



**REGIONAL CENTER OF ORANGE COUNTY, INC.**

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Reports Thereon)

**REGIONAL CENTER OF ORANGE COUNTY, INC.**

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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, 2010 and 2009, 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, 2010 and 2009, 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 August 10, 2011, 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**

August 10, 2011

**REGIONAL CENTER OF ORANGE COUNTY, INC.**

Statements of Financial Position

June 30, 2010 and 2009

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash and cash equivalents	\$ 2,270,173	1,265,463
Receivables:		
State reimbursement claims	73,267,161	28,845,635
Client support	17,295	42,544
Deposits and prepaid expenses	605,578	345,680
Other assets	109,813	94,486
Total assets	\$ <u>76,270,020</u>	<u>30,593,808</u>
<b>Liabilities and Net Assets</b>		
Advances from State	\$ 47,029,285	1,948,484
Accounts payable	27,073,256	25,918,701
Accrued expenses	1,372,717	1,950,877
Fiduciary accounts	714,127	662,619
Total liabilities	76,189,385	30,480,681
Net assets:		
Unrestricted	80,635	113,127
Total liabilities and net assets	\$ <u>76,270,020</u>	<u>30,593,808</u>

See accompanying notes to financial statements.

**REGIONAL CENTER OF ORANGE COUNTY, INC.**

Statements of Activities

Years ended June 30, 2010 and 2009

	June 30, 2010			June 30, 2009		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Revenues and other support:						
Reimbursement from State	\$ 284,658,525	—	284,658,525	283,141,195	—	283,141,195
Contributions	15,834	11,513	27,347	119,305	18,876	138,181
Interest	201,401	—	201,401	117,765	—	117,765
Revenues and other support	284,875,760	11,513	284,887,273	283,378,265	18,876	283,397,141
Net assets released from restrictions	11,513	(11,513)	—	32,468	(32,468)	—
Total revenues and other support	284,887,273	—	284,887,273	283,410,733	(13,592)	283,397,141
Expenses:						
Client services:						
Purchase of services	254,595,242	—	254,595,242	251,008,228	—	251,008,228
Salaries and benefits	21,078,888	—	21,078,888	21,437,660	—	21,437,660
Other client service	59,839	—	59,839	38,646	—	38,646
Total client service expenses	275,733,969	—	275,733,969	272,484,534	—	272,484,534
Administration:						
Operating expenses	6,044,395	—	6,044,395	6,898,776	—	6,898,776
Salaries and benefits	3,141,401	—	3,141,401	3,914,296	—	3,914,296
Total administration expenses	9,185,796	—	9,185,796	10,813,072	—	10,813,072
Total expenses	284,919,765	—	284,919,765	283,297,606	—	283,297,606
Change in net assets	(32,492)	—	(32,492)	113,127	(13,592)	99,535
Net assets at beginning of year	113,127	—	113,127	—	13,592	13,592
Net assets at end of year	\$ 80,635	—	80,635	113,127	—	113,127

See accompanying notes to financial statements.

**REGIONAL CENTER OF ORANGE COUNTY, INC.**

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ (32,492)	99,535
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Increase in State reimbursement claim receivables	(44,421,526)	(6,273,795)
Decrease (increase) in client support receivable	25,249	(25,165)
Increase in deposit and prepaid expenses	(259,898)	(29,212)
(Increase) decrease in other assets	(15,327)	28,593
Increase (decrease) in advance from the State	45,080,801	(695,376)
Increase in accounts payable	1,154,555	1,584,062
Decrease in accrued expenses	(578,160)	(91,026)
Increase in fiduciary accounts	51,508	37,289
Net cash provided by (used in) operating activities	<u>1,004,710</u>	<u>(5,365,095)</u>
Cash flows from financing activities:		
Proceeds from short-term borrowing	11,000,000	28,216,401
Repayment of short-term borrowings	<u>(11,000,000)</u>	<u>(28,216,401)</u>
Net cash used in financial activities	<u>—</u>	<u>—</u>
Net change in cash and cash equivalents	1,004,710	(5,365,095)
Cash and cash equivalents at beginning of year	<u>1,265,463</u>	<u>6,630,558</u>
Cash and cash equivalents at end of year	<u>\$ 2,270,173</u>	<u>1,265,463</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest for 2010 and 2009	\$ 8,847	74,382

See accompanying notes to financial statements.

