



# Sonnenberg & Company, CPAs

A Professional Corporation

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Leonard C. Sonnenberg, CPA

## NORTH COUNTY LIFELINE, INC.

Audited Financial Statements

Single Audit Reports

June 30, 2016

**NORTH COUNTY LIFELINE, INC.**  
Audited Financial Statements  
Single Audit Reports  
June 30, 2016

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## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Board of Directors of  
**North County Lifeline, Inc.**

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

We have audited the accompanying financial statements of North County Lifeline, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 North County Lifeline, Inc. as of June 30, 2016, 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***

### ***Report on Summarized Comparative Information***

We have previously audited North County Lifeline, Inc.'s June 30, 2015 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 22, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 October 7, 2016, on our consideration of North County Lifeline, Inc.'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 North County Lifeline, Inc.'s internal control over financial reporting and compliance.

October 7, 2016

  
Sonnenberg & Company, CPAs

**North County Lifeline, Inc.**  
**STATEMENT OF FINANCIAL POSITION**  
June 30, 2016  
(With Comparative Totals for June 30, 2015)

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| <b>Assets</b>                             |                     |                     |
| Operating assets                          |                     |                     |
| Cash                                      | \$ 432,731          | \$ 433,983          |
| Grants and contracts receivable           | 1,165,010           | 967,206             |
| Prepaid expenses and other current assets | <u>214,337</u>      | <u>234,575</u>      |
| Total operating assets                    | <u>1,812,078</u>    | <u>1,635,764</u>    |
| Property and equipment, at cost           |                     |                     |
| Land                                      | 888,842             | 888,842             |
| Buildings                                 | 1,419,631           | 1,419,631           |
| Equipment                                 | <u>337,141</u>      | <u>316,847</u>      |
| Sub-total                                 | 2,645,614           | 2,625,320           |
| Less: accumulated depreciation            | <u>(666,507)</u>    | <u>(628,153)</u>    |
| Total property and equipment, net         | <u>1,979,107</u>    | <u>1,997,167</u>    |
| Total assets                              | <u>\$ 3,791,185</u> | <u>\$ 3,632,931</u> |
| <b>Liabilities and net assets</b>         |                     |                     |
| Liabilities                               |                     |                     |
| Accounts payable and accrued expenses     | \$ 149,340          | \$ 155,560          |
| Accrued payroll, taxes and benefits       | 463,025             | 384,891             |
| Deferred Revenue                          | -                   | 1,011               |
| Loan Payable                              | <u>478,297</u>      | <u>525,223</u>      |
| Total liabilities                         | <u>1,090,662</u>    | <u>1,066,685</u>    |
| Net assets                                |                     |                     |
| Unrestricted net assets                   | 2,649,016           | 2,501,013           |
| Temporarily restricted net assets         | <u>51,507</u>       | <u>65,233</u>       |
| Total net assets                          | <u>2,700,523</u>    | <u>2,566,246</u>    |
| Total liabilities and net assets          | <u>\$ 3,791,185</u> | <u>\$ 3,632,931</u> |

The accompanying notes are an integral part of these financial statements.

**North County Lifeline, Inc.**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2016  
(With Comparative Totals for June 30, 2015)

