

**SOUTH COUNTY OUTREACH**  
**Financial Statements**  
**(with Independent Auditors' Report Thereon)**  
*December 31, 2017*



An Independent CPA Firm

**SOUTH COUNTY OUTREACH**  
**Financial Statements**

December 31, 2017

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An Independent CPA Firm

Board of Directors  
South County Outreach  
Irvine, California

## **INDEPENDENT AUDITORS' REPORT**

### ***Report on Financial Statements***

We have audited the accompanying financial statements of South County Outreach (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, 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***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South County Outreach as of December 31, 2017, 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.

Board of Directors  
South County Outreach  
Irvine, California  
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***Report on Summarized Comparative Information***

We have previously audited South County Outreach's 2016 financial statements, and our report dated March 15, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year December 31, 2017, is consistent, in all material respects, the audited financial statements from which it has been derived.

***Other Reporting Required By Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2018, on our consideration of South County Outreach's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South County Outreach's internal control over financial reporting and compliance.

**Gruber and Associates, Inc.**

*Gruber and Associates, Inc.*

Newport Beach, CA  
March 16, 2018

**SOUTH COUNTY OUTREACH**  
**Statement of Financial Position**

December 31, 2017

(with comparative totals as of December 31, 2016)

	<b>2017</b>	<b>2016</b>
<b><u>Assets</u></b>		
Cash and cash equivalents	\$ 1,029,148	858,219
Pledges receivable	-	2,500
Grants receivable (Note 2)	29,057	12,965
Inventory	107,600	92,250
Deposits	15,511	15,511
Other assets	15,266	2,500
Property, furniture and equipment, net (Note 3)	849,445	916,033
Total assets	\$ 2,046,027	1,899,978
<b><u>Liabilities and Net Assets</u></b>		
Accounts payable	\$ 14,947	11,526
Accrued liabilities	24,925	15,355
Accrued vacation	24,163	18,320
Notes payable - current (Note 4)	31,471	244,478
Security deposits and other deposits	11,208	31,711
Notes payable - long-term (Note 4)	360,530	157,441
Total liabilities	467,244	478,831
Net assets:		
Temporarily restricted (Note 6)	165,887	16,155
Unrestricted	1,412,896	1,404,992
Total net assets	1,578,783	1,421,147
Total liabilities and net assets	\$ 2,046,027	\$ 1,899,978

See accompanying notes to financial statements.

**SOUTH COUNTY OUTREACH**  
**Statement of Activities**

Year Ended December 31, 2017

(with comparative totals for the year ended December 31, 2016)

	<b>2017</b>	<b>2016</b>
Unrestricted revenue and support:		
Government grants (Note 2)	\$ 152,815	125,138
Thrift store sales	201,048	203,832
Contributions-foundations	299,538	372,480
Contributions-corporate	47,880	58,591
Contributions-individuals and others	583,836	435,489
Special events:		
Empty Bowls- (gross revenue of \$56,831 less \$12,656 direct expenses)	44,175	43,194
Festival of Trees- (gross revenue of \$87,250 less \$40,316 direct expenses)	46,934	42,149
Transitional housing rent	138,996	130,537
Donated supplies-food	1,403,722	1,231,869
Donated services	59,349	44,463
Inkind - miscellaneous	26,429	21,120
Miscellaneous	2,241	2,522
Investment and interest income	928	2,882
Subtotal	<u>3,007,891</u>	<u>2,714,266</u>
Net assets released from restrictions (Note 6)	<u>16,155</u>	<u>6,805</u>
Total unrestricted support and revenue	<u>3,024,046</u>	<u>2,721,071</u>
Expenses:		
Program services	<u>2,810,952</u>	<u>2,454,853</u>
Supporting services:		
General and administrative	186,102	175,402
Fundraising	19,088	33,962
Subtotal supporting services	<u>205,190</u>	<u>209,364</u>
Total expenses	<u>3,016,142</u>	<u>2,664,217</u>
Increase (decrease) in unrestricted net assets	7,904	56,854
<b><u>TEMPORARILY RESTRICTED NET ASSETS</u></b>		
Support and revenue:		
Contributions - foundations (Note 6)	<u>165,887</u>	<u>16,155</u>
Total temporarily restricted support and revenues	165,887	16,155
Net assets released from restriction (Note 6)	<u>(16,155)</u>	<u>(6,805)</u>
Increase (decrease) in temporarily restricted net assets	<u>149,732</u>	<u>9,350</u>
Increase (decrease) in net assets	157,636	66,204
Net assets beginning of year	<u>1,421,147</u>	<u>1,354,943</u>
Net assets at end of year	<u>\$ 1,578,783</u>	<u>\$ 1,421,147</u>

See accompanying notes to financial statements.

