REGIONAL CENTER
OF ORANGE COUNTY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

REGIONAL CENTER OF ORANGE COUNTY, INC.

CONTENTS

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 nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

MARCUMGROUP
MEMBER

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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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 9 to the financial statements, the beginning balance of net assets has been restated. Our opinion is not modified with respect to this matter.

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 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 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 August 23, 2019, 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.

Marcum LLP

San Francisco, California
August 23, 2019

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

Assets	
Cash	$ 1,614,644
Cash held for clients	634,096
Contract receivables - State of California	86,205,131
Intermediate care facilities vendor receivables	5,276,408
Receivables held for clients	239,553
Deposits and prepaid expenses	612,815
Other assets	779,437
Unbilled reimbursable contract costs receivables - State of California	71,049,990
Total Assets	$ 166,412,074
Liabilities and Net Assets	
Liabilities	
Accounts payable	$ 37,366,769
Contract advance - State of California	57,057,590
Due to State of California	52,523
Net assets held for clients	838,706
Accrued vacation and other leave benefits	1,763,144
Deferred rent liability	1,745,203
Unfunded pension benefit obligations	67,541,643
Total Liabilities	166,365,578
Net Assets	
Unrestricted	46,496
Total Liabilities and Net Assets	$ 166,412,074

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2018

Support and Revenue	
Grants	$ 403,585,431
Federal awards	916,502
Intermediate care facilities	11,989,080
Interest	154,022
Contributions	11,595
Total Support and Revenue	416,656,630
Expenses	
Program services	406,956,532
General and administrative	9,120,574
Total Expenses	416,077,106
Change in Net Asset Before Changes in Pension Benefit Obligations	579,524
Change in Pension Benefit Other than Periodic Benefit Costs	(578,239)
Change in Net Assets	1,285
Net Assets - Beginning (Restated)	45,211
Net Assets - Ending	$ 46,496

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	General and Administrative	Total
Purchase of Services			
Community and immediate care facilities	$ 76,018,258	$ --	$ 76,018,258
Day training services	83,628,828	--	83,628,828
Transportation services	14,157,441	--	14,157,441
Respite care services	20,960,297	--	20,960,297
Medical care services	7,699,960	--	7,699,960
Nonmedical services	24,784,269	--	24,784,269
Other purchased services	146,401,993	--	146,401,993
Total Purchase of Services	373,651,046	--	373,651,046
Operating			
Salaries and related expenses	33,295,202	3,773,222	37,068,424
Office occupancy	--	2,612,280	2,612,280
Other operating expenses	10,284	2,735,072	2,745,356
Total Operating	33,305,486	9,120,574	42,426,060
Total Expenses	$ 406,956,532	$ 9,120,574	$ 416,077,106

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

Cash Flows From Operating Activities	
Change in net assets	$ 1,285
Adjustments to reconcile changes in net assets to net cash used in operating activities:	
Changes in operating assets and liabilities:	
Contract receivables - State of California	(60,775,083)
Intermediate care facilities vendor receivables	1,342,847
Receivables held for clients	(24,990)
Deposits and prepaid expenses	21,509
Other assets	150,142
Accounts payable	555,988
Contract advance - State of California	48,568,864
Net assets held for clients	(348,890)
Net Cash Used in Operating Activities	(10,508,328)
Cash - Beginning	12,757,068
Cash - Ending	$ 2,248,740

Statement of Financial Position Presentation

Cash	$ 1,614,644
Cash held for clients	634,096
	$ 2,248,740

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

Organization

Regional Center of Orange County, Inc. (the "Center"), a California nonprofit public benefit corporation under contract with the State of California Department of Developmental Services ("DDS"), was formed in 1977 to administer programs for individuals with developmental disabilities and their families, which includes diagnosis, counseling, education services, and dissemination of information on developmental disabilities to the public. The Center is one of 21 regional centers within California and serves Orange County.

Governance

The Center was organized in accordance with the provision of the Lanterman Developmental Disabilities Services Act (the "Lanterman Act") of the Welfare and Institutions Code of the State of California. The Lanterman Act includes governance provisions regarding the composition of the Center's Board of Directors. The Lanterman 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 percent of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25 percent 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 Board. To comply with the Lanterman Act, the Board of Directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services through the Center and a client service provider of the Center.

