

SOUTH COUNTY OUTREACH
Financial Statements and
Single Audit Report on Schedule of Expenditures of
Federal Awards
December 31, 2012

SOUTH COUNTY OUTREACH
Financial Statements
and
Single Audit Report on Schedule of Expenditures of Federal Award Programs
December 31, 2012

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An Independent CPA Firm

Board of Directors
South County Outreach
Lake Forest, 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, 2012, 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, 2012, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *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 our 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*, we have also issued our report dated February 20, 2013 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.

David L. Gruber and Associates, Inc.

David L. Gruber and Associates, Inc.

Huntington Beach, CA
February 20, 2013

SOUTH COUNTY OUTREACH
Statement of Financial Position
December 31, 2012

Assets

Cash and cash equivalents	\$ 397,889
Certificate of deposit	162,978
Grants receivable (Note 2)	35,586
Inventory	29,152
Deposits	11,436
Other assets	2,500
Property, furniture and equipment, net (Note 3)	<u>1,189,322</u>
Total assets	<u>\$ 1,828,863</u>

Liabilities and Net Assets

Accounts payable	\$ 9,880
Accrued vacation and other expenses	22,971
Notes payable - current (Note 4)	16,437
Security deposits and other deposits	13,085
Notes payable - long-term (Note 4)	<u>460,126</u>
Total liabilities	<u>522,499</u>

Net assets:

Temporarily restricted	2,639
Unrestricted	<u>1,303,725</u>
Total net assets	<u>1,306,364</u>

Total liabilities and net assets	<u>\$ 1,828,863</u>
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See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH
Statement of Activities
Year Ended December 31, 2012

Unrestricted revenue and support:	
Government grants (Note 2)	\$ 327,080
Thrift store sales	159,841
Contributions	575,557
Special event- Love from Dove (net of \$18,929 direct expenses)	20,837
Special event- Tacky Ticki Party (net of \$7,265 direct expenses)	5,776
Transitional housing rent	72,085
Donated supplies	1,439,738
Other donated in-kind	29,162
Interest income	<u>5,551</u>
Subtotal	<u>2,635,627</u>
Net assets released from restrictions	<u>3,164</u>
Total unrestricted support and revenue	<u>2,638,791</u>
Expenses:	
Program services	<u>2,382,418</u>
Supporting services:	
General and administrative	202,717
Fundraising	<u>36,075</u>
Subtotal supporting services	<u>238,791</u>
Total expenses	<u>2,621,209</u>
Increase (decrease) in unrestricted net assets	17,582
<u>TEMPORARILY RESTRICTED NET ASSETS</u>	
Support and revenue:	
Contributions	<u>15,780</u>
Total temporarily restricted support and revenues	15,780
Net assets released from restriction (Note 6)	<u>(3,164)</u>
Increase (decrease) in temporarily restricted net assets	<u>12,616</u>
Increase (decrease) in net assets	30,198
Net assets beginning of year	<u>1,276,166</u>
Net assets at end of year	<u><u>\$ 1,306,364</u></u>

See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH
Statement of Functional Expenses
Year Ended December 31, 2012

