



REGIONAL CENTER OF ORANGE COUNTY, INC.

Financial Statements

June 30, 2008 and 2007

(With Independent Auditor's Report Thereon)

REGIONAL CENTER OF ORANGE COUNTY, INC.

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KPMG LLP
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Independent Auditors' Report

The Board of Directors
Regional Center of Orange County, Inc.:

We have audited the accompanying statements of financial position of Regional Center of Orange County, Inc. (the Center) as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 19, 2009, on our consideration of the Center's internal control over financial reporting and 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 on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

March 19, 2009

Statements of Financial Position
June 30, 2008 and 2007

Assets	2008	2007
Cash and cash equivalents	\$ 6,630,558	14,767,474
Receivables:		
State reimbursement claims (note 2)	22,571,840	12,737,808
Client support	17,379	27,234
Deposits and prepaid expenses	316,468	186,571
Other assets	<u>123,079</u>	<u>213,924</u>
Total assets	<u>\$ 29,659,324</u>	<u>27,933,011</u>
Liabilities and Net Assets		
Advances from the State (notes 2 and 3)	\$ 2,643,860	5,715,449
Accounts payable	24,334,639	19,491,193
Accrued expenses	2,041,903	1,827,668
Fiduciary accounts	<u>625,330</u>	<u>878,377</u>
Total liabilities	29,645,732	27,912,687
Commitments and contingencies (note 6)		
Net assets – temporarily restricted	<u>13,592</u>	<u>20,324</u>
Total liabilities and net assets	<u>\$ 29,659,324</u>	<u>27,933,011</u>

See accompanying notes to financial statements.

REGIONAL CENTER OF ORANGE COUNTY, INC.

Statements of Activities

Years ended June 30, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenues and other support:						
Reimbursement from the State	\$ 234,741,869	—	234,741,869	195,768,157	—	195,768,157
Contributions	—	48,860	48,860	—	50,729	50,729
Interest	750,326	—	750,326	1,126,045	—	1,126,045
Revenues and other support	235,492,195	48,860	235,541,055	196,894,202	50,729	196,944,931
Net assets released from restrictions	55,592	(55,592)	—	84,856	(84,856)	—
Total revenues and other support	235,547,787	(6,732)	235,541,055	196,979,058	(34,127)	196,944,931
Expenses:						
Client service:						
Purchase of services	203,988,384	—	203,988,384	166,372,036	—	166,372,036
Salaries and benefits	21,001,852	—	21,001,852	19,840,041	—	19,840,041
Other client service	55,592	—	55,592	84,857	—	84,857
Total client service expenses	225,045,828	—	225,045,828	186,296,934	—	186,296,934
Administration:						
Operating expenses	6,474,609	—	6,474,609	6,791,428	—	6,791,428
Salaries and benefits	4,027,350	—	4,027,350	3,890,696	—	3,890,696
Total administration expenses	10,501,959	—	10,501,959	10,682,124	—	10,682,124
Total expenses	235,547,787	—	235,547,787	196,979,058	—	196,979,058
Change in net assets	—	(6,732)	(6,732)	—	(34,127)	(34,127)
Net assets at beginning of year	—	20,324	20,324	—	54,451	54,451
Net assets at end of year	\$ —	13,592	13,592	—	20,324	20,324

See accompanying notes to financial statements.

REGIONAL CENTER OF ORANGE COUNTY, INC.

Statements of Cash Flows

Years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (6,732)	(34,127)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Increase in State reimbursement claims receivable	(9,834,032)	(4,386,092)
Decrease in client support receivable	9,855	423
(Increase) decrease in deposits and prepaid expenses	(129,897)	312,202
Decrease in other assets	90,845	88,043
(Decrease) increase in advance from the State	(3,071,589)	3,134,976
Increase in accounts payable	4,843,446	1,724,407
Increase (decrease) in accrued expenses	214,235	(41,961)
(Decrease) increase in fiduciary accounts	(253,047)	310,991
Net cash (used in) provided by operating activities and net change in cash and cash equivalents	<u>(8,136,916)</u>	<u>1,108,862</u>
Cash and cash equivalents at beginning of year	<u>14,767,474</u>	<u>13,658,612</u>
Cash and cash equivalents at end of year	<u>\$ 6,630,558</u>	<u>14,767,474</u>

See accompanying notes to financial statements.

REGIONAL CENTER OF ORANGE COUNTY, INC.

Notes to Financial Statements

June 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

(a) *Background Information*

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

(b) *Basis of Accounting*

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

(c) *Basis of Presentation*

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

- Unrestricted net assets represent the portion of the expendable funds available for support of the operations of the Center. There are no donor-imposed restrictions on the reimbursements the Center receives from the State, and therefore, the revenues and net assets generated from these transactions are reported as unrestricted. The Center had no unrestricted net assets at June 30, 2008 and 2007.
- Temporarily restricted net assets consist of contributions that are subject to specific donor-imposed stipulations that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- Permanently restricted net assets comprise funds that are subject to donor-imposed restrictions that the principal be maintained in perpetuity and invested for the purposes of producing present and future income that may be expended by the Center. The Center had no permanently restricted net assets at June 30, 2008 and 2007.

