

SHANTI ORANGE COUNTY

FINANCIAL STATEMENTS

Year ended February 28, 2015

(With Independent Auditors' Report Thereon)

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SHANTI ORANGE COUNTY

FINANCIAL STATEMENTS

Year ended February 28, 2015

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Board of Directors
Shanti Orange County
Laguna Hills, California

Independent Auditors' Report

We have audited the accompanying financial statements of Shanti Orange County, which comprise the statement of financial position as of February 28, 2015, and the related statements of activities, and cash flows for the years 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. 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 auditors' 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 Shanti Orange County as of February 28, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described further in note 9 to the financial statements, the organization has reported a decrease of net assets for the last two fiscal years. Our opinion is not modified with respect to this matter.

The financial statements for year ended February 28, 2014 reflect certain prior period adjustments as described further in note 10 to the financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Shanti's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 7, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended February 28, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2015 on our consideration of Shanti Orange County'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 Shanti Orange County's internal control over financial reporting and compliance.



Irvine, California
July 27, 2015

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FINANCIAL STATEMENTS

SHANTI ORANGE COUNTY

STATEMENT OF FINANCIAL POSITION

February 28, 2015
(with comparative totals as of February 28, 2014)

	2015	2014
<u>ASSETS</u>		
Current assets:		
Cash and investments (note 2)	\$ 460,426	550,445
Grants receivable (note 3)	9,905	11,505
Deposits	6,500	6,500
Prepaid expenses	5,767	-
TOTAL CURRENT ASSETS	482,598	568,450
Noncurrent assets:		
Property and equipment, net of accumulated depreciation (note 4)	2,059	3,171
TOTAL NONCURRENT ASSETS	2,059	3,171
TOTAL ASSETS	\$ 484,657	571,621
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accrued liabilities (note 1j)	\$ 27,486	29,325
Deferred rent (note 5)	19,166	18,001
TOTAL CURRENT LIABILITIES	46,652	47,326
Net assets (note 6):		
Unrestricted	438,005	516,879
Temporarily restricted	-	7,416
TOTAL NET ASSETS	438,005	524,295
TOTAL LIABILITIES AND NET ASSETS	\$ 484,657	571,621

See the accompanying notes to financial statements.

SHANTI ORANGE COUNTY

STATEMENT OF ACTIVITIES

Year ended February 28, 2015
(with comparative totals for the year ended February 28, 2014)

	2015	2014
<u>UNRESTRICTED NET ASSETS</u>		
Support and revenues:		
Grants and contracts	\$ 251,413	274,540
Contributions	14,815	15,571
Special events - net of direct costs	34,675	67,130
Investment income	28,002	35,439
Donated services	42,014	44,717
Mental health income	3,015	3,905
Net assets released from purpose restrictions	7,416	16,680
TOTAL SUPPORT AND REVENUES	381,350	457,982
Expenses:		
Program services:		
Case management services	117,642	113,780
Mental health services	153,561	159,623
Education and prevention	81,530	85,878
Home delivered meals	50,226	52,433
TOTAL PROGRAM SERVICES	402,959	411,714
Supporting services:		
Fundraising	42,764	36,703
General and administrative	7,623	7,382
Total supporting services	50,387	44,085
Total expenses	453,346	455,799
Increase (decrease) in unrestricted net assets	(71,996)	2,183
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Support and revenues:		
Contributions	-	3,766
Total support and revenues	-	3,766
Net assets released from purpose restrictions	(7,416)	(16,680)
Increase (decrease) in temporarily restricted net assets	(7,416)	(12,914)
Increase (decrease) in net assets	(79,412)	(10,731)
Net assets at beginning of year as restated (note 10)	517,417	535,026
Net assets at end of year	\$ 438,005	524,295

See the accompanying notes to financial statements.

SHANTI ORANGE COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

Year ended February 28, 2015
(with comparative totals for the year ended February 28, 2014)

	Program Services		
	Case Management Services	Mental Health Services	Education and Prevention
Salaries	\$ 73,512	17,964	39,420
Payroll taxes	6,155	1,974	3,745
Employee benefits	7,298	2,703	4,531
TOTAL SALARIES AND RELATED EXPENSES	<u>86,965</u>	<u>22,641</u>	<u>47,696</u>
Advertising and public relations	280	280	448
Rent (note 5)	19,049	19,049	19,049
Accounting and audit	3,664	4,397	4,397
Donated services	-	42,014	-
Meals delivered	-	-	-
Conferences	-	-	-
Telephone and IT	2,668	2,668	3,332
Office supplies	803	2,007	2,114
Postage	60	60	60
Insurance	2,859	2,032	2,363
Mileage	407	147	1,101
Miscellaneous	314	261	540
Direct services - professional	-	57,426	-
OTHER EXPENSES BEFORE DEPRECIATION	<u>30,104</u>	<u>130,341</u>	<u>33,404</u>
DEPRECIATION (note 4)	<u>573</u>	<u>579</u>	<u>430</u>
TOTAL EXPENSES	<u>\$ 117,642</u>	<u>153,561</u>	<u>81,530</u>