|                                       | 2016                       |                           |                            | 2015                       |
|---------------------------------------|----------------------------|---------------------------|----------------------------|----------------------------|
|                                       | Unrestricted               | Temporarily<br>Restricted | Total                      |                            |
| Revenue and support:                  |                            |                           |                            |                            |
| Grants and contracts                  | \$ 6,945,792               | \$ 62,500                 | \$ 7,008,292               | \$ 6,666,125               |
| Client fees                           | 51,559                     |                           | 51,559                     | 59,800                     |
| Contributions                         | 84,759                     |                           | 84,759                     | 41,936                     |
| Rental income                         | 11,479                     |                           | 11,479                     | 9,594                      |
| Miscellaneous                         | 33,384                     |                           | 33,384                     | 12,823                     |
| In-kind contributions                 | 722,332                    |                           | 722,332                    | 765,886                    |
| Net assets released from restrictions | 76,226                     | (76,226)                  | -                          | -                          |
| Total revenue and support             | <u>7,925,531</u>           | <u>(13,726)</u>           | <u>7,911,805</u>           | <u>7,556,164</u>           |
| Expenses                              |                            |                           |                            |                            |
| Program services                      | 6,374,932                  |                           | 6,374,932                  | 6,436,470                  |
| Support Services                      |                            |                           |                            |                            |
| Management and general                | 1,268,217                  |                           | 1,268,217                  | 1,053,113                  |
| Fundraising                           | 134,379                    |                           | 134,379                    | 96,724                     |
| Total support services                | <u>1,402,596</u>           | <u>-</u>                  | <u>1,402,596</u>           | <u>1,149,837</u>           |
| Total expenses                        | 7,777,528                  | -                         | 7,777,528                  | 7,586,307                  |
| Change in net assets                  | 148,003                    | (13,726)                  | 134,277                    | (30,143)                   |
| Net assets, beginning of year         | <u>2,501,013</u>           | <u>65,233</u>             | <u>2,566,246</u>           | <u>2,596,389</u>           |
| Net assets, end of year               | \$ <u><u>2,649,016</u></u> | \$ <u><u>51,507</u></u>   | \$ <u><u>2,700,523</u></u> | \$ <u><u>2,566,246</u></u> |

The accompanying notes are an integral part of these financial statements.

**North County Lifeline, Inc.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For the Year Ended June 30, 2016**  
**(With Comparative Totals for June 30, 2015)**

|                                | Program<br>Services | Support Services          |                           | 2016<br>Totals | 2015<br>Totals |
|--------------------------------|---------------------|---------------------------|---------------------------|----------------|----------------|
|                                |                     | Management<br>and General | Fundraising<br>Activities |                |                |
| Expenses                       |                     |                           |                           |                |                |
| Personnel                      |                     |                           |                           |                |                |
| Salaries and wages             | \$ 3,127,365        | \$ 913,294                | \$ 92,549                 | \$ 4,133,208   | \$ 4,063,690   |
| Fringe benefits                | 704,277             | 174,882                   | 18,332                    | 897,491        | 943,792        |
| In-kind services               | 327,725             |                           |                           | 327,725        | 421,330        |
| Total personnel                | 4,159,367           | 1,088,176                 | 110,881                   | 5,358,424      | 5,428,812      |
| Operations                     |                     |                           |                           |                |                |
| Advertising                    | 2,642               | 606                       | 5                         | 3,253          | 6,112          |
| Assistance to individuals      | 325,326             |                           |                           | 325,326        | 154,768        |
| Bad debts                      | 330                 |                           |                           | 330            | -              |
| Consultants/subcontractors     | 817,155             | 5,734                     | 988                       | 823,877        | 773,672        |
| Depreciation                   | 30,499              | 6,999                     | 856                       | 38,354         | 36,259         |
| Dues and subscriptions         | 22,594              | 5,185                     | 419                       | 28,198         | 29,177         |
| Education and training         | 22,883              | 6,718                     | 218                       | 29,819         | 12,993         |
| Facilities Rental              | 143,075             | 32,835                    | 3,909                     | 179,819        | 201,200        |
| In-kind rent                   | 316,042             |                           | 7,099                     | 323,141        | 273,762        |
| In-kind food                   | 8,716               |                           |                           | 8,716          | 18,212         |
| In-kind Non food               | 62,751              |                           |                           | 62,751         | 52,582         |
| Insurance                      | 42,513              | 9,757                     | 1,193                     | 53,463         | 48,599         |
| Interest                       | 15,891              | 3,647                     | 442                       | 19,980         | 27,054         |
| Mileage and travel             | 82,719              | 18,984                    | 1,019                     | 102,722        | 95,467         |
| Office supplies                | 59,948              | 13,763                    | 1,094                     | 74,805         | 76,015         |
| Other miscellaneous            |                     | (508)                     |                           | (508)          | 3,831          |
| Payroll processing             | 11,324              | 2,599                     | 313                       | 14,236         | 13,325         |
| Postage                        | 2,387               | 548                       | 325                       | 3,260          | 4,853          |
| Printing/copying               | 6,209               | 1,425                     | 108                       | 7,742          | 8,001          |
| Repairs and maintenance        | 57,855              | 28,726                    | 1,473                     | 88,054         | 83,374         |
| Small equipment purchase/lease | 35,327              | 8,740                     | 384                       | 44,451         | 42,320         |
| Software                       | 10,452              | 2,399                     | 298                       | 13,149         | -              |
| Telephone                      | 77,181              | 17,713                    | 1,642                     | 96,536         | 111,452        |
| Utilities                      | 61,746              | 14,171                    | 1,713                     | 77,630         | 84,467         |
| Total operating                | 2,215,565           | 180,041                   | 23,498                    | 2,419,104      | 2,157,495      |
| Total functional expenses      | \$ 6,374,932        | \$ 1,268,217              | \$ 134,379                | \$ 7,777,528   | \$ 7,586,307   |

