Regional Center of Orange County, Inc.

Financial Statements

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Regional Center of Orange County, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Regional Center of Orange County, Inc. (a California nonprofit corporation), which comprise the statements of financial position as of June 30, 2014 and 2013, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 Regional Center of Orange County, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 April 27, 2015, on our consideration of Regional Center of Orange County, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Regional Center of Orange County, Inc.'s internal control over financial reporting and compliance.

Windes, Inc.

Long Beach, California
April 17, 2015

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2014	June 30, 2013
ASSETS		
Cash and cash equivalents	$ 9,937,704	$ 3,247,275
Cash – client trust funds	1,124,315	986,353
Contracts receivable – state of California	20,004,552	18,665,807
Receivables from Intermediate Care Facility vendors	5,036,176	3,677,411
Other receivables	78,532	110,056
Deposits and prepaid expenses	570,413	555,638
Other assets	698,911	909,205
Receivable from state for accrued vacation	1,241,298	1,254,516
Receivable from state for deferred rent	2,538,231	2,617,522
TOTAL ASSETS	$ 41,230,132	$ 32,023,783

LIABILITIES AND NET ASSETS

	June 30, 2014	June 30, 2013
LIABILITIES		
Accounts payable	$ 35,938,936	$ 26,890,392
Accrued vacation	1,241,298	1,254,516
Other liabilities	672,902	694,429
Deferred rent liability	2,538,231	2,617,522
Unexpended client trust funds	790,008	516,090
	41,181,375	31,972,949
COMMITMENTS AND CONTINGENCIES (Notes 5 and 6)		
NET ASSETS		
Unrestricted	48,757	50,834
TOTAL LIABILITIES AND NET ASSETS	$ 41,230,132	$ 32,023,783

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENTS OF ACTIVITIES

	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contracts – state of California	$ 285,526,395	$ 264,318,869
Intermediate Care Facility supplemental services income	10,000,093	9,241,714
Interest income	108,018	97,324
Contributions	19,289	12,329
Total Support and Revenue	295,653,795	273,670,236
EXPENSES		
Client Services		
Purchase of services	265,108,760	243,064,412
Salaries and benefits	20,029,934	19,308,403
Other client service	21,391	10,415
Total Client Service Expenses	285,160,085	262,383,230
Administration		
Operating expenses	7,493,715	7,462,336
Salaries and benefits	3,002,072	3,822,731
Total Administration Expenses	10,495,787	11,285,067
Total Expenses	295,655,872	273,668,297
CHANGE IN NET ASSETS	(2,077)	1,939
NET ASSETS AT BEGINNING OF YEAR	50,834	48,895
NET ASSETS AT END OF YEAR	$ 48,757	$ 50,834

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	($ 2,077)	$ 1,939
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in:		
Cash – client trust funds	(137,962)	303,801
Contracts receivable – state of California	(1,338,745)	23,242,048
Receivables from Intermediate Care Facility vendors	(1,358,765)	(3,677,411)
Other receivables	31,524	(64,441)
Deposits and prepaid expenses	(14,775)	(80,804)
Other assets	210,294	(76,155)
Receivable from state for accrued vacation	13,218	(44,919)
Receivable from state for deferred rent	79,291	(367,771)
Increase (decrease) in:		
Accounts payable	9,048,544	(9,424,790)
Advances from state	-	(30,704)
Accrued vacation	(13,218)	44,919
Other liabilities	(21,527)	(143,126)
Deferred rent liability	(79,291)	367,771
Unexpended client trust funds	273,918	(379,129)
Net Cash Provided By Operating Activities	6,690,429	9,671,228
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on line of credit	-	(6,750,000)
Net Cash Used In Financing Activities	-	(6,750,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,690,429	2,921,228
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,247,275	326,047
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,937,704	$ 3,247,275
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest expense	None	None
Income taxes	None	None

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 – Summary of Significant Accounting Policies

Background Information

Regional Center of Orange County, Inc. (the Center) is a private, nonprofit corporation that operates under a contract with the State of California (the State) Department of Developmental Services (DDS) to provide services to individuals with developmental disabilities. Services provided include out-of-home placement, respite, day training, behavior modification, and transportation. There are 21 such centers throughout the state.

The Center was incorporated in 1977 as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State of California.

The Act includes governance provisions regarding the composition of the Center's board of directors. The Act states that the board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50% of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25% of the members of the governing board shall be persons with developmental disabilities. In addition, a member of a required advisory committee composed of persons representing the various categories of providers from which the Center purchases client services, shall serve as a member of the regional center board. To comply with the Act, the Center's board of directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the Center and a client service provider of the Center.