See accompanying notes to financial statements

Program Services		Supporting Services			Totals	
Home Delivered Meals	Total	Fundraising	General and Administrative	Total	2015	2014
25,095	155,991	16,379	4,491	20,870	176,861	174,680
1,967	13,841	923	377	1,300	15,141	15,397
2,181	16,713	1,059	353	1,412	18,125	16,944
<u>29,243</u>	<u>186,545</u>	<u>18,361</u>	<u>5,221</u>	<u>23,582</u>	<u>210,127</u>	<u>207,021</u>
-	1,008	68	-	68	1,076	1,180
3,810	60,957	1,270	1,242	2,512	63,469	58,777
1,319	13,777	440	440	880	14,657	14,626
-	42,014	-	-	-	42,014	44,717
12,509	12,509	-	-	-	12,509	16,593
-	-	-	-	-	-	959
648	9,316	635	145	780	10,096	8,652
681	5,605	523	-	523	6,128	5,737
47	227	10	6	16	243	200
1,318	8,572	506	373	879	9,451	8,618
124	1,779	463	26	489	2,268	2,625
261	1,376	2,818	133	2,951	4,327	4,432
-	57,426	17,483	-	17,483	74,909	79,442
<u>20,717</u>	<u>214,566</u>	<u>24,216</u>	<u>2,365</u>	<u>26,581</u>	<u>241,147</u>	<u>246,558</u>
<u>266</u>	<u>1,848</u>	<u>187</u>	<u>37</u>	<u>224</u>	<u>2,072</u>	<u>2,220</u>
<u><u>50,226</u></u>	<u><u>402,959</u></u>	<u><u>42,764</u></u>	<u><u>7,623</u></u>	<u><u>50,387</u></u>	<u><u>453,346</u></u>	<u><u>455,799</u></u>

See accompanying notes to financial statements

SHANTI ORANGE COUNTY
STATEMENT OF CASH FLOWS

Year ended February 28, 2015
(with comparative totals for the year ended February 28, 2014)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (79,412)	(10,731)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	2,072	2,220
Net realized and unrealized loss (gain) on sale of investments	(28,002)	(29,488)
(Increase) decrease in grants receivable	1,600	10,206
(Increase) decrease in prepaid expenses	(5,767)	10,442
Increase (decrease) in accrued liabilities	(1,839)	(10,012)
Increase (decrease) in deferred rent	1,165	(5,685)
TOTAL ADJUSTMENTS	(30,771)	(22,317)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(110,183)	(33,048)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	105,479	543,952
Purchases of investments	(31,275)	(568,693)
Purchase of fixed assets	(960)	-
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	73,244	(24,741)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,939)	(57,789)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	46,124	103,913
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 9,185	46,124
Reconciliation of cash and cash equivalents to amounts reported on the Statements of Financial Position:		
Cash and investments	\$ 460,426	550,445
Less: non-cash equivalents	(451,241)	(504,321)
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 9,185	46,124

NONCASH INVESTING AND FINANCING ACTIVITIES:

There were no significant noncash investing and financing activities for the fiscal years ended February 28, 2015 and February 28, 2014.

See the accompanying notes to financial statements.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

Year ended February 28, 2015

(1) Summary of significant accounting policies

Shanti Orange County (the “Organization” or “Shanti”) is a California non-profit corporation whose mission is to enhance the health and well-being of those affected by HIV/AIDS and other chronic infectious diseases through prevention, education and life-saving supportive services; and strives for zero new infections in Orange County. The Organization is also known as the HIV/AIDS Agency with the Caring Heart. The Organization’s programs are supported primarily by grant funding and fundraising activities.

The main goal is to provide personalized services in a safe and confidential environment.

A description of the Organization’s program services are as follows:

Case Management services provide Shanti clients important linkages and referrals to the wide range of services crucial to maintaining health and well-being while living with the HIV disease. The goal is to assist consumers in the management of the HIV disease. An individualized service plan, a needs assessment and an action plan are developed and followed on an ongoing basis to assure direction and assistance. Referrals to services include medical care, pharmaceutical case management for drug assistance, housing options, practical services, benefits counseling, food/meals and mental health services.

Mental Health services provide Shanti clients with psychological services in the form of weekly group therapy and individual psychotherapy. The goal is to assist clients with managing the profound psychological impact of HIV/AIDS on their lives and to help strengthen their inner resolve to adhere to medical treatment in coping with the disease. These services help overcome the isolation and stigma that many patients may experience, and offer them opportunities to re-engage with fellow sufferers and find new meaning and hope in their lives.