The accompanying notes are an integral part of these financial statements.

**North County Lifeline, Inc.**  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2016  
(With Comparative Totals for June 30, 2015)

|  | <u>2016</u>              | <u>2015</u>              |
|--|--------------------------|--------------------------|
| Cash flows from operating activities:  |                          |                          |
| Change in net assets   | \$ 134,277               | \$ (30,143)              |
| Adjustments to reconcile net increase (decrease) in net assets to net cash used by operating activities: |                          |                          |
| Bad debt expense   | 330                      | -                        |
| Depreciation   | 38,354                   | 36,259                   |
| Changes in operating assets and liabilities:   |                          |                          |
| (Increase) decrease in grants and contracts receivables  | (198,134)                | (41,813)                 |
| (Increase) decrease in prepaid expenses and other current assets   | 20,238                   | (48,322)                 |
| Increase (decrease) in accounts payable and accrued expenses   | (6,220)                  | (28,075)                 |
| Increase (decrease) in accrued payroll, taxes and benefits   | 78,134                   | (16,308)                 |
| Increase (decrease) in deferred revenue  | (1,011)                  | (16,233)                 |
| Net cash provided (used) by operating activities   | <u>65,968</u>            | <u>(144,635)</u>         |
| Cash flows from investing activities:  |                          |                          |
| Purchase of property and equipment   | <u>(20,294)</u>          | <u>-</u>                 |
| Net cash (used) by investing activities  | <u>(20,294)</u>          | <u>-</u>                 |
| Cash flows used in financing activities:   |                          |                          |
| Principal payments on loan payable   | <u>(46,926)</u>          | <u>(9,491)</u>           |
| Net cash (used) by financing activities  | <u>(46,926)</u>          | <u>(9,491)</u>           |
| Net change in cash and cash equivalents  | (1,252)                  | (154,126)                |
| Cash , beginning of year   | <u>433,983</u>           | <u>588,109</u>           |
| Cash , end of year   | \$ <u><u>432,731</u></u> | \$ <u><u>433,983</u></u> |
| Supplemental disclosures:  |                          |                          |
| Interest paid  | \$ <u>19,980</u>         | \$ <u>27,054</u>         |

The accompanying notes are an integral part of these financial statements.



**North County Lifeline, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 1.        Organization and Purpose:**

North County Lifeline, Inc. (doing business as Lifeline Community Services) (the “Organization”) is a non-profit human services agency with four decades of expertise working with youth and families in North San Diego County. The Organization began in 1969 as a drop-in center for North County youth with drug problems. Incorporated in 1973, the Organization expanded to provide a full range of youth, family and community services. North County Lifeline’s mission is to build self-reliance among youth, individuals and families through problem solving, skill-building and accessible community-based services. The Organization offers 40 different programs and services in English and Spanish that assist low-income youth and families, homeless individuals and families, families in crisis, youth at risk of entering or continuing in the juvenile justice system, youth diagnosed with mental illness, families in transition, and people in need of legal advice.