**SOUTH COUNTY OUTREACH**  
**Statement of Functional Expenses**  
Year Ended December 31, 2017

(with comparative totals for the year ended December 31, 2016)

	Program	Supporting Services			2017	2016
		General and Administrative	Fundraising	Subtotal		
<b>Salaries and related expenses:</b>						
Salaries and related expenses	\$ 500,480	83,413	11,916	95,330	595,810	515,426
Employee benefits	34,471	5,745	821	6,566	41,037	32,305
Payroll taxes	42,321	7,053	1,008	8,061	50,382	43,340
<b>Total salaries and related expenses</b>	<b>577,272</b>	<b>96,212</b>	<b>13,745</b>	<b>109,957</b>	<b>687,229</b>	<b>591,071</b>
<b>Other expenses:</b>						
Professional services	17,592	1,911	-	1,911	19,503	17,345
Rental and utility assistance	101,072	-	-	-	101,072	49,998
Training and counseling	62,151	-	-	-	62,151	69,833
Transitional housing program expenses	128,231	-	-	-	128,231	129,106
Donated supplies- food	1,403,722	-	-	-	1,403,722	1,231,869
Donated services	59,349	-	-	-	59,349	44,463
Inkind - miscellaneous	10,965	-	-	-	10,965	-
Food purchase	27,430	-	-	-	27,430	19,707
Rent -facilities	158,803	17,645	-	17,645	176,448	160,241
Interest	20,499	-	-	-	20,499	20,852
Utilities and telephone	41,305	4,589	-	4,589	45,894	41,344
Office supplies	43,618	23,486	-	23,486	67,104	74,199
Accounting and audit	6,484	3,491	-	3,491	9,975	9,975
Repairs and maintenance	22,565	5,641	-	5,641	28,206	19,341
License fees, bank fees and other fees	-	13,239	-	13,239	13,239	13,776
Transportation and travel	19,305	4,826	-	4,826	24,131	26,723
Miscellaneous	-	767	-	767	767	8,693
Insurance	11,432	2,858	-	2,858	14,290	15,030
Staff development and meetings	21,023	3,710	-	3,710	24,733	15,968
Venue and event related	-	-	40,334	40,334	40,334	38,966
Public relations and marketing	-	-	17,981	17,981	17,981	18,648
<b>Total other expenses</b>	<b>2,155,546</b>	<b>82,163</b>	<b>58,315</b>	<b>140,478</b>	<b>2,296,024</b>	<b>2,026,077</b>
<b>Total expenses before depreciation</b>	<b>2,732,818</b>	<b>178,375</b>	<b>72,060</b>	<b>250,435</b>	<b>2,983,253</b>	<b>2,617,148</b>
Depreciation (Note 3)	78,134	7,727	-	7,727	85,861	86,035
<b>Total expenses</b>	<b>\$2,810,952</b>	<b>186,102</b>	<b>72,060</b>	<b>258,162</b>	<b>3,069,114</b>	<b>2,703,183</b>
Less expenses included in statement of activities	\$ -	-	(52,972)	(52,972)	(52,972)	(38,966)
<b>Total expenses per statement of activities</b>	<b>\$2,810,952</b>	<b>186,102</b>	<b>19,088</b>	<b>205,190</b>	<b>3,016,142</b>	<b>2,664,217</b>

See accompanying notes to financial statements.

**SOUTH COUNTY OUTREACH**  
**Statement of Cash Flows**  
Year Ended December 31, 2017  
(with comparative totals for the year ended December 31, 2016)

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Change in net assets	\$ 157,636	66,204
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	85,861	86,035
Donated inventory	(15,350)	(13,950)
Decrease (increase) in grants receivable	(16,092)	7,380
Decrease (increase) in accounts receivable	2,500	450
Decrease (increase) in deposits receivable	-	-
Decrease (increase) in other assets	(12,766)	50
(Decrease) increase in account payable	3,421	3,131
(Decrease) increase in accrued liabilities	9,570	(20,690)
(Decrease) increase in accrued vacation	5,843	3,827
(Decrease) increase in deposits payable	(20,503)	20,886
Net cash provided by (used for) operating activities	200,120	153,323
Cash flows from investing activities:		
Acquisition of property, furniture and equipment	(19,273)	(15,549)
Proceeds from sale of certificate of deposit	-	374,331
Net cash provided by (used for) investing activities	(19,273)	358,782
Cash flows from financing activities:		
Principal payments on notes payable	(9,918)	(20,219)
Net cash provided by (used for) financing activities	(9,918)	(20,219)
Increase (decrease) in cash and cash equivalents	170,929	491,886
Cash and cash equivalents at beginning of year	858,219	366,333
Cash and cash equivalents at end of year	\$1,029,148	\$ 858,219
 <u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest expense	\$ 20,499	20,852

There were no non-cash investing or financing activities for the year ended December 31, 2017

See accompanying notes to financial statements.

