

SHANTI ORANGE COUNTY

FINANCIAL STATEMENTS

Year ended February 28, 2017

(With Independent Auditors' Report Thereon)

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SHANTI ORANGE COUNTY

FINANCIAL STATEMENTS

Year ended February 28, 2017

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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 ("Shanti"), which comprise the statement of financial position as of February 28, 2017, 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. 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, 2017, 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 Matter

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.

Report on Summarized Comparative Information

We have previously audited Shanti's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 12, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended February 28, 2016 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 June 23, 2017 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
June 23, 2017

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FINANCIAL STATEMENTS

SHANTI ORANGE COUNTY
STATEMENT OF FINANCIAL POSITION

February 28, 2017
(with comparative totals as of February 29, 2016)

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current assets:		
Cash and investments (note 2)	\$ 300,355	\$ 381,491
Grants receivable (note 3)	25,446	22,337
Deposits	<u>8,500</u>	<u>6,500</u>
TOTAL CURRENT ASSETS	<u>334,301</u>	<u>410,328</u>
Noncurrent assets:		
Property and equipment, net (note 4)	<u>496</u>	<u>1,072</u>
TOTAL NONCURRENT ASSETS	<u>496</u>	<u>1,072</u>
TOTAL ASSETS	<u><u>\$ 334,797</u></u>	<u><u>\$ 411,400</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accrued liabilities (note 1(i))	\$ 24,077	\$ 23,741
Deferred rent (note 5)	<u>1,682</u>	<u>11,437</u>
TOTAL CURRENT LIABILITIES	<u>25,759</u>	<u>35,178</u>
Net assets (note 6):		
Unrestricted	<u>309,038</u>	<u>376,222</u>
TOTAL NET ASSETS	<u>309,038</u>	<u>376,222</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 334,797</u></u>	<u><u>\$ 411,400</u></u>

See the accompanying notes to financial statements.

SHANTI ORANGE COUNTY

STATEMENT OF ACTIVITIES

Year ended February 28, 2017
(with comparative totals for the year ended February 29, 2016)

	2017	2016
<u>UNRESTRICTED NET ASSETS</u>		
Support and revenues:		
Grants and contracts	\$ 187,888	\$ 247,346
Contributions	35,489	21,780
Special events - net of direct costs	19,371	38,926
Investment income (loss)	41,109	(11,925)
Mental health income	46,299	16,561
Net assets released from purpose restrictions	25,500	17,644
Total support and revenues	355,656	330,332
Expenses:		
Program services:		
Case management services	170,777	114,569
Mental health services	155,782	101,526
Education and prevention	42,146	70,210
Home delivered meals	-	44,887
Total program services	368,705	331,192
Supporting services:		
Fundraising	42,602	46,375
General and administrative	11,533	14,548
Total supporting services	54,135	60,923
Total expenses	422,840	392,115
Increase (decrease) in unrestricted net assets	(67,184)	(61,783)
<u>TEMPORARILY RESTRICTED NET ASSETS</u>		
Support and revenues:		
Grants and contracts	22,500	17,500
Contributions	3,000	144
Total support and revenues	25,500	17,644
Net assets released from purpose restrictions	(25,500)	(17,644)
Increase (decrease) in temporarily restricted net assets	-	-
Increase (decrease) in net assets	(67,184)	(61,783)
Net assets at beginning of year	376,222	438,005
Net assets at end of year	\$ 309,038	\$ 376,222

See the accompanying notes to financial statements.

SHANTI ORANGE COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

Year ended February 28, 2017
(with comparative totals for the year ended February 29, 2016)

	Program Services		
	Case Management Services	Mental Health Services	Education and Prevention
Salaries	\$ 112,365	61,788	18,356
Payroll taxes	9,432	5,158	1,534
Employee benefits	6,218	1,244	3,793
TOTAL SALARIES AND RELATED EXPENSES	128,015	68,190	23,683
Advertising and public relations	886	886	1,033
Rent (note 5)	26,022	32,527	5,204
Accounting and audit	5,235	6,060	2,946
Meals delivered	-	-	-
Telephone and IT	3,986	3,986	3,768
Office supplies	953	889	1,556
Postage	67	67	67
Insurance	3,864	2,250	1,327
Mileage	1,408	26	268
Miscellaneous	341	798	594
Direct services - professional	-	40,103	1,700
OTHER EXPENSES BEFORE DEPRECIATION	42,762	87,592	18,463
DEPRECIATION (note 4)	-	-	-
TOTAL EXPENSES	\$ 170,777	155,782	42,146