The Organization's vision for youth, individuals, and families in North San Diego County is to:

- To develop resilient youth
- To cultivate strong, cohesive families
- To foster leadership in the community
- To build better service access to clients via multi-faceted collaborations
- To generate new funding strategies to expand and enhance services
- To utilize data for program improvement
- To attract and retain exceptional staff and volunteers
- To anticipate and respond to community needs
- And through our vision, to redefine the social service delivery framework

In fiscal year 2016, the organization provided services to 17,693 clients during 120,993 service contacts. Of those clients, 5,317 received intensive, long term counseling, case management and professional coaching services required to make a lasting difference. With an update to the strategic plan, there was a prioritization to advance specific programs, namely the expansion of our positive youth development and delinquency prevention and intervention services; a push to grow the private and government funding of our services to victims of human trafficking; and the development of greater access by the community to behavioral health services, both mental health and substance abuse treatment. Continued effort was put into stabilizing internal systems to grow and be prepared for new programs. There was also ongoing emphasis on expanding external relations and increased private fundraising for key program initiatives and a focused capital campaign.

**Note 2.        Summary of Significant Accounting Policies:**

**Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions.

**North County Lifeline, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 2.      Summary of Significant Accounting Policies (continued):**

Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted.* Net assets that are not subject to donor-imposed stipulations. These generally result from revenues generated by receiving unrestricted contributions, providing services, raising contributions, and performing administrative functions.

*Temporarily Restricted.* The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the 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 program or capital restrictions. Restricted contributions are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. The Organization had temporarily restricted net assets of \$51,507 at June 30, 2016 (see Note 11).

*Permanently Restricted.* These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Organization to expend all of the income (or other economic benefits) derived from the donated assets. The Organization had no permanently restricted net assets at June 30, 2015.

**In-kind Contributions**

Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Recognizable services totaled \$327,725 for the year ended June 30, 2016. In addition, the Organization receives discounts of rent expense from the estimated market value on one of its properties leased from the City of Vista and a property at no cost from the City of Oceanside. In-kind rent expense totaled \$323,140 for the year ended June 30, 2016 (see Note 8).

During the year ended June 30, 2016, the Organization received donations of goods of \$62,751 and food of \$8,716. Total in-kind contributions for the year ending June 30, 2016 were \$722,332.

The Organization may also receive a significant amount of contributed time from volunteers that may not meet the recognition criteria described. Accordingly, the value of such contributed time is not reflected in the accompanying financial statements.

**North County Lifeline, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 2.        Summary of Significant Accounting Policies (continued):**

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization has defined cash and cash equivalents as cash in banks and certificates of deposits with an initial maturity of three months or less. At June 30, 2016, the Organization did not have any cash equivalents.

Grants and Contracts Receivable

The Organization's grants and contracts receivable are primarily reimbursements due from contracted government grant reimbursement requests. The Organization provides for an allowance for uncollectible receivables based on historical experience. No allowance for uncollectible grants and contracts receivable was recorded at June 30, 2016.

Property and Equipment

Property and equipment, if any, are stated at cost, or if donated, at the approximate fair market value at the date of donation. The cost of purchased assets or fair market value of donated assets is being depreciated using the straight-line method over the estimated useful lives of the related assets, which are five years for furniture, fixtures and equipment and forty years for the building and improvements. Maintenance and repairs are charged to expense as incurred. Significant renewals and betterments are capitalized. The Organization capitalizes all expenditures for and donations of property and equipment with a fair value in excess of \$5,000. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is reflected in the accompanying statements of activities.

Certain equipment purchased under grants and contracts are owned by the awarding agency. Consequently, instead of capitalizing the equipment costs, the costs are recorded under small equipment purchases in the accompanying statement of functional expenses.

