



NORTH COUNTY LIFELINE, INC.
Financial Audit Report
Governmental Audit Reports
June 30, 2019



NORTH COUNTY LIFELINE, INC.
Audited Financial Statements
Single Audit Reports
June 30, 2019

	<u>Page</u>
FINANCIAL AUDIT REPORT	
Independent Auditor's Report on Financial Statements	1-2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-17
GOVERNMENTAL AUDIT REPORTS	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18-19
Independent Auditor's Report on Compliance For Each Major Program and on Internal Control Over Compliance Required By the Uniform Guidance	20-21
Schedule of Expenditures of Federal Awards	22-23
Schedule of Findings and Questioned Costs	
Summary of Auditor's Results	24
Current Year Findings - None	24
Prior Year Findings	24



Sonnenberg & Company, CPAs

A Professional Corporation

5190 Governor Drive, Suite 201, San Diego, California 92122

Phone: (858) 457-5252 • (800) 464-4HOA • Fax: (858) 457-2211 • (800) 303-4FAX



Leonard C. Sonnenberg, CPA

INDEPENDENT AUDITOR'S REPORT

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, 2019, 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, 2019, 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, 2018 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 30, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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 16, 2019, 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 solely 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 the effectiveness of North County Lifeline's 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 16, 2019



Sonnenberg & Company, CPAs

North County Lifeline, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2019
(With Comparative Totals for June 30, 2018)

	<u>2019</u>	<u>2018</u>
Assets:		
Operating assets		
Cash	\$ 1,166,345	\$ 961,024
Grants and contracts receivable	1,372,501	1,301,792
Pledges receivable, net	-	14,068
Prepaid expenses and other current assets	<u>227,278</u>	<u>226,074</u>
Total operating assets	<u>2,766,124</u>	<u>2,502,958</u>
 Property and equipment, at cost		
Land	888,842	888,842
Buildings	1,481,461	1,419,631
Equipment	349,988	349,988
Leasehold improvements	<u>31,549</u>	<u>-</u>
Sub-total	2,751,840	2,658,461
Less: accumulated depreciation	<u>(795,433)</u>	<u>(749,911)</u>
Total property and equipment, net	<u>1,956,407</u>	<u>1,908,550</u>
 Total assets	 <u><u>\$ 4,722,531</u></u>	 <u><u>\$ 4,411,508</u></u>
 Liabilities and net assets:		
Liabilities		
Accounts payable and accrued expenses	\$ 349,508	\$ 431,692
Accrued payroll, taxes and benefits	489,832	452,895
Loan payable	<u>-</u>	<u>113,169</u>
Total liabilities	<u>839,340</u>	<u>997,756</u>
 Net assets		
Without donor restrictions	3,365,548	3,170,030
With donor restrictions	<u>517,643</u>	<u>243,722</u>
Total net assets	<u>3,883,191</u>	<u>3,413,752</u>
 Total liabilities and net assets	 <u><u>\$ 4,722,531</u></u>	 <u><u>\$ 4,411,508</u></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, 2019
(With Comparative Totals for June 30, 2018)

	2019			
	Without Donor Restrictions	With Donor Restrictions	Total	2018
Revenue and support:				
Grants and contracts	\$ 9,433,110	\$ 1,063,329	\$ 10,496,439	\$ 9,738,384
Client fees	33,384		33,384	30,721
Contributions	117,765		117,765	79,911
Rental income	24,782		24,782	24,877
Miscellaneous	22,463		22,463	17,690
In-kind contributions	890,410		890,410	930,411
Net assets released from restrictions	789,408	(789,408)	-	-
Total revenue and support	<u>11,311,322</u>	<u>273,921</u>	<u>11,585,243</u>	<u>10,821,994</u>
Expenses:				
Program services	9,188,154		9,188,154	8,720,878
Support Services				
Management and general	1,724,583		1,724,583	1,609,802
Fundraising	203,067		203,067	143,082
Total support services	<u>1,927,650</u>	<u>-</u>	<u>1,927,650</u>	<u>1,752,884</u>
Total expenses	<u>11,115,804</u>	<u>-</u>	<u>11,115,804</u>	<u>10,473,762</u>
Change in net assets	195,518	273,921	469,439	348,232
Net assets, beginning of year	<u>3,170,030</u>	<u>243,722</u>	<u>3,413,752</u>	<u>3,065,520</u>
Net assets, end of year	\$ <u><u>3,365,548</u></u>	\$ <u><u>517,643</u></u>	\$ <u><u>3,883,191</u></u>	\$ <u><u>3,413,752</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, 2019
(With Comparative Totals for June 30, 2018)