(d) *Contributions*

Contributions received, including unconditional promises to give, are recognized as revenues in the period received, or at such time the contribution is promised and its collection is reasonably assured. As of June 30, 2008 and 2007, the Center has not recorded any unconditional promises to give. For the years ended June 30, 2008 and 2007, the Center received \$48,860 and \$50,729 of contributions, respectively.

REGIONAL CENTER OF ORANGE COUNTY, INC.

Notes to Financial Statements

June 30, 2008 and 2007

(e) Fixed Assets

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

(f) Income Taxes

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

(g) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less.

(h) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the accompanying financial statements. Actual results could differ from those estimates.

(2) Contract with the State

The Center's major source of revenue is from the State. Each fiscal year, the Center enters into a new contract with the State for a specified funding amount subject to budget amendments. The contracted amounts payable to the Center were \$227,371,138 and \$198,024,873 for the years ended June 30, 2008 and 2007, respectively. However, contract amendments will be completed subsequent to year-end to reimburse for amounts in excess of the contracted amount. Revenue from the State is recognized monthly when a claim for reimbursement of actual expenses (purchase of services) is filed with the State. These reimbursement claims are paid at the State's discretion either through direct payments to the Center or by applying the claims reimbursements against advances already made to the Center (note 3). Purchase of services expenses consist principally of out-of-home placement, respite, day training, behavior modification, and transportation costs.

The Center has renewed its contract with the State for the fiscal year ending June 30, 2009. This contract provides for initial funding of \$196,439,622, which is subject to additional funding as the contract is amended.

Due to the State's cash flow crisis in the fiscal year ending June 30, 2009, the State Controller's Office delayed payments for certain State obligations including payments to the 21 Centers. In March 2009, the Center obtained a line of credit to avoid any disruption in meeting its cash requirements.

REGIONAL CENTER OF ORANGE COUNTY, INC.

Notes to Financial Statements

June 30, 2008 and 2007

The magnitude of the State's budget crisis in the fiscal year ending June 30, 2009 has created some uncertainty about additional funding for the 21 Centers. In previous years, the 21 Centers would have assumed that contract amendments would be completed before or subsequent to year-end to reimburse for amounts in excess of the contracted amounts. As of March 2009, all 21 Centers are projecting Purchase of Service expenses in excess of their contracted amounts.

(3) Advances from the State

The State may, at the beginning of a contract year, advance funds to the Center prior to the Center's performance under the contract, and subject to certain provisions of the contract. The State has control over the use of funds advanced and has a priority lien on the balance to secure repayment. The Center must maintain these funds in a separate bank account in the name of the Center and the State. Throughout the year, the Center submits reimbursement claims of expenses, net of interest income earned, to offset the State's cash advances. The following schedule details the State's cash advances and reimbursement claims for fiscal years 2008 and 2007:

	<u>2008</u>	<u>2007</u>
State cash advances:		
Remaining prior year cash advances	\$ 5,715,449	2,580,473
Current year cash advance	<u>22,911,257</u>	<u>38,575,483</u>
	28,626,706	41,155,956
Reimbursement claims to offset cash advances for:		
Remaining prior year reimbursement claims	(5,715,449)	(2,580,473)
Current year reimbursement claims	<u>(20,267,397)</u>	<u>(32,860,034)</u>
Remaining cash advances from the State	\$ <u><u>2,643,860</u></u>	<u><u>5,715,449</u></u>

(4) Agency Transactions

The Center acts as fiduciary for the client support funds received directly from clients. At June 30, 2008 and 2007, \$625,330 and \$878,377, respectively, were held on the behalf of clients by the Center for such purchase of services. During the years ended June 30, 2008 and 2007, the Center purchased \$6,582,561 and \$6,270,894, respectively, of client services in this agency capacity. Because the Center is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying statements of activities.

(5) Retirement Plan

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

Notes to Financial Statements

June 30, 2008 and 2007

The Center's employees contribute 7.000% of their annual earnings to CalPERS. The Center is required to contribute at an actuarially determined rate; which was 11.305% and 11.734% of annual covered payroll for the years ended June 30, 2008 and 2007, respectively. The contribution requirements of the plan members are established and may be amended by CalPERS.

The Center's employee and employer contributions required and made for the years ended June 30, 2008 and 2007 amounted to \$1,364,944 and \$1,271,054, respectively, and \$2,214,203 and \$2,051,449, respectively.