**North County Lifeline, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 2.      Summary of Significant Accounting Policies (continued):**

Impairment of Long-Lived Assets

Management assesses the recoverability of its long-lived assets upon the occurrence of a triggering event by determining whether the depreciation of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which impairment is determined by management. At June 30, 2016, management believes there is no impairment of its long-lived assets. There can be no assurance however, that market conditions will not change or demand for the Organization's services will continue, which could result in impairment of long-lived assets in the future.

Deferred Revenue

Deferred revenue is recorded for non-contribution revenue received in advance of the date earned. In addition, contributions or grants received are recorded as deferred revenue if they are subject to significant conditions which must be met before they become unconditional.

Functional Expenses

A functional classification of expenses has been used to analyze the cost of providing various services or other activities, including program services, and management and general. Certain costs are allocated within the various categories. Program services include all expenses incurred by the Organization for activities directly related to the purposes for which it exists. Management and general include all expenses incurred for supporting services.

Risks and Uncertainties

Certain of the Organization's services are governed by grant agreements with governmental agencies. All such grant agreements involving the Organization are for fixed terms and expire on an annual basis. There can be no assurances that the Organization will be able to obtain future grant agreements as deemed necessary by management. The loss of some of the current grants or the inability to obtain future grants could have an adverse effect on the Organization's financial position and results of activities. Management believes that they will be able to continue obtaining appropriate agreements to fund future operations based on their historical ability to obtain new grant agreements and based on their relationships with awarding agencies.

The Organization's services are funded primarily by HHS, which accounted for approximately 41% of total grants and contracts revenue for the year ended June 30, 2016. Of the Organization's outstanding contracts receivable balance at June 30, 2016, 39% was due from HHS.

**North County Lifeline, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 2.      Summary of Significant Accounting Policies (continued):**

**Comparative Information**

The comparative information shown for the previous year is included to provide a basis for comparison and presents summarized totals only. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United State of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived. Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**Note 3.      Income Tax Status:**

The Organization is a public charity that has obtained an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California state income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for federal or state income taxes.

The Organization has reviewed its position for all open tax years and believes it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's federal and state Exempt Organization Tax Returns are subject to examination, generally for three years after they were filed.

The Organization adopted the provisions of FASB ASC 740-10-25 (formerly FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ["Fin 48"]). Under this provision, an Organization must recognize the tax benefit associated with tax taken for tax return purposes when it is more likely than not the position will be sustained. The implementation of this provision had no impact on the Organization's financial statements. The Organization does not believe that there are any material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits. For the year ended June 30, 2016, there were no interest or penalties recorded or included in the financial statements.

**Note 4.      Concentration of Credit Risk:**

The Organization maintains cash balances at two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC insured) up to \$250,000. The Organization has not experienced any loss in such accounts. The Organization believes it is not exposed to any significant credit risk on its cash balances.

**North County Lifeline, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 5.      Property and Equipment:**

Property and equipment consist of the following at June 30, 2016:

|                                |                     |
|--------------------------------|---------------------|
| Land                           | \$ 888,842          |
| Buildings                      | 572,040             |
| Building improvements          | 812,591             |
| Trailer and vehicle            | 43,799              |
| Furniture and equipment        | 328,343             |
|                                | <u>2,645,615</u>    |
| Less: accumulated depreciation | <u>(666,507)</u>    |
|                                | <u>\$ 1,979,108</u> |

**Note 6.      Loan Payable:**

On June 27, 2006, the Organization entered into a business loan agreement with California Community Bank ("CCB") in the amount of \$971,250 to fund the acquisition of an office building. The loan was refinanced in October 2014 in the amount of \$550,000 with First Citizens Bank & Trust. The daily outstanding principal balance bears interest at 3.9%. Accrued principal and interest are due in monthly installments of \$5,576 through November 2024. The loan is secured by a Deed of Trust on the building dated October 23, 2014. As of June 30, 2016 the outstanding balance on the note was \$478,297.

