently Restricted	Unrestricted Board Designated	Permanently Restricted
Greater Cincinnati Foundation	\$ 165,699	\$ 7,000	\$ 249,487	\$ 7,000
National City Investments	326	-	-	-
SMCS Development Corp.	100	-	100	-
	<u>\$ 166,125</u>	<u>\$ 7,000</u>	<u>\$ 249,587</u>	<u>\$ 7,000</u>

Investment income consists of the following:

	2008	2007
Interest and dividends	\$ 13,885	\$ 20,411
Net unrealized gains (losses)	<u>(88,725)</u>	<u>9,356</u>
	<u>\$ (74,840)</u>	<u>\$ 29,767</u>

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following major classifications:

	2008	2007
Building and improvements	\$ 660,635	\$ 647,394
Furniture and equipment	83,373	75,739
Vehicles	<u>39,033</u>	<u>34,003</u>
	783,041	757,136
Accumulated depreciation	<u>(331,697)</u>	<u>(293,628)</u>
	451,344	463,508
Land	<u>24,500</u>	<u>24,500</u>
	<u>\$ 475,844</u>	<u>\$ 488,008</u>

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2008	2007
Wellness programming	\$ 48,764	\$ 48,893
Meals on wheels	9,726	10,826
Youth programming	46,866	18,841
Parenting programming	50,116	15,992
Community development programming	50,014	5,054
Lower Price Hill housing fund	74,347	74,347
Development/marketing	8,000	10,623
Renovations to buildings	1,706	14,045
Other various programs	<u>6,196</u>	<u>959</u>
	<u>\$ 295,735</u>	<u>\$ 199,580</u>

NOTE 6 - ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes of the grant or gift or by occurrence of other events specified by donors.

	2008	2007
Purpose restriction accomplished -		
Wellness programming	\$ 71,533	\$ 42,031
Meals on wheels	2,000	3,000
Youth programming	42,239	20,729
Parenting programming	219,435	97,084
Community development programming	6,040	11,197
Development/marketing	2,623	16,377
Building renovations	12,339	10,955
Other various programs	<u>5,263</u>	<u>12,975</u>
	<u>\$ 361,472</u>	<u>\$ 214,348</u>

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - RETIREMENT PLAN

The Organization sponsors a retirement plan which provides benefits for eligible employees under Internal Revenue Code Section 401(k). Employer contributions to the Plan are made in accordance with a specified formula. Benefit payments are based on amounts accumulated from these and voluntary employee contributions. The Organization's contributions to the Plan totaled \$105,430 and \$77,476 for the years ended December 31, 2008 and 2007, respectively.

NOTE 8 - GOVERNMENT AGENCIES

A detail of the revenue recorded from government agencies is as follows:

	2008	2007
Ohio Department of Aging through the Council on Aging of Southwestern Ohio	\$ 292,164	\$ 247,185
Ohio Children's Trust Fund	15,000	30,000
Ohio Commission on Minority Health	37,506	39,538
City of Cincinnati - Sedamsville	60,125	59,475
Hamilton County Department of Job and Family Services	11,743	53,491
Talbert House, Inc.	5,300	6,575
YMCA Youth and Schools	112,121	-
Every Child Succeeds	382,039	299,592
	<u>\$ 915,998</u>	<u>\$ 735,856</u>

NOTE 9 - CONTINGENT LIABILITIES, COMPLIANCE AND LITIGATION

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Organization but which will only be resolved when one or more future events occur or fail to occur. The Organizations's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Organization's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

SANTA MARIA COMMUNITY SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - CURRENT ECONOMIC CONDITIONS

The current economic environment presents not-for-profit organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets and declines in contributions and grants. The financial statements have been prepared using values and information currently available to the Organization.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for receivables that could negatively impact the Organization's overall financial position.

INTERNAL CONTROL AND COMPLIANCE

**INDEPENDENT ACCOUNTANTS 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
Santa Maria Community Services, Inc.
Cincinnati, Ohio

We have audited the financial statements of Santa Maria Community Services, Inc. (the Organization) as of and for the year ended December 31, 2008, and have issued our report thereon dated July 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

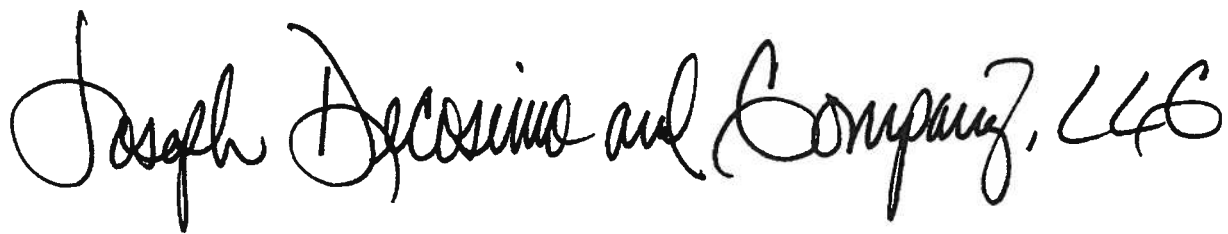
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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*.

We noted certain matters that we reported to management of Santa Maria Community Services, Inc. in a separate letter dated July 20, 2009.

This report is intended solely for the information and use of management, Board of Directors and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Joseph Decosimo and Company, LLC". The signature is written in a cursive, flowing style.

Cincinnati, Ohio
July 20, 2009