## **SOUTH COUNTY OUTREACH**

### **Notes to the Financial Statements**

December 31, 2017

#### **(1) Summary of Significant Accounting Policies**

The significant accounting policies of the South County Outreach are presented to assist in the understanding of South County Outreach's financial statements. The financial statements and notes are representations of South County Outreach's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

##### **(a) Organization and Sources of Revenues**

South County Outreach (formerly Saddleback Community Outreach) was incorporated in 1988 as a California nonprofit public benefit corporation. South County Outreach provides comprehensive homeless prevention and transitional housing services to south Orange County families and individuals. South County Outreach offers the following services: food pantry; rent and utility assistance; computer training; and a transitional housing program which operates 17 condominium units owned by South County Outreach. In addition, South County Outreach operates a thrift store which sells a variety of donated goods. The operation is "volunteer driven" and is primarily dependent upon public and private contributions, "in-kind" contributions of goods and services, and fundraising events.

South County Outreach operates certain programs under contracts with various federal and non-federal government agencies which provide reimbursement up to a fixed maximum for the cost of contract services performed. South County Outreach is also awarded specific purpose grants.

##### **(b) Basis of Accounting and Revenue Recognition**

South County Outreach uses the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recognized when incurred.

##### **(c) Financial Statement Presentation**

In accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 958- Not for Profit Entities*, South County Outreach 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.

**SOUTH COUNTY OUTREACH**  
**Notes to the Financial Statements**

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

Cash and Cash Equivalents

- (d) For purposes of the statement of cash flows, South County Outreach considers all unrestricted highly liquid investments with a maturity of three months or less to be cash equivalents. South County Outreach maintains cash deposits with its financial institutions that at times exceed amounts covered by the insurance provided by the Federal Deposit Insurance Corporation (FDIC). South County Outreach also actively evaluates the credit worthiness of the institutions with which it invests.

(e) Property, Furniture and Equipment

It is South County Outreach's policy to capitalize long-lived assets over \$500 and a useful life of three years or longer. Lesser amounts are expensed. Property, furniture and equipment are capitalized at cost. Donations of long-lived assets are recorded as contributions at their estimated fair values. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose in which case they are recorded as restricted contributions until such restriction expires. Property, furniture and equipment are depreciated on the straight-line method, using estimated useful lives of 27.5 years for the buildings, 5 to 10 years for the furniture and equipment, and 5 years on vehicles.

(f) Impairment of Long-Lived Assets

South County Outreach evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash-flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

(g) Thrift Store Inventory

Inventory consists of donated goods such as apparel, clothing, houseware, and similar merchandise. Inventories are valued at the estimated fair value which is an estimate of the net value to be realized. Sales and the corresponding cost of sales of donated merchandise are recorded as an exchange transaction in the statement of activities.

**SOUTH COUNTY OUTREACH**  
**Notes to the Financial Statements**

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(h) Fair Value of Financial Instruments

South County Outreach follows guidance issued by the ASC 820 *Fair Value Measurements*, which establishes a framework for measuring fair value, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. This guidance applies whenever fair value is the applicable measurement. This guidance establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair values into Levels 1, 2, and 3.

Level 1 inputs consist of unadjusted quoted prices in active markets for identical instruments and have the highest priority. Level 2 inputs include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or inputs other than quoted prices that are directly or indirectly observable. Level 3 inputs are unobservable and are given the lowest priority.

South County Outreach's financial instruments, including cash and cash equivalents, grants receivable, and accounts payable and other accrued expenses are carried at cost, which approximates fair value because of the short-term nature of these instruments. South County Outreach records its inventory at fair value on the date of donation based on values provided by the donors. These inputs are based on observable inputs of similar assets and are considered level 3 for the year ended December 31, 2017.

(i) Restricted and Unrestricted Revenue and Support

In accordance with ASC 958-605, contributions received are categorized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

All support that is restricted by the donor 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.