	Program Services					Support Services				
	Child Abuse & Domestic Violence	Behavioral Health	Housing and Self-Sufficiency	Youth Development	Human Trafficking	Total Program	Management and General	Fundraising Activities		
								2019	2018	
Expenses:										
Personnel										
Salaries and wages	\$ 519,186	\$ 1,349,655	\$ 275,053	\$ 1,326,303	\$ 610,404	\$ 4,080,601	\$ 1,166,136	\$ 133,378	\$ 5,380,115	\$ 4,825,092
Fringe benefits	168,093	415,810	89,165	422,699	162,328	1,258,095	364,253	36,568	1,658,916	1,459,445
In-kind services	19,557	24,438	37,046	223,782	10,223	315,046			315,046	359,987
Total personnel	706,836	1,789,903	401,264	1,972,784	782,955	5,653,742	1,530,389	169,946	7,354,077	6,644,524
Operations										
Admin Overhead						-	44,419		44,419	-
Advertising	1,943	9,631	1,599	2,326	6,491	21,990		309	22,299	29,375
Assistance to individuals	66,634	56,579	222,619	109,938	178,970	634,740		1,300	636,040	610,172
Bad debts				1,590		1,590			1,590	(674)
Consultants/subcontractors	319,519	229,734	19,405	591,195	159,856	1,319,709		1,495	1,321,204	1,444,671
Depreciation	6,217	15,033	2,943	14,947	5,340	44,480		1,042	45,522	42,773
Dues and subscriptions	2,508	7,677	1,699	6,060	2,983	20,927		2,201	23,128	18,319
Education and training	6,309	11,091	1,286	7,546	7,267	33,499		169	33,668	72,088
Facilities rental	36,626	76,626	15,226	75,731	34,194	238,403	49,460	5,948	293,811	174,095
In-kind rent	68,495	89,272	22,316	112,593	39,721	332,397		7,487	339,884	363,317
In-kind food	3,643	7,266	3,037	8,552	3,702	26,200			26,200	21,974
In-kind non-food	26,847	53,543	25,610	69,097	34,185	209,282			209,282	185,132
Insurance	6,459	15,445	3,099	15,405	5,523	45,931	10,265	1,279	57,475	54,817
Interest	209	452	96	473	170	1,400		29	1,429	10,466
Mileage and travel	34,133	25,577	6,716	33,833	45,138	145,397		1,069	146,466	126,947
Office supplies	11,194	23,749	10,038	32,821	11,330	89,132	19,920	1,754	110,806	120,099
Other miscellaneous	(991)	(1,976)	(331)	(2,250)	(877)	(6,425)	5	86	(6,334)	828
Payroll processing	2,631	6,368	1,272	6,311	2,251	18,833	4,209	519	23,561	16,863
Postage	403	927	204	1,038	575	3,147	710	262	4,119	4,140
Printing/copying	717	2,456	872	1,730	979	6,754	1,509	352	8,615	11,412
Repairs and maintenance	9,182	22,194	8,702	22,175	14,873	77,126	17,237	1,805	96,168	138,423
Small equipment purchase/lease	6,798	18,125	4,784	24,809	7,498	62,014		923	62,937	129,254
Software	6,949	16,322	3,342	16,724	5,902	49,239	11,004	1,347	61,590	70,988
Telephone	10,316	25,338	5,042	24,663	9,800	75,159	16,797	1,543	93,499	95,766
Utilities	10,954	26,407	5,686	26,368	14,073	83,488	18,659	2,202	104,349	87,993
Total operations	637,695	737,836	365,262	1,203,675	589,944	3,534,412	194,194	33,121	3,761,727	3,829,238
Total functional expenses	\$ 1,344,531	\$ 2,527,739	\$ 766,526	\$ 3,176,459	\$ 1,372,899	\$ 9,188,154	\$ 1,724,583	\$ 203,067	\$ 11,115,804	\$ 10,473,762

