



REGIONAL CENTER
OF ORANGE COUNTY

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR 2018)

REGIONAL CENTER OF ORANGE COUNTY, INC.

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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. (the "Center"), which comprise the statement of financial position as of June 30, 2019, 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.

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, 2019, 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.

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.

Report on Summarized Comparative Information

We have previously audited the Center's 2018 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 23, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 14, 2020, on our consideration of the Center'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 the effectiveness of the Center's 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 the Center's internal control over financial reporting and compliance.

Marcum LLP

San Francisco, California
July 14, 2020

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
AS OF JUNE 30, 2018)

	2019	2018
Assets		
Cash	\$ 11,170,138	\$ 1,614,644
Cash held for clients	453,299	634,096
Contract receivables - State of California	130,753,946	86,205,131
Intermediate care facilities vendor receivables	5,097,857	5,276,408
Receivables held for clients	20,971	239,553
Deposits and prepaid expenses	619,550	612,815
Other assets	630,487	779,437
Unbilled reimbursable contract costs receivables - State of California	<u>95,502,233</u>	<u>71,049,990</u>
Total Assets	<u>\$ 244,248,481</u>	<u>\$ 166,412,074</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 42,679,815	\$ 37,366,769
Contract advance - State of California	105,392,831	57,057,590
Due to State of California	52,523	52,523
Net assets held for clients	444,701	838,706
Accrued vacation and other leave benefits	1,931,849	1,763,144
Deferred rent liability	4,898,449	1,745,203
Unfunded pension benefit obligations	<u>88,671,935</u>	<u>67,541,643</u>
Total Liabilities	244,072,103	166,365,578
Net Assets Without Restrictions	<u>176,378</u>	<u>46,496</u>
Total Liabilities and Net Assets	<u>\$ 244,248,481</u>	<u>\$ 166,412,074</u>

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, 2019
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018)**

	2019	2018
Support and Revenue		
Contracts - State of California	\$ 444,164,203	403,585,431
Federal awards	1,141,456	916,502
Intermediate care facilities	11,101,141	11,989,080
Interest	231,848	154,022
Contributions	154,161	11,595
Total Support and Revenue	<u>456,792,809</u>	<u>416,656,630</u>
Expenses		
Program services	425,026,877	406,956,532
Management and general	12,389,927	9,120,574
Total Expenses	<u>437,416,804</u>	<u>416,077,106</u>
Change in Net Asset Before Changes in Pension Benefit Obligations	19,376,005	579,524
Change in Pension Benefit Other Than Periodic Benefit Costs	<u>(19,246,123)</u>	<u>(578,239)</u>
Change in Net Assets	129,882	1,285
Net Assets Without Restrictions - Beginning	<u>46,496</u>	<u>45,211</u>
Net Assets Without Restrictions - Ending	<u>\$ 176,378</u>	<u>\$ 46,496</u>

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, 2019
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018)**

	Program Services	Management and General	2019 Total	2018 Total
Purchase of Services				
Community and intermediate care facilities	\$ 100,580,353	\$ --	\$ 100,580,353	\$ 82,545,257
Day training and day program services	103,575,009	--	103,575,009	92,567,608
Transportation services	17,110,280	--	17,110,280	15,575,967
Respite care services	34,238,714	--	34,238,714	24,461,192
Medical care services	9,683,148	--	9,683,148	8,463,752
Nonmedical services	20,048,633	--	20,048,633	27,761,622
Other purchased services	<u>103,815,813</u>	<u>--</u>	<u>103,815,813</u>	<u>121,821,510</u>
Total Purchase of Services	<u>389,051,950</u>	<u>--</u>	<u>389,051,950</u>	<u>373,196,908</u>
Operating				
Salaries and related expenses	35,926,508	3,840,823	39,767,331	37,293,606
Office occupancy	--	3,186,673	3,186,673	2,840,096
Other operating expenses	<u>48,419</u>	<u>5,362,431</u>	<u>5,410,850</u>	<u>2,746,496</u>
Total Operating	<u>35,974,927</u>	<u>12,389,927</u>	<u>48,364,854</u>	<u>42,880,198</u>
Total Expenses	<u>\$ 425,026,877</u>	<u>\$ 12,389,927</u>	<u>\$ 437,416,804</u>	<u>\$ 416,077,106</u>

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, 2019
(WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018)

