

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

**FINANCIAL STATEMENTS
AND
OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS**

Year Ended June 30, 2015

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

FINANCIAL STATEMENTS AND OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS

Year Ended June 30, 2015

CONTENTS

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 15
OMB CIRCULAR A-133 SUPPLEMENTARY REPORTS	
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	17 - 18
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	19 - 21
Schedule of Expenditures of Federal Awards	22
Notes to the Schedule of Expenditures of Federal Awards	23
Schedule of Findings and Questioned Costs	24 – 28



**Audit, Tax, Management Advisory,
Forensic and Internal Control Consulting**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Tumbleweed Center for Youth Development:

Report on the Financial Statements

I have audited the accompanying financial statements of Tumbleweed Center for Youth Development (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tumbleweed Center for Youth Development as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

I have previously audited the Tumbleweed Center for Youth Development's 2014 financial statements and I expressed an unmodified opinion on those audited financial statements in my report dated October 21, 2014. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated June 8, 2016, on my consideration of Tumbleweed Center for Youth Development's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tumbleweed Center for Youth Development's internal control over financial reporting and compliance.

Gregory Michael Coy, CPA, PLLC

Gregory Michael Coy, CPA, PLLC

Phoenix, Arizona
June 8, 2016

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

STATEMENT OF FINANCIAL POSITION

June 30, 2015

(with comparative totals as of June 30, 2014)

	<u>ASSETS</u>		
		<u>2015</u>	<u>2014</u>
CURRENT ASSETS			
Cash		\$ 616,331	\$ 1,443,767
Accounts receivable		840,483	513,923
Pledges receivable, net		867,188	199,174
Prepaid expenses and other assets		111,084	46,151
TOTAL CURRENT ASSETS		<u>2,435,086</u>	<u>2,203,015</u>
 PROPERTY AND EQUIPMENT, net		 <u>3,372,987</u>	 <u>2,934,990</u>
TOTAL ASSETS		 <u><u>\$ 5,808,073</u></u>	 <u><u>\$ 5,138,005</u></u>
 <u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES			
Accounts payable		\$ 153,091	\$ 116,029
Accrued expenses		250,072	321,233
Deferred revenue and deferred rent		77,041	54,647
Current portion of capital leases		3,441	4,222
Current portion of long-term debt		59,800	43,874
TOTAL CURRENT LIABILITIES		<u>543,445</u>	<u>540,005</u>
 CAPITAL LEASES, less current portion		 918	 3,438
CITY OF PHOENIX LOAN PAYABLE		741,579	741,579
LONG-TERM DEBT, less current portion		<u>1,594,005</u>	<u>1,246,379</u>
TOTAL LIABILITIES		<u>2,879,947</u>	<u>2,531,401</u>
 NET ASSETS			
Unrestricted		1,090,857	1,566,519
Temporarily restricted		<u>1,837,269</u>	<u>1,040,085</u>
TOTAL NET ASSETS		<u>2,928,126</u>	<u>2,606,604</u>
TOTAL LIABILITIES AND NET ASSETS		<u><u>\$ 5,808,073</u></u>	<u><u>\$ 5,138,005</u></u>

See Accompanying Notes to Financial Statements

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

STATEMENT OF ACTIVITIES

For the year ended June 30, 2015

(with summarized comparative totals for the year ended June 30, 2014)

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT & REVENUE				
Contracts and program service revenue	4,716,645	\$ -	\$ 4,716,645	4,571,687
Contributions	135,571	1,868,269	2,003,840	1,433,906
United Way contributions	78,881	117,257	196,138	153,248
Donated materials and services	310,695	-	310,695	468,006
Other	134,706	-	134,706	80,075
Special events	156,681	-	156,681	135,635
Less: Direct donor benefits	(71,705)	-	(71,705)	(51,638)
Gain on sale of assets	12,518	-	12,518	-
Net assets released from restriction	<u>1,188,342</u>	<u>(1,188,342)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT & REVENUE	<u>6,662,334</u>	<u>797,184</u>	<u>7,459,518</u>	<u>6,790,919</u>
EXPENSES				
Program services	6,108,419	-	6,108,419	5,517,207
Supporting services:				
Management and general	620,577	-	620,577	584,040
Fundraising	<u>409,000</u>	<u>-</u>	<u>409,000</u>	<u>342,080</u>
TOTAL EXPENSES	<u>7,137,996</u>	<u>-</u>	<u>7,137,996</u>	<u>6,443,327</u>
CHANGE IN NET ASSETS	(475,662)	797,184	321,522	347,592
NET ASSETS, BEGINNING OF YEAR	<u>1,566,519</u>	<u>1,040,085</u>	<u>2,606,604</u>	<u>2,259,012</u>
NET ASSETS, END OF YEAR	<u>\$ 1,090,857</u>	<u>\$ 1,837,269</u>	<u>\$ 2,928,126</u>	<u>\$ 2,606,604</u>

See Accompanying Notes to Financial Statements

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2015

(with summarized comparative totals for the year ended June 30, 2014)

