SOUTH CENTRAL LOS ANGELES REGIONAL CENTER FOR DEVELOPMENTALLY DISABLED PERSONS, INC.
Los Angeles, California

FINANCIAL STATEMENTS
June 30, 2017

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FOR DEVELOPMENTALLY DISABLED PERSONS, INC.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
South Central Los Angeles Regional Center for
Developmentally Disabled Persons, Inc.
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. (the Center), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2017, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the financial statements, the beginning net assets as of July 1, 2016 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) 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 other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated April 30, 2018 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 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.

Crowe Horwath LLP

Crowe Horwath LLP

Costa Mesa, California
April 30, 2018

SOUTH CENTRAL LOS ANGELES REGIONAL CENTER
FOR DEVELOPMENTALLY DISABLED PERSONS, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS		
Cash and cash equivalents	$	8,206,246
Cash held for clients		1,343,978
Contracts receivable - state of California, net		12,933,799
Receivable from Intermediate Care Facility vendors		1,144,325
Other receivables		796,746
Deposits and prepaid expenses		90
Receivable from state for vacation and sick leave benefits		1,340,164
Total assets	$	25,765,348
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$	22,756,406
Accrued vacation and sick leave benefits		1,340,164
Amounts held for clients		1,501,200
Pension benefit obligations		53,994,848
Deferred rent		6,940,695
Total liabilities		86,533,313
Net deficit		
Unrestricted		(60,767,965)
Total liabilities and net assets	$	25,765,348

See accompanying notes to financial statements.

SOUTH CENTRAL LOS ANGELES REGIONAL CENTER FOR
DEVELOPMENTALLY DISABLED PERSONS, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2017

Support and revenue	
Contracts - state of California	$ 230,301,099
Intermediate Care Facility supplemental services income	2,073,822
Interest income	6,883
Grants	171,500
Other income	229,649
Total support and revenue	232,782,953
Expenses	
Client Services	
Purchase of services	199,935,828
Salaries and benefits	18,762,490
Total client services expenses	218,698,318
Administration	
Operating expenses	11,670,067
Salaries and benefits	5,502,496
Total administration expenses	17,172,563
Total expenses	235,870,881
Change in net assets before pension benefit changes	(3,087,928)
Net periodic benefit costs	(6,031,362)
Change in net assets before pension benefit changes other than net periodic benefit costs	(9,119,290)
Pension benefit changes other than net periodic benefit costs	9,946,681
Change in unrestricted net assets	827,391
Net assets at beginning of year	130,479
Prior period adjustment (Note 8)	(61,725,835)
Net deficit at beginning of year, as restated	(61,595,356)
Unrestricted net deficit, end of year	$ (60,767,965)

See accompanying notes to financial statements.

SOUTH CENTRAL LOS ANGELES REGIONAL CENTER FOR DEVELOPMENTALLY DISABLED PERSONS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2017

	Program Services Direct Client Services	Supporting Services General and Administrative	Total Expenses
Salaries	$ 15,124,042	$ 4,339,485	$ 19,463,527
Employee health and retirement benefits	3,435,844	1,108,266	4,544,110
Payroll taxes	202,604	54,745	257,349
Total salaries and related expenses	18,762,490	5,502,496	24,264,986
Purchase of services			
Out of home	64,506,023	-	64,506,023
Day program	45,419,991	-	45,419,991
Transportation services	19,874,347	-	19,874,347
Other purchased services	70,018,440	-	70,018,440
Equipment rental	-	88,114	88,114
Equipment maintenance	-	213,707	213,707
Data processing maintenance	-	224,410	224,410
Facility maintenance	-	38,069	38,069
Facility rent	-	8,170,782	8,170,782
Communication	-	109,061	109,061
General office expenses	10,429	1,017,806	1,028,235
Postage	-	92,622	92,622
Printing	-	13,466	13,466
Insurance	-	216,961	216,961
Legal fees	-	147,431	147,431
Equipment purchases	-	370,359	370,359
Contract consultants	8,938	318,285	327,223
Travel	97,660	235,332	332,992
General expenses	-	252,604	252,604
Professional fees	-	57,250	57,250
Dues	-	80,878	80,878
Interest expense and bank fees	-	22,930	22,930
Total expenses	$ 218,698,318	$ 17,172,563	$ 235,870,881

See accompanying notes to financial statements.