Grant contract funds received from U.S Department of Housing and Urban Development, the State of California, and various other grantor agencies are reported as exchange transactions and are recognized as the related expenses are incurred.

**SOUTH COUNTY OUTREACH**  
**Notes to the Financial Statements**

(Continued)

(1) Summary of Significant Accounting Policies. (Continued)

(j) Functional Expense Allocations

Costs of providing South County Outreach's programs and other activities have been presented in the statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited.

(k) Accrued Vacation

South County Outreach's policy is to record accumulated vacation when earned. As of December 31, 2017, the accrued vacation liability was \$24,163.

(l) Income Taxes

South County Outreach is a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d) and files all federal and state information returns required by law. The South County Outreach's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending in years 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

(m) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(n) Pledges receivable

Contributions are recognized when the donor makes a promise to give to the Chapter that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets. South County Outreach uses the allowance method to determine uncollectible promises receivable. The allowance was estimated to be 0% and is based on prior years' experience and management's analysis of specified promises made.

(o) Advertising Costs

During the year ended December 31, 2017, South County Outreach incurred \$17,981 of advertising and marketing costs.

## SOUTH COUNTY OUTREACH

### Notes to the Financial Statements

(Continued)

#### (1) Summary of Significant Accounting Policies. (Continued)

##### (p) Donated services and supplies

Significant services and supplies are donated to South County Outreach by various individuals, corporations and other organizations, and are reflected in the accompanying financial statements at their fair values at the date of donation. Donations of services are only recognized if the services received: (1) create or enhance nonfinancial assets or require specialized skills; (2) are provided by individuals possessing those skills; and (3) would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis for deriving their value.

During the year ended December 31, 2017, South County Outreach recognized \$1,403,722 of donated food, and \$59,349 of donated services made up of skilled consultants. In addition, a significant portion of the South County Outreach 's functions and programs are conducted by unpaid volunteers. The value of this contributed time is not reflected in the accompanying financial statements since the services do not require specialized skills. During the year ended December 31, 2017, computer lab volunteers donated approximately 1,720 of hours with an estimated value of \$51,600. This value was computed using an estimated hourly rate of \$30, based upon the average hourly earnings of similar employees plus estimated fringe benefits. During the year ended December 31, 2017, labor volunteers donated approximately 42,114 of hours with an estimated value of \$421,140. This value was computed using an estimated hourly rate of \$10, based upon the average hourly earnings of similar employees plus estimated fringe benefits.

Donated food and supplies consists primarily of food with a fair value of \$1.70 per pound based on management's estimate with the use of a study performed by Feeding America and AFAC.

##### (q) Comparative Totals

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with South County Outreach's financial statements for the year ended December 31, 2016 from which the summarized information was derived.

##### (r) Reclassifications

For comparability purposes, certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 classifications. These reclassifications have no effect on reported change in net assets.

**SOUTH COUNTY OUTREACH**  
**Notes to the Financial Statements**

(Continued)

(2) Summary of Government Grant Funding

South County Outreach's contract revenues for the year ended December 31, 2017 are summarized as follows:

Community Development Block and Service Grants*	\$ 54,529
Rescare Workforce Services	49,536
EFSP	<u>48,750</u>
Total	<u>\$ 152,815</u>

\*- Passed through the cities of Rancho Santa Margarita, Laguna Niguel, Mission Viejo, Aliso Viejo, Lake Forest, and Irvine.

At December 31, 2017, grant receivable in the amount of \$29,057 was received subsequent to year end and consisted of both federal and non-federal receivables and were reported in the statement of financial position.

(3) Property, Furniture and Equipment

Property, furniture and equipment consist of the following at December 31, 2017:

Residential buildings *	\$1,946,936
Leasehold improvements	199,286
Office equipment	125,224
Vehicles	54,295
Accumulated depreciation	<u>(1,476,296)</u>
	<u>\$ 849,445</u>

\*Residential buildings consist of 17 condominium units of which the land is not owned. As required under the terms of grants, certain of the Organization's residential rental properties with an approximate aggregate cost of \$1.8 million are to be used for transitional housing for families and individuals meeting specified eligibility requirements. In addition, certain rental properties with an approximate aggregate cost of \$1 million serve as collateral for the Organization's notes payable.

Total depreciation expenses for the year ended December 31, 2017 was \$85,861.