	Program services										Supporting Services					
	Youth Resource Centers	Human Trafficking	Safe Place	Emergency Housing	Open Hands	Young Adult Program	Casa de Sueños	START and Greenhouse Project	Learning Center	Tumbletees	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total 2015	Total 2014
Salaries and wages	\$ 326,515	\$ 30,727	\$ 57,674	\$ 186,549	\$ 312,290	\$ 332,645	\$ 1,093,702	\$ 186,985	\$ 304,026	\$ 178,843	\$ 3,009,956	\$ 234,509	\$ 222,357	\$ 456,866	\$ 3,466,822	\$ 3,216,738
Payroll taxes and employee benefits	57,473	5,789	8,883	38,855	60,531	65,969	229,994	46,023	77,857	21,374	612,748	21,125	25,935	47,060	659,808	588,357
Total personnel costs	383,988	36,516	66,557	225,404	372,821	398,614	1,323,696	233,008	381,883	200,217	3,622,704	255,634	248,292	503,926	4,126,630	3,805,095
In-kind	112,032	-	246	-	41,828	18,228	30,689	29,482	-	74	232,579	1,073	76,964	78,037	310,616	468,006
Client assistance	28,679	541	12	14,861	3,148	10,520	20,776	249,904	24,823	-	353,264	358	-	358	353,622	396,644
Rent and occupancy	78,968	6,883	793	73,889	29,535	37,731	188,795	15,823	52,622	22,145	507,184	17,628	288	17,916	525,100	465,254
Contract services	112	-	-	-	12,202	5,600	70,346	105	1,874	9,206	99,445	29,480	17,450	46,930	146,375	190,026
Depreciation	22,873	-	-	4,140	9,615	29,002	42,330	(113)	1,482	1,602	110,931	8,490	1,629	10,119	121,050	143,249
Food	10,473	1,062	256	56,708	17,432	12,421	58,080	638	5,984	446	163,500	308	34	342	163,842	149,538
Repairs and maintenance	23,473	25	2	1,360	7,763	9,143	56,983	1,568	2,870	4,216	107,403	16,306	366	16,672	124,075	94,689
Travel	5,119	3,301	3,213	359	3,654	1,750	15,332	2,802	6,737	1,649	43,916	33,035	2,451	35,486	79,402	119,181
Telephone and communications	10,702	131	938	4,559	6,298	5,802	32,931	4,199	5,645	2,875	74,080	13,909	1,908	15,817	89,897	88,104
Household and program supplies	-	1,040	-	-	1,032	616	8,211	-	802	75,518	87,219	3,962	1,078	5,040	92,259	91,346
Professional fees	12,180	5,328	1,019	16,644	5,736	8,925	29,251	11,975	28,543	3,838	123,439	109,983	2,863	112,846	236,285	96,889
Insurance	10,259	-	1,933	4,109	4,964	5,343	19,456	2,742	4,992	3,738	57,536	8,144	-	8,144	65,680	83,693
Interest and late fees	41,570	3	13	61	9,986	454	34,013	272	173	49	86,594	141	322	463	87,057	64,862
Materials and supplies	16,597	482	2,673	5,452	16,796	14,534	45,954	25,529	28,053	15,134	170,604	70,703	12,211	82,914	253,518	62,676
Dues and subscriptions	2,384	-	1,931	1,186	1,174	1,671	1,167	1,825	150	3,042	14,530	7,922	2,463	10,385	24,915	39,656
Small equipment	-	-	-	-	6,299	-	1,992	-	-	-	8,291	-	-	8,291	-	13,747
Fundraising expenses	-	-	-	-	5	-	-	-	20	-	25	-	24,783	24,783	24,808	9,891
Postage and shipping	302	179	15	20	11	10	1,090	10	9	982	2,628	(293)	7,436	7,143	9,771	6,780
Bad debt	-	-	-	-	8,486	19,904	-	1,622	15,060	7,928	53,000	-	-	-	53,000	-
Payments to subcontractors	-	-	-	-	-	92,952	-	-	-	-	92,952	-	-	-	92,952	-
Payments to subrecipients	-	50,381	-	-	-	-	-	-	-	-	50,381	-	-	-	50,381	-
Other	2,681	618	1,352	1,066	1,619	2,306	4,918	1,032	25,702	4,920	46,214	43,794	8,462	52,256	98,470	54,201
TOTAL EXPENSES	\$ 762,392	\$ 106,490	\$ 80,953	\$ 409,818	\$ 560,404	\$ 675,526	\$ 1,985,410	\$ 582,423	\$ 587,404	\$ 357,599	\$ 6,108,419	\$ 620,577	\$ 409,000	\$ 1,029,577	\$ 7,137,996	\$ 6,443,327

See Accompanying Notes to Financial Statements

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

(with summarized comparative totals for the year ended June 30, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 321,522	347,592
Adjustment to reconcile change in net assets to net cash provided used in operating activities:		
Depreciation	121,050	143,249
Gain on disposal of fixed assets	12,518	998
Decrease (increase) in:		
Accounts receivable	(326,560)	99,505
Pledges receivable	(668,014)	69,512
Prepaid expenses and other assets	(64,933)	12,978
Increase (decrease) in:		
Accounts payable	37,062	56,305
Accrued expenses	(71,161)	110,005
Deferred revenue and deferred rent	22,394	53,348
Net cash provided by (used in) operating activities	(616,122)	893,492
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(571,565)	(598,512)
Net cash provided by (used in) investing activities	(571,565)	(598,512)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	1,401,000	400,000
Payments on long-term debt	(1,037,448)	(43,532)
Payments on capital leases	(3,301)	(4,096)
Net cash provided by (used in) financing activities	360,251	352,372
CHANGE IN CASH	(827,436)	647,352
CASH, BEGINNING OF YEAR	1,443,767	796,415
CASH, END OF YEAR	\$ 616,331	\$ 1,443,767
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 87,057	\$ 64,662
Assets purchased through capital lease obligation	\$ -	\$ -

