Regional Center of Orange County, Inc.

Financial Statements

June 30, 2016 and 2015

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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, 2016 and 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.

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, 2016 and 2015, 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

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 March 28, 2017, 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
March 28, 2017

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2016	June 30, 2015
ASSETS		
Cash and cash equivalents	$ 22,692,626	$ 4,224,661
Cash – client trust funds	1,239,311	1,232,033
Contracts receivable - state of California	16,764,071	34,049,308
Receivables from Intermediate Care Facility vendors	5,935,530	4,747,000
Other receivables	115,560	137,154
Deposits and prepaid expenses	704,966	650,140
Other assets	1,079,691	596,553
Receivable from state for accrued vacation	1,486,424	1,348,746
Receivable from state for deferred rent	2,342,524	2,379,874
TOTAL ASSETS	$ 52,360,703	$ 49,365,469

LIABILITIES AND NET ASSETS

	June 30, 2016	June 30, 2015
LIABILITIES		
Accounts payable	$ 31,089,281	$ 31,090,412
Due to state	15,020,411	12,421,116
Accrued vacation	1,486,424	1,348,746
Other liabilities	1,056,534	750,804
Deferred rent liability	2,342,524	2,379,874
Unexpended client trust funds	1,312,587	1,318,861
	52,307,761	49,309,813
COMMITMENTS AND CONTINGENCIES (Notes 5 and 6)		
NET ASSETS		
Unrestricted	52,942	55,656
TOTAL LIABILITIES AND NET ASSETS	$ 52,360,703	$ 49,365,469

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, 2016	For the Year Ended June 30, 2015
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contracts – state of California	$ 324,429,208	$ 304,428,502
Intermediate Care Facility supplemental services income	10,338,611	9,938,644
Interest income	110,845	87,134
Contributions	17,794	29,547
Total Support and Revenue	334,896,458	314,483,827
EXPENSES		
Client Services		
Purchase of services	298,982,210	282,939,625
Salaries and benefits	24,711,481	21,591,880
Other client service	20,535	22,673
Total Client Service Expenses	323,714,226	304,554,178
Administration		
Operating expenses	8,489,908	7,440,628
Salaries and benefits	2,695,038	2,482,122
Total Administration Expenses	11,184,946	9,922,750
Total Expenses	334,899,172	314,476,928
CHANGE IN NET ASSETS	(2,714)	6,899
NET ASSETS AT BEGINNING OF YEAR	55,656	48,757
NET ASSETS AT END OF YEAR	$ 52,942	$ 55,656

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, 2016	For the Year Ended June 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,714)	$ 6,899
Adjustments to reconcile change in net assets to net cash from operating activities:		
(Increase) decrease in:		
Cash - client trust funds	(7,278)	(107,718)
Contracts receivable - state of California	17,285,237	(14,044,756)
Receivables from Intermediate Care Facility vendors	(1,188,530)	289,176
Other receivables	21,594	(58,622)
Deposits and prepaid expenses	(54,826)	(79,727)
Other assets	(483,138)	102,358
Receivable from state for accrued vacation	(137,678)	(107,448)
Receivable from state for deferred rent	37,350	158,357
Increase (decrease) in:		
Accounts payable	(1,131)	1,042,658
Due to state	2,599,295	6,529,934
Accrued vacation	137,678	107,448
Other liabilities	305,730	77,902
Deferred rent liability	(37,350)	(158,357)
Unexpended client trust funds	(6,274)	528,853
Net Cash Provided By (Used In) Operating Activities	18,467,965	(5,713,043)
NET CHANGE IN CASH AND CASH EQUIVALENTS	18,467,965	(5,713,043)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,224,661	9,937,704
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 22,692,626	$ 4,224,661
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.

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 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 $52,942 and $55,656 at June 30, 2016 and 2015, 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, 2016 and 2015.

- 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, 2016 and 2015.

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, 2016 and 2015, the Center has not recorded any unconditional promises to give. For the years ended June 30, 2016 and 2015, the Center received contributions of $17,794 and $29,547, 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, 2016 and 2015 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 and Due to State

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)

Receivables from Intermediate Care Facility Vendors and Due to State (Continued)

Prior to the year ended June 30, 2012, the Center paid the day and transportation providers and billed the DDS and were reimbursed by the DDS on a monthly basis. For the first five years of the ICF implementation, the DDS paid the applicable amounts to the ICFs in arrears in quarterly batches. The ICFs were directed to remit to the Center the amount received less its administration and quality assurance fees. After the Center receives the net payments from the ICFs, the Center was directed to remit the amount to the DDS, net of its administration fee. Amounts received from the ICFs and due to the DDS are reported as due to state on the statements of financial position.

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.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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 net income from any unrelated trade or business and, in the opinion of management, is not material to the financial statements taken as a whole.

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, 2016.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *"Leases"* (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Center's fiscal years beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements (Continued)

In August 2016, the FASB issued ASU 2016-14, *"Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities."* The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions," (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Center's financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented, although certain optional practical expedients are available for the periods prior to adoption. Management is currently evaluating the impact of this ASU on their financial statements.

Subsequent Events

The Center's management has evaluated subsequent events from the statement of financial position date through March 28, 2017, the date the financial statements were available to be issued for the year ended June 30, 2016, and determined 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, 2016 and 2015, $1,239,311 and $1,232,033, respectively, were held on the behalf of clients by the Center for such purchase of services. During the years ended June 30, 2016 and 2015, the Center purchased $7,653,692 and $7,532,199, 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 $328,815,506 and $308,563,905 for the years ended June 30, 2016 and 2015, respectively, with actual net expenditures totaling $320,942,116 and $305,247,833 for the years ended June 30, 2016 and 2015, 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.

As of June 30, 2016 and 2015, the DDS had advanced the Center $56,621,006 and $53,266,994, 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,	
	2016	**2015**
Contracts receivable	$ 73,385,077	$ 87,316,302
Contract advances	(56,621,006)	(53,266,994)
Net contracts receivable	$ 16,764,071	$ 34,049,308

The Center has renewed its contract with the state for the fiscal year ending June 30, 2017. This contract provides for initial funding of $375,362,246.

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 September 30, 2016 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, 2016). As of June 30, 2016 and 2015, 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 Q Street, Sacramento, California 95811.

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 market 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.

A summary of principal actuarial assumptions used, provided by the Annual Valuation Report prepared by the CalPERS Actuarial Office, are as follows:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Asset Valuation Method	Market value
Actuarial Assumptions	
Discount Rate	7.50% (net of expenses)
Salary Increases	Varies by entry age and service
Inflation	2.75%
Payroll Growth	3.00%

NOTE 5 – Retirement Plan (Continued)

The asset allocation shown below, provided by the CalPERS Actuarial Office, reflects the CalPERS fund in total as of June 30, 2015. 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	53.8 %	51.0 %
Private Equity	9.6	10.0
Global Fixed Income	17.6	20.0
Liquidity	2.5	1.0
Real Assets	10.5	12.0
Inflation Sensitive Assets	5.2	6.0
Other	0.8	0.0
	100.0 %	100.0 %

The Schedule of Funding Progress below, provided by the CalPERS Actuarial Office, shows the recent history of the actuarial accrued liability, the market value of assets, the funded ratio and the annual covered payroll.

Valuation Date	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll
06/30/11	$ 48,678,323	$ 39,956,571	$ 8,721,752	82.1%	$ 17,820,499
06/30/12	$ 52,029,122	$ 41,446,641	$ 10,582,481	79.7%	$ 18,745,727
06/30/13	$ 56,302,144	$ 48,708,624	$ 7,593,520	86.5%	$ 17,940,319
06/30/14	$ 63,265,392	$ 58,620,183	$ 4,645,209	92.7%	$ 18,368,538
06/30/15	$ 68,805,655	$ 61,204,763	$ 7,600,892	89.0%	$ 19,809,831

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 11.221% of annual covered payroll for the year ended June 30, 2016.

NOTE 5 – Retirement Plan (Continued)

The CalPERS Board of Administration adopted changes to the demographic assumptions based on the most recent experience study report. The most significant of these is the improvement in post-retirement mortality acknowledging the greater life expectancies in membership and expected continued improvements. The actuarial assumptions and methods used in CalPERS public agency valuations are approved by the Board of Administration upon the recommendation of the Chief Actuary.

Total retirement expense for the years ended June 30, 2016 and 2015 was $3,208,681 and $1,957,697, 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 August 2027. The terms of the leases provide for payment of minimum annual rentals, insurance, and property taxes.

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,	
2017	$ 2,954,424
2018	3,037,716
2019	3,129,733
2020	3,222,149
2021	1,643,778
Thereafter	3,265,362
	$ 17,253,162

Total rent expense for the years ended June 30, 2016 and 2015 was $3,104,346 and $2,903,855, respectively.

NOTE 6 – Commitments and Contingencies (Continued)

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, 2016, 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 state determines that the Center has insufficient funds to meet its contractual obligations, the state shall make its best effort to secure additional funding and/or provide the Center with regulatory and statutory relief.

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 $255,217 and $175,270 in a reserve cash account to pay for any potential unemployment claims at June 30, 2016 and 2015, 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 March 2017, the Center agreed to a new revolving line of credit agreement with a bank whereby it can borrow up to $44,500,000 through September 29, 2017, with interest at the bank's reference rate. The line of credit is secured by substantially all assets of the Center. The new line of credit is pending execution by the bank as of March 28, 2017.

REGIONAL CENTER OF ORANGE COUNTY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program or Cluster 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	H181A150037	$ 887,091

See accompanying notes to schedule of expenditures of federal awards.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Regional Center of Orange County, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Regional Center of Orange County, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of Regional Center of Orange County, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting and based on state contract budget allocations. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

Regional Center of Orange County, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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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, 2016, 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 March 28, 2017.

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
March 28, 2017

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

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Windes, Inc.

Long Beach, California
March 28, 2017

REGIONAL CENTER OF ORANGE COUNTY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued – Unmodified

Internal control over financial reporting:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Noncompliance material to financial statements noted? – No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Type of auditors' report issued on compliance for major programs? – Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? – No

Identification of major program: Special Education – Grants for Infants and Families, CFDA #84.181

Dollar threshold used to distinguish between type A and type B programs was $750,000.

Auditee qualified as low-risk auditee? – No

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None