SOUTH CENTRAL LOS ANGELES REGIONAL CENTER FOR
DEVELOPMENTALLY DISABLED PERSONS, INC.
STATEMENT OF CASH FLOWS
Year ended June 30, 2017

Cash flows from operating activities	
Change in net deficit	$ 827,391
Adjustments to reconcile change in net deficit to net cash from operating activities	
Pension benefit obligation adjustment	(3,915,319)
Deferred rent	3,125,027
Change in operating assets and liabilities	
Cash held for clients	(192,506)
Contracts receivable - state of California	(4,125,213)
Receivable from Intermediate Care Facility vendors	(154,722)
Other receivables	(170,157)
Deposits and prepaid expenses	404,759
Receivable from state for accrued vacation and sick leave benefits	(384,426)
Accounts payable	4,641,115
Due to state	384,426
Amounts held for clients	330,021
Net cash provided by operating activities	770,396
Net change in cash and cash equivalents	770,396
Cash and cash equivalents, beginning of year	7,435,850
Cash and cash equivalents, end of year	$ 8,206,246
Supplemental cash flow information	
Cash paid for interest	$ 1,680

See accompanying notes to financial statements.

NOTE 1- ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. (the Center), was incorporated on May 2, 1983 as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State of California. In accordance with the Act, the Center provides services for persons with developmental disabilities and their families. Services include, but are not limited to, programs of developmental services, public information and education, research, manpower and resource development, and evaluation. The Center serves five County of Los Angeles Districts including Compton, San Antonio, Southeast and Southwest.

The Act includes governance provisions regarding the composition of the Center's board of directors. The Act states that the board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50 % of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25 % of the members of the governing board shall be persons with developmental disabilities. In addition, a member of a required advisory committee, which is composed of persons representing the various categories of providers from which the Center purchases client services, shall serve as a member of the Center's board. To comply with the Act, the Center's board of directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the Center and a client service provider of the Center.

The Center contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for individuals with developmental disabilities and their families. Under the terms of these contracts, funded expenditures are not to exceed $233,369,073 for the 2016-2017 contract year. Actual net expenditures under the Center contracts for the 2016 - 2017 was $228,968,720.

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.

Financial Statement Presentation: The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the Center are classified and reported as described below:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

As of June 30, 2017, the Center had no temporarily or permanently restricted net assets.

(Continued)

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

Contributions: Contributions, including pledges, are recognized as income in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not included in support until the conditions are substantially met.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's 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 contributions and net assets have restrictions stipulated by the donor that the corpus be invested in perpetuity and only the income be made available for operations.

Use of Estimates and Assumptions: Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Cash and Cash Equivalents and Concentration of Credit Risk: For the purposes of the statements of cash flows, the Center considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2017 and at various times during the year, the Center maintained cash balances in its financial institutions in excess of federally insured limits. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Contracts Receivable - State of California: Contracts receivable and contract support are recorded on the accrual method as related expenses are incurred.

Receivables from Intermediate Care Facility Vendors: The Centers for Medicare and Medicaid Services (CMS) has approved federal financial participation in the funding of the day and related transportation services purchased by the Center for consumers who reside in Intermediate Care Facilities (ICFs). CMS agreed that the day and related transportation services are part of the ICF service; however, the federal rules allow for only one provider of the ICF service. Accordingly, all the Medicaid funding for the ICF residents must go through the applicable ICF provider. The Center receives a 1.5% administrative fee based on the funds received to cover the additional workload.

The DDS has directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. The Center was directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICFs. DDS advances the amount according to the state claim to the ICFs. The ICFs are then required to pass on the payments received, as well as the Center's administrative fee, to the Center within 30 days of receipt of funds from the State Controller's Office.

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

State Equipment: Pursuant to the terms of the contract with the DDS, equipment purchases become the property of the state and, accordingly, are charged as expenses when incurred. For the year ended June 30, 2017 equipment purchases totaled $370,359.

Accrued Vacation and Sick Leave Benefits: The Center has accrued a liability for leave benefits earned. The Center has also recorded a receivable from the state for the accrued leave benefits to reflect the future reimbursement of such benefits. However, such benefits are reimbursed under the state contract only when actually paid.