See Accompanying Notes to Financial Statements

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

(1) Organization operations and summary of significant accounting policies

Organization and Operations - Tumbleweed Center for Youth Development ("Tumbleweed") is a non-profit organization in the State of Arizona established in March of 1974. Tumbleweed operates as a youth service agency providing housing and comprehensive services to abused, abandoned, neglected and troubled youth. The common goal of Tumbleweed's programs is to provide opportunities for at-risk youth to develop into competent, contributing members of the community. Youth are self-referred or referred by family, schools, law enforcement and several other state and local agencies. Five residential programs provide housing and 24-hour services to youth who have no family or cannot currently reside with family. Two partial care programs provide day and evening services to youth and young adults. An alternative learning center/workforce development office provides tutoring, vocational and job development services for Tumbleweed youth, other community referrals, and delivers aftercare upon request.

Basis of Presentation - Tumbleweed reports its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets are not subject to donor imposed stipulations and are those currently available at the discretion of the Board of Directors for use in Tumbleweed's operations, in accordance with its bylaws.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those which are subject to donor-imposed stipulations that will be met by Tumbleweed and/or the passage of time. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase in unrestricted support at the time of receipt.

Permanently Restricted Net Assets

Permanently restricted net assets are those which represent permanent endowments where it is stipulated by donors that the principal remain in perpetuity and only the income is available as unrestricted or temporarily restricted, as per the endowment agreements.

As of June 30, 2015, Tumbleweed had only unrestricted and temporarily restricted net assets.

Prior year summarized comparative information - The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Management's use of estimates - The preparation of financial statements in conformity with U.S. 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.

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2015

(1) Organization operations and summary of significant accounting policies (continued)

Cash and cash equivalents - Cash includes cash and, at times, cash equivalents, which consists of highly liquid debt instruments with original maturities of three months or less. Tumbleweed, in the normal course of business, maintains checking, savings and money market account balances in excess of the Federal Deposit Insurance Corporations insurance coverage limits.

Accounts Receivable - Accounts receivable consist primarily of amounts due from governmental agencies under fee-for-service contracts which are unsecured. Accounts receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts, if considered necessary, through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Although the Organization does not require collateral on its accounts receivable, credit risk with respect to accounts receivable is limited due to the fact that funders are primarily governmental agencies. At June 30, 2015 and 2014, the organization recorded an allowance for doubtful accounts in the amount \$58,933 and \$5,933, respectively.

Pledges receivable – Pledges receivable consist of unconditional promises to give that are recognized as revenue in the period the promise is received and as assets, decreases of liabilities, or expenses, depending on the form of the benefits received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Tumbleweed currently does not have conditional pledges. Unconditional promises to give that are to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using discount rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Property and equipment and related depreciation and amortization - Purchased property and equipment is stated at cost and donated property and equipment is recorded at fair market value at the date of gift to the Organization. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$1,000 are capitalized. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation accounts are relieved, and any gain or loss is included in operations. Depreciation and amortization of property and equipment are computed on a straight-line basis over the following estimated useful lives:

Building and improvements	3 to 40 years
Vehicles	3 to 5 years
Furniture and office equipment	5 to 10 years

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

(1) **Organization operations and summary of significant accounting policies (continued)**

Impairment of long-lived assets - The Organization accounts for long-lived assets in accordance with the provisions of *Accounting for the Impairment of Long-Lived Assets*. This accounting standard requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management believes that no long-lived assets have any impairment of value.

Deferred Rent - Tumbleweed accounts for annual rent escalations evenly over the term of the lease using the straight-line method. Unamortized rent escalations are recorded as deferred rent.

Contract Revenues - Tumbleweed recognizes amounts received from contracts as earned when services are rendered under a unit of service contract. Funding sources may, at their discretion, request reimbursement for expenses and/or return of funds as a result of noncompliance by Tumbleweed with the terms of the contract.

Contributions - Tumbleweed recognizes contributions and support in accordance with *Accounting for Contributions Received and Contributions Made*. Under this accounting standard, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated materials and services - Donated materials and services are reflected as contributions in the accompanying financial statements at their estimated fair value if they (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals possessing those skills, and would otherwise need to be purchased if not donated. For the year ended June 30, 2015 and 2014, the Organization recognized contributed services related to specialized skills, primarily donated teachers, of \$172,322 and \$258,109, respectively, and recognized donated materials of \$138,373 and \$227,897, respectively, in its accompanying statement of activities.

Special events revenue - Tumbleweed conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of the special events, which ultimately benefit the donor rather than the Organization, are recorded as costs of direct donor benefits in the accompanying statement of activities.

Functional expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. Management and general include those expenses that are not directly identifiable with any specific program, but provide for the overall support and direction of the Organization.