**REGIONAL CENTER OF ORANGE COUNTY, INC.**

Notes to Financial Statements

June 30, 2010 and 2009

**(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 unrestricted net assets of \$80,635 at June 30, 2010 and \$113,127 at June 30, 2009.
- Temporarily restricted net assets consist of contributions that are subject to specific donor-imposed stipulations that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The Center had no temporarily restricted net assets at June 30, 2010 and 2009.
- 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, 2010 and 2009.

**(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, 2010 and 2009, the Center has not recorded any unconditional promises to give. For the years ended June 30, 2010 and 2009, the Center received \$27,347 and \$138,181 of contributions, respectively.

## REGIONAL CENTER OF ORANGE COUNTY, INC.

### Notes to Financial Statements

June 30, 2010 and 2009

**(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.

ASC Topic 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure, and transition. The Center has adopted the deferral and disclosure provisions of ASC 740 for its June 30, 2009 financial statements and has adopted the remainder of the provisions of ASC 740 for the year ended June 30, 2010. Management believes that no such uncertain tax positions exist at June 30, 2010.

**(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 \$287,191,598 and \$284,553,857 for the years ended June 30, 2010 and 2009, respectively. For the year ended June 30, 2009, contract amendments were completed subsequent to year-end to reimburse the Center for purchase of service expenses 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.

## REGIONAL CENTER OF ORANGE COUNTY, INC.

### Notes to Financial Statements

June 30, 2010 and 2009

The Center was impacted by the State's ongoing fiscal and cash flow crisis. The 2009-10 State budget was approved in February 2009 as part of the 17-month 2009 Budget Act; however, the projected budget shortfall of \$24 billion threatened the State's ability to borrow and the Governor signed the 2009-10 Budget Bill on July 28, 2009. The Center was required to obtain a line of credit to avoid any disruption in meeting its cash requirements. Refer to note 7 for additional detail on the line of credit.

In June 2010, the Department of Developmental Services (DDS) had a cash flow problem due to the loss of \$138.3 million of Public Transportation Account Funds (PTAF). PTAF are derived primarily from sales taxes on gasoline and diesel. The Budget Act of 2009 appropriated PTAF for transportation services provided to regional center consumers. The *Shaw v. Chiang* decision denied the expenditure of PTAF for this purpose, as well as for certain other General Fund expenditures. DDS submitted a deficiency request and the Department of Finance approved a supplemental appropriations bill for the shortfall. Due to this cash flow problem, DDS reduced its payments to regional centers. The Center obtained a line of credit for approximately \$22.9 million to avoid any disruption in meeting its cash requirements. Refer to note 7 for additional detail on the line of credit.

The Center has renewed its contract with the State for the fiscal year ending June 30, 2011. This contract provides for initial funding of \$227,109,191, which is subject to additional funding as the contract is amended.

The Governor's 2010-11 Budget Bill included spending reductions for the 21 Centers. DDS has stated that they will have sufficient funds to allocate if some Centers' purchase of service expenses exceeds their contracted amounts. At the current rate of expenditure, the Center's purchase of service expenses would exceed its current contracted amount.

### **(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. At the State's discretion, those amounts are either reimbursed or offset from previous cash advances. Amounts are presumed to be reimbursed unless notified otherwise by the State.

**REGIONAL CENTER OF ORANGE COUNTY, INC.**

Notes to Financial Statements

June 30, 2010 and 2009

The following schedule details the State's cash advances and reimbursement claims for fiscal years 2010 and 2009:

	<u>2010</u>	<u>2009</u>
State cash advances:		
Remaining prior year cash advances	\$ 1,948,484	2,643,860
Current year cash advance	<u>46,022,422</u>	<u>65,255,256</u>
	47,970,906	67,899,116
Reimbursement claims to offset cash advances for:		
Remaining prior year reimbursement claims	(722,966)	(2,239,082)
Current year reimbursement claims	<u>(218,655)</u>	<u>(63,711,550)</u>
Remaining cash advances from the State	<u>\$ 47,029,285</u>	<u>1,948,484</u>

**(4) Agency Transactions**

The Center acts as fiduciary for the client support funds received directly from clients. At June 30, 2010 and 2009, \$714,127 and \$662,619, respectively, were held on the behalf of clients by the Center for such purchase of services. During the years ended June 30, 2010 and 2009, the Center purchased \$6,331,319 and \$6,625,442, 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.