**SOUTH COUNTY OUTREACH**  
**Notes to the Financial Statements**

(Continued)

(4) Notes payable

Notes payable at December 31, 2017 are comprised of the following:

A note payable to a bank collateralized by a deed of trust on real property, bearing interest at 4.375% per annum, payable in monthly installments of \$2,542, with final payment due June 2027. The total amount outstanding on the note as of December 31, 2017 was \$235,882.

A note payable to County of Orange, California, collateralized by a deed of trust on real property and an assignment of rents, bearing interest at 2.0% per annum, payable in monthly principal and interest installments of \$1,023, with final payment due May 25, 2029. The total amount outstanding on the note as of December 31, 2017 was \$125,430.

A note payable to a bank collateralized by a deed of trust on real property, bearing interest at 6.625% per annum, payable in monthly installments of \$360, with final payment due June 26, 2023. The total amount outstanding on the note as of December 31, 2017 was \$30,689.

Total outstanding notes payable as of December 31, 2017 was \$392,001. Scheduled principal payments on notes payable are as follows:

<u>Year ending June 30:</u>	<u>Totals</u>
2018	\$31,471
2019	32,661
2020	33,891
2021	35,390
2022	37,008
Thereafter	<u>221,580</u>
Totals	<u>392,001</u>
Less current portion	<u>(31,471)</u>
Long-term portion	<u>\$360,530</u>

**SOUTH COUNTY OUTREACH**  
**Notes to the Financial Statements**

(Continued)

(5) Lease Obligations

Operating leases

South County Outreach entered into renewal rent agreements in January 2014 for its administrative office/pantry, and in August 2017 for its thrift store. Both facility leases are classified as operating leases. Monthly payments are approximately \$10,098 for the office/ pantry, and approximately \$4,606 for the thrift store. The lease terms for the office/ pantry expires in January 2019. The term on the thrift store expires in July 2020. Rent expense for the two facilities was \$176,448 for the year ended December 31, 2017. South County Outreach also leases equipment. Monthly payments on the equipment are approximately \$1,000 per month and expire in November 2017 through October 2021. Rent expense for the equipment was \$12,480 for the year ended December 31, 2016. Minimum rental commitments are as follows:

Year ending June 30:

2018	\$185,106
2019	62,310
2020	34,680
2021	<u>4,797</u>
Total future minimum lease payments	<u>\$286,893</u>

(6) Release of Temporarily Restricted Net Assets

During the year ended December 31, 2017, \$16,155 of temporarily restricted net assets, were released to unrestricted net assets as a result of the satisfaction of donor imposed restrictions.

<u>Restricted for:</u>	<u>Temporarily Restricted Net Assets- Beginning of Year</u>	<u>Temporarily Restricted Revenues</u>	<u>Released From Restriction</u>	<u>Temporarily Restricted Net Assets- End of Year</u>
Rent/ utility assistance, food program, and other	<u>\$16,155</u>	<u>\$165,887</u>	<u>\$ (16,155)</u>	<u>\$165,887</u>

## **SOUTH COUNTY OUTREACH**

### **Notes to the Financial Statements**

(Continued)

#### **(7) Other Commitments and Contingencies**

Financial assistance from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against South County Outreach for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

South County Outreach is also subject to legal proceedings, claims, and assessments which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions, should they occur, will not materially affect the South County Outreach's financial statements.

#### **(8) Compliance with Laws and Regulations**

By accepting sub recipient funds from the various federal grantor agencies, South County Outreach is required to comply with certain laws and regulations provided for under the respective grant agreements. Management believes that it has complied with such laws and regulations.

#### **(9) Retirement Plan**

The Organization has a contributory benefit plan organized under Section 403(b) of the Internal Revenue Code. Contributions by the Organization are made whether or not an employee elects to participate through voluntary payroll withholdings. The amount of the Organization contributions is determined by the Board of Directors and was 1% of gross contributions for the year ended December 31, 2017. Total contributions by the Organization to the 403b plan were \$4,344 for the year ended December 31, 2017.

#### **(10) Subsequent Events**

Management has evaluated subsequent events through March 16, 2018, the date the financial statements were available to be issued.



An Independent CPA Firm

Board of Directors  
South County Outreach  
Irvine, California

**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**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South County Outreach, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise South County Outreach's basic financial statements, and have issued our report thereon dated March 16, 2018.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered South County Outreach's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South County Outreach's internal control. Accordingly, we do not express an opinion on the effectiveness of South County Outreach's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether South County Outreach's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

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

**Gruber and Associates, Inc.**

*Gruber and Associates, Inc.*

Newport Beach, California  
March 16, 2018