	Supporting Services			Subtotal	Total
	Program	General and Administrative	Fundraising		
Salaries and related expenses:					
Salaries and related expenses	\$ 377,486	71,902	-	71,902	449,388
Employee benefits	21,426	4,081	-	4,081	25,507
Payroll taxes	32,253	6,143	-	6,143	38,396
Total salaries and related expenses	<u>431,164</u>	<u>82,127</u>	<u>-</u>	<u>82,127</u>	<u>513,291</u>
Other expenses:					
Professional services	12,840	28,890	22,470	51,359	64,199
Rental and utility assistance	30,446	-	-	-	30,446
Training and counseling	106,360	-	-	-	106,360
Transitional housing program expenses	133,011	-	-	-	133,011
Donated supplies- food	1,315,308	-	-	-	1,315,308
Donated supplies- food purchase	45,334	-	-	-	45,334
Other in-kind	8,925	-	-	-	8,925
Rent	120,501	13,389	-	13,389	133,890
Interest	23,628	2,625	-	2,625	26,253
Utilities	16,442	1,827	-	1,827	18,269
Telephone	7,615	846	-	846	8,461
Dues and subscriptions		2,728	-	2,728	2,728
Office supplies	6,876	3,703	-	3,703	10,579
Accounting and audit	8,905	4,795	-	4,795	13,700
Equipment lease	3,765	5,648	-	5,648	9,413
Repairs and maintenance	9,688	2,422	-	2,422	12,110
Bank and other fees		6,870	-	6,870	6,870
Printing and postage	10,998	13,441	-	13,441	24,439
Recognition	-	1,926	-	1,926	1,926
Transportation	-	18,135	-	18,135	18,135
Miscellaneous	-	86	-	86	86
Insurance	10,376	2,594	-	2,594	12,970
Taxes and licenses	-	745	-	745	745
Meeting and conferences	-	1,985	-	1,985	1,985
Marketing	-	-	11,906	11,906	11,906
Public relations	-	-	1,699	1,699	1,699
Total other expenses	<u>1,871,018</u>	<u>112,655</u>	<u>36,075</u>	<u>148,729</u>	<u>2,019,747</u>
Total expenses before depreciation	<u>2,302,182</u>	<u>194,781</u>	<u>36,075</u>	<u>230,856</u>	<u>2,533,038</u>
Depreciation (Note 3)	<u>80,236</u>	<u>7,935</u>	<u>-</u>	<u>7,935</u>	<u>88,171</u>
Total expenses	<u>\$ 2,382,418</u>	<u>202,717</u>	<u>36,075</u>	<u>238,791</u>	<u>2,621,209</u>

See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH
Statement of Cash Flows
Year Ended December 31, 2012

Cash flows from operating activities:	
Change in net assets	\$ 30,198
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation	88,171
Donated equipment	(10,014)
Donated inventory	(7,752)
Decrease (increase) in grants receivable	12,619
Decrease (increase) in deposits	(6,068)
Decrease (increase) in prepaid and other assets	21,095
(Decrease) increase in account payable	(905)
(Decrease) increase in accrued vacation and other expenses	6,748
(Decrease) increase in grant advance	(2,577)
	131,515
Net cash provided by (used for) operating activities	131,515
Cash flows from investing activities:	
Interest earned and paid to certificate of deposit	(4,978)
	(4,978)
Net cash provided by (used for) investing activities	(4,978)
Cash flows from financing activities:	
Principal payments on notes payable	(15,146)
	(15,146)
Net cash provided by (used for) financing activities	(15,146)
Increase (decrease) in cash and cash equivalents	111,391
Cash and cash equivalents at beginning of year	286,498
Cash and cash equivalents at end of year	\$ 397,889
<u>Supplemental disclosure of cash flow information:</u>	
Cash paid for interest expense	\$ 26,253

See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH

Notes to the Financial Statements

December 31, 2012

(1) Summary of Significant Accounting Policies

The significant accounting policies of the South County Outreach (SCO) are presented to assist in the understanding of SCO's financial statements. The financial statements and notes are representations of SCO'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. SCO provides comprehensive homeless prevention and transitional housing services to south Orange County families and individuals. SCO offers the following services: food pantry; rent and utility assistance; computer training; and a transitional housing program operated by a 16 unit condominium complex owned by SCO. In addition, SCO operates a thrift store which sells a variety of new and second hand goods which are donated. The operation is "volunteer driven" and is primarily dependent upon public and private contributions, "in-kind" contributions of goods and services, and fundraising events.

SCO 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. SCO is also awarded specific purpose grants.

(b) Basis of Accounting and Revenue Recognition

SCO 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 *Accounting Standards Codification (ASC) 958*, SCO 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.

(d) Cash and Cash Equivalents

For purposes of the statement of cash flows, SCO considers all unrestricted highly liquid investments with a maturity of three months or less to be cash equivalents. SCO maintains cash deposits with various financial institutions to limit its credit risk exposure to any one financial institution. SCO also actively evaluates the credit worthiness of the institutions with which it invests.

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

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

(e) Certificate of Deposit

As of December 31, 2012, the Company owned a certificate of deposit in the amount of \$162,978. This time certificate matures in August 2016, at a rate of interest of 2.19 percent per annum. Because the term of the certificate is greater than three months, it is not included by the Company as a cash equivalent for purposes of the statement of cash flows.