Basis of Accounting

The financial statements of the Center have been prepared on the accrual basis of accounting and, accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Reimbursements from the state are considered earned when a qualifying expense is incurred.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Center classifies net assets and revenues and expenses as unrestricted, temporarily restricted, and permanently restricted, as follows:

- Unrestricted net assets represent the portion of the expendable funds available for support of the operations of the Center. There are no donor-imposed restrictions on the reimbursements the Center receives from the state and, therefore, the revenues and net assets generated from these transactions are reported as unrestricted. The Center had unrestricted net assets of $48,757 and $50,834 at June 30, 2014 and 2013, respectively.

- Temporarily restricted net assets consist of contributions that are subject to specific donor-imposed stipulations that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time. When a donor 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 statements of activities as net assets released from restrictions. The Center had no temporarily restricted net assets at June 30, 2014 and 2013.

- Permanently restricted net assets comprise funds that are subject to donor-imposed restrictions that the principal be maintained in perpetuity and invested for the purposes of producing present and future income that may be expended by the Center. The Center had no permanently restricted net assets at June 30, 2014 and 2013.

Contributions

Contributions received, including unconditional promises to give, are recognized as revenues in the period received, or at such time, the contribution is promised and its collection is reasonably assured. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. As of June 30, 2014 and 2013, the Center has not recorded any unconditional promises to give. For the years ended June 30, 2014 and 2013, the Center received contributions of $19,289 and $12,329, respectively.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the statements of cash flows, the Center considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2014 and 2013 and at various times during the year, the Center maintained cash balances in its financial institutions in excess of federally insured limits.

Support and Contracts Receivable – State of California

Support and contracts receivable – state of California is recorded on the accrual method as related expenses are incurred.

Receivables from Intermediate Care Facility Vendors

The Centers for Medicare and Medicaid Services (CMS) approved federal financial participation in the funding of day and related transportation services purchased by the Center for consumers who reside in Intermediate Care Facilities (ICFs). CMS agreed that the day and related transportation services are part of the ICF service; however, the federal rules allow for only one provider of the ICF service. Accordingly, all the Medicaid funding for the ICF residents must go through the applicable ICF provider. The Center receives a 1.5% administrative fee based on the funds received to cover the additional workload.

The DDS has directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. The Center was directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICFs. DDS advances the amount according to the state claim to the ICFs. The ICFs are then required to pass on the payments received, as well as the Center's administrative fee to the Center within 30 days of receipt of funds from the State Controller's Office.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Equipment

Equipment consisting principally of office equipment, furniture and fixtures are not capitalized, but rather are recorded as expenditures upon acquisition as title remains with the state, and it is not probable that the Center will be permitted to keep such assets when the contract with the state terminates.

Accrued Vacation

The Center has accrued a liability for vacation. The Center has also recorded a receivable from the state for the accrued vacation to reflect the future reimbursement of such benefits. However, such benefits are reimbursed under the state contract only when actually paid.

Deferred Rent

The Center leases office facilities under lease agreements that are subject to scheduled acceleration of rental payments. The scheduled rent increases are amortized evenly over the life of the lease. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. The Center has recorded a receivable from the state for the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized. However, such expenses are reimbursed under the state contract only when actually paid.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

Tax Status

The Center is a nonprofit organization exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. The Center is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in the furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Tax Status (Continued)

ASC Topic 740, Income Taxes, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California purposes is generally three and four years, respectively. Management believes that no such uncertain tax positions requiring accrual or disclosure exist at June 30, 2014.

Subsequent Events

The Center's management has evaluated subsequent events from the statement of financial position date through April 17, 2015, the date the financial statements were available to be issued for the year ended June 30, 2014, and determined, except as disclosed in Note 7, there are no other items to disclose.

NOTE 2 – Cash - Client Trust Funds and Unexpended Client Trust Funds

The Center acts as fiduciary for the client support funds received directly on behalf of clients from certain governmental agencies. At June 30, 2014 and 2013, $1,124,315 and $986,353, respectively, were held on the behalf of clients by the Center for such purchase of services. During the years ended June 30, 2014 and 2013, the Center purchased $7,440,318 and $7,759,480, respectively, of client services in this agency capacity. Because the Center is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying statements of activities.

NOTE 3 – Contracts with the State

The Center's major source of revenue is from the state. Each fiscal year, the Center enters into a new contract with the state for a specified funding amount subject to budget amendments. The contracted amount payable to the Center was $285,510,751 and $268,099,044 for the years ended June 30, 2014 and 2013, with actual net expenditures totaling $280,720,154 and $264,979,090 for the years ended June 30, 2014 and 2013, respectively. Revenue from the state is recognized monthly when a claim for reimbursement of actual expenses is filed with the state. These reimbursement claims are paid at the state's discretion either through direct payments to the Center or by applying the claims reimbursements against advances already made to the Center.

