

Laguna Beach Seniors, Inc.

Management Report

December 31, 2009

Laguns Beach Seniors, Inc.

Management Report

Table of Contents

| <u>Item</u> | <u>Page No.</u> |
|--|-----------------|
| General Introduction | 1 |
| Summary of Current Year Comments and Recommendations | 2 |
| Summary of Prior Year Comments and Recommendations | 2 |
| Appendix: | |
| Audit/Finance Committee Letter | 1-3 |
| Schedule of Audit Adjustments | |

CONFIDENTIAL

The Board of Directors
Laguna Beach Seniors, Inc.
Laguna Beach, California

Dear Members of the Board:

We have audited the basic financial statements of the Laguna Beach Seniors, Inc. (Organization) as of and for the year ended December 31, 2009, , in accordance with auditing standards generally accepted in the United States of America, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control.

A control deficiency 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 misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our consideration on internal control was for the limited period described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above; however, we did identify a few control deficiencies.

Our comments, all of which have been discussed with the appropriate members of management, are summarized as follows:

Summary of Current & Prior Year Comments and Recommendations

Disclosure of Audit Adjustments and Reclassifications

As your external auditor, we assume that the books and records of the Organization are properly adjusted before the start of the audit. In many cases, however, audit adjustments and reclassifications are made in the normal course of the audit process to present the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America or for comparison purposes with the prior year. For the Board of Directors to gain a full and complete understanding and appreciation of the scope and extent of the audit process we have presented these audit adjustments and reclassifications as an attachment to this letter. There can be very reasonable explanations for situations of having numerous adjustments as well as having no adjustments at all. However, the issue is simply disclosure of the adjustments and reclassifications that were made and to provide the Board of Directors with a better understanding of the scope of the audit.

Management's Response

We have reviewed and approved all of the audit adjustment and reclassification entries provided by the auditor and have entered those entries into the Organization's accounting system to close-out the Organization's year-end trial balance.

* * * * *

This report is intended solely for the information and use of management and the Board of Directors of the Organization. This restriction is not intended to limit the distribution of this letter, which is a matter of public record.

We appreciate the courtesy and cooperation extended to us during our examination. We would be pleased to discuss the contents of this letter with you at your convenience. Please do not hesitate to contact us.

Cypress, California

March 1, 2010

APPENDIX

Laguna Beach Seniors, Inc.

Audit/Finance Committee Letter

December 31, 2009

The Board of Directors
Laguna Beach Seniors, Inc.
Laguna Beach, California

We have audited the basic financial statements of the Laguna Beach Seniors, Inc. (Organization) for the year ended December 31, 2009, and have issued our report thereon dated March 1, 2010. Generally accepted auditing standards require that we provide the Governing Board and management with the following information related to our audit of the Organization's basic financial statements.

Auditor's Responsibility under United States Generally Accepted Auditing Standards

As stated in our Audit Engagement Letter dated August 18, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the basic financial statements prepared by management with oversight of the Governing Board are fairly presented, in all material respects, in conformity with United States generally accepted accounting principles. Our audit of the financial statements does not relieve the Governing Board or management of its responsibilities of oversight in the Organization's external financial reporting process or any other processes.

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Governmental Auditing Standards*.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing requirements previously communicated to management at our Audit Engagement Letter.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the basic financial statements.

We noted no transactions entered into by the Organization during fiscal year 2009 for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Management's Judgments, Accounting Estimates and Financial Disclosures

Accounting estimates play an integral part in the preparation of basic financial statements by management and are based upon management's knowledge, experience and current judgment(s) about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the position in the basic financial statements is (are):

Management's estimate of the fair value of cash and investments is based on information provided by financial institutions. We evaluated the key factors and assumptions used to develop the fair value of cash and investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of furniture and equipment depreciation is based on historical estimates of each capitalized item's useful life expectancy or cost recovery period. We evaluated the key factors and assumptions used to develop the furniture and equipment depreciation calculations in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the basic financial statements are neutral, consistent and clear. Certain basic financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the basic financial statements is (are):

The disclosure of fair value of cash and investments in Note 2 to the basic financial statements represents amounts susceptible to market fluctuations.

The disclosure of furniture and equipment, net in Note 3 to the basic financial statements is based on historical information which could differ from actual useful lives of each capitalized item.