See accompanying notes to financial statements

Program Services	Supporting Services			Totals	
	Total	Fundraising	General and Administrative	Total	2017
192,509	18,355	9,178	27,533	220,042	182,950
16,124	1,546	775	2,321	18,445	15,334
11,255	1,244	-	1,244	12,499	9,900
<u>219,888</u>	<u>21,145</u>	<u>9,953</u>	<u>31,098</u>	<u>250,986</u>	<u>208,184</u>
2,805	148	-	148	2,953	2,090
63,753	1,301	-	1,301	65,054	62,256
14,241	455	455	910	15,151	14,622
-	-	-	-	-	15,547
11,740	629	212	841	12,581	10,132
3,398	334	-	334	3,732	3,910
201	11	11	22	223	142
7,441	410	194	604	8,045	11,369
1,702	179	64	243	1,945	1,926
1,733	1,107	68	1,175	2,908	4,272
41,803	16,883	-	16,883	58,686	56,678
<u>148,817</u>	<u>21,457</u>	<u>1,004</u>	<u>22,461</u>	<u>171,278</u>	<u>182,944</u>
<u>-</u>	<u>-</u>	<u>576</u>	<u>576</u>	<u>576</u>	<u>987</u>
<u><u>368,705</u></u>	<u><u>42,602</u></u>	<u><u>11,533</u></u>	<u><u>54,135</u></u>	<u><u>422,840</u></u>	<u><u>392,115</u></u>

See accompanying notes to financial statements

SHANTI ORANGE COUNTY
STATEMENT OF CASH FLOWS

Year ended February 28, 2017
(with comparative totals for the year ended February 29, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	<u>\$ (67,184)</u>	<u>\$ (61,783)</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	576	987
Net realized and unrealized loss (gain) on sale of investments	(36,061)	17,851
(Increase) decrease in grants receivable	(3,109)	(12,432)
(Increase) decrease in prepaid expenses	-	5,767
(Increase) decrease in deposits	(2,000)	-
Increase (decrease) in accrued liabilities	336	(3,745)
Increase (decrease) in deferred rent	<u>(9,755)</u>	<u>(7,729)</u>
TOTAL ADJUSTMENTS	<u>(50,013)</u>	<u>699</u>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	<u>(117,197)</u>	<u>(61,084)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	238,251	277,115
Purchases of investments	<u>(135,900)</u>	<u>(182,075)</u>
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	<u>102,351</u>	<u>95,040</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,846)	33,956
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>43,141</u>	<u>9,185</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 28,295</u></u>	<u><u>\$ 43,141</u></u>
Reconciliation of cash and cash equivalents to amounts reported on the Statements of Financial Position:		
Cash and investments	\$ 300,355	\$ 381,491
Less: non-cash equivalents	<u>(272,060)</u>	<u>(338,350)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 28,295</u></u>	<u><u>\$ 43,141</u></u>

NONCASH INVESTING AND FINANCING ACTIVITIES:

There were no significant noncash investing and financing activities for the fiscal years ended February 28, 2017 and February 29, 2016.

See the accompanying notes to financial statements.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

Year ended February 28, 2017

(1) **Summary of significant accounting policies**

Shanti Orange County (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 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 now 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.

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, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Corporate Stocks	\$ 272,060	-	-	272,060
	<u>\$ 272,060</u>	<u>-</u>	<u>-</u>	<u>272,060</u>

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

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

(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.

(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.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

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

(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.

(i) Accrued liabilities

The Organization's policy is to record accumulated vacation when earned. As of February 28, 2017, accrued liabilities were \$24,077. Of this amount, \$10,484 was accrued vacation liability.

(j) 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.

(k) 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.