NOTE 3 – Contracts with the State (Continued)

As of June 30, 2014 and 2013, the DDS had advanced the Center $69,070,016 and $51,616,428, respectively, under the regional center contracts. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from the DDS contracts as follows:

	June 30, 2014	June 30, 2013
Contracts receivable	$ 89,074,568	$ 70,282,235
Contract advances	(69,070,016)	(51,616,428)
Net contracts receivable	$ 20,004,552	$ 18,665,807

The Center has renewed its contract with the state for the fiscal year ending June 30, 2015. This contract provides for initial funding of $282,006,686.

NOTE 4 – Line of Credit

The Center established a revolving line of credit with a financial institution for $44,500,000. The line of credit matured on October 15, 2014 and was secured by substantially all assets of the Center with interest due monthly at the bank's reference rate (3.25% at June 30, 2014). As of June 30, 2014 and 2013, there was no outstanding borrowing on the line of credit.

NOTE 5 – Retirement Plan

The Center has contracted with the California Public Employees' Retirement System (CalPERS) for retirement benefits. CalPERS is an agent multiple-employer defined benefit pension plan. The plan provides a defined benefit pension and postretirement benefit program for all eligible employees of the Center. CalPERS functions as an investment and administrative agent for its members. The plan also provides survivor, death, and disability benefits. CalPERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the California Public Employees' Retirement System Executive Office, 400 P Street, Sacramento, California 95814.

NOTE 5 – Retirement Plan (Continued)

CalPERS uses the Entry Age Normal Cost Method to fund benefits. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire to the assumed retirement age. The cost allocated to the current year is called the normal cost.

The actuarial accrued liability for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for members entitled to deferred benefits, is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants.

The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls.

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization rate and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period while experience gains and losses were amortized over a rolling 30-year period. Beginning with the June 30, 2013 valuations that set the fiscal 2015-16 rates, CalPERS will employ an amortization and smoothing policy that will spread rate increases or decreases over a 5-year period, and will amortize all experience gains and losses over a fixed 30-year period. CalPERS will no longer use an actuarial value of assets and will use the market value of assets.

NOTE 5 – Retirement Plan (Continued)

A summary of principal actuarial assumptions used is as follows:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Asset Valuation Method	Market value
Actuarial Assumptions	
Discount Rate	7.5% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

The asset allocation shown below reflects the CalPERS fund in total as of June 30, 2013. The assets of the Center's plan are part of the CalPERS fund and are invested accordingly.

Asset Class	Current Allocation	Target Allocation
Global Equity	51.1 %	47.0 %
Private Equity	12.0	12.0
Global Fixed Income	16.8	19.0
Liquidity	4.0	2.0
Real Assets	9.7	14.0
Inflation Sensitive Assets	3.6	6.0
Absolute Return Strategy (ARS)	2.8	0.0
	100.0 %	100.0 %

NOTE 5 – Retirement Plan (Continued)

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll as reported by CalPERS.

Valuation Date	Accrued Liability	Actuarial Value of Assets*	Unfunded Liability (UL)	Funded Ratios	Annual Covered Payroll	UL as a Percentage of Payroll
06/30/09	$ 41,038,949	$ 35,105,624	$ 5,933,325	85.5%	$ 19,185,327	30.9%
06/30/10	$ 44,756,768	$ 39,523,959	$ 5,232,809	88.3%	$ 18,602,288	28.1%
06/30/11	$ 48,678,323	$ 44,141,811	$ 4,536,512	90.7%	$ 17,820,499	25.5%
06/30/12	$ 52,029,122	$ 48,568,326	$ 3,460,796	93.3%	$ 18,745,727	18.5%
06/30/13	$ 56,302,144	$ 48,708,624	$ 7,593,520	86.5%	$ 17,940,319	42.3%

* Beginning with the 6/30/2013 valuation Actuarial Value of Assets equals Market Value of Assets per CalPERS Direct Rate Smoothing Policy.

The Center has two retirement plans with CalPERS. One plan is a 2%-at-age-55 formula which closed as of December 31, 2012. All employees hired prior to January 1, 2013 participate in this plan. The second plan is a 2%-at-age-62 formula which was established by the Public Employees' Pension Reform Act of 2013 (PEPRA) and all employees hired on or after January 1, 2013 participate in this plan. The total required employee contributions are 7% of earnings for the 2%-at-age-55 plan and 6.25% of earnings for the 2%-at-age-62 plan. The Center is required to contribute at an actuarially determined rate, which was 10.302% of annual covered payroll for the year ended June 30, 2014.

NOTE 5 – Retirement Plan (Continued)

In 2014, CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014 the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long-term blended return that continues to support a discount rate assumption of 7.5 percent. The Board also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these is mortality improvement to acknowledge the greater life expectancies we are seeing in our membership and expected continued improvements. The new actuarial assumptions will be used to set the FY 2016-17 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will be calculated in the 2014 actuarial valuation and will be amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy.