(f) Property, Furniture and Equipment

It is SCO'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.

(g) Impairment of Long-Lived Assets

SCO 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.

(h) Inventory

Inventory consists of donated goods such as apparel, clothing and similar merchandise. Other assets consist of deposits, and prepaid expenses. Inventory is valued at fair value on the date of donation.

SOUTH COUNTY OUTREACH

Notes to the Financial Statements

(Continued)

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

(i) Fair Value of Financial Instruments

SCO follows guidance issued by the FASB Accounting Standards Codification (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.

SCO's financial instruments, including cash and cash equivalents, grants and 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. SCO 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 2 for the year ended December 31, 2012.

(j) 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 Orange County, 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)

(k) Functional Expense Allocations

Costs of providing SCO'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.

(l) Accrued Vacation

SCO's policy is to record accumulated vacation when earned. As of December 31, 2012, the accrued vacation liability was \$13,639 and is included in *accrued vacation and other expenses* on the statement of net assets.

(m) Income Taxes

SCO 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 SCO's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending in years 2012, 2011, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

(n) 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.

(o) 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. SCO 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.

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 SCO 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.

In addition, a significant portion of the SCO'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, 2012, computer lab volunteers donated approximately 4,148 of hours with an estimated value of \$124,440. 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, 2012, labor volunteers donated approximately 42,291 of hours with an estimated value of \$422,910. 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 supplies consists primarily of food with a fair value of \$1.60 per pound based on management's estimate with the use of a study performed by Feeding America.

(2) Summary of Government Grant Funding

SCO's contract revenues for the year ended December 31, 2012 are summarized as follows:

U.S. Dept of Housing & Urban Development-Care	\$ 192,177
Community Development Block Grants*	76,290
Rescare Workforce Services	58,613
Total	<u>\$ 327,080</u>

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

At December 31, 2012, grant and accounts receivables in the amount of \$35,586 consisted of both federal and non-federal receivables and were reported in the statement of financial position.

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

(3) Property, Furniture and Equipment

Property, furniture and equipment consist of the following at December 31, 2012:

Residential buildings *	\$1,946,936
Leasehold improvements	151,216
Office equipment	106,719
Vehicles	28,767
Accumulated depreciation	<u>(1,044,316)</u>
	<u>\$1,189,322</u>

*Residential buildings consist of 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 aggregate cost of \$1,805,579 are to be used for transitional housing for families and individuals meeting specified eligibility requirements. In addition, certain of the rental properties with an aggregate cost of \$1,070,209 serve as collateral for the Organization's notes payable.

Total depreciation expenses for the year ended December 31, 2012 was \$88,171.

(4) Notes payable

Notes payable at December 31, 2012 are comprised of the following:

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, 2012 was \$171,894.

A note payable to a bank, collateralized by a deed of trust on real property, bearing interest at 7.0% per annum, payable in monthly principal and interest installments of \$599, with final payment due June 1, 2017. The total amount outstanding on the note as of December 31, 2012 was \$76,374.

A note payable to a bank collateralized by a deed of trust on real property, bearing interest at 7.0% per annum, payable in monthly installments of \$799, with final payment due June 1, 2017. The total amount outstanding on the note as of December 31, 2012 was \$101,873.

A note payable to a bank collateralized by a deed of trust on real property, bearing interest at 7.05% per annum, payable in monthly installments of \$669, with final payment due May 1, 2017. The total amount outstanding on the note as of December 31, 2012 was \$84,691.

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

(4) Notes Payable (Continued)

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, 2013. The total amount outstanding on the note as of December 31, 2012 was \$41,731.

