

SOUTH COUNTY OUTREACH
Financial Statements
(with Independent Auditors' Report Thereon)
December 31, 2015



An Independent CPA Firm

SOUTH COUNTY OUTREACH
Financial Statements

December 31, 2015

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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, 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

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, 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.

Board of Directors
South County Outreach
Irvine, California
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Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2016, 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
February 29, 2016

SOUTH COUNTY OUTREACH
Statement of Financial Position
December 31, 2015

Assets

Cash and cash equivalents	\$ 366,333
Certificates of deposit	374,331
Pledges receivable	3,000
Grants receivable (Note 2)	20,345
Inventory	78,300
Deposits	15,511
Other assets	2,500
Property, furniture and equipment, net (Note 3)	<u>986,519</u>
Total assets	<u><u>\$ 1,846,839</u></u>

Liabilities and Net Assets

Accounts payable	\$ 8,395
Accrued liabilities	36,045
Accrued vacation	14,493
Notes payable - current (Note 4)	18,541
Security deposits and other deposits	10,825
Notes payable - long-term (Note 4)	<u>403,597</u>
Total liabilities	<u>491,896</u>

Net assets:

Temporarily restricted (Note 6)	6,805
Unrestricted	<u>1,348,138</u>
Total net assets	<u>1,354,943</u>
Total liabilities and net assets	<u><u>\$ 1,846,839</u></u>

See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH
Statement of Activities
Year Ended December 31, 2015

Unrestricted revenue and support:	
Government grants (Note 2)	\$ 160,861
Thrift store sales	195,641
Contributions-foundations	303,207
Contributions-corporate	55,850
Contributions-individuals and others	301,490
Special events:	
Empty Bowls- (gross revenue of \$40,392 less \$10,522 direct expenses)	29,870
Festival of Trees- (gross revenue of \$66,455 less \$28,902 direct expenses)	37,553
Transitional housing rent	80,099
Donated supplies-food	1,187,675
Donated supplies-other	6,983
Inkind - miscellaneous	38,894
Miscellaneous	2,524
Investment and interest income	<u>17,202</u>
Subtotal	<u>2,417,849</u>
Net assets released from restrictions (Note 6)	<u>30,831</u>
Total unrestricted support and revenue	<u>2,448,680</u>
Expenses:	
Program services	<u>2,330,775</u>
Supporting services:	
General and administrative	165,628
Fundraising	<u>21,767</u>
Subtotal supporting services	<u>187,395</u>
Total expenses	<u>2,518,170</u>
Increase (decrease) in unrestricted net assets	(69,490)
<u>TEMPORARILY RESTRICTED NET ASSETS</u>	
Support and revenue:	
Contributions - foundations (Note 6)	<u>6,805</u>
Total temporarily restricted support and revenues	6,805
Net assets released from restriction (Note 6)	<u>(30,831)</u>
Increase (decrease) in temporarily restricted net assets	<u>(24,026)</u>
Increase (decrease) in net assets	(93,516)
Net assets beginning of year	<u>1,448,459</u>
Net assets at end of year	<u>\$ 1,354,943</u>

See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH
Statement of Functional Expenses
Year Ended December 31, 2015