STATE OF CALIFORNIA CONTRACT

The Center operates under an annual cost-reimbursement contract with DDS under the Lanterman Act. The maximum expenditures under the contract are limited to the contract amount plus interest earned. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual, issued by DDS, and is required to have DDS approval for certain expenses. In the event of termination or nonrenewal of the contract, the State of California maintains the right to assume control of the Center's operation and the obligation of its liabilities.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF ACCOUNTING

The Center prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which involves the application of accrual method of accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred regardless of the timing of cash flows.

CLASSIFICATION OF NET ASSETS

U.S. GAAP requires that the Center report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the Center are classified and reported as follows:

Unrestricted
Those net assets and activities which represent expendable funds for operations related to the DDS contract, Community Placement Plan ("CPP"), and a federally funded program.

Temporarily Restricted
Those net assets and activities which are donor-restricted for (a) support of specific operating activities; or (b) use in a specified future period.

Permanently Restricted
Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

As of June 30, 2018, and for the year then ended, the Center did not have any temporarily or permanently restricted net assets or activities.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of receivables and accounts payable approximate fair value because of the short maturity of these instruments.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CASH

Cash is defined as cash in demand deposit accounts as well as cash on hand. The Center considers all financial instruments with a maturity of three months or less when purchased to be cash equivalents. As of June 30, 2018, and for the year then ended, the Center did not have any cash equivalents.

CONTRACTS UNBILLED REIMBURSABLE CONTRACT COSTS

Contract with DDS receivables represent total claims billed according to the terms of the contract for those costs incurred through the end of the year but still pending reimbursement by DDS. Management believes that these receivables are fully collectible and, therefore, has not provided an allowance for doubtful accounts.

STATE EQUIPMENT

Pursuant to the terms of the contract with DDS, equipment purchases become the property of the State of California and, accordingly, are charged as expenses when incurred. The Center tracks items, which cost more than $5,000 and have an estimated useful life of more than one year. For the year ended June 30, 2018, equipment purchases and disposals were $219,950 and $207,761, respectively. The aggregate equipment costs at June 30, 2018, totaled $2,200,531.

CLIENT TRUST ASSETS AND LIABILITIES

The Center serves as a representative payee for a portion of its clients. In this fiduciary capacity, it receives social security benefits and other sources of income and makes payments on behalf of certain developmentally disabled clients who are deemed unable to administer the funds themselves. Client Trust transactions are not considered revenue or expenses of the Center. The cash that is received and outstanding receivables, net of inter-fund liabilities, are reported as a liability, net assets held for others, until it is distributed to the respective clients.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED VACATION AND OTHER LEAVE BENEFITS

The Center has accrued a liability for vacation and sick leave benefits earned which are reimbursable costs under the contract with DDS; however, such benefits are reimbursed under the DDS contract only when actually paid, therefore, these deferred costs are recognized as unbilled reimbursable contract costs receivables - State of California on the statement of financial position. The Center accrues vacation as earned up to 320 hours. When the employee separates from service, the employee will receive the unused vacation.

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 term of the lease in accordance with U.S. GAAP. The deferred rent liability of $1,745,203 at June 30, 2018, represents the difference between the cash payments made and the amount expensed since inception of the lease. The DDS reimburses the Center for rent cost after it is paid. Therefore, deferred rent is recognized as part of the unbilled reimbursable contract costs receivables - State of California on the statement of financial position.

REVENUE RECOGNITION – GRANTS

Revenue and expenses are recognized based upon costs incurred. Depending on the date of the service, claims are classified and charged to the appropriate contract as follows:

- Current year
- Prior year
- Second prior year

CONTRIBUTIONS

The Center recognizes all contributions when they are received or unconditionally promised, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as temporarily restricted or permanently restricted support, depending upon the type of restriction.

The satisfaction of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. This occurs by increasing one class of net assets and decreasing another in the statement of activities and changes in net assets. These transactions are reported as net assets released from restrictions in the statement of activities and changes in net assets and are reported separately from other transactions.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FEDERAL GRANTS

The Center is a sub-recipient to DDS with regard to the following grant:

U.S. Department of Education
The Special Education Grants for Infants and Families, which provides funding for early intervention services for infants and toddlers, through age three, as authorized by Public Law 102-119.