Corrected and Uncorrected Misstatements

Generally Accepted Auditing Standards require us to accumulate all known and likely misstatements identified during the audit, except those that are considered trivial, and communicate them to the appropriate level of management as follows:

There were ten audit adjustments proposed by the auditor to the original trial balance presented to us to begin our audit. See the attached Schedule of Audit Adjusting Entries for the ten adjusting entries.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves the application of an accounting principal to the Organization’s basic financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization’s auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit processes and testwork.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the basic financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit of the Organization.

Management Representations

We have requested certain representations from management that are included in the Management Representational Letter to the Auditor dated March 1, 2010.

Conclusion

We appreciate the cooperation extended us by Bea Field, Executive Director, Judy Baker, Bookkeeper, and Jim McBride, Treasurer, in the performance of our audit testwork.

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the Organization.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than the specified, parties.

Laguna Beach Seniors
December 31, 2009
Schedule of Audit Adjusting Journal Entries

| Entry # | Status | Account/Co | Description | Debit | Credit |
|----------------|---------------|--|-------------------------------------|------------------|------------------|
| AJE 1 | Posted | 301.000 | Unrestrict (retained earnings) | | 8.00 |
| | | 850.000 | Other | 8.00 | |
| | | AJE To get equity to rollforward | | | |
| AJE 2 | Posted | 516.0000 | Depreciation | 25,990.60 | |
| | | 160.000 | Accumulated depreciation | | 25,990.60 |
| | | AJE To record 2009 depreciation expense | | | |
| AJE 3 | Posted | 110.114 | Invest. MM Cal Nat #2 BU 8760-2 | 1,106.56 | |
| | | 490.491 | CN Interest Checking/Savings | | 1,106.56 |
| | | 110.115 | CalNation Investment FMV Adjust | 113.46 | |
| | | 413.200 | Unrealized gain/(loss) on CN Invest | | 113.46 |
| | | AJE To adjust CD cash balance to actual at '12/31/09 | | | |
| AJE 4 | Posted | 202.000 | P/R taxes payable | | 3.93 |
| | | 600.710 | Taxes related to Payroll | 3.93 | |
| | | AJE To correct PR Tax payable balance rounding diff | | | |
| AJE 5 | Posted | 203.000 | Accrued payroll wages | | 5,231.71 |
| | | 600.701 | 2008/09 Executive Director | 1,896.72 | |
| | | 570.5831 | Case Manager 2009 | 250.00 | |
| | | 600.708 | 2009 Data and Office Manager | 1,077.38 | |
| | | 600.706 | 2009 Admin Asst. | 120.46 | |
| | | 570.5851 | Volunteer/ Program Coordin.2009 | 833.43 | |
| | | 600.706 | 2009 Admin Asst. | 273.75 | |
| | | 600.713 | FICA Rate <\$90,000 | 779.97 | |
| | | AJE To accrue payroll at 12/31/09 | | | |
| AJE 6 | Posted | 201.000 | Other accrued expenses A/P | 2,645.32 | |
| | | 600.673 | Other | | 500.00 |
| | | 600.730 | Telephone-voice and DSL | | 66.32 |
| | | 600.672 | Computer Assistance | | 975.00 |
| | | 600.615 | Auditing | | 1,004.00 |
| | | 560.562 | Holiday lunch/dinner | | 100.00 |
| | | AJE To reverse PY A/P accrual | | | |
| AJE 7 | Posted | 141.000 | Prepaid insurance | | 8.35 |
| | | 600.641 | Liability | 8.35 | |
| | | AJE To adjust prepaid expense at 12/31/09 | | | |
| AJE 8 | Posted | 600.730 | Telephone-voice and DSL | 179.33 | |
| | | 600.673 | Other | 196.30 | |
| | | 570.5732 | Computer Club | 187.50 | |
| | | 201.000 | Other accrued expenses A/P | | 563.13 |
| | | AJE To accrue A/P expenses at 12/31/09 | | | |
| AJE 9 | Posted | 153.000 | Furniture and Fixtures | 22,446.86 | |
| | | 560.561 | Capital Campaign | | 22,446.86 |
| | | AJE To reclass signage to fixtures | | | |
| AJE 10 | Posted | 560.000 | Open House | 11,990.35 | |
| | | 560.561 | Capital Campaign | | 11,990.35 |
| | | AJE To reclass open house expense to new GL | | | |
| TOTALS | | | | <u>70,108.27</u> | <u>70,108.27</u> |