

SOUTH COUNTY OUTREACH
Financial Statements
(with Independent Auditors' Report Thereon)
December 31, 2018



An Independent CPA Firm

SOUTH COUNTY OUTREACH
Financial Statements

December 31, 2018

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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, 2018, 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, 2018, 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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Emphasis of Matters

As described further in note one to the financial statements, during the year ended December 31, 2018, South County Outreach implemented Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited South County Outreach's 2017 financial statements, and our report dated March 16, 2018, 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, 2018, 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 14, 2019, 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 14, 2019

SOUTH COUNTY OUTREACH
Statement of Financial Position
December 31, 2018
(with comparative totals as of December 31, 2017)

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 697,155	1,029,148
Pledges receivable	28,760	-
Grants receivable (Note 2)	16,914	29,057
Inventory	112,950	107,600
Deposits	15,509	15,511
Other assets	2,888	15,266
Investments	208,162	-
Property, furniture and equipment, net (Note 3)	<u>797,660</u>	<u>849,445</u>
Total assets	<u>\$ 1,879,998</u>	<u>2,046,027</u>
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ 11,373	14,947
Accrued liabilities	20,513	24,925
Accrued vacation	23,198	24,163
Notes payable - current (Note 4)	32,555	31,471
Security deposits and other deposits	11,325	11,208
Notes payable - long-term (Note 4)	<u>326,802</u>	<u>360,530</u>
Total liabilities	<u>425,766</u>	<u>467,244</u>
Net assets (Note 6):		
With donor restrictions	115,750	165,887
Without donor restrictions - undesignated	<u>1,338,482</u>	<u>1,412,896</u>
Total net assets	<u>1,454,232</u>	<u>1,578,783</u>
 Total liabilities and net assets	 <u>\$ 1,879,998</u>	 <u>2,046,027</u>

See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH
Statement of Activities
Year Ended December 31, 2018
(with comparative totals for the year ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	Total	
			2018	2017
Operating activities:				
Revenues and other support:				
Government grants (Note 2)	\$ 159,521	-	159,521	152,815
Thrift store sales	199,451	-	199,451	201,048
Contributions-foundations	218,293	115,000	333,293	465,425
Contributions-corporate	66,369	-	66,369	47,880
Contributions-individuals and others	538,276	750	539,026	583,836
Special events:				
Empty Bowls- (gross revenue of \$65,900 less \$18,874 direct expenses)	47,026	-	47,026	44,175
Festival of Trees- (gross revenue of \$73,250 less \$42,957 direct expenses)	30,293	-	30,293	46,934
Transitional housing rent	127,904	-	127,904	138,996
Donated supplies-food	1,217,674	-	1,217,674	1,403,722
Donated services	57,125	-	57,125	59,349
Inkind - miscellaneous	20,679	-	20,679	26,429
Miscellaneous	2,871	-	2,871	2,241
Interest income	3,551	-	3,551	928
Subtotal	<u>2,689,033</u>	<u>115,750</u>	<u>2,804,783</u>	<u>3,173,778</u>
Net assets released from restrictions (Note 6)	<u>165,887</u>	<u>(165,887)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>2,854,920</u>	<u>(50,137)</u>	<u>2,804,783</u>	<u>3,173,778</u>
Expenses:				
Program services	<u>2,698,889</u>	<u>-</u>	<u>2,698,889</u>	<u>2,810,952</u>
Supporting services:				
General and administrative	210,718	-	210,718	186,102
Fundraising	<u>20,229</u>	<u>-</u>	<u>20,229</u>	<u>19,088</u>
Subtotal supporting services	<u>230,946</u>	<u>-</u>	<u>230,946</u>	<u>205,190</u>
Total expenses	<u>2,929,835</u>	<u>-</u>	<u>2,929,835</u>	<u>3,016,142</u>
Change in net assets from operations	(74,915)	(50,137)	(125,052)	157,636
Non-operating activities:				
Investment income	<u>501</u>	<u>-</u>	<u>501</u>	<u>-</u>
Total non-operating activities	501	-	501	-
Change in net assets	(74,414)	(50,137)	(124,551)	157,636
Net assets at beginning of year	<u>1,412,896</u>	<u>165,887</u>	<u>1,578,783</u>	<u>1,421,147</u>
Net assets at end of year	<u>\$1,338,482</u>	<u>115,750</u>	<u>1,454,232</u>	<u>1,578,783</u>

See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH
Statement of Functional Expenses
Year Ended December 31, 2018
(with comparative totals for the year ended December 31, 2017)