	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ 129,882	\$ 1,285
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities:		
Contract receivables - State of California	(44,548,815)	(60,775,083)
Intermediate care facilities vendor receivables	178,551	1,342,847
Receivables held for clients	218,582	(24,990)
Deposits and prepaid expenses	(6,735)	21,509
Other assets	148,950	150,142
Accounts payable	5,313,046	555,988
Contract advance - State of California	48,335,241	48,568,864
Net assets held for clients	(394,005)	(348,890)
Net Cash Provided by (Used in) Operating Activities	<u>9,374,697</u>	<u>(10,508,328)</u>
Cash - Beginning	<u>2,248,740</u>	<u>12,757,068</u>
Cash - Ending	<u>\$ 11,623,437</u>	<u>\$ 2,248,740</u>
Statement of Financial Position Presentation		
Cash	\$ 11,170,138	\$ 1,614,644
Cash held for clients	<u>453,299</u>	<u>634,096</u>
	<u>\$ 11,623,437</u>	<u>\$ 2,248,740</u>

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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 the 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 two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, the net assets of the Center are classified and reported as follows:

Without Donor Restrictions

Those net assets and activities which represent expendable funds for operations related to the DDS contract. These accounts also record the activities of a federally-funded program.

With Donor Restrictions

Those net assets and activities which are donor-restricted for holdings of (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; (d) the acquisition of long-lived assets; (e) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (f) assets donated with stipulations that they be invested to provide a permanent source of income.

As of June 30, 2019, and for the year then ended, the Center did not have any net assets or activities with donor restrictions.

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.

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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

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, 2019, and for the year then ended, the Center did not have any cash equivalents.

CONTRACT RECEIVABLES

Contract receivables represent claims billed according to the terms of the contract for costs incurred through the end of the year. 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, 2019, there were no equipment purchases, and the equipment disposals were \$35,293. The aggregate equipment costs at June 30, 2019, totaled \$2,165,238.

LEASEHOLD IMPROVEMENTS

Leasehold improvements not reimbursed by DDS are capitalized and are amortized over the shorter of the asset's life or the term of the lease. As of June 30, 2019, leasehold improvements net of amortization were \$630,487 and are included in other assets on the statement of financial position.

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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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 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 earned vacation 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 \$4,898,449 at June 30, 2019, represents the accumulated 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 on the statement of financial position as part of the unbilled reimbursable contract costs receivables - State of California.

REVENUE RECOGNITION – STATE OF CALIFORNIA 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 support without donor restrictions. Contributions with donor-imposed restrictions are reported as support with donor restrictions, which may be expandable or are required to be held in perpetuity.

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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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 2015 through 2018 tax returns of the Center remain subject to examination by the Internal Revenue Service. In addition, the 2014 through 2018 tax returns remain subject to examination by the California Franchise Tax Board. 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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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.

SUMMARIZED COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Center's financial statements as of June 30, 2018, and for the year then ended, from which the summarized information was derived. Certain reclassifications have been made to the 2018's comparative information to conform to the presentation of the current financial statements. The reclassifications have no effect on the classes of net assets or the change in net assets for 2018.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

On August 18, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the classification of net assets, information about liquidity, availability of resources, information about the types of expenses, and investment return for nonprofit organizations. The Center adopted ASU 2016-14 and presented, as new key information, liquidity disclosure and presented two classes of net assets instead of three classes.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* related to revenue recognition.

Subsequent to the issuance of ASUs 2014-09, the FASB issued the following ASUs to clarify certain matters related to FASB ASC 606 and related FASB ASC Topics:

- 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*
- 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*
- 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*
- 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*
- 2017-05, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)*

These updates introduce ASC Topic 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) Topic 605, *Revenue Recognition*. In 2016, the FASB issued final amendments clarifying implementation guidance for principal versus agent considerations, identifying performance obligations, assessing collectability, presenting sales taxes, measuring noncash consideration, and certain other transition matters. ASC 606 is effective as of July 1, 2019. Management is evaluating the impact of this new guidance.

On June 21, 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 applies to all entities, including business entities that receive or make contributions of cash and other assets (except for transfers of assets from government entities to business entities).

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

ASU 2018-08 provides guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. Making this determination is important because distinguishing between contributions and exchange transactions determines which guidance is applied. For contributions, an entity should follow the guidance in FASB ASC 958-605, *Not-for-Profit Entities—Revenue Recognition*, whereas, for exchange transactions, an entity should follow other guidance (for example, FASB ASC 606, *Revenue from Contracts with Customers*).