Obligation for Retirement Pension Benefits: The Center is required to recognize the funded status of the California Public Employee's Retirement System (CalPERS) pension plans, measured as the difference between plan assets at fair value and the pension obligation, in the statement of financial position, with an offsetting charge or credit to net assets or net deficit. The center has accrued a liability for the CalPERS pension. However, such benefits are reimbursed under the state contract only when actually paid.

Deferred Rent: The Center leases office facilities under a lease agreement that are subject to schedule acceleration of rental payments. The scheduled rent increases are amortized evenly over the life of the lease. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease.

Allocation of Expenses: The statements of functional expenses allocate expenses to the program and supporting service categories based on a direct-cost basis for purchase of services and salaries and related expenses. Operating expenses are allocated to the supporting service, except for contract consultants, general office expenses, and travel, which are allocated on a direct-cost basis.

Tax Status: The Center has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively.

The Center recognizes the financial statement benefit of tax positions, such as the filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California purposes is generally three and four years, respectively.

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

(Continued)

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

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

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2017 to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended June 30, 2017. Management has performed their analysis through April 30, 2018, the date the financial statements were available to be issued.

NOTE 2 - CASH HELD FOR CLIENTS AND UNEXPENDED CLIENT SUPPORT

The Center functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. The cash balances are segregated from the operating cash accounts of the Center and are restricted for client support. Since the Center is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying statements of activities. The following is a summary of client support and expenses not reported in the statements of activities as of June 30 2017:

Support:	
Social Security and other client support	$ 12,598,235
Disbursements:	
Living out of own home	$ 8,894,863
Other disbursements	3,703,372
	$ 12,598,235

(Continued)

NOTE 3 - CONTRACTS RECEIVABLE/CONTRACT ADVANCES - STATE OF CALIFORNIA

The Center's major source of revenue is from the state of California. Each fiscal year, the Center enters into a new contract with the state for a specified funding amount subject to budget amendments. Revenue from the state is recognized monthly when a claim for reimbursement of actual expenses is filed with the state. These reimbursement claims are paid at the state's discretion either through direct payments to the Center or by applying the claims reimbursements against advances already made to the Center.

As of June 30, 2017, DDS had advanced the Center $55,232,842, under the contracts with the DDS. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from the DDS as of June 30 as follows:

Contracts receivable - state of California	$ 68,166,641
Contract advances - state of California	(55,232,842)
Net contract receivable	$ 12,933,799

The Center has received its contract for the fiscal year ending June 30, 2018. The contract provides for initial funding of $239,461,089

NOTE 4 - SHORT-TERM BORROWINGS

In September 2015, the Center obtained a $20,000,000 unsecured revolving line of credit agreement with a financial institution in order to provide operating funds in the event additional funds are needed while waiting for claims to be processed. The agreement provides for interest at a rate equal to, at the Center's option: the greater of 1% or the LIBOR rate plus 1.95%; or the prime rate minus 1%. The maximum limit increased to $33,000,000 beginning July 1, 2016 until the effective date of a state of California budget with respect to the General Fund. The Line of Credit reverted back to $20,000,000 until the maturity date of June 30, 2017. Starting July 1, 2017, the maximum limit increased by $7,000,000, and will mature on June 30, 2018. There was no balance outstanding at June 30, 2017.

(Continued)

NOTE 5 - EMPLOYEE BENEFIT PLAN

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

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

The excess of the total actuarial accrued liability over the market value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls.

The Center has three retirement plans with CalPERS. One plan is a 3%-at-age-60 formula, which closed as of July 1, 2007. All employees hired prior to July 1, 2007 participate in this plan. The second plan is a 2%-at-age-60 formula which closed as of January 1, 2013. All employees hired from July 1, 2007 through December 31, 2012 participate in this plan. The third plan is a 2%-at-age-62 formula which was established by the Public Employees' Pension Reform Act of 2013 (PEPRA) and all employees hired on or after January 1, 2013 participate in this plan. The total required employee contributions are 8% of earnings for the 3%-at-age-60 plan, 7% of earnings for the 2%-at-age-60 plan and 6.25% of earnings for the 2%-at-age-62 plan. The Center is required to contribute the remaining amounts necessary to fund the benefits for its employees, using the actuarial basis adopted by the CalPERS Board of Administration.

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

The net periodic benefit cost for the year ended June 30, 2017 is as follows:

Service cost	$ 5,587,085
Interest cost	4,149,342
Expected (return) on plan assets	(3,705,065)
Net periodic benefit cost/(income)	$ 