	Program	Supporting Services			Total	
		General and Administrative	Fundraising	Subtotal	2018	2017
Salaries and related expenses:						
Salaries and related expenses	\$ 490,141	81,690	11,670	93,360	583,501	595,810
Employee benefits	38,795	6,466	924	7,389	46,184	41,037
Payroll taxes	41,495	6,916	988	7,904	49,399	50,382
Total salaries and related expenses	<u>570,431</u>	<u>95,072</u>	<u>13,582</u>	<u>108,653</u>	<u>679,084</u>	<u>687,229</u>
Other expenses:						
Professional services	22,942	-	-	-	22,942	19,503
Rental and utility assistance	111,858	-	-	-	111,858	101,072
Training and counseling	61,559	-	-	-	61,559	62,151
Transitional housing program expenses	159,144	-	-	-	159,144	128,231
Donated supplies- food	1,217,674	-	-	-	1,217,674	1,403,722
Donated services	57,125	-	-	-	57,125	59,349
Inkind - miscellaneous	14,460	-	-	-	14,460	10,965
Food purchase	16,867	-	-	-	16,867	27,430
Rent -facilities	165,019	18,335	-	18,335	183,354	176,448
Interest	14,201	-	-	-	14,201	20,499
Utilities and telephone	48,066	5,341	-	5,341	53,407	45,894
Office supplies	84,517	45,509	-	45,509	130,026	67,104
Accounting and audit	6,484	3,491	-	3,491	9,975	9,975
Repairs and maintenance	19,466	4,866	-	4,866	24,332	28,206
License fees, bank fees and other fees	-	19,054	-	19,054	19,054	13,239
Transportation and travel	19,474	4,868	-	4,868	24,342	24,131
Miscellaneous	-	4	-	4	4	767
Insurance	11,971	2,993	-	2,993	14,964	14,290
Staff development and meetings	19,720	3,480	-	3,480	23,200	24,733
Venue and event related	-	-	54,412	54,412	54,412	40,334
Public relations and marketing	-	-	14,066	14,066	14,066	17,981
Total other expenses	<u>2,050,547</u>	<u>107,941</u>	<u>68,478</u>	<u>176,419</u>	<u>2,226,966</u>	<u>2,296,024</u>
Total expenses before depreciation	<u>2,620,978</u>	<u>203,013</u>	<u>82,060</u>	<u>285,072</u>	<u>2,906,050</u>	<u>2,983,253</u>
Depreciation (Note 3)	<u>77,911</u>	<u>7,705</u>	<u>-</u>	<u>7,705</u>	<u>85,616</u>	<u>85,861</u>
Total expenses	<u>\$2,698,889</u>	<u>210,718</u>	<u>82,060</u>	<u>292,777</u>	<u>2,991,666</u>	<u>3,069,114</u>
Less expenses included in statement of activities	<u>\$ -</u>	<u>-</u>	<u>(61,831)</u>	<u>(61,831)</u>	<u>(61,831)</u>	<u>(52,972)</u>
Total expenses per statement of activities	<u>\$2,698,889</u>	<u>210,718</u>	<u>20,229</u>	<u>230,946</u>	<u>2,929,835</u>	<u>3,016,142</u>

See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH
Statement of Cash Flows
Year Ended December 31, 2018
(with comparative totals for the year ended December 31, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (124,551)	157,636
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	85,616	85,861
Donated inventory	(5,350)	(15,350)
Decrease (increase) in grants receivable	12,143	(16,092)
Decrease (increase) in accounts receivable	(28,760)	2,500
Decrease (increase) in deposits receivable	2	-
Decrease (increase) in other assets	12,378	(12,766)
(Decrease) increase in account payable	(3,574)	3,421
(Decrease) increase in accrued liabilities	(4,412)	9,570
(Decrease) increase in accrued vacation	(965)	5,843
(Decrease) increase in deposits payable	<u>117</u>	<u>(20,503)</u>
Net cash provided by (used for) operating activities	<u>(57,356)</u>	<u>200,120</u>
Cash flows from investing activities:		
Acquisition of property, furniture and equipment	(33,831)	(19,273)
Purchase of investments	<u>(208,162)</u>	<u>-</u>
Net cash provided by (used for) investing activities	<u>(241,993)</u>	<u>(19,273)</u>
Cash flows from financing activities:		
Principal payments on notes payable	<u>(32,644)</u>	<u>(9,918)</u>
Net cash provided by (used for) financing activities	<u>(32,644)</u>	<u>(9,918)</u>
Increase (decrease) in cash and cash equivalents	(331,993)	170,929
Cash and cash equivalents at beginning of year	<u>1,029,148</u>	<u>858,219</u>
Cash and cash equivalents at end of year	<u>\$ 697,155</u>	<u>\$1,029,148</u>
<u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest expense	<u>\$ 14,201</u>	<u>20,852</u>

There were no non-cash investing or financing activities for the year ended December 31, 2018

See accompanying notes to financial statements.

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

December 31, 2018

(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 Update (ASU) 2016-14 Not for Profit Entities [Topic 958]- Presentation of Financial Statements of Not-For Profit Entities*, South County Outreach is required to report information regarding its financial position and activities according to two classes of net assets:

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

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

(c) Financial Statement Presentation (Continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of South County Outreach's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of South County Outreach or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

(d) Cash and Cash Equivalents

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. 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.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

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

(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.

(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, 2018.

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

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

(i) Restricted and Unrestricted Revenue and Support

In accordance with ASC 958, contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements 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.