The Center's employees contribute 7.00% of their annual earnings to CalPERS. The Center is required to contribute at an actuarially determined rate, which was 10.69% and 10.99% of annual covered payroll for the years ended June 30, 2010 and 2009, 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, 2010 and 2009 amounted to \$1,291,804 and \$1,347,542, respectively, and \$1,970,501 and \$2,094,409, respectively.

**REGIONAL CENTER OF ORANGE COUNTY, INC.**

Notes to Financial Statements

June 30, 2010 and 2009

**(6) Commitments and Contingencies**

**(a) Leases**

The Center leases certain office equipment and office space under noncancelable operating lease arrangements, which expire in November 2020. Rent expense under operating leases was \$2,075,510 and \$1,921,995 for the years ended June 30, 2010 and 2009, 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:	
2011	\$ 1,836,330
2012	2,025,398
2013	2,592,267
2014	2,972,475
2015	2,988,740
Thereafter	<u>14,414,377</u>
	<u>\$ 26,829,587</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) Line of Credit**

Due to the State budget crisis and concerns related to the Center meeting its cash requirements, the Center entered into two bank lines of credit in fiscal year 2010. The first line of credit was entered into on July 20, 2009 for an amount up to \$32.2 million due on October 2, 2009. During July, the Center drew \$4.5 million on the line at an interest rate of 3.25%. The second line was entered into on June 7, 2010 for an amount up to \$22.9 million due June 30, 2010. During June, the Center drew \$6.5 million on the line at an interest rate of 3.25%. Prior to the due dates, the Center paid both the interest of \$8,847 and the amounts outstanding in full with State reimbursement money. Subsequent to year end the Center entered into a third line of credit. See discussion of this line in note 8.

**(8) Subsequent Events**

On July 1, 2010, the Center obtained a four-month line of credit for approximately \$45 million to avoid any disruption in meeting its cash requirements. From August to October, the Center drew \$21.2 million on the line at an interest rate of 3.25%. The 2010-11 State budget was signed on October 8, 2010. The Center paid the interest of \$56,397 and the amounts drawn in full with State reimbursement money on October 21, 2010. As of August 10, 2011, the Center did not have any amount related to this line of credit outstanding.



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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, Inc.:

We have audited the financial statements of the Regional Center of Orange County, Inc. (the Center) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated August 10, 2011. 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 our 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the above paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

**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

August 10, 2011



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**Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each of the Major Programs and on Internal Control over Compliance in accordance with OMB Circular A-133**

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

**Compliance**

We have audited the Regional Center of Orange County, Inc. (the Center) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major programs for the year ended June 30, 2010. The Center's major federal program is identified in the summary of auditors' 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 Regional Center of Orange County, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

**Internal Control over Compliance**

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

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 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

August 10, 2011

**REGIONAL CENTER OF ORANGE COUNTY, INC.**

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<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: IDEA, Part C Cluster:			
California Early Intervention Program	84.181	HD099014A	\$ 3,352,138
American Recovery and Reinvestment Act of 2009, designated for IDEA, Part C, Early Intervention Services	84.393	HD099014A	<u>3,406,143</u>
Total expenditures of federal awards			\$ <u><u>6,758,281</u></u>

See accompanying notes to schedule of expenditures of federal awards and independent auditors' report on compliance with requirements that could have a direct and material effect on each of the major programs and on internal control over compliance in accordance with OMB Circular A-133.

**REGIONAL CENTER OF ORANGE COUNTY, INC.**

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

**(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, Inc. (the Center) for the year ended June 30, 2010. 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, 2010, 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 Non-Profit 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.**

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**(1) Summary of Auditors' 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:
  - IDEA, Part C Cluster (CFDA #84.181 and #84.393).
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No.**

**(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.