ASU 2018-08 could result in more grants and contracts being accounted for as contributions (often conditional contributions) than under current U.S. GAAP. Accounting for the grant or contract as a contribution is expected to be less costly than applying FASB ASC 606 (including the additional disclosure requirements). ASU 2018-08 also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The ASU requires entities to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

Additionally, ASU 2018-08 modifies the simultaneous release option currently in U.S. GAAP, which allows a not-for-profit organization to recognize a restricted contribution directly in net assets without donor restrictions, if the restriction is met in the same period that the revenue is recognized. This election may now be made for all restricted contributions that were initially classified as conditional without having to elect it for all other restricted contributions and investment returns. ASU 2018-08 is effective as of July 1, 2019. Management is evaluating the impact of this new guidance.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 will require lessees to recognize for all leases (with terms of more than 12 months) at the commencement date the following: a) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and b) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. 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 years beginning after December 15, 2020 under the proposed delay. Early application is permitted. Management is evaluating the impact of this new guidance.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 2 - CONTRACT RECEIVABLES – STATE OF CALIFORNIA

Under the terms of DDS contracts, funded expenditures are not to exceed \$429,388,063, \$401,053,328, and \$383,640,115 for the fiscal years 2018/19, 2017/18, and 2016/17, respectively. As of June 30, 2019, actual net expenditures under the 2018/19, 2017/18, and 2016/17 contracts were \$413,053,448, \$392,463,700, and \$381,193,052, respectively.

Contract receivables as of June 30, 2019, consist of the following:

Claims submitted:	
Current year	\$ 128,553,481
Prior year and second prior year	<u>2,200,465</u>
Total	<u>\$ 130,753,946</u>

NOTE 3 - UNBILLED REIMBURSABLE CONTRACT 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 contract costs receivables as of June 30, 2019, consist of the following:

Unfunded defined benefit plan obligations	\$ 88,671,935
Deferred costs for rent liability	4,898,449
Deferred costs for accrued vacation and other leave benefits	<u>1,931,849</u>
Total	<u>\$ 95,502,233</u>

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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 billing and receiving payment for 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 California Department of Health Care Services, a 1.5% administrative fee for the ICFs and a 1.5% administration fee for the Center.

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 \$5,097,857 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 for the year ended June 30, 2019, was \$11,101,141.

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, 2019, contract advance balance was \$105,392,831.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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 30, 2019. Subsequent to the year ended June 30, 2019, the line of credit was renewed in April 2020. 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, 2019, the interest rate was 5.50%. During the year ended June 30, 2019, the Center had not drawn on the line of credit.

NOTE 7 - NET ASSETS HELD FOR CLIENTS

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

Beginning Balance	\$ 838,706
Client support received	1,878,045
Less: purchase of services and disbursements	<u>(2,272,050)</u>
Ending Balance	<u><u>\$ 444,701</u></u>

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 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 net assets without donor-imposed restrictions 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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

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, 2019, is as follows:

Service cost	\$ 8,594,856
Interest cost	6,310,143
Expected return on plan assets	<u>(5,962,597)</u>
Net Periodic Benefit Cost	<u>\$ 8,942,402</u>

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, 2019, are as follows:

Assumption changes	\$ 18,909,982
Investment experience	<u>336,141</u>
Changes Other Than Net Periodic Benefit Costs	<u>\$ 19,246,123</u>

Benefit obligation and funded status as of June 30, 2019, are as follows:

Benefit obligation	\$ 181,737,206
Market value of assets	<u>(93,065,271)</u>
Unfunded Liability	<u>\$ 88,671,935</u>

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Changes in benefit obligation and funded status during the year ended June 30, 2019, are as follows:

Change in Benefit Obligation

Benefit Obligation - Beginning	\$ 150,462,728
Service cost	8,594,856
Interest cost	6,310,143
Actuarial (gain) loss	18,909,982
Benefits and expenses paid	<u>(2,540,503)</u>
Benefit Obligation - Ending	<u>181,737,206</u>

Change in Fair Value of Plan Assets

Fair Value of Plan Assets - Beginning	82,921,085
Actual return on plan assets	5,626,456
Total contributions	7,058,233
Benefit payments	<u>(2,540,503)</u>
Fair Value of Plan Assets - Ending	<u>93,065,271</u>

Unfunded Pension Benefit Obligations \$ 88,671,935

The changes in the projected benefit obligation as of June 30, 2019, 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 2.70%	\$ 228,214,146
Current discount rate rises 1% to 4.70%	\$ 147,594,028

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The assumptions used in the measurement of the benefit obligations at June 30, 2019, are as follows:

Discount Rate	3.70%
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 FTSE Pension Discount Curve as of June 30, 2019, 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 3.70%.