(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. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries, benefits, payroll taxes	Time and effort
Rent – facilities	Square footage
Utilities and telephone	Square footage
Office supplies	Time and effort
Accounting and audit	Time and effort
Repairs and maintenance	Square footage
Transportation and travel	Time and effort
Insurance	Time and effort
Staff development and meetings	Time and effort

(k) Accrued Vacation

South County Outreach's policy is to record accumulated vacation when earned. As of December 31, 2018, the accrued vacation liability was \$23,198.

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

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

(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

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

As of December 31, 2018, South County Outreach's contributions receivable consisted of unconditional promises to give in the amount of \$28,760 and receivables from granting agencies in the amount of \$16,914, all of which are expected to be collected within one year.

(o) Advertising Costs

During the year ended December 31, 2018, 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, 2018, South County Outreach recognized \$1,217,674 of donated food, and \$57,125 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, 2018, computer lab volunteers donated approximately 843 hours with an estimated value of \$23,512. 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, 2018, labor volunteers donated approximately 43,937 of hours with an estimated value of \$439,370. 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, 2017 from which the summarized information was derived.

(r) Reclassifications

For comparability purposes, certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 classifications. These reclassifications have no effect on reported change in net assets.

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

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

(s) Measure of Operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to South County Outreach's ongoing program services and interest and deposits. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

(t) New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. South County Outreach has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

(2) Summary of Government Grant Funding

South County Outreach's contract revenues for the year ended December 31, 2018 are summarized as follows:

Community Development Block and Service Grants*	\$ 48,073
Rescare Workforce Services	47,448
EFSP	64,000
Total	<u>\$ 159,521</u>

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

At December 31, 2018, grant receivable in the amount of \$16,914 was received subsequent to year end and 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, 2018:

Residential buildings *	\$1,946,936
Leasehold improvements	201,335
Office equipment	157,006
Vehicles	54,295
Accumulated depreciation	<u>(1,561,912)</u>
	<u>\$ 797,660</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, 2018 was \$85,616.

(4) Notes payable

Notes payable at December 31, 2018 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, 2018 was \$215,423.

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 \$115,532.

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 \$28,402.

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

(4) Notes payable (Continued)

Total outstanding notes payable as of December 31, 2018 was \$359,357. Scheduled principal payments on notes payable are as follows:

	<u>Totals</u>
<u>Year ending December 31:</u>	
2019	\$32,555
2020	33,735
2021	34,963
2022	36,364
2023	37,916
Thereafter	<u>183,824</u>
Totals	<u><u>359,357</u></u>
Less current portion	<u>(32,555)</u>
Long-term portion	<u><u>\$326,802</u></u>

(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 2021. The term on the thrift store expires in July 2020. Rent expense for the two facilities was \$183,354 for the year ended December 31, 2018. South County Outreach also leases equipment. Monthly payments on the equipment are approximately \$1,000 per month and expire through October 2021. Rent expense for the equipment was \$12,943 for the year ended December 31, 2018. Minimum rental commitments are as follows:

Year ending December 31:

2019	\$189,126
2020	161,496
2021	<u>15,365</u>
Total future minimum lease payments	<u><u>\$365,987</u></u>

SOUTH COUNTY OUTREACH

Notes to the Financial Statements

(Continued)

(6) Net Assets

During the year ended December 31, 2018, \$165,867 of net assets were released from donor restricted net assets as follows.

<u>Restricted for:</u>	<u>Donor Restricted Net Assets- Beginning of Year</u>	<u>Donor Restricted Revenues</u>	<u>Released From Restriction</u>	<u>Donor Restricted Net Assets- End of Year</u>
Rent/ utility assistance, food program, and other	\$165,887	<u>115,750</u>	<u>(165,867)</u>	<u>\$115,750</u>

Net assets without donor restrictions as of December 31, 2018 were \$1,338,482 and were classified as undesignated.

(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, 2018. Total contributions by the Organization to the 403b plan were \$6,144 for the year ended December 31, 2018.

SOUTH COUNTY OUTREACH
Notes to the Financial Statements

(Continued)

(10) Availability and Liquidity

The following represents South County Outreach's financial assets at December 31, 2018:

Financial assets at year end:

Cash and cash equivalents	\$697,155
Pledge receivable	28,760
Grants receivable	16,914
Investments	<u>208,162</u>
Total financial assets	<u>950,991</u>

Less amounts not available
to be used within 1 year:

Net assets with donor restrictions	115,750
Less net assets with purpose restrictions to be met within one year	<u>(115,750)</u>
Subtotal	<u>-</u>

Financial assets available to meet
general expenses over the next
12 months:

\$950,991

(11) Investments

The following represents South County Outreach's investments at December 31, 2018:

Mutual funds	\$202,968
Stocks	<u>5,194</u>
Total investments	<u>\$208,162</u>

(12) Subsequent Events

Management has evaluated subsequent events through March 14, 2019, the date the financial statements were available to be issued.

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, 2018, 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 14, 2019.

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 14, 2019