Total outstanding notes payable as of December 31, 2012 was \$476,563. Scheduled principal payments on notes payable are as follows:

<u>Year ending June 30:</u>	<u>Totals</u>
2013	\$ 16,435
2014	17,116
2015	17,832
2016	18,541
2017	244,397
Thereafter	<u>162,242</u>
Totals	<u>476,563</u>
Less current portion	<u>(16,437)</u>
Long-term portion	\$ <u>460,126</u>

(5) Lease Obligations

Operating leases

SCO rents its administrative office and pantry, and its thrift store under terms classified as operating leases. Monthly payments are \$6,662 and \$3,335 for the facilities, respectively. Terms on the leases expire in October 2013 and July 2013, respectively. Rent expense for the two facilities was \$133,890 for the year ended December 31, 2012. SCO also leases various equipment. Monthly payments on the equipment are \$616 and expire in May 2013. Rent expense for the equipment was \$9,413 for the year ended December 31, 2012. Minimum rental commitments are as follows:

Year ending June 30:

2013	\$6,780
2014	6,780
2015	6,780
2016	<u>2,260</u>
Total future minimum lease payments	<u>\$113,177</u>

SOUTH COUNTY OUTREACH

Notes to the Financial Statements

(Continued)

(6) Restatement and Release of Temporarily Restricted Net Assets

The accompanying financial statements reflect adjustments that resulted in the restatement of beginning temporarily restricted net assets. The reclassification had no effect on total overall net assets. The following summarizes the effect of the reclassification adjustment to the beginning temporarily restricted net assets as of January 31, 2012:

Temporarily restricted net assets, beginning of year, as previously reported	\$ 874,000
To remove prior year temporary restrictions of net assets that did not meet the GAAP definition	(874,000)
To add prior year temporary restrictions of net assets that did meet the GAAP definition	<u>2,378</u>
Temporarily restricted net assets, beginning of year, as restated	<u>\$ 2,378</u>

During the year ended December 31, 2012, \$3,164 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, restated</u>	<u>Temporarily Restricted Revenues</u>	<u>Released From Restriction</u>	<u>Temporarily Restricted Net Assets- End of Year</u>
Utility assistance	\$1,056	625	(336)	1,345
Rental assistance	<u>1,322</u>	<u>2,800</u>	<u>(2,828)</u>	<u>1,294</u>
Total	<u>\$2,378</u>	<u>3,425</u>	<u>(3,164)</u>	<u>2,639</u>

(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 SCO 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.

SCO 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 SCO's financial statements.

SOUTH COUNTY OUTREACH

Notes to the Financial Statements

(Continued)

(8) Concentrations and Grant Funding

In recent years, SCO has received significant funding from the Department of Housing and Urban Development, Rescare Workforce Services, and various Cities in Orange County. Due to potential reductions in federal funding to these agencies, future grants to SCO are uncertain. Although management is reviewing alternatives for continuing operations, if grants are reduced, any reduction may impact the future operations of SCO. SCO received numerous grant contracts from these agencies for funding through December 31, 2013. Additionally, it is the intent of SCO to bid for funding from these agencies through December 31, 2014. Actual funding amounts from the various cities are dependent upon amounts allocated by various federal and state awarding agencies. SCO also receives multi-year grant funding from various sources which are recorded in the period received or pledged. However, expenditures related to those grants can occur over several years. As a result, timing differences are created which can have an affect on changes in net assets.

(9) Compliance with Laws and Regulations

By accepting subrecipient funds from the various federal grantor agencies, SCO is required to comply with certain laws and regulations provided for under *OMB Circular A-133* and the respective grant agreements. Management believes that it has complied with such laws and regulations.

(10) Subsequent Events

Management has evaluated subsequent events through February 20, 2013, the date the financial statements were available to be issued.

**SINGLE AUDIT REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS**

DECEMBER 31, 2012



An Independent CPA Firm

Board of Directors
South County Outreach
Lake Forest, 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 (SCO), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise SCO's basic financial statements, and have issued our report thereon dated February 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SCO'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 SCO's internal control. Accordingly, we do not express an opinion on the effectiveness of SCO'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.

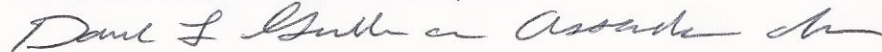
Compliance and Other Matters

As part of obtaining reasonable assurance about whether SCO'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.

David L. Gruber and Associates, Inc.



Huntington Beach, California
February 20, 2013



An Independent CPA Firm

Board of Directors
South County Outreach
Long Beach, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE
SCHEDULE OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited the South County Outreach's (SCO) 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 SCO's major federal programs for the year ended December 31, 2012. SCO'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

Our responsibility is to express an opinion on compliance for each of SCO's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SCO's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SCO's compliance.