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, 2019
(With Comparative Totals for June 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 469,439	\$ 348,232
Adjustments to reconcile net increase (decrease) in net assets to net cash used by operating activities:		
Bad debt expense	1,590	(674)
Depreciation	45,522	42,773
Changes in operating assets and liabilities:		
(Increase) decrease in grants and contracts receivables	(72,299)	(462,362)
(Increase) decrease in pledges receivable	14,068	31,997
(Increase) decrease in prepaid expenses and other current assets	(1,204)	(22,240)
Increase (decrease) in accounts payable and accrued expenses	(82,184)	257,879
Increase (decrease) in accrued payroll, taxes and benefits	36,937	46,452
Net cash provided (used) by operating activities	<u>411,869</u>	<u>242,057</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(93,379)</u>	<u>(12,847)</u>
Net cash (used) by investing activities	<u>(93,379)</u>	<u>(12,847)</u>
Cash flows used in financing activities:		
Principal payments on loan payable	<u>(113,169)</u>	<u>(290,937)</u>
Net cash (used) by financing activities	<u>(113,169)</u>	<u>(290,937)</u>
Net change in cash and cash equivalents	205,321	(61,727)
Cash, beginning of year	<u>961,024</u>	<u>1,022,751</u>
Cash, end of year	\$ <u><u>1,166,345</u></u>	\$ <u><u>961,024</u></u>
Supplemental disclosures:		
Interest paid	\$ <u>1,429</u>	\$ <u>10,466</u>

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

North County Lifeline, Inc.
Notes to Financial Statements
June 30, 2019

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 five 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 families, families in crisis, youth at risk of entering or continuing in the juvenile justice system, youth diagnosed with mental illness, and families in transition.

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 2019, the organization provided services to 36,188 clients. Of those clients, 5,325 received intensive, long term counseling, case management and/or 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 external relations and increasing private fundraising for key program initiatives and a focused capital campaign.

Program Descriptions

Child Abuse and Domestic Violence Prevention & Intervention - The program works with families at greatest risk for child abuse and neglect due to poverty, substance abuse, and domestic violence. The staff works with San Diego County's child welfare services to identify and assist families with voluntary or dependency cases to retain or reunify with their children.

North County Lifeline, Inc.
Notes to Financial Statements
June 30, 2019

Note 1. Organization and Purpose, continued:

Child Abuse and Domestic Violence Prevention & Intervention, continued - Lifeline offers a 52-week court and Community Services Bureau (CSB) approved intervention program for male perpetrators of domestic violence. Groups are available in English and Spanish. Lifeline accepts referrals from the courts for individuals who have been convicted of domestic violence offenses. Lifeline also provides court mandated anger management services. Adult substance abuse disorder services are also available for adults with misdemeanors in the criminal justice system.

Behavioral Health - Students age 17 and under in seven north San Diego County school districts who meet medical necessity requirements according to title 9 of the California code of regulations are eligible to receive mental health outpatient services. Youth must be Medi-Cal eligible or designated as AB 2726 on their individualized educational plan (IEP), indicating that their emotional needs exceed the scope of a school counselor or psychologist. Program services are provided primarily on school campuses, in the client's home or at a lifeline clinic, and include individual, group and family therapy; rehabilitation services; medication support; case management brokerage; and crisis intervention as needed. Youth and families are connected with medical, social, rehabilitative, or other community services and supports.

Housing and Self-Sufficiency - A group of programs to help individuals and families in north coastal San Diego county with emergency assistance, financial education, EITC and taxes, housing, and to develop educational and career goals. Participants may be referred to a variety of resources to help them achieve their goals. Housing, development of independent living skills, and mental health services are provided to transitional age youth who have aged out of the foster care system.

Youth Development - Lifeline partners with law enforcement, schools, cities, and other community organizations to reduce truancy/juvenile delinquency and prevent youth from joining local gangs. Lifeline works with youth picked up for minor offenses and misdemeanors and their families, and provides counseling, mentoring, parent education and connects them with services that best meet their needs. Intensive gang prevention and intervention services are provided in the cities of Vista and Oceanside.

Human Trafficking Prevention & Intervention - Lifeline partners with the San Diego County human trafficking task force members and other community partners to provide comprehensive 24-hour response crisis services, ongoing case management and support, and therapeutic services to victims of sex and labor trafficking. Additionally, Lifeline provides public awareness education, prevention groups to young people in the region, and training for professionals entering the field of human trafficking.

North County Lifeline, Inc.
Notes to Financial Statements
June 30, 2019

Note 2. Summary of Significant Accounting Policies:

Method of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both, and are reported in the statement of activities as net assets released from restrictions.

The Organization had net assets with donor restrictions of \$517,643 at June 30, 2019.

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 \$315,045 for the year ended June 30, 2019. 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 \$339,883 for the year ended June 30, 2019 (see Note 9).

During the year ended June 30, 2019, the Organization received donations of goods of \$209,283 and food of \$26,199. Total in-kind contributions for the year ending June 30, 2019 were \$890,410.

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, 2019

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, 2019, 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, 2019.