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

(1) Organization operations and summary of significant accounting policies (continued)

Income tax status - Tumbleweed Center for Youth Development qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, therefore, there is no provision for income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation under Section 509(a)(2). Income determined to be unrelated business taxable income (UBTI) would be taxable.

Tumbleweed has adopted *Accounting for Uncertainty in Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The tax years ended 2012, 2013, and 2014 are still open to audit for both federal and state purposes. The Organization has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions.

Advertising - Advertising costs are expensed as incurred. Advertising costs for the year ended June 30, 2015 and 2014, were \$0 and \$256.

Subsequent Events - The Organization evaluated subsequent events after the statement of financial position date of June 30, 2015 through June 8, 2016, which was the date the Organization's financial statements were available to be issued. No conditions, other than those described below, were noted that did not exist as of June 30, 2015, but arose subsequent to that date.

- Subsequent to year-end, the existing Chief Financial Officer and Controller left the Organization and a new Chief Financial Officer and Controller were hired.

(2) Concentration of Credit Risk

Tumbleweed is subject to concentrations of risk with respect to accounts receivable and contract revenues due to its Federal and State of Arizona contracts and its limited customer base. Tumbleweed has four separate contracts directly with the U.S. Department of Health and Human Services (HHS) and has another three contracts whereby HHS awards are passed through a local agency. Together the total federal funding from HHS accounted for 66% and 47% of accounts receivable and 35% and 36% of total revenue at June 30, 2015 and 2014, respectively. Tumbleweed also has three separate contracts with the U.S. Department of Housing and Urban Development, that are passed through various local agencies, that accounted for 16% and 11% of accounts receivable and 20% and 27% of total revenue at June 30, 2015 and 2014, respectively.

(3) Pledges receivable

Pledges receivable consist of:	2015	2014
Pledges receivable due in less than one year	\$ 867,188	\$ 199,174
Pledges receivable due in two to five years	-	-
Discount to present value	-	-
Net pledges receivable	<u>\$ 867,188</u>	<u>\$ 199,174</u>

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

(3) Pledges receivable (continued)

Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges receivable. At June 30, 2015 and 2014, pledges receivable are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

(4) Property and equipment

Property and equipment consist of:	<u>2015</u>	<u>2014</u>
Cost or donated value:		
Land	\$ 495,729	\$ 395,729
Buildings	1,982,126	1,750,786
Improvements	1,419,048	1,340,752
Furniture and equipment	574,306	523,223
Vehicles	<u>140,603</u>	<u>135,624</u>
Total cost or donated value	4,611,812	4,146,114
Accumulated depreciation and amortization	<u>(1,238,825)</u>	<u>(1,211,124)</u>
Net property and equipment	<u>\$ 3,372,987</u>	<u>\$ 2,934,990</u>

Depreciation expense charged to operations was \$121,050 and \$143,249 for the years ended June 30, 2015 and 2014, respectively.

(5) City of Phoenix loan payable

In 2009, Tumbleweed received a non-interest bearing loan for renovations to one of their properties for the Youth Adult Program, from the City of Phoenix (the "City") funded with federal Community Development Block Grant (CDBG) monies. The term of the loan is approximately 40 years and does not bear interest. Under the terms of the agreement, the loan will be forgiven commencing on the 40th year anniversary of the date of the Certificate of Completion. In the event of default, the City has the right to demand the entire principal balance plus interest. As of June 30, 2015 and 2014, the outstanding balance on the loan is \$741,579.

(6) Long-term debt

Tumbleweed's long-term debt is summarized below:	<u>2015</u>	<u>2014</u>
Note payable in the original amount of \$281,000, issued in September 2014, and collateralized by real property and fixtures. The note is payable in monthly installments of \$1,548 including interest at a fixed rate of 4.35%, beginning October 1, 2014. The note matures and all unpaid principle and accrued interest are due on September 1, 2024. Note was used to retire and refinance existing debt on the collateralized property.	\$ 275,918	\$ -

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

(6) Long-term debt (continued)

	2015	2014
<p>Note payable in the original amount of \$1,120,000, issued in March 2015, and collateralized by real property and fixtures. The note is payable in monthly installments of \$6,833 including interest at a fixed rate of 4%, beginning May 1, 2015. The note matures and a balloon payment of approximately \$834,000 of all unpaid principal and accrued interest is due and payable on April 1, 2022. Note was used to retire and refinance existing debt on the collateralized property.</p>	1,111,670	-
<p>Note payable, collateralized by real property and fixtures, payable in monthly installments of \$2,456 including interest at prime plus 5.5%, beginning August 2013. The note matures and all unpaid principal and accrued interest are due on August 1, 2023. Note was paid in full, retired and refinanced via debt issued during September 2014.</p>	\$ -	\$ 392,583
<p>Note payable, collateralized by real property, assignable rents and fixtures, payable in monthly installments of \$4,227 including interest at 4.75% beginning in November 2012. Maturing in October 2019 with a balloon payment of remaining principal and accrued interest. Note was paid in full, retired and refinanced via new debt issued during March 2015</p>	-	615,840
<p>Subordinated note payable, collateralized by real property, assignable rent and fixtures. Interest only payments at 4.5% through February 2012. Principal and interest payments of \$1,359 beginning March 1, 2012, maturing in May 2023 with a balloon payment of remaining principal and accrued interest.</p>	207,678	212,257
<p>Note payable, collateralized by real property, payable in monthly installments of \$1,235 including interest at 5.75% beginning in January 2013. Maturing in December 2019.</p>	58,539	69,573
Total Long-Term Debt	1,653,805	1,290,253
Less: Current Maturities	(59,800)	(43,874)
Noncurrent Maturities	\$ 1,594,005	\$ 1,246,379

The new debt acquired in 2015, and used to retire and refinance existing debt, was from a single financial institution and was approximately 48% of total liabilities at June 30, 2015.