Future minimum annual principal payments on the loan payable are as follows:

| Years Ending<br>June 30, |                   |
|--------------------------|-------------------|
| 2017                     | \$ 48,871         |
| 2018                     | 50,839            |
| 2019                     | 52,886            |
| 2020                     | 54,984            |
| Thereafter               | <u>270,717</u>    |
|                          | <u>\$ 478,297</u> |

**North County Lifeline, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 7.      Line of Credit:**

The Organization has an unsecured line of credit agreement with a financial institution, which matures in October 2019. Borrowings under the line of credit agreement are limited to \$170,000. The line of credit bears interest at the rate of 4.0%, subject to fluctuation based on the latest prime rate plus .5%. There was no outstanding balance under the line as of June 30, 2016.

The Organization has a secured line of credit agreement with a financial institution, which matures in November 2016. Borrowings under the line of credit agreement are limited to \$100,000. The line of credit bears interest at the rate of 4.0%, subject to fluctuation based on the latest prime rate plus .5%. There was no outstanding balance under the line as of June 30, 2016.

**Note 8.      Commitments and Contingencies:**

**Operating Leases**

The Organization leases an office facility from the City of Vista under a non-cancelable operating lease that expires in June 30, 2017. The Organization is charged \$1,500 per month, which is a below-market rent as the services provided by the Organization benefit the City of Vista and its residents. The Organization also leases a facility from the City of Oceanside under a non-cancelable operating lease that expires April 30, 2018. In exchange for the programs, services and activities provided by the Organization, the City does not charge for the use of this property.

The Organization estimates the fair value of the monthly rent for the City of Vista facility to be \$22,548 and the City of Oceanside facility to be \$5,880. Accordingly, the Organization has recorded \$323,140 of in-kind rental income and expense for the year ended June 30, 2016, in the accompanying statement of activities.

**Vista Way**

The Organization entered into a new lease agreement in April 2012 to lease office space under a non-cancelable operating lease for a five year period ending August 2017. The organization is charged \$12,795 per month and is set to increase each year on September 1.

The minimum lease payments under the non-cancelable operating leases are as follows:

| Years ending<br>June 30, |                   |
|--------------------------|-------------------|
| 2017                     | \$ 175,671        |
| 2018                     | 26,416            |
| Total                    | \$ <u>202,087</u> |

Rent expense (including in-kind rent) amounted to \$502,959 for the year ended June 30, 2016.

**North County Lifeline, Inc.**  
**Notes to Financial Statements**  
**June 30, 2016**

**Note 9.        Guarantees and Indemnities:**

During the normal course of business, the Organization has made certain indemnities and guarantees under which it may be required to make payments in relation to certain transactions. These indemnities include certain agreements with the Organization's officers, under which the Organization may be required to indemnify such person for liabilities arising out of their employment relationship. The Organization has also indemnified its lender for certain environmental liability losses which may be incurred related to the corresponding land, building and improvements. The duration of these indemnities and guarantees varies and, in certain cases, is indefinite. The majority of these indemnities and guarantees do not provide for any limitation of the maximum potential future payments the Organization could be obligated to make. The Organization hedges some of the risk associated with these potential obligations by carrying general liability insurance. Historically, the Organization has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying statement of financial position.

**Note 10.       Retirement Plan:**

The Organization has adopted a tax deferred annuity plan under Section 403(b) of the Internal Revenue Code whereby employees may elect to defer a portion of their compensation to be invested in annuity contracts on their behalf. The Organization did not contribute to the plan during the year ended June 30, 2016.

**Note 11.       Temporarily Restricted Net Assets:**

Temporarily Restricted Net Assets are as follows:

|                         | Balance<br>06/30/15 | Received         | Used               | Balance<br>06/30/16 |
|-------------------------|---------------------|------------------|--------------------|---------------------|
| Food Pantry             | \$ 5,036            | \$               | (2,665)            | \$ 2,371            |
| Project LIFE            | 15,000              |                  | (15,000)           | -                   |
| Vista Land Improvements | 1,197               |                  | (1,197)            | -                   |
| Club Crown Heights      |                     | 25,000           | (12,193)           | 12,807              |
| STEM Education Project  |                     | 27,500           | (1,171)            | 26,329              |
| St. Germaine Charity    |                     | 10,000           |                    | 10,000              |
| Tri-City                | 19,000              |                  | (19,000)           | -                   |
| The Clinic              | 25,000              |                  | (25,000)           | -                   |
| Total                   | <u>\$ 65,233</u>    | <u>\$ 62,500</u> | <u>\$ (76,226)</u> | <u>\$ 51,507</u>    |

**Note 12.       Date of Managements Review:**

The Organization's management has evaluated subsequent events through October 7, 2016 the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require adjustment to, or disclosures in, the financial statements.