	Program	Supporting Services			Total
		General and Administrative	Fundraising	Subtotal	
Salaries and related expenses:					
Salaries and related expenses	\$ 363,117	60,519	8,646	69,165	432,282
Employee benefits	32,685	5,448	778	6,226	38,911
Payroll taxes	31,423	5,237	748	5,985	37,408
Total salaries and related expenses	<u>427,225</u>	<u>71,204</u>	<u>10,172</u>	<u>81,376</u>	<u>508,601</u>
Other expenses:					
Professional services	68,687	7,463	-	7,463	76,150
Rental and utility assistance	70,516	-	-	-	70,516
Training and counseling	48,915	-	-	-	48,915
Transitional housing program expenses	130,307	-	-	-	130,307
Donated supplies- food	1,187,675	-	-	-	1,187,675
Donated supplies- other	6,983	-	-	-	6,983
Food purchase	17,758	-	-	-	17,758
Rent -facilities	132,803	14,756	-	14,756	147,559
Interest	23,096	-	-	-	23,096
Utilities and telephone	38,181	4,242	-	4,242	42,423
Office supplies	53,137	28,612	-	28,612	81,749
Accounting and audit	6,451	3,474	-	3,474	9,925
Repairs and maintenance	3,751	938	-	938	4,689
License fees, bank fees and other fees	-	17,762	-	17,762	17,762
Transportation and travel	11,924	2,981	-	2,981	14,905
Miscellaneous	-	1,195	-	1,195	1,195
Insurance	9,217	2,304	-	2,304	11,521
Staff development and meetings	17,867	3,153	-	3,153	21,020
Public relations and marketing	-	-	11,595	11,595	11,595
Total other expenses	<u>1,827,268</u>	<u>86,880</u>	<u>11,595</u>	<u>98,475</u>	<u>1,925,743</u>
Total expenses before depreciation	<u>2,254,493</u>	<u>158,084</u>	<u>21,767</u>	<u>179,851</u>	<u>2,434,344</u>
Depreciation (Note 3)	<u>76,282</u>	<u>7,544</u>	<u>-</u>	<u>7,544</u>	<u>83,826</u>
Total expenses	<u>\$ 2,330,775</u>	<u>165,628</u>	<u>21,767</u>	<u>187,395</u>	<u>2,518,170</u>

See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH
Statement of Cash Flows
Year Ended December 31, 2015

Cash flows from operating activities:	
Change in net assets	\$ (93,516)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation	83,826
Donated inventory	(27,175)
Decrease (increase) in grants receivable	15,410
Decrease (increase) in accounts receivable	(3,000)
Decrease (increase) in deposits receivable	-
(Decrease) increase in account payable	(13,477)
(Decrease) increase in accrued liabilities	26,120
(Decrease) increase in accrued vacation	(1,987)
(Decrease) increase in deposits payable	<u>(22,513)</u>
Net cash provided by (used for) operating activities	<u>(36,312)</u>
Cash flows from investing activities:	
Acquisition of property, furniture and equipment	(35,276)
Investment in certificate of deposit	<u>(203,952)</u>
Net cash provided by (used for) investing activities	<u>(239,228)</u>
Cash flows from financing activities:	
Principal payments on notes payable	(17,974)
Net cash provided by (used for) financing activities	<u>(17,974)</u>
Increase (decrease) in cash and cash equivalents	(293,514)
Cash and cash equivalents at beginning of year	<u>659,847</u>
Cash and cash equivalents at end of year	<u>\$ 366,333</u>
<u>Supplemental disclosure of cash flow information:</u>	
Cash paid for interest expense	<u>\$ 23,096</u>

See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH

Notes to the Financial Statements

December 31, 2015

(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 operated by a 17 unit condominium complex owned by South County Outreach. In addition, South County Outreach 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.

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) Certificates of Deposit

As of December 31, 2015, the Company owned two certificates of deposit in the amounts of \$174,204 and \$200,127. These time certificates matures in August 2016 and December 2016, respectively. The rate of interest for both certificates was 2.19 percent per annum. Because the terms of the certificates were 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 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.

(g) 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.

(h) Thrift Store Inventory

Inventory consists of donated goods such as apparel, clothing and similar merchandise. 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

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, 2015.

(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 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)

(k) 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.

(l) Accrued Vacation

South County Outreach's policy is to record accumulated vacation when earned. As of December 31, 2015, the accrued vacation liability was \$14,493.

(m) 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 2014, 2013, and 2012 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. 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.

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.