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

(6) Long-term debt (continued)

The annual maturities of long-term debt outstanding at June 30, 2015 are as follows:

<u>Years ended June 30,</u>	
2016	\$ 61,539
2017	64,647
2018	67,573
2019	70,634
2020	66,346
Thereafter	<u>1,323,066</u>
Total long-term debt	1,653,805
Current portion of long term debt	<u>(59,800)</u>
Non-current portion of long term debt	<u>\$ 1,594,005</u>

(7) Capital leases

Tumbleweed leases equipment under capital leases. The total cost of the assets under the leases is \$23,297 and is included in equipment. The equipment leases require monthly payments of \$165 and \$236 through expiration in fiscal years 2016 and 2017, respectively. Future minimum lease payments under these leases are as follows:

<u>Years ended June 30,</u>	
2016	\$ 3,853
2017	<u>933</u>
Total future minimum lease payments	4,786
Less interest	<u>(427)</u>
Principle amount	4,359
Less current portion	<u>(3,441)</u>
Long-term portion	<u>\$ 918</u>

(8) Operating leases

Tumbleweed leases equipment under operating lease agreements expiring in various years through 2019. The rental expense related to these leases is recorded on a straight-line basis over the lease term. Minimum future rental payments under non-cancellable operating leases having remaining terms in excess of one year at June 30, 2015 are as follows:

<u>Years ended June 30,</u>	
2016	\$ 538,574
2017	469,707
2018	454,186
2019	458,530
2020	458,954
Thereafter	<u>-</u>
Total future minimum lease payments	<u>\$ 2,379,951</u>

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

(8) Operating leases (continued)

Total rental expense was \$371,377 and \$314,232, for the years ended June 30, 2015 and 2014, respectively. In the normal course of business, operating leases are generally renewed or replaced by other leases.

Tumbleweed also signs numerous rental commitments under various programs to assist clients in subsidized apartment rentals. Lease expense under these program rental agreements totaled \$274,602 and \$218,772, for the years ended June 30, 2015 and 2014, respectively.

(9) Retirement plan

Tumbleweed sponsors a 401(k) plan covering eligible employees and matches 50% of the first 4% of employee contributions. The match was suspended in March 2010 and no matching contributions were made during the years ended June 30, 2015 and 2014.

(10) Temporarily restricted net assets

Temporarily restricted net assets consist of:

	2015	2014
Purpose restrictions:		
Resource centers	\$ 577,668	\$ 291,876
Emergency housing program	133,042	225,194
COA	131,000	193,170
Organizational enhancement (ATLAS)	65,000	-
Safe Place	29,000	25,000
Open Hands	20,071	15,071
Other	9,300	13,972
Vehicle replacement	5,000	25,548
Facility renovations	-	51,080
Time restrictions:		
United Way pledge receivable	117,257	119,174
Other pledges receivable	749,931	80,000
Total temporarily restricted net assets	\$ 1,837,269	\$ 1,040,085

(11) Commitments

During 1995, Tumbleweed received a grant for \$151,268 from the City of Phoenix to acquire certain facilities to be used as part of Tumbleweed's programs for a shelter/group home for runaway and homeless youths. The amount to be repaid, if the conditions are not met, is the grant amount less a 5% reduction for each year the facilities are maintained for their original purpose. It is the intention of Tumbleweed to maintain the property under these conditions and, therefore, the grant was recognized as revenue during 1995. At June 30, 2015, there is no remaining repayment balance due on the grant.

TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2015

(11) Commitments (continued)

In May 2007, Tumbleweed sold the property related to the grant mentioned above (1995) for approximately \$175,000. A gain on the sale of property of approximately \$31,500 was recorded. As a condition to the sale, the City of Phoenix required Tumbleweed to maintain the proceeds from the sale in an escrow account to be used solely to purchase another shelter facility. During fiscal year 2008, Tumbleweed purchased a new facility to provide continuous programming to the same target population. Tumbleweed used proceeds from the sale as a part of the down payment which the city required to equal the remaining balance on the grant.

(12) Related party transactions

From time to time, and as part of their board service, members of the board of directors provide cash and in-kind contributions to Tumbleweed.

**OMB CIRCULAR A-133
SUPPLEMENTARY REPORTS**



**Audit, Tax, Management Advisory,
Forensic and Internal Control Consulting**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Tumbleweed Center for Youth Development:

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Tumbleweed Center for Youth Development (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. I have issued my report thereon dated June 8, 2016.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered Tumbleweed Center for Youth Development's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tumbleweed Center for Youth Development's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (Finding #2015-01).