- *Navigating the Journey and Shanti Pathways* – a psychotherapeutic modality addressing issues of long term HIV/AIDS survivors. This eight session group explores health and life management respective of HIV/AIDS and can continue to meet individually to plan for their future, setting short term and long term goals.
- *Medi-Cal* – Shanti is currently in the application stages of becoming a Medi-Cal provider of mental health services. The Affordable Care Act has opened avenues for greater segments of the Orange County community to access individual and group therapy. Shanti has been providing these services for over 27 years and is positioned to respond to new opportunities.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) Summary of significant accounting policies, (continued)

Education and Prevention– Shanti Orange County's HIV/AIDS Education Outreach and Prevention Program provides critical information and support. Our goals are twofold; to empower those living with HIV/AIDS so that they can better adhere to medical treatment, achieve optimal wellness, and prevent further spread of the disease; and outreach to the greater community by providing seminars and discussion sessions with college and high school students, senior citizens, providers of services and as well as participate in community health and wellness fairs.

The program includes the following components:

- Circle of Women - open to the growing number of women impacted by HIV/AIDS. The Circle of Women includes monthly support groups and a quarterly education series that provides information on HIV/AIDS, its transmission, treatment, and prevention.
- Circulo Latino - open to Latino men and women living with HIV/AIDS. The Circulo Latino group, conducted in Spanish, includes monthly support and information on HIV/AIDS, its transmission, treatment, services available and prevention.
- Positive 12 Step Group - an Alcoholics Anonymous meeting for individuals living with HIV/AIDS in recovery. This group meets weekly and is peer led, dealing with issues surrounding HIV/AIDS and addiction in sobriety.
- Shanti Ambassadors - a supportive group of consumers and community volunteers working together to promote healthy living while planning and coordinating activities and trainings to educate the community at large regarding HIV and AIDS.

Home Delivered Meals program serves homebound and disabled, low-income individuals living with HIV/AIDS by providing nutritious meals delivered daily by caring volunteers.

The following summary of significant accounting policies identifies specific accounting principles applied in the accompanying financial statements:

(a) Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) Summary of significant accounting policies, (continued)

(b) Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

(c) Fair value measurements

The Organization follows ASC 958-205, which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 958-205 are described as follows:

- Level 1* – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2* – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3* – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value:

	<u>Investments at Fair Value as of February 28, 2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate Stocks	\$ 329,340	-	-	329,340
Mutual Funds	24,307	-	-	24,307
Corporate Notes	-	97,594	-	97,594
	<u>\$ 353,647</u>	<u>97,594</u>	<u>-</u>	<u>451,241</u>

(d) Financial statement presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) Summary of significant accounting policies. (continued)

(e) Restricted and unrestricted revenue and support

The Organization records contributions received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

(f) Property and equipment

Property and equipment exceeding \$500 and an estimated useful life of 3 years or more are capitalized and recorded at cost. Donated items are recorded at management's best estimate of the fair market value at the time of donation. Furniture and fixtures and equipment are depreciated over an estimated useful life of 3 to 5 years using the straight-line method, assuming no salvage value.

(g) Federal and state income taxes

The Organization is organized as a not-for-profit entity under the general nonprofit corporation laws of the State of California. A determination letter confirming exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code has been obtained. Revenues subject to unrelated business income tax (UBIT) were insignificant and would not generate a tax liability. In addition, an exemption from California franchise taxes has been obtained. Therefore, no provision has been made for Federal income taxes or State franchise taxes in the accompanying financial statements.

(h) Use of estimates

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

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

(1) Summary of significant accounting policies. (continued)

(i) Donated equipment and services

Donated non-cash contributions have been reflected in the accompanying statements at their estimated market value at date of receipt. Contributions of services are recognized if the services received create or enhance 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. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis of deriving their value. Donated services in the amount of \$42,014 were recorded during the year ended February 28, 2015.

(j) Accrued liabilities

The Organization's policy is to record accumulated vacation when earned. As of February 28, 2015, accrued liabilities were \$27,486. Of this amount, \$17,233 was accrued vacation liability as of February 28, 2015.

(k) Expense allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the "Statement of Activities" and in the "Statement of Functional Expenses." Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(l) Prior year data

Selected information regarding the prior year has been included in the accompanying combined financial statements. Certain reclassifications have been made to prior year amounts in order to conform to the current year presentation. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's prior year combined financial statements, from which this selected financial data was derived.