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Leonard C. Sonnenberg, CPA

## 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*

### Independent Auditor's Report

To the Board of Directors of  
**North County Lifeline, Inc.**

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 North County Lifeline, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 7, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered North County Lifeline, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North County Lifeline, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 North County Lifeline, Inc.'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 organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 7, 2016



Sonnenberg & Company, CPAs



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Leonard C. Sonnenberg, CPA

## REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

### Independent Auditor's Report

To the Board of Directors of  
North County Lifeline, Inc.

### **Report on Compliance for Each Major Federal Program**

We have audited North County Lifeline, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of North County Lifeline, Inc.'s major federal programs for the year ended June 30, 2016. North County Lifeline, Inc.'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of North County Lifeline, Inc.'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 the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 North County Lifeline, Inc.'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 North County Lifeline, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, North County Lifeline, Inc. 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 June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of North County Lifeline, Inc. 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 North County Lifeline, Inc.'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 the Uniform Guidance, 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 North County Lifeline, Inc.'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

October 7, 2016



Sonnenberg & Company, CPAs

**North County Lifeline, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2016**

| Federal Grantor/<br>Pass-through Grantor/<br>Program or Cluster Title | Federal<br>CFDA<br>Number | Agency or<br>Pass-Thru<br>Number | Passed<br>Through to<br>Subrecipients | Federal<br>Expenditures |
|---|---------------------------|----------------------------------|---------------------------------------|-------------------------|
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES/</b>                  |                           |                                  |                                       |                         |
| <b>PASS-THROUGH THE COUNTY OF SAN DIEGO</b>                           |                           |                                  |                                       |                         |
| Teen Pregnancy Prevention Program                                     | 93.297                    | San Diego Youth Services         | \$ -                                  | \$ 14,283               |
| Community-Based Child Abuse Prevention Grants                         | 93.590                    | County of San Diego              | 5,028                                 | 21,606                  |
| Promoting Safe and Stable Families                                    | 93.556                    | County of San Diego              | 58,685                                | 252,165                 |
| Foster Care Title IV-E  | 93.658                    | County of San Diego              | 29,063                                | 124,881                 |
| Stephanie Tubbs Jones Child Welfare Services Program                  | 93.645                    | County of San Diego              | 7,894                                 | 33,919                  |
| ACA Health Profession Opportunity ACT                                 | 93.093                    | San Diego Workforce Partnership  | -                                     | 54,768                  |
| Total U.S. Department of Health and Human Services                    |                           |                                  | \$ 100,670                            | \$ 501,622              |
| <b>U.S. DEPARTMENT OF HOUSING AND</b>                                 |                           |                                  |                                       |                         |
| <b>URBAN DEVELOPMENT</b>  |                           |                                  |                                       |                         |
| Community Development Block Grant                                     | 14.218                    | City of Vista                    | \$ -                                  | \$ 11,700               |
| Community Development Block Grant                                     | 14.218                    | City of Encinitas                | 1,800                                 | 11,240                  |
| Community Development Block Grant                                     | 14.218                    | City of San Marcos               | 6,000                                 | 27,600                  |
| Community Development Block Grant                                     | 14.218                    | City of Vista                    | 6,000                                 | 40,000                  |
| Community Development Block Grant                                     | 14.218                    | County of San Diego              | 58,798                                | 100,000                 |
| Community Development Block Grant                                     | 14.218                    | City of Oceanside                | 6,000                                 | 20,000                  |
| Community Development Block Grant                                     | 14.218                    | City of Escondido                | 6,000                                 | 33,545                  |
| Total U.S. Department of Housing and Urban Development                |                           |                                  | \$ 84,598                             | \$ 244,085              |
| <b>U.S. DEPARTMENT OF EDUCATION</b>                                   |                           |                                  |                                       |                         |
| Education for Homeless Children and Youth                             | 84.196A                   | Vista Unified School District    | \$ -                                  | \$ 117,001              |
| Total U.S. Department of Education                                    |                           |                                  | \$ -                                  | \$ 117,001              |
| <b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</b>                |                           |                                  |                                       |                         |
| Social Innovation Fund  | 94.019                    | LISC San Diego                   | \$ -                                  | \$ 4,173                |
| Total Corporation for National and Community Services                 |                           |                                  | \$ -                                  | \$ 4,173                |
| <b>DEPARTMENT OF JUSTICE BUREAU OF JUSTICE ASSISTANCE</b>             |                           |                                  |                                       |                         |
| Edward Byrne Memorial Justice Assistance Grant Program                | 16.738                    | South Bay Community Services     | \$ -                                  | \$ 128,029              |
| Juvenile Justice and Delinquency Prevention_Allocation to States      | 16.540                    | South Bay Community Services     |                                       | 27,133                  |
| Services for Trafficking Victims                                      | 16.320                    | Office for Victims of Crime      | 7,440                                 | 64,261                  |
| Total Edward Byrne Memorial Justice Assistance Grant Program          |                           |                                  | \$ 7,440                              | \$ 219,423              |
| <b>Total Expenditure of Federal Awards</b>                            |                           |                                  | \$ 192,708                            | \$ 1,086,304            |