Opinion on Each Major Federal Program

In our opinion, SCO complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Other Matters

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

Report on Internal Control Over Compliance

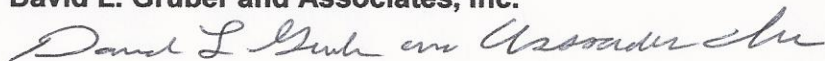
Management of SCO is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SCO's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SCO's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

David L. Gruber and Associates, Inc.



Huntington Beach, California
February 20, 2013

SOUTH COUNTY OUTREACH
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

Federal Grantor/ Pass-through Grantor/Program	Federal Domestic Assistance Number	Program Identification Number	Federal Award Expenditures
U.S. Department of Housing and Urban Development:			
<i>CDBG - Entitlement Grants Cluster</i>			
<i>Passed through :</i>			
City of Laguna Niguel-Community Development Block Grant	14.218		\$ 8,899
City of Laguna Woods-Community Development Block Grant	14.218		11,250
City of Mission Viejo-Community Development Block Grant	14.218		11,992
City of Irvine-Community Development Block Grant	14.218		4,964
City of Lake Forest-Community Development Block Grant	14.218		8,065
City of Rancho Santa Margarita-Community Development Block Grant	14.218		4,707
Rescare Workforce Services-Community Development Block Grant	14.218		58,613
Subtotal CDBG - Entitlement Grants Cluster			<u>108,490</u>
<i>Passed through City of Irvine:</i>			
Homeless Prevention and Rapid Re-Housing Program (HPRP)	14.262		<u>26,412</u>
<i>Direct programs:</i>			
Continuum of Care	14.267		<u>192,177</u> *
<i>Passed through the County of Orange:</i>			
Home Investment Partnership Program	14.239		<u>171,894</u> **
Subtotal CFP Cluster			
Total U.S. Department of Housing and Urban Development			<u>498,973</u>
Total Expenditures of Federal Awards			<u>\$ 498,973</u>

* - Denotes major program

** - Represents federal loan outstanding as of December 31, 2012

SOUTH COUNTY OUTREACH

Notes to the Schedule of Expenditures of Federal Awards

December 31, 2012

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

(a) Scope of Presentation

The accompanying schedule presents only the expenditures incurred by the South County Outreach (SCO) that are reimbursable under federal programs of federal agencies providing financial assistance. For purposes of this schedule, financial assistance includes both federal financial assistance received directly from a federal agency and expended, as well as federal funds received indirectly by SCO from a non-federal agency and expended. Only the portion of program expenditures that are reimbursable with such federal funds are reported in the accompanying schedule. Program expenses in excess of the maximum federal reimbursement authorized or the portion of program expenses that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

(b) Basis of Accounting

The expenditures included in the accompanying schedule were reported on the accrual basis of accounting. Expenditures reported include any property or equipment acquisitions incurred under the Federal program. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(c) Subrecipients

There were no payments to subrecipients for the year ended December 31, 2012.

SOUTH COUNTY OUTREACH
Schedule of Findings and Questioned Costs

Year ended December 31, 2012

(A) Summary of Auditors' Results

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no significant deficiencies or material weaknesses noted in internal control over financial reporting identified.
3. The audit disclosed no instances of noncompliance which were material to the financial statements of the auditee.
4. There were no material weaknesses or other significant deficiencies noted in internal control over major federal programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major federal programs.
6. The audit disclosed no audit findings that were required by the auditors to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major federal program of the auditee was the: (1) Continuum of Care received from HUD, CFDA# 14.267.
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee was considered a low risk auditee as defined by OMB Circular A-133 for the year ended December 31, 2012 for purposes of determining major federal programs.

(B) Findings Related to the Financial Statements which are Required to be Reported in Accordance with GAGAS

There were no findings required to be reported in accordance with GAGAS.

(C) Findings and Questioned Costs for Federal Awards as Defined in Paragraph .510(a) at OMB Circular A-133

There were no findings required to be reported in accordance with paragraph .510(a) at OMB Circular A-133:

SOUTH COUNTY OUTREACH
Summary Schedule of Prior Year Audit Findings

Year ended December 31, 2012

There were no findings noted during fiscal year ended December 31, 2011 that required follow up procedures.