(m) Subsequent events

Subsequent events were evaluated through July 27, 2015, which is the date the financial statements were available to be issued.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

(2) Cash and investments

Cash and investments consisted of the following at February 28, 2015:

Cash and cash equivalents	\$ 9,185
Investments	<u>451,241</u>
	<u>\$ 460,426</u>

Cash and cash equivalents consisted of the following at February 28, 2015:

Demand deposits	\$ 490
Money market funds	<u>8,695</u>
	<u>\$ 9,185</u>

Investments consisted of the following at February 28, 2015:

Corporate stocks	\$ 329,340
Mutual funds	24,307
Corporate notes	<u>97,594</u>
	<u>\$ 451,241</u>

Investment return is summarized as follows for the year ended February 28, 2015:

Interest and dividends	\$ 15,120
Net realized and unrealized gains and losses	22,994
Investment fees	<u>(10,112)</u>
	<u>\$ 28,002</u>

(3) Grants receivable

The Organization has entered into a contract with the County of Orange, under Ryan White Titles, to provide services to persons affected with HIV. This grant is paid on a reimbursement basis, up to the maximum amount allowed under the terms of the grant. The Organization reported revenue of \$185,216, under the Ryan White Titles for the year ended February 28, 2015, and the receivable as of February 28, 2015 was \$9,905.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

(4) Property and equipment

Property and equipment consisted of the following at February 28, 2015:

Equipment	\$ 2,991
Furniture and fixtures	<u>9,064</u>
Total	12,055
Accumulated depreciation	<u>(9,996)</u>
Net property and equipment	<u>\$ 2,059</u>

Depreciation expense for the year ended February 28, 2015 was \$2,072.

(5) Deferred Rent

In September 2011, the Organization entered into a sublease agreement with Dolphinshire/Fountain Plaza, L.L.C. ("Lessor") commencing on November 1, 2011 for offices located in Laguna Hills, California. Monthly rent is \$5,211 per month commencing May 1, 2012 escalating by 3% annually until the lease agreement ends April 30, 2017.

The Organization records rent expense on a straight-line basis. The deferred rent liability pertaining to the free rent at the beginning of the lease and future rent increases has been calculated and will be recognized over the term of the lease. Minimum future rental payments under the lease are summarized as follows:

<u>Year Ending February 28</u>	<u>Rent Payments</u>	<u>Deferred Rent</u>	<u>Total Rent Expense</u>
2016	\$ 68,244	(7,729)	60,515
2017	70,270	(9,755)	60,515
2018	<u>11,768</u>	<u>(1,682)</u>	<u>10,086</u>
	<u>\$ 150,282</u>	<u>(19,166)</u>	<u>131,116</u>

Rent expense, including utilities, for the year ended February 28, 2015 was \$63,469.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

(6) Net assets

Net assets consisted of the following at February 28, 2015:

Unrestricted net assets:	
Investment in property and equipment	\$ 2,059
Undesignated - available for programs	<u>435,946</u>
Total unrestricted net assets	<u>438,005</u>
Total net assets	<u>\$438,005</u>

(7) Commitments and contingencies

The Organization receives a substantial portion of its revenues from government grants and contracts, all of which are subject to audit by the government. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

(8) Concentrations

The Organization's sources of revenues are mainly from government grants and private donations. Of the total revenues, approximately 49% was received from the County of Orange for the year ended February 28, 2015.

(9) Decrease in Net Assets

Ryan White funds have historically partially funded Shanti's Mental Health Services and the Medical Case Management models of care. With the implementation of the Affordable Care Act on January 1, 2014, this system of care underwent a shift that has had a dramatic impact on patients and those who serve them. The changes of the Affordable Care Act are challenging to work with in the area of patients with HIV/AIDS.

For those who serve these patients, such as Shanti Orange County, major delays in gaining authorization and reimbursement for services means that small nonprofits can experience cash flow problems or delays in patient referrals that no longer come through previously well-established channels for delivering services. As the 2014-2015 fiscal year came to a close, Shanti Orange County began to run a deficit related to these systemic changes. For the fiscal years ended February 28, 2015 and 2014 the organization reported deficits of \$79,412 and \$10,731, respectively.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

(9) Decrease in Net Assets. (Continued)

Shanti has taken steps to address these changes including becoming an authorized provider for MediCal and changing their mission statement to focus more on mental health for infectious diseases. The Board of Directors has created a task force to address the organizations opportunities for the future.

(10) Adjustment to Beginning Net Assets

During the fiscal year ended February 28, 2015, the following adjustment was made to beginning net assets:

Net assets at beginning of year, as previously reported	\$ 524,295
Adjustment to recognize escalating rent payments	<u>(6,878)</u>
Net assets at beginning of year, as restated	<u>\$ 517,417</u>

Board of Directors
Shanti Orange County
Laguna Hills, California

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Shanti Orange County (a non-profit organization), which comprise the statement of financial position as of February 28, 2015, 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 July 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Shanti Orange County'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 Shanti Orange County's internal control. Accordingly, we do not express an opinion on the effectiveness of Shanti Orange County'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 Shanti Orange County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Davis Form LLP".

Irvine, California
July 27, 2015

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