INCOME TAXES

The Center is a qualified organization exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code ("IRC") and franchise taxes under §23701d of the California Revenue and Taxation Code. Accordingly, it is exempt from federal and California income taxes and is not liable for federal unemployment taxes.

Management evaluated the Center's tax positions and concluded that they maintained their tax exempt status and had taken no uncertain tax positions that would require adjustment to the financial statements.

Therefore, no provision or liability for income taxes has been included in the financial statements. The tax returns of the Center are subject to examination by federal and state taxing authorities. However, there are currently no examinations pending or in progress.

DEFINED BENEFIT PENSION PLAN

The Center records the unfunded liability of its defined benefit pension plan with California Public Employees' Retirement System ("CalPERS") on the statement of financial position and recognizes the changes in the funded status on the statement of activities and changes in net assets in the year in which the change occurs. The Center's share in the unfunded projected pension benefits obligations is determined in accordance with the provisions of FASB Standards Codification (ASC) 715, *Defined Benefit Plans - Pension*. The Center recognized the incurred but unpaid pension benefits costs as part of the unbilled reimbursable contract cost receivables - State of California on the statement of financial position. Pension benefits costs are billed to DDS when paid by the Center to CalPERS. Details on the pension benefits receivables and obligations are discussed in Notes 3 and 7.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUNCTIONAL EXPENSES ALLOCATION

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets and functional expenses. Purchase of services, salaries and related expenses are allocated to the program services or general and administrative classes on a direct-cost basis. All other operating expenses are allocated to general and administrative service.

CONCENTRATIONS OF RISKS

Credit Risk
Financial instruments, which potentially subject the Center to a concentration of credit risk, principally consist of cash, contract receivable, and receivables from vendors. The Center places cash in deposit accounts, which may at times, exceed the federally-insured limit. Through its contract with DDS, the Center is reimbursed for its expenses. The ability of DDS to honor its obligations and to continue funding is dependent upon the overall economic well-being of the State of California. The Center has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") issued new guidance, Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to provide guidance concerning recognition and measurement of revenue. In addition, significant additional disclosures are required about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, and will replace virtually all existing revenue guidance, including most industry-specific guidance. The FASB also issued ASU 2015-14, which deferred the effective date. The guidance is applicable for annual reporting periods beginning after December 15, 2018. Management is evaluating the impact of this new guidance.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases*. The new standard creates Topic 842, Leases, in the FASB *Accounting Standards Codification* (FASB ASC) and supersedes FASB ASC 840, *Leases*. Entities that hold numerous equipment and real estate operating leases will be most affected by the new guidance.

The main difference between the existing guidance on accounting for leases and the new standard is that operating leases will now be recorded in the statement of financial position as assets and liabilities. This may affect compliance with contractual agreements and loan covenants.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Current U.S. GAAP requires only capital (finance) leases to be recognized in the statement of financial position and amounts related to operating leases largely are reflected in the statement of activities and changes in net assets as rent expense and in the disclosures to the financial statements.

For operating leases, a lessee is required to do the following:

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position

- Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis

- Classify all cash payments within operating activities in the statement of cash flows

In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that start before the effective date in accordance with previous U.S. GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous U.S. GAAP. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019. On July 17, 2019, FASB voted to issue proposals to delay the effective date of this ASU by at least one year. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2022 under the proposed delay. Early application is permitted. Management is evaluating the impact if this new guidance.

On August 18, 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, representing the completion of the first phase of a two-phase project to amend not-for-profit ("NFP") financial reporting requirements as set out in FASB ASC 958, *Not-for-Profit Entities*.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

This standard:

- Eliminates the distinction between resources with permanent restrictions and those with temporary restrictions from the face of a NFP's financial statements by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions).

- Removes the current requirement to present or disclose the indirect method (reconciliation) when using the direct method of reporting cash flows.

- Requires NFPs to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.

- Requires NFPs to use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

NFPs will reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption. This amendment eliminates the current option that, in the absence of explicit donor stipulations, had allowed a NFP to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed) rather than when placed in service.

ASU 2016-14 also requires enhanced disclosures about:

- Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.

- Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.

- Qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- Quantitative information and additional qualitative information in the notes as necessary, that communicates the availability of a NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.