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, 2015, computer lab volunteers donated approximately 2,733 of hours with an estimated value of \$81,990. 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, 2015, labor volunteers donated approximately 50 of hours with an estimated value of \$2,500. This value was computed using an estimated hourly rate of \$50, 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

South County Outreach's contract revenues for the year ended December 31, 2015 are summarized as follows:

U.S. Dept of Housing & Urban Development-Care	\$ 68,805
Community Development Block Grants*	63,421
Rescare Workforce Services-CDBG	28,635
Total	<u>\$ 160,861</u>

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

At December 31, 2015, grant receivable in the amount of \$20,345 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, 2015:

Residential buildings *	\$1,946,936
Leasehold improvements	169,494
Office equipment	120,194
Vehicles	54,295
Accumulated depreciation	<u>(1,304,400)</u>
	<u>\$ 986,519</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 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 of the 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, 2015 was \$83,826.

(4) Notes payable

Notes payable at December 31, 2015 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, 2015 was \$144,976.

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, 2015 was \$70,296.

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, 2015 was \$93,765.

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, 2015 was \$77,888.

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, 2023. The total amount outstanding on the note as of December 31, 2015 was \$35,213.

Total outstanding notes payable as of December 31, 2015 was \$422,138. Scheduled principal payments on notes payable are as follows:

<u>Year ending June 30:</u>	<u>Totals</u>
2016	\$ 18,541
2017	244,606
2018	10,975
2019	11,250
2020	11,525
Thereafter	<u>125,241</u>
Totals	<u>422,138</u>
Less current portion	<u>(18,541)</u>
Long-term portion	<u>\$403,597</u>

(5) Lease Obligations

Operating leases

South County Outreach entered into rent agreements in January 2014 for its administrative office/pantry, and in August 2014 for its thrift store. Both facility leases are classified as operating leases. Monthly payments are approximately \$8,812 for the office/pantry, and \$3,975 for the thrift store. The lease terms for the office/pantry expires in January 2019. The term on the thrift store expires in July 2017. Rent expense for the two facilities was \$147,559 for the year ended December 31, 2015. South County Outreach also leases various equipment. Monthly payments on the equipment range from approximately \$55 to \$912 per month and expire ranging from May 2016 to July 2016. Rent expense for the equipment was \$11,178 for the year ended December 31, 2015. Minimum rental commitments are as follows:

Year ending June 30:

2016	\$158,864
2017	137,040
2018	<u>96,696</u>
Total future minimum lease payments	<u>\$314,130</u>

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

(6) Release of Temporarily Restricted Net Assets

During the year ended December 31, 2015, \$30,831 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>\$30,831</u>	<u>6,805</u>	<u>(30,831)</u>	<u>6,805</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 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) Concentrations and Grant Funding

In recent years, South County Outreach has received significant funding from the Department of Housing and Urban Development (HUD), Rescare Workforce Services, and various Cities in Orange County. Due to potential reductions in funding from other agencies, future grants to South County Outreach are uncertain and/ or may be reduced. For instance, funding from HUD terminated in June 30, 2015. Although management is reviewing alternatives for continuing operations, if other grants are reduced, any further reduction may impact the future operations of South County Outreach. South County Outreach received numerous grant contracts from various other agencies for funding through December 31, 2016. Additionally, it is the intent of South County Outreach to bid for funding from these and other agencies through December 31, 2017. Actual funding amounts from the various cities are dependent upon amounts allocated by various federal and state awarding agencies. South County Outreach 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 effect on changes in net assets.

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

(9) Compliance with Laws and Regulations

By accepting subrecipient 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.

(10) 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, 2015. Total contributions by the Organization to the 403b plan were \$3,595 for the year ended December 31, 2015.

For calendar years 2015, \$6,000 is allowed as catch-up contribution for employees with ages of 50 and older, respectively.

(11) Subsequent Events

Management has evaluated subsequent events through February 29, 2016, 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, 2015, 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 February XX, 2016.

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
February 29, 2016