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 male and female, Pri-2012 Total Dataset Mortality Tables projected forward using Mortality Improvement Scale MP-2019 on a generation basis. 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 2019.

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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The actual allocations for the pension assets and target allocations by asset class as of June 30, 2019, are as follows:

Asset Class	Percentage of Plan Assets	Target Allocation
Global equity	50.2%	50.0%
Private equity	7.1%	8.0%
Global fixed income	28.7%	28.0%
Liquidity	1.0%	1.0%
Real assets	11.0%	13.0%
Inflation sensitive assets	0.0%	0.0%
Other	2.0%	0.0%
Total	100%	100%

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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

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 \$93,065,271 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
2020	\$ 3,136,116
2021	3,506,088
2022	3,809,093
2023	4,161,557
2024	4,521,684
2024-2029 Aggregate	<u>29,133,320</u>
Total	<u><u>\$ 48,267,858</u></u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

LEASE 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 December 2030. 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 \$3,064,618 for the year ended June 30, 2019.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEASE COMMITMENTS (CONTINUED)

Future minimum lease payments for leases in effect at June 30, 2019, are as follows:

For the Years Ending June 30,	Amount
2020	\$ 3,097,265
2021	3,110,015
2022	3,190,290
2023	3,285,998
2024	3,384,578
Thereafter	<u>22,414,471</u>
Total	<u><u>\$ 38,482,617</u></u>

CONTINGENCIES

The majority of the Center's funding is provided under an annual contract with DDS. If a significant reduction in the level of funding provided by DDS were to occur, it may have an effect on the Center's programs and activities.

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. 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.

The Center's revenue, which is derived from restricted funding provided by DDS, is subject to audit by DDS. 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, 2019.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

CONTINGENCIES (CONTINUED)

The Center has elected to self-insure its unemployment insurance using the prorated cost-of-benefits method. Under this method, the Center is required to reimburse the State of California Employment Development Department for the benefits paid to certain former employees. As of June 30, 2019, the Center had \$362,471 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 10 - LIQUIDITY AND FINANCIAL RESOURCES

The Center has various sources of liquidity at its disposal, including cash and contact receivables which are available for general expenditures, liabilities and other obligations as they come due. Management regularly reviews the cash flow needs and focuses on maintaining sufficient liquidity throughout the year. To help manage unexpected liquidity needs, the Center has obtained a line of credit of \$44,500,000.

The Center's financial assets available within one year of the statement of financial position date for general expenditures at June 30, 2019, were as follows:

Financial Assets

Cash	\$ 11,170,138
Contract reimbursement receivable, net of contract advance	25,361,115
Receivable from Intermediate Care Facilities	<u>5,097,857</u>

Financial Assets Available to Meet

General Expenditure Within One Year	<u><u>\$ 41,629,110</u></u>
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REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

NOTE 11 - SUBSEQUENT EVENTS

The Center has evaluated all subsequent events through July 14, 2020, the date the financial statements were available to be issued. The Center did not note any subsequent events requiring recognition or disclosure except for the matters noted in Note 6 and below.

Subsequent to June 30, 2019, the global economy has been impacted by a pandemic outbreak of the COVID-19 virus, including the United States of America beginning in March 2020. This has resulted in many businesses temporarily closing or working in remote environments. We do not yet know the full extent of the potential impact, if any, this may have on the Center's performance; however, as of the date the financial statements were available to be issued, no specific material adverse matters have been identified or are estimable. We will continue to monitor the COVID-19 situation closely and revise our estimates in future periods, as necessary.

**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, 2019, 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 July 14, 2020.

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.

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
July 14, 2020

**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, 2019. 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 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 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.

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, 2019.

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

Marcum LLP

San Francisco, California
July 14, 2020

REGIONAL CENTER OF ORANGE COUNTY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

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	HD149014	\$ --	<u>\$ 1,141,456</u>
Total Expenditures of Federal Awards			<u>\$ --</u>	<u>\$ 1,141,456</u>

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2019

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:

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 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

Auditee qualified as low-risk auditee:

No

REGIONAL CENTER OF ORANGE COUNTY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported.

SECTION IV - STATUS OF PRIOR YEAR AUDIT FINDINGS

2018-001 – UNTIMELY FILING OF DATA COLLECTION FORM (SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL)

Remediated. The Center will submit the data collection form before the extended due date.