See Independent Auditor's Report

**North County Lifeline, Inc.**  
Schedule of Expenditures of Federal Awards  
June 30, 2016

Notes to Schedule of Expenditures of Federal Awards For The Year Ended June 30, 2016

**Note A: Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of North County Lifeline, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of North County Lifeline, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of North County Lifeline, Inc.

**Note B: Summary of Significant Accounting Policies**

Expenditures in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. North County Lifeline, Inc. has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note C: Loans and Loan Guarantees**

North County Lifeline, Inc. did not receive any federal loans or loan guarantees nor did they have any federal loans outstanding during the year ended June 30, 2016.

**North County Lifeline, Inc.**  
Schedule of Findings and Questioned Costs  
Summary of Auditor's Results  
Year Ended June 30, 2016

**A . Summary of Auditor's Results**

1. The independent auditors' report expresses an unmodified opinion on the financial statements of North County Lifeline, Inc.
2. No material weaknesses relating to the audit of the financial statements were identified in the Independent Auditor's Report on Internal Controls over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No significant deficiencies relating to the audit of the financial statements were identified in the Independent Auditor's Report on Internal Controls over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
4. No instances of noncompliance material to the financial statement were noted.
5. No material weaknesses relating to the major federal award programs were identified in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required By the Uniform Guidance.
6. No significant deficiencies relating to the major federal award programs were identified in the Independent Auditor's Report on Compliance For Each Major Program and on Internal Control over Compliance Required By the Uniform Guidance.
7. The independent auditors' report on compliance for the major federal award programs for the auditee expresses an unmodified opinion.
8. There were no findings relative to the major federal award programs for the auditee that are required to be reported in accordance with 2 CFR 200.516(a).
9. Identification of major program:

U.S. Department of Health and Human Services/Pass-through  
the County of San Diego:  
Promoting Safe and Stable Families

CFDA Number

93.556

**North County Lifeline, Inc.**  
Schedule of Findings and Questioned Costs (continued)  
Summary of Auditor's Results  
Year Ended June 30, 2015

10. The threshold for distinguishing Type A and B programs was \$750,000.
11. The auditee was considered to be a low-risk auditee for the year ended June 30, 2016.

**B. Findings - Financial Statement Audit**

None.

**C. Findings and Questioned Costs – Major Federal Award Programs Audit**

None.

**D. Schedule of Prior Year Findings and Questioned Costs**

None.