Total retirement expense for the years ended June 30, 2014 and 2013 was $1,863,188 and $1,802,433, respectively.

NOTE 6 – Commitments and Contingencies

Commitments

The Center is obligated under certain operating leases for office equipment, field and main office facilities. The lease terms expire in various years through November 2020. The terms of the leases provide for payment of minimum annual rentals, insurance, and property taxes.

NOTE 6 – Commitments and Contingencies (Continued)

Commitments (Continued)

Future aggregate minimum annual lease payments under noncancelable operating leases having initial terms in excess of one year are as follows:

For the Year Ending June 30,	
2015	$ 2,983,817
2016	2,788,428
2017	2,632,504
2018	2,595,809
2019	2,674,569
Thereafter	3,914,224
	$ 17,589,351

Total rent expense for the years ended June 30, 2014 and 2013 was $2,887,441 and $2,882,098, respectively.

Contingencies

In accordance with the terms of the contract with the DDS, an audit may be performed by an authorized DDS representative. Should such audit disclose any unallowable costs, the Center may be liable to the DDS for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2014, and for the year then ended.

The Center is dependent on continued funding provided by the DDS to operate and provide services for its clients. The Center's contract with the DDS provides funding for services under the Lanterman Act. In the event that the operations of the Center result in a deficit position at the end of any contract year, the DDS may reallocate surplus funds within the state of California system to supplement the Center's funding. Should a system-wide deficit occur, the DDS is required to report to the governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. The DDS's recommendations are subsequently reviewed by the governor and the Legislature and a decision is made with regard to specific actions.

NOTE 6 – Commitments and Contingencies (Continued)

Contingencies (Continued)

The Center has elected to self-insure its unemployment insurance using the prorated cost-of-benefits method. Under this method, the Center is required to reimburse the State of California Employment Development Department for benefits paid to certain former employees. The Center had $157,216 and $58,809 in a reserve cash account to pay for any potential unemployment claims at June 30, 2014 and 2013, respectively.

The Center is involved in various claims and lawsuits arising in the normal conduct of its operations. The Center's management believes it has adequate defenses and insurance coverage for these actions and, thus, has made no provision in the financial statements for any costs relating to the settlement of such claims.

NOTE 7 – Subsequent Events

In October 2014, the Center entered into a revolving line of credit agreement with a bank whereby it can borrow up to $44,500,000 through September 30, 2015, with interest at the bank's reference rate. The line of credit is secured by substantially all assets of the Center.

REGIONAL CENTER OF ORANGE COUNTY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass-Through Grantor/ Grant Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U.S. Department of Education			
Passed through State of California Department of Developmental Services			
Special Education – Grants for Infants and Families	84.181	HD099014	$ 2,242,836

Note to Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Regional Center of Orange County, Inc. and is presented based on state contract budget allocations. Expenditures reported on the Schedule are reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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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*

To the Board of Directors of
Regional Center of Orange County, 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 Regional Center of Orange County, Inc. (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2014, 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 April 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Regional Center of Orange County, 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 Regional Center of Orange County, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Regional Center of Orange County, Inc.'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 Regional Center of Orange County, 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.

Windes, Inc.

Long Beach, California
April 17, 2015

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Regional Center of Orange County, Inc.

Report on Compliance for Each Major Federal Program

We have audited Regional Center of Orange County, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Regional Center of Orange County, Inc.'s major federal programs for the year ended June 30, 2014. Regional Center of Orange County, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Regional Center of Orange County, 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Regional Center of Orange County, 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 Regional Center of Orange County, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Regional Center of Orange County, 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, 2014.

Report on Internal Control Over Compliance

Management of Regional Center of Orange County, 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 Regional Center of Orange County, Inc.'s internal control over compliance with the types of compliance 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 OMB Circular A-133, 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 Regional Center of Orange County, 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 a 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Windes, Inc.

Long Beach, California
April 17, 2015

REGIONAL CENTER OF ORANGE COUNTY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued – Unmodified

Internal control over financial reporting

1. Material weakness(es) identified? – No
2. Significant deficiencies identified? – None reported
3. Noncompliance material to financial statements noted? – No

Federal Awards

Internal control over major programs

1. Material weakness(es) identified? – No
2. Significant deficiencies identified? – None reported
3. Type of auditors' report issued on compliance for major programs? – Unmodified
4. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? – No
5. Identification of major program: Special Education – Grants for Infants and Families, CFDA #84.181
6. Dollar threshold used to distinguish between type A and type B programs was $300,000.
7. Auditee qualified as low-risk auditee? – No

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT

None

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None