- Amounts of expenses by both their natural classification and their functional classification and the methods used to allocate costs among program and support functions.

- Underwater endowment funds.

NFP entities are required to adopt this standard for annual reporting periods beginning after December 15, 2017. Management is evaluating the impact of this new guidance.

NOTE 2 - CONTRACT RECEIVABLES – STATE OF CALIFORNIA

Under the terms of DDS contracts, funded expenditures are not to exceed $398,987,196, $382,152,019, and $329,762,690 for the fiscal years 2017/18, 2016/17, and 2015/16, respectively. As of June 30, 2018, actual net expenditures under the 2017/18, 2016/17, 2015/16 contracts were $391,851,629, $ 374,002,954, and $327,257,595, respectively.

Contract receivables as of June 30, 2018, consist of the following:

Claims submitted:	
Current year	$ 85,174,819
Prior year	1,030,312
Total	$ 86,205,131

NOTE 3 - UNBILLED REIMBURSABLE CONTRACTS COSTS RECEIVABLES – STATE OF CALIFORNIA

The contract with DDS stipulates that if the contract is terminated with approval from DDS, the DDS shall pay the accrued benefits and existing contracts. Accrued benefits shall include vacation, sick leave, and any other benefits. The Center's management, based on the fact that DDS has paid all claims of such benefits and costs that have been claimed by the Center since its inception of operation, believes that the entire balance of the receivables is collectible.

Unbilled reimbursable contracts costs receivables as of June 30, 2018, consist of the following:

Unfunded defined benefit plan obligations	$ 67,541,643
Deferred costs for rent liability	1,745,203
Deferred costs for accrued vacation and other leave benefits	1,763,144
Total	$ 71,049,990

NOTE 4 - INTERMEDIATE CARE FACILITIES – STATE PLAN AMENDMENT

During the year ended June 30, 2011, various legislative changes were made to the California Welfare and Institutions Code retroactive to July 1, 2007, making Intermediate Care Facility ("ICF") providers responsible for providing day programs and transportation services; and ultimately, making such services eligible for reimbursement under California's Home and Community Based Services Program, which is funded by the Medicaid Waiver grant ("Medicaid").

Previously, such services provided to the residents were not reimbursable by Medicaid because the funds were not directly billed and received by the ICFs. The legislative changes allow for DDS to bill these services to Medicaid and capture federal funds.

DDS directs the Center to prepare billings for these services on behalf of the ICFs. The billings include a 5.5% Quality Assurance fee for the State of Department of Health Care Services, a 1.5% administrative fee for the ICFs and a 1.5% administration fee for the Center.

NOTE 4 - INTERMEDIATE CARE FACILITIES – STATE PLAN AMENDMENT (CONTINUED)

Effective July 1, 2012, DDS directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services in addition to paying the ICFs directly for their 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.

The receivable from ICFs in the amount of $5,276,408 represents the amount DDS paid or will pay to the ICFs net of the ICF's administrative fee and Quality Assurance fee in relation to the billings prepared beginning July 1, 2012, and the payable to DDS of $52,523, represents the amount expected to be paid net of the Center's fee in relation to the billings prepared on or before June 30, 2012. Revenue from ICFs was $11,989,080.

NOTE 5 - CONTRACT ADVANCE – STATE OF CALIFORNIA

Contract advance represents in advance payments from DDS to the Center at the beginning of each fiscal year to provide interest-free working capital. DDS uses its discretion in determining the balance on a month-to-month basis. It is DDS' sole discretion whether the advance will be paid by off-setting the contract receivable partially or in full. Due to the lack of mutuality of offsetting rights, the contract advance is presented separately from the contract receivables on the statement of financial position. As of June 30, 2018, contract advance balance was $57,057,590.

NOTE 6 - LINE OF CREDIT

The Center had a revolving line of credit with MUFG Union Bank, N.A. whereby it may borrow up to $44,500,000 through the maturity date, September 28, 2018. The line of credit is secured by substantially all of the Center's assets with interest at the bank's reference rate. At the closing of business on June 30, 2018, the interest rate was 5.00%. During the year ended June 30, 2018, the Center had not drawn on the line of credit. The Center has renewed this line of credit through September 30, 2019.