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 statement 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, 2019

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, 2019, 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 or multi-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 the County of San Diego, which accounted for approximately 81% of total government grants and contracts revenue for the year ended June 30, 2019. Of the Organization's outstanding contracts receivable balance at June 30, 2019, 69% was due from the County of San Diego.

North County Lifeline, Inc.
Notes to Financial Statements
June 30, 2019

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 States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, 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.

Adoption of New Accounting Pronouncement

The Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This 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 between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

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.

North County Lifeline, Inc.
Notes to Financial Statements
June 30, 2019

Note 3. Income Tax Status, continued:

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, 2019, 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 one financial institution. Accounts at this 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.

Note 5. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial assets at year end:

Cash	\$ 1,166,345
Grants and contracts receivable	1,372,501
Prepaid expenses	227,278
Total financial assets	<u>2,766,124</u>

Less amounts not available to be used within one year:

Restricted by donors for program activities	(517,643)
Rental deposits	(36,984)

Financial assets available to meet general expenses within one year	<u>\$ 2,211,497</u>
---	---------------------

The Organization receives contributions with donor restrictions to be used in accordance with the associated purpose restrictions. The Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditures within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in money market funds.

North County Lifeline, Inc.
Notes to Financial Statements
June 30, 2019

Note 6. Property and Equipment:

Property and equipment consist of the following at June 30, 2019:

Land	\$	888,842
Buildings		572,040
Building improvements		874,421
Trailer and vehicle		43,799
Furniture and equipment		341,189
Leasehold improvements		31,549
		<u>2,751,840</u>
Less: accumulated depreciation		<u>(795,433)</u>
	\$	<u>1,956,407</u>

Depreciation expense for the year ended June 30, 2019 was \$45,522.

Note 7. 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. The loan was paid in full during the year ending June 30, 2019.

Note 8. Line of Credit:

The Organization has a secured line of credit agreement with a financial institution, which matures in November 2019. Borrowings under the line of credit agreement are limited to \$100,000. The line of credit bears interest at the rate of 5.75%, subject to fluctuation based on the latest prime rate plus .5%. There was no outstanding balance under the line as of June 30, 2019.

The Organization has a secured line of credit agreement with a financial institution, which matures in January 2023. Borrowings under the line of credit agreement are limited to \$500,000. The line of credit bears interest at the rate of 5 %, subject to fluctuation based on the latest prime rate plus .5%. There was no outstanding balance under the line as of June 30, 2019.

North County Lifeline, Inc.
Notes to Financial Statements
June 30, 2019

Note 9. Commitments and Contingencies:

Operating Leases

The Organization leases an office facility from the City of Vista under a non-cancelable operating lease that expires June 30, 2022. The Organization is charged \$2,500 per month, which is a below-market rent as the services provided by the Organization benefit the City of Vista and its residents. Monthly rent is set to increase annually.

The Organization also leases a facility from the City of Oceanside under a non-cancelable operating lease that expires April 30, 2023. 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 in-kind rent for the City of Vista facility to be \$20,564 and the City of Oceanside facility to be \$7,759. Accordingly, the Organization has recorded \$339,883 of in-kind rental income and expense for the year ended June 30, 2019, in the accompanying statement of activities.

Vista Way

The Organization entered into a lease agreement in April 2012 to lease office space under a non-cancelable operating lease for a five-year period ending August 2017. The lease was renewed in April 2017 for another five-year period ending November 2022. Monthly rent is \$11,203 and is set to increase annually.

San Marcos

The Organization entered into a new lease agreement in April 2018 to lease office space under a non-cancelable operating lease for a five-year period ending May 2023. Monthly rent is \$9,284 and is set to increase annually.

San Diego

The Organization entered into a new lease agreement in October 2018 to lease office space under a non-cancelable operating lease for a 21-month period ending June 30, 2020. Monthly rent is \$876.

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

Years ending June 30,	
2020	\$ 295,897
2021	292,570
2022	299,859
2023	177,178
	<u>\$ 1,065,503</u>

Rent expense (including in-kind rent) amounted to \$633,695 for the year ended June 30, 2019.

North County Lifeline, Inc.
Notes to Financial Statements
June 30, 2019

Note 10. 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 11. Retirement Plan:

The Organization has adopted a tax deferred annuity plan under Section 403(b) of the Internal Revenue Code whereby employees may elect make pre-tax contributions, and Designated Roth contributions. All employees who work more than 20 hours per week are eligible to participate in the plan. Employees must complete at least three months of service to receive employer matching contributions. The Organization will make matching contributions equal to 100% of the amount of the employee contribution during the plan year, not to exceed 2% of the employee's compensation during the plan year. The Organization contributed \$79,009 to the plan during the year ended June 30, 2019.