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. I consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies (Finding #2015-02).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tumbleweed Center for Youth Development's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Tumbleweed Center for Youth Development's Response to Findings

Tumbleweed Center for Youth Development's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Tumbleweed Center for Youth Development's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Gregory Michael Coy, CPA, PLLC

Phoenix, Arizona
June 8, 2016



**Audit, Tax, Management Advisory,
Forensic and Internal Control Consulting**

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

To the Board of Directors of
Tumbleweed Center for Youth Development:

Report on Compliance for Each Major Federal Program

I have audited Tumbleweed Center for Youth Development's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Tumbleweed Center for Youth Development's major federal programs for the year ended June 30, 2015. Tumbleweed Center for Youth Development's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Tumbleweed Center for Youth Development's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tumbleweed Center for Youth Development's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Tumbleweed Center for Youth Development's compliance.

Basis for Qualified Opinion on the Unaccompanied Alien Children Program (CFDA # 93.676)

As described in the accompanying schedule of findings and questioned costs, Tumbleweed Center for Youth Development did not comply with requirements regarding the Unaccompanied Alien Children Program (CFDA # 93.676) as described in finding number 2015-03 regarding proper support for the allocation and charge of salaries and wages and as described in finding 2015-04 for reporting. Compliance with such requirements is necessary, in my opinion, based upon my audit and for Tumbleweed Center for Youth Development to comply with the requirements applicable to that program.

Qualified Opinion on the Unaccompanied Alien Children Program (CFDA # 93.676)

In my opinion, based upon my audit, except for the noncompliance described in the “Basis for Qualified Opinion” paragraph, Tumbleweed Center for Youth Development complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Unaccompanied Alien Children Program (CFDA # 93.676) for the year ended June 30, 2015.

Basis for Qualified Opinion on the Supportive Housing Program (CFDA # 14.235)

As described in the accompanying schedule of findings and questioned costs, Tumbleweed Center for Youth Development did not comply with requirements regarding the Supportive Housing Program (CFDA # 14.235) as described in finding number 2015-02 regarding proper support for the allocation and charge of salaries and wages. Compliance with such requirements is necessary, in my opinion, based upon my audit and for Tumbleweed Center for Youth Development to comply with the requirements applicable to that program.

Qualified Opinion on the Supportive Housing Program (CFDA # 14.235)

In my opinion, based upon my audit, except for the noncompliance described in the “Basis for Qualified Opinion” paragraph, Tumbleweed Center for Youth Development complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Supportive Housing Program (CFDA # 93.676) for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In my opinion, Tumbleweed Center for Youth Development complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

Other Matters

The results of my procedures, disclosed no other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133.

Tumbleweed Center for Youth Development’s response to the noncompliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Tumbleweed Center for Youth Development’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

Report on Internal Control Over Compliance

Management of Tumbleweed Center for Youth Development is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Tumbleweed Center for Youth Development’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, I do not express an opinion on the effectiveness of Tumbleweed Center for Youth Development’s internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph 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. However, as discussed below, I identified certain deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

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. I consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item # 2015-01 to be a material weakness.

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. I consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2015-02 to be a significant deficiency.

Tumbleweed Center for Youth Development's response to the internal control over compliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Tumbleweed Center for Youth Development's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.

Gregory Michael Coy, CPA, PLLC

Gregory Michael Coy, CPA, PLLC

Phoenix, Arizona

June 8, 2016

**TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2015

<u>Federal Grantor / Pass-Through Agency / Program</u>	<u>Federal CFDA Number</u>	<u>Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture:			
Passed through Arizona Department of Education: National School Lunch Program	10.555	CTD#07-27-04	\$ 20,628
Total U.S. Department of Agriculture			20,628
U.S. Department of Housing and Urban Development			
Passed through the City of Phoenix:			
Community Development Block Grant Renovation Loan	14.218	127210	741,579
Emergency Shelter Grants Program	14.231	136234-0	95,187
Emergency Shelter Grants Program	14.231	136271-0	40,547
Emergency Shelter Grants Program	14.231	136271-0	11,667
Continuum of Care	14.267	AZ0150L9T021300	79,727
Supportive Housing Program	14.235	AZ098L9T021205	53,607
Supportive Housing Program	14.235	AZ098L9T021306	439,700
Total U.S. Department of Housing and Urban Development			1,462,014
U.S. Department of Labor			
Passed through Goodwill of Arizona/Valley of the Sun United Way: Workforce Investment Act Youth Activities	17.259	134018-001	187,555
Passed through the City of Phoenix/Valley of the Sun United Way Workforce Investment Act - Youth Workforce Readiness	17.259	06-2012-0003 AMEND2	69,504
Passed through ACYR/Call a Teen Youth Build	17.274	137313-OT	82,413
Total U.S. Department of Labor			339,472
U.S. Department of Health and Human Services			
Transitional Living for Homeless Youth	93.550	90CX6987-01-00	213,500
Basic Center Grant	93.623	90CY6425-02-00	196,172
Unaccompanied Alien Children Program (Unusual Compelling Urgency)	93.676	90ZU007302	1,925,189
Domestic Victims of Severe Forms of Human Trafficking	93.327	90TV0002-01-00	106,425
Passed through the Arizona Department of Economic Security/UMOM Temporary Assistance for Needy Families	93.558	DES-13050-412	70,712
Social Services Block Grant	93.667		53,034
Passed through the Arizona Department of Economic Security Crisis Shelter Services - Social Services Block Grant	93.667	DES12-026296	72,312
Total U.S. Department of Health and Human Services			2,637,344
Corporation for National & Community Service			
Passed through the ASU Lodestar Center Americorps - Public Allies Program	94.006		8,475
Total Corporation for National & Community Service			8,475
U.S. Department of Homeland Security			
Passed through WHEAT Emergency Food and Shelter National Board Program	97.024	0256-00-031	79,087
Total U.S. Department of Homeland Security			79,087
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,547,020

**TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2015

(1) Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of *Tumbleweed Center for Youth Development* (Tumbleweed) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the combined financial statements.