(l) Subsequent events

Subsequent events were evaluated through June 23, 2017, 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, 2017:

Cash and cash equivalents	\$ 28,295
Investments	<u>272,060</u>
	<u>\$ 300,355</u>

Cash and cash equivalents consisted of the following at February 28, 2017:

Demand deposits	\$ 22,235
Money market funds	<u>6,060</u>
	<u>\$ 28,295</u>

Investments consisted of corporate stocks at February 28, 2017.

Investment return is summarized as follows for the year ended February 28, 2017:

Interest dividends	\$ 12,278
Net realized and unrealized gains and losses	36,061
Investment fees	<u>(7,230)</u>
	<u>\$ 41,109</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 \$129,388, under the Ryan White Titles for the year ended February 28, 2017, and the receivable was \$25,446.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

(4) Property and equipment

Property and equipment consisted of the following at February 28, 2017:

Equipment	\$ 2,991
Furniture and fixtures	<u>9,064</u>
Total	12,055
Accumulated depreciation	<u>(11,559)</u>
Net property and equipment	<u>\$ 496</u>

Depreciation expense for the year was \$576.

(5) Office Lease

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 2011 lease are summarized as follows:

<u>Year Ending</u> <u>February 2018</u>	<u>Rent</u> <u>Payments</u>	<u>Deferred</u> <u>Rent</u>	<u>Total Rent</u> <u>Expense</u>
2018	\$ 11,768	(1,682)	10,086

Rent expense, including certain facility costs, for the year was \$65,054.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

(5) Office Lease (Continued)

On November 18, 2016, the Organization extended their lease for a period of five years and two months commencing on May 1, 2017 and expiring on June 30, 2022. Minimum future rental payments under the extended lease are summarized as follows:

<u>Year Ending</u> <u>February 2018</u>	<u>Total Lease</u> <u>Payment</u>
2018	\$ 53,616
2019	82,434
2020	84,906
2021	87,450
2022	90,076
Thereafter	<u>30,624</u>
Total lease payments	<u>\$ 429,106</u>

(6) Net assets

Net assets consisted of the following at February 28, 2017:

Unrestricted net assets:

Investment in property and equipment	\$ 496
Undesignated - available for programs	<u>308,542</u>
Total unrestricted net assets	<u>309,038</u>
Total net assets	<u>\$309,038</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.

SHANTI ORANGE COUNTY
NOTES TO FINANCIAL STATEMENTS

(Continued)

(8) Concentrations

The Organization's sources of revenues are mainly from government grants and private donations. Of the total revenues, approximately 37% was received from the County of Orange for the year ended February 28, 2017.

(9) Decrease in Net Assets

Fiscal year 2016-2017 was a year of continued transition both programmatically and financially for Shanti Orange County, to maintain our viability in the changing face of HIV disease and to continue to meet the needs of the moderate to low income demographics. Our expanded mission impacted our scope of work to include continued treatment for HIV/AIDS and mental health issues, additions were chronic diseases and addiction/recovery.

Ryan White federal funds contracted through the County of Orange continue to fund salaries for the case managers and partial funding for the executive director position, but by no means funds the case management program.

This was the first year since 1993 that Shanti no longer administers the Home Delivered Meals program funded through Ryan White and a number of other private foundations.

Funding for mental health services shifted from Ryan White to a newly adopted model of fee for service. This program continues to grow as Shanti has become an approved provider for CalOptima, Medicare, Anthem Blue Cross, Blue Shield and private pay, with referrals coming in at a steady pace. To meet the demand for these services we have moved to a different staffing model. Formerly Shanti used pre-doctoral interns and provided a minimal monthly stipend to currently using post-doctoral psychology assistants qualified to provide these therapeutic services therefore necessitated providing each clinician with an hourly wage. Our financial goal is for this program to ultimately be totally self-sustaining in nature.

The dedicated Board of Directors and staff continue to identify new strategies to expand our fiscal footprint engaging individual donors, corporations and private foundations, to provide a balanced portfolio to fund the programs sought after by the community. Shanti remains committed to maintain a qualified program staff with a limited administrative staff, utilizing community volunteers and student interns in order to have the majority of our funds being directed to programs. 2017-2018 is the yearlong celebration of our 30 years of uninterrupted service to a *community in need*.

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, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 23, 2017.

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 blue ink that reads "Davis Fan LLP". The signature is written in a cursive, flowing style.

Irvine, California
June 23, 2017