NOTE 7 - NET ASSETS HELD FOR CLIENTS

The changes in net assets held for clients for the year consist of the following:

Beginning Balance	$ 1,187,596
Client support received	3,209,113
Less: purchase of services and disbursements	(3,558,003)
Ending Balance	$ 838,706

NOTE 8 - DEFINED BENEFIT PENSION PLAN

The Center contributes to CalPERS for retirement benefits. CalPERS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within California. Substantially all of the Center's employees participate in CalPERS.

FASB Accounting Standards Codification (ASC) 715-30, *Defined Benefit Plans – Pension,* requires the Center to recognize the funded status of a defined benefit retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in unrestricted net assets in the year in which the change occurs.

The Center has two retirement plans with CalPERS. The first plan is a 2%-at-age-55 formula, which closed as of December 31, 2012. All eligible 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; and, all eligible 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 the remaining amounts necessary to fund the benefits for its employees, using the actuarial basis adopted by the CalPERS Board of Administration.

The CalPERS Board of Administration adopted changes to the demographic assumptions based on the most recent experience study. The most significant of these is acknowledgement that members are living longer and that this trend will continue. The actuarial assumptions and methods used in CalPERS public agency valuation are approved by the Board of Administration upon the recommendation of the Chief Actuary.

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The excess of the total actuarial accrued liability over the market value of plan assets is 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 payoffs.

Net periodic benefit cost for the year ended June 30, 2018, is as follows:

Service cost	$ 8,594,005
Interest cost	5,517,900
Expected (return) on plan assets	(5,264,599)
Net Periodic Benefit Cost	$ 8,847,306

Net periodic benefit cost is included in salaries and benefits expenses on the statement of activities and changes in net assets.

Pension benefit changes other than net periodic benefit costs during the year ended June 30, 2018, are as follows:

Assumption changes	$ 1,493,010
Investment experience	(914,771)
Changes Other Than Net Periodic Benefit Costs	$ 578,239

Benefit obligation and funded status as of June 30, 2018, are as follows:

Benefit obligation	$ 150,462,728
Market value of assets	(82,921,085)
Unfunded Liability	$ 67,541,643

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in benefit obligation and funded status as of June 30, 2018 are as follows:

Change in Benefit Obligation	
Benefit Obligation - Beginning	$ 137,434,032
Service cost	8,594,005
Interest cost	5,517,900
Actuarial (gain) loss	1,493,010
Benefits and expenses paid	(2,576,219)
Benefit Obligation - Ending	150,462,728
Change in Fair Value of Plan Assets	
Fair Value of Plan Assets - Beginning	73,675,385
Actual return on plan assets	6,179,370
Total contributions	5,642,549
Benefit payments	(2,576,219)
Fair Value of Plan Assets - Ending	82,921,085
Unfunded Pension Benefit Obligations	$ 67,541,643

The changes in the projected benefit obligation as of June 30, 2018, due to assumptions different than those used in this valuation are as follows:

Change in Assumption	Projected Benefit Obligation
Current discount rate falls 1% to 3.25%	$ 187,478,081
Current discount rate rises 1% to 5.25%	$ 123,078,491

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The assumptions used in the measurement of the benefit obligations at June 30, 2018, are as follows:

Discount Rate	4.25%
Long-term rate of return	7.00%
Salary scale	4.00%
Maximum benefit and annual compensation limit increases	2.50%

The discount rate was derived from the Above Median Citigroup Pension Discount Curve as of the end of June 2018, using the expected payouts from the Plan. The rate used as of the beginning of the fiscal year (used to calculate the expense for the year) was 3.90%.

CalPERS long-term rate of return on plan assets is 7% which is determined in consultation with CalPERS investment staff and advisors. The annual pension expense under ASC 715 is based on the expected return on plan assets during the fiscal year.

For the mortality rate, the actuary used the RP-2014 Healthy Mortality Table projected generationally from 2006 using Scale MP-2018. This assumption is expected to be a best estimate of future mortality experience, being based on the latest published study by the Society of Actuaries, which was finalized in October 2018.

The assumed retirement and withdrawal rates vary by age and were based on the June 30, 2017, CalPERS pension report.