Note 12. Net Assets with Donor Restrictions:

As of June 30, 2019, net assets with donor restrictions are restricted for the following purposes or periods:

<u>Subject to expenditure for specific purpose:</u>	
Behavioral Health	\$ 46,307
Housing and Self-Sufficiency	54,098
Youth Development	13,363
Human Trafficking Prevention & Intervention	403,261
Other	614
Total	\$ <u>517,643</u>

Net assets totaling \$789,408 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the year ended June 30, 2019.

North County Lifeline, Inc.
Notes to Financial Statements
June 30, 2019

Note 13. Expense Allocation

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, salaries and wages, benefits, payroll taxes, professional services, office expenses, utilities, interest, insurance, and other, which are allocated based on the cost center full-time employee ratios.

Note 14. Date of Managements Review:

Management has evaluated subsequent events through October 16, 2019, 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.



Sonnenberg & Company, CPAs

A Professional Corporation

5190 Governor Drive, Suite 201, San Diego, California 92122

Phone: (858) 457-5252 • (800) 464-4HOA • Fax: (858) 457-2211 • (800) 303-4FAX



Leonard C. Sonnenberg, CPA

INDEPENDENT AUDITOR'S 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*

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, 2019, 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 16, 2019.

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 16, 2019



Sonnenberg & Company, CPAs



Sonnenberg & Company, CPAs

A Professional Corporation

5190 Governor Drive, Suite 201, San Diego, California 92122

Phone: (858) 457-5252 • (800) 464-4HOA • Fax: (858) 457-2211 • (800) 303-4FAX



Leonard C. Sonnenberg, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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, 2019. 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, 2019.

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.



Sonnenberg & Company, CPAs

October 16, 2019

North County Lifeline, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Subrecipient Expenditures
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES				
Passed through the County of San Diego				
Community-Based Child Abuse Prevention Grants	93.590	551377	\$ 24,870	\$ 4,796
Promoting Safe and Stable Families	93.556	551377	165,797	31,976
Title IV-E Foster Care	93.658	551377	128,453	24,773
Stephanie Tubbs Jones Child Welfare Services Program	93.645	551377	23,135	4,462
Community Service Block Grant: Administration for Children & Families	93.569	557911	297,227	-
Passed through San Diego Youth Services				
Teen Pregnancy Prevention Program	93.297	TP1AH000110-03-00	155,255	
Total U.S. Department of Health & Human Services			<u>\$ 794,737</u>	<u>\$ 66,007</u>
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT				
Passed through the City of Vista				
Community Development Block Grant	14.218		\$ 14,226	\$ -
Passed through the City of Oceanside				
Community Development Block Grant	14.218		15,481	-
Total U.S. Department of Housing & Urban Development			<u>\$ 29,707</u>	<u>\$ -</u>
U.S. DEPARTMENT OF JUSTICE				
Direct				
Services for Trafficking Victims	16.320	2017-VT-BX-K016	\$ 185,386	\$ 37,428
Services for Trafficking Victims	16.320	2015-VT-BX-K026	117,272	14,838
Subtotal CFDA 16.320			<u>\$ 302,658</u>	<u>\$ 52,266</u>
Passed through South Bay Community Services				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	551633	\$ 192,286	\$ -
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	388-16	45,977	-
Passed through Board of State and Community Correction				
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	2017-JF-FX-0027	295,006	-
Total U.S. Department of Justice			<u>\$ 835,927</u>	<u>\$ 52,266</u>
Total Federal Awards			<u><u>\$ 1,660,371</u></u>	<u><u>\$ 118,273</u></u>

See accompanying notes to schedule of expenditures of federal awards

North County Lifeline, Inc.
Schedule of Expenditures of Federal Awards
June 30, 2019

Notes to Schedule of Expenditures of Federal Awards For The Year Ended June 30, 2019

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, 2019. 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. Pass-through entity identifying numbers are presented where available. 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, 2019.

North County Lifeline, Inc.
Schedule of Findings and Questioned Costs
Summary of Auditor's Results
Year Ended June 30, 2019

1. Summary of Auditor's Results

- (a) Type of report issued on whether the combined financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified opinion**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **No**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major program: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **No**
- (g) Major program:
 - Department of Justice:
Juvenile Justice and Delinquency Prevention– **CFDA 16.540**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

2. Findings - Financial Statement Audit

None identified

3. Findings and Questioned Costs Relating to Federal Awards

None identified

4. Schedule of Prior Year Findings and Questioned Costs

None