(6) Commitments and Contingencies

(a) Leases

The Center leases certain office equipment and office space under noncancelable operating lease arrangements, which expire in April 2015. Rent expense under operating leases was \$1,883,310 and \$1,800,869 for the years ended June 30, 2008 and 2007, respectively. Future aggregate minimum annual lease payments under noncancelable operating leases having initial terms in excess of one year are as follows:

Year ending June 30:	
2009	\$ 1,945,466
2010	2,028,854
2011	1,369,718
2012	857,498
2013	632,912
Thereafter	<u>1,603,240</u>
	<u>\$ 8,437,688</u>

(b) Litigation

The Center is involved as a defendant in various matters of litigation arising in the normal course of its business. While it is not possible to predict with certainty the outcome of such litigation, it is the opinion of the Center's management, based in part upon the opinion of counsel, that the liabilities of the Center, if any, arising from such litigation would not have a material adverse effect on the financial position of the Center.

(7) Subsequent Events

The Center was impacted by delays in the State's budget approval subsequent to fiscal year 2008 as funds cannot be released until this process was completed. As a result, the Center was provided an advance on the fiscal year 2008 contract on July 11, 2008 for approximately \$3.2 million in order to meet additional cash flow needs. This amount will be utilized by the State as an offset against future claims in fiscal year 2009. Additionally, the Center was required to obtain a line of credit for approximately \$39.3 million in order to meet cash flow needs on July 15, 2008. The Center paid the line of credit in full as of September 29, 2008 with State reimbursement money.



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**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***

The Board of Directors
Regional Center of Orange County:

We have audited the financial statements of Regional Center of Orange County (the Center) as of and for the year ended June 30, 2008, and have issued our report thereon dated March 19, 2009. 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.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of 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*.

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 19, 2009



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**Report on Compliance with Requirements Applicable to the Major Program
and on Internal Control Over Compliance in Accordance with OMB Circular A-133**

The Board of Directors
Regional Center of Orange County:

Compliance

We have audited the compliance of Regional Center of Orange County (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control over Compliance

The management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the Center's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 19, 2009

REGIONAL CENTER OF ORANGE COUNTY, INC.

Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

<u>Federal grantor/pass-through agency/program title</u>	<u>Catalog of Federal Domestic Assistance number</u>	<u>Pass-through entity identifying number</u>	<u>Federal disbursements/ expenditures</u>
Department of Education: Passed through from the State of California's Department of Developmental Services – California Early Intervention Program	84.181	HD049013	\$ <u>5,450,028</u>
Total expenditures of federal awards			\$ <u><u>5,450,028</u></u>

See accompanying notes to schedule of expenditures of federal awards and independent auditors' report.

REGIONAL CENTER OF ORANGE COUNTY, INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of the federal financial assistance programs administered by Regional Center of Orange County (the Center) for the year ended June 30, 2008. The reporting entity is defined in note 1 to the Center's financial statements. As the Schedule presents only a selected portion of the operations of the Center, it is not intended to, and does not, present fairly the financial position of the Center as of June 30, 2008, and the changes in its financial position for the year then ended, in conformity with U.S. generally accepted accounting principles.

For purposes of the Schedule, federal awards include all grants and contracts entered into directly between the Center and agencies or departments of the federal government as well as federal awards passed through other agencies. The awards are classified into major program categories in accordance with the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

(2) Basis of Accounting

The accompanying Schedule is prepared on the accrual basis of accounting.

(3) Relationship of Schedule of Expenditures of Federal Awards to Financial Statements

Information reported in the accompanying Schedule agrees in all material respects with the amounts reported in both the financial statements and related federal financial reports.

Federal award expenditures are reported as client service and administration expenditures, further classified as purchase of services, salaries and benefits, and operating expenses in the Center's financial statements. As the federal awards are received from the State of California's Department of Education (pass-through agency), the revenues are reported in the Center's financial statements as reimbursement from the state.

REGIONAL CENTER OF ORANGE COUNTY, INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2008

(1) Summary of Auditor's Results:

Financial Statements

- (a) Type of report on financial statements: **Unqualified opinion.**
- (b) Internal control over financial reporting:
- Material weakness(es) identified: **No.**
 - Significant deficiencies identified that are not considered to be material weaknesses: **None reported.**
- (c) Noncompliance that is material to the financial statements: **No.**

Federal Awards

- (d) Internal control over major programs:
- Material weakness(es) identified: **No.**
 - Significant deficiencies identified that are not considered to be material weaknesses: **None reported.**
- (e) Type of report issued on compliance for major programs: **Unqualified opinion.**
- (f) Any audit findings that are required to be reported under Section .510(a) of OMB Circular A-133: **None noted.**
- (g) Dollar threshold used to distinguish between Type A and Type B Programs: **\$300,000.**
- (h) Major program:
- U.S. Department of Education: Passed through from the State of California's Department of Developmental Services – California Early Intervention Program (CFDA #84.181).
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **Yes.**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None noted.

(3) Findings and Questioned Costs Relating to Federal Awards

None noted.