The Plan is reported as a pension trust fund, and is accounted for using the accrual basis of accounting. Contributions to the Plan are recognized in the period in which the contributions are due pursuant to legal requirements. Member contribution rates are defined by law and depend on the respective employer's benefit formulas. Member and employer contribution rates are determined by periodic actuarial valuations. Actuarial valuations are based on the benefit provisions and employee groups of each employer. Benefits and refunds are recognized when currently due and payable in accordance with the terms of each rate plan.

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The actual allocations for the pension assets and target allocations by asset class as of June 30, 2018, are as follows:

Asset Class	Percentage of Plan Assets	Target Allocation
Global equity	48.3%	51.9%
Private equity	8.0%	20.3%
Global fixed income	19.4%	10.8%
Liquidity	4.8%	9.0%
Real assets	11.2%	6.0%
Inflation sensitive assets	7.8%	1.5%
Other	0.5%	0.5%
Total	100%	100%

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1
Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

Level 2
Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Plan assets of $82,921,085 are held in a pooled investment account managed by CalPERS and are considered Level 3 investments.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the fiscal years ending June 30:

Fiscal Year	Expected Payment
2019	$ 2,833,072
2020	3,118,579
2021	3,409,088
2022	3,669,866
2023	3,927,072
2024-2028 Aggregate	23,834,950

NOTE 9 - RESTATEMENT

During the current year, the Center corrected an accounting error that occurred in the prior fiscal year. The Center recognized material adjustments from the determination of the deferred pension benefits obligations in accordance with the provisions of FASB ASC 715, *Defined Benefit Plans – Pension.* The error was recording the pension benefits adjustments as a deduction from unrestricted net asset as of July 1, 2016. Since the pension costs are eligible to be claimed and reimbursed when paid by the Center, they are deferrable and considered as unbilled reimbursable contract costs receivables - State of California. The effects of the restatement on the beginning balances as of July 1, 2017, due to the correction of this accounting error are as follows:

	June 30, 2017 Balance as Originally Stated	Restatement	July 1, 2017 Balance as Restated
Unbilled reimbursable contract costs receivables - State of California	4,224,246	63,758,647	67,982,893
Unrestricted net assets	(63,713,436)	63,758,647	45,211

NOTE 10 - COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The Center is obligated under certain non-cancellable operating leases for office equipment, field and main office facilities. The leases' terms expire in various years through August 2027. The terms of the leases provide for payment of minimum annual rentals, insurance, and property taxes. All leases are classified as operating leases. Rental expense was $2,649,041 for the year ended June 30, 2018.

Future minimum lease payments are as follows:

For the Years Ending June 30,	Amount
2019	$ 3,126,482
2020	3,218,800
2021	1,640,329
2022	493,818
2023	508,632
Thereafter	2,239,588
Total	$ 11,227,650

CONTINGENCIES

The majority of the Center's funding is provided under annual grants and contracts with California agencies. If a significant reduction in the level of funding provided by these governmental agencies were to occur, it may have an effect on the Center's programs and activities. The Center's revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies.

The Center's contract with 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 the contract year, DDS may reallocate surplus funds within the State of California system to supplement the Center's funding. If a system-wide deficit occurs, 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.

NOTE 10 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

CONTINGENCIES (CONTINUED)

DDS' recommendations are subsequently reviewed by the Governor and the Legislature and a decision is made with regard to specific actions, including the possible suspension of the entitlement. According to the terms of the contract with the DDS, an audit may be performed by authorized DDS representatives. Should such an audit disclose any unallowable costs, the Center may be liable to DDS for reimbursement of such costs. In the opinion of the Center's management, the potential effect of any disallowed costs would be immaterial to the financial statements as of June 30, 2018.

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 the benefits paid to certain former employees. As of June 30, 2018, the Center had $364,934 in a reserve cash account to pay any potential unemployment claims.

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 11 - SUBSEQUENT EVENTS

The Center has evaluated all subsequent events through August 23, 2019, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements have been identified.

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. (the "Center"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 23, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center'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 the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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.

MARCUMGROUP MEMBER

Marcum LLP ▪ One Montgomery Street ▪ Suite 1700 ▪ San Francisco, California 94104 ▪ Phone 415.432.6200 ▪ Fax 415.432.6201 ▪ marcumllp.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center'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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

San Francisco, California
August 23, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT 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 (the "Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2018. The Center's major federal program is 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 federal statues, 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 the Center's major federal program 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 Award* ("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 the Center'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 the major federal program. However, our audit does not provide a legal determination of the Center's compliance.