(2) Catalog of Federal Domestic Assistance (CFDA) number

The program titles and CFDA numbers were obtained from the *2015 Catalog of Federal Domestic Assistance*.

(3) Relationship to basic financial statements

Federal award expenditures are reported on the statement of functional expenditures as program costs. However, expenditures in the schedule of expenditures of federal awards for certain programs which have incurred deficits have been limited to the related contracted amount. In addition, for certain programs, the expenditures reported in the basic financial statements may differ from the expenditures reported on the schedule of expenditures of federal awards due to program expenditures exceeding grant or contract budget limitations, which are not included as federal financial assistance.

(4) Loan outstanding

Tumbleweed Center for Youth Development had the following loan balance outstanding at June 30, 2015.

<u>Program Title</u>	<u>Federal CFDA</u>	<u>Amount Outstanding</u>
Community Development Block Grant Loan	14.218	\$ 741,579

(6) Subrecipients

During the year ended June 30, 2015, the Organization paid subrecipients a total of \$50,381 from CFDA# 93.327.

**TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2015

A. SUMMARY OF AUDITOR’S RESULTS

1. The independent auditor’s report expresses an unmodified opinion on the financial statements of Tumbleweed Center for Youth Development.
2. One material weakness relating to the audit of the financial statements was disclosed and reported in the 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* (Finding # 2015-01).
3. One significant deficiency relating to the audit of the financial statements was disclosed and reported in the 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* (Finding # 2015-02).
4. No instances of noncompliance material to the audit of the financial statements of Tumbleweed Center for Youth Development were disclosed during the audit.
4. The independent auditor’s report on compliance for the major federal award programs for Tumbleweed Center for Youth Development expresses a qualified opinion.
5. Two audit findings were disclosed during the audit of the major federal award programs for Tumbleweed Center for Youth Development that are required to be reported by OMB Circular A-133 (Finding #2015-03 and 2015-04).
6. One instance of a material weakness were identified during the audit of the major federal award programs for Tumbleweed Center for Youth Development (Finding # 2015-01).
7. The following programs were tested as major programs:

<u>Major Programs</u>	<u>Federal CFDA #</u>
U. S. Department of Housing and Urban Development: Community Development Block Grant Loan	14.218
U. S. Department of Housing and Urban Development: Supportive Housing Program	14.235
U. S. Department of Health and Human Services: Unaccompanied Alien Children Program	93.676

8. The threshold for distinguishing types A and B programs was \$300,000.
9. Tumbleweed Center for Youth Development was determined to not be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2015-01: Lack of skills, knowledge and experience – Material Weakness

Condition:

During 2015, the organization hired a new Controller. The Controller lacked the appropriate level of skills, prior experience or knowledge of not-for-profit and federal grant accounting requirements. As a result, the books and records of the Organization were not properly closed, normal year-end closing and accrual entries were not posted, and reconciliations for key accounts had not been completed and a total of 26 audit adjustments were required to materially present the financial statements in accordance with U.S. GAAP.

**TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2015

2015-01: Lack of skills, knowledge and experience – Material Weakness (continued)

Criteria:

The Organization is a complex not-for-profit organization with numerous federal and local government grant programs all of which require some level of financial compliance requirements and numerous program areas and operations. The Organization also has significant amounts of donor-restricted contribution revenue, special events, has a “for-profit” retail business and a number of other complicated accounting and financial reporting issues. Accordingly, accounting, finance and grant management personnel should have a high level of expertise in not-for-profit accounting, federal and local government grant accounting, and Single Audit compliance. Senior management is responsible for properly recruiting and hiring individuals with the appropriate level of skills, knowledge and experience. Senior management is also responsible for training and evaluating personnel to determine if they have appropriate skills and knowledge to perform their assigned duties and tasks.

Possible Asserted Effect:

Due to the lack of skills, knowledge and experience of accounting personnel, numerous material audit adjustments were required during the financial statement audit.

Auditor’s Recommendation:

The Organization is a complex not-for-profit that requires a high level of specific accounting skills, knowledge and experience. The Organization and senior management should ensure that it is recruiting and hiring individuals with the appropriate level of skills, knowledge and experience to perform their assigned duties. Senior management should also ensure that all individuals are periodically evaluated in an effort to identify both strengths and areas where improvement or training is needed, and to provide the appropriate training, as necessary.

View of Responsible Official and Corrective Actions:

We agree with the auditors' comments, and the following actions have been taken to improve the situation. Subsequent to FY 2015, a new Controller was hired, replacing the Controller referenced in the finding. Additionally, a new CFO was introduced in March, 2016. The new CFO is implementing new policies and review processes in order to discover inadequacies much sooner, should they occur.

2015-02: Lack of Segregation of Duties – Significant deficiency

Condition:

Due to the limited number of personnel available, the Organization is not able to adequately segregate duties. Due to this lack of segregation of duties and a lack of proper review and approval controls, certain audit adjustments were necessary. This situation is not unusual in an organization where adequate segregation of duties is not possible.

Criteria:

Management is responsible for the design and operation of the internal control system. The lack of segregation of duties could adversely affect the Organizations’ ability to record, process, summarize and report financial data.

Possible Asserted Effect:

Management could improperly record, process, summarize or report financial data.

Auditor’s Recommendation:

The Organization should continue to review their internal control system to assure proper controls are in place which are practical and feasible for an organization of their size.

**TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2015

2015-02: Lack of Segregation of Duties – Significant deficiency (continued)

View of Responsible Official and Corrective Actions:

Management will continue to make all efforts to accomplish the “segregation of duties” with adjustments in staffing as well as instituting more structured policies and review processes that emphasize communicating and enforcing policies, procedures and expectations to all staff.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

2015-03: Support for Salaries and Wages

CFDA: 14.235 and 93.676

Condition:

Charges for salaries and wage, especially to salaries and wages allocated in part to federal award programs, were not properly supported in accordance with the requirements of OMB Circular A-122 (2 CFR Part 230 – *Cost Principles for Non-Profit Organizations*). The allocation of salary costs did not reflect an after-the-fact determination of the actual activity of the employees and were based upon estimated percentages determined using a single payroll at the beginning of the year.

Criteria:

OMB Circular A-122 (2 CFR Part 230 – *Cost Principles for Non-Profit Organizations*), requires that “Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization’s indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements 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.
- (d)The reports must be prepared at least monthly and must coincide with one or more pay periods. (Internal controls should be in place to ensure that all required reports are properly completed and submitted to federal awarding agency).”

**TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2015

2015-03: Support for Salaries and Wages (continued)

Possible Asserted Effect:

The Organization was not in compliance with the following requirements:

- Salaries did not reflect an after-the-fact determination of the actual activity of each employee. Allocation and charges of salaries costs were based upon estimates determined before the services are performed.
- The reports did not appear to account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
- The reports were not prepared at least monthly and did not coincide with one or more pay periods.

Although the organization did not allocate or charge salary costs in a manner prescribed by OMB Circular A-122, the charges and related percentages used do appear reasonable based upon the job description, job duties, and activities performed by these employees. It does not appear that the costs were allocated or charged in an unreasonable manner, and accordingly, there are no questioned costs as a result of this finding.

Auditor's Recommendation:

Senior management and program management should ensure that they are trained and fully aware of the various compliance requirements related to federal award programs. Specifically, management should ensure that they well versed in the federal cost principles and requirements of OMB Circular A-122(2 CFR Part 230 – *Cost Principles for Non-Profit Organizations*). Management should also ensure that in the future they are properly charging and allocating salary costs to federal award programs in accordance with the federal cost principles.

View of Responsible Official and Corrective Actions:

Additional training of all staff will be conducted to ensure that individuals are knowledgeable of their specific responsibility for tracking their time. Accounting staff will be trained to be knowledgeable to ensure proper record-keeping for grant and financial purposes. Additional actions that will be taken to ensure proper salary and ERE expense tracking are:

- Quarterly review by senior staff for reasonability and error.
- Regular time-studies to assess time tracking accuracy.
- Random, internal “audits” of documentation within the HR and accounting departments to ensure accuracy and proper adherence to policies.
- Documentation of additional logic or extenuating circumstances that are used to determine cost allocations.

2015-04: Proper Reporting

CFDA: 93.676

Condition:

The Organization did not properly report total federal cash receipts and federal cash disbursements on one quarterly form SF-425 (March 31, 2015) filed with U.S. Department of Health and Human Services during the year ended June 30, 2015. Although there were additional federal draws and additional federal expenditures during the first quarter of 2015, the amounts reported on the March 31, 2015 form SF-425, were identical to the amounts reported at December 31, 2014, and did not properly reflect the cumulative activity on the grant award through March 31, 2015. However, the condition was corrected when the following SF-425 report for the period ending June 30, 2015 did properly report the correct cumulative amounts through that reporting date.

**TUMBLEWEED CENTER FOR YOUTH DEVELOPMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2015

2015-04: Proper Reporting (continued)

Criteria:

Internal controls should be in place to ensure that all required reports are properly completed and submitted timely to the appropriate federal awarding agency.

Possible Asserted Effect:

Federal awards could be curtailed or revoked.

Auditor's Recommendation:

Tumbleweed should be monitoring the compliance requirements and instructions for completing the forms SF-425 and should ensure that all reporting documents are completed correctly and filed appropriately.

View of Responsible Official and Corrective Actions:

With the arrival of the new CFO in March, 2016, development and implementation of review policies for all billing and reporting is ongoing to ensure that work product in all areas of the accounting department is being produced accurately and in a timely manner. The aforementioned change in Controller has been complemented by a change in the Billing Manager position and will have a direct impact on the improvement of Tumbleweed's reporting. Additionally, improvements to our filing system will increase our ability to find necessary information for staff to perform their duties accurately.

D. PRIOR YEAR FINDINGS STATUS

2014-01: Lack of Segregation of Duties – Significant deficiency

A similar finding was noted in 2015. See Finding 2015-01