MARCUMGROUP
MEMBER

Marcum LLP ▪ One Montgomery Street ▪ Suite 1700 ▪ San Francisco, California 94104 ▪ **Phone** 415.432.6200 ▪ **Fax** 415.432.6201 ▪ **marcumllp.com**

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-001. Our opinion on the major federal program is not modified with respect to these matters.

The Center's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Center 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 the Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the Center'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 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, we did identity a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a significant deficiency.

The Center's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Marcum LLP

San Francisco, California
August 23, 2019

REGIONAL CENTER OF ORANGE COUNTY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Office of Special Education and Rehabilitative Services of the U.S. Department of Education passed-through the State of California Department of Developmental Services:				
Early Intervention Services:				
Special Education- Grants for Infants and Families with Disabilities	84.181	HD149015	$ --	$ 916,502
Total Expenditures of Federal Awards			$ --	$ 916,502

See independent auditors' report and notes to the Schedule of Expenditures of Federal Awards.

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activities of Regional Center of Orange County, Inc. 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 the Center, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the Center.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as a reimbursement.

NOTE 3 - INDIRECT COST RATE

The Center has elected not to use the 10% de minimis indirect cost rate.

SECTION I - SUMMARY OF THE AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified:	No
Significant deficiencies identified:	None reported
Noncompliance material to financial statements:	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified:	No
Significant deficiencies identified:	Yes
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 200.516(a)?	No

Identification of major federal programs:

CFDA Number	Name of Federal Program/Cluster
84.181	Special Education - Grants for Infants and Families

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Audit qualified as low-risk auditee:	No

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY

2018-001 – UNTIMELY FILING OF DATA COLLECTION FORM

CRITERIA

The Center is required to complete and submit its audit report and Data Collection Form with the Federal Audit Clearinghouse by the earlier of nine months after the end of its year or 30 days after the audit report has been issued.

CONDITION

For the year ended June 30, 2018, the Center did not complete and submit its audit report and Data Collection Form by March 31, 2019, the earlier of nine months after the end of its year or 30 days after the audit report has been issued.

CAUSE

The audit was not completed in time to submit it and the Data Collection Form by March 31, 2019.

EFFECT

The Center will not be able to have low-risk status for federal single audit purposes for the next two years.

QUESTION COSTS

No questioned costs noted.

CONTEXT

The Center was not able to submit audit reports and data collection forms timely.

RECOMMENDATION

We recommend that the Center start the audit earlier with a goal of completing and submitting the final audit well before March 31 of the subsequent year.

MANAGEMENT'S RESPONSE AND PLANNED CORRECTIVE ACTION

The Center and the auditor have agreed that in order to submit its audit report and the Data Collection Form by March 31, the audit must begin earlier. The Center will work with the auditor to ensure that it does.

SECTION IV - STATUS OF PRIOR YEAR AUDIT FINDINGS

2017-001 – INFORMATION SYSTEMS (MATERIAL WEAKNESS IN INTERNAL CONTROL)

Remediated.

2017-002 – FINANCIAL REPORTING, PENSIONS (MATERIAL WEAKNESS IN INTERNAL CONTROL)

Remediated.

REGIONAL CENTER OF ORANGE COUNTY

August 16, 2019

Mr. Roger P. Bulosan, CPA, CFE
Partner
Marcum LLP
One Montgomery Street, Suite 1700
San Francisco, CA 94104

Dear Roger:

In the financial statements that Marcum prepared for the year ending June 30, 2018, it is noted that "the Center did not complete and submit its audit report and Data Collection Form by March 31, 2019, the earlier of nine months after the end of its year or 30 days after the audit report has been issued."

The Regional Center of Orange County (RCOC) and Marcum have agreed that in order to submit its audit report and the Data Collection Form by March 31st, the audit must begin earlier. RCOC will work with Marcum to ensure that it does.

Sincerely,

Bette Baber

Bette Baber
Chief Financial Officer

Mailing Address: P.O. Box 22010, Santa Ana, CA 92702-2010 ● Tel 714/796-5100 (24 Hours) ● Toll Free 800/244-3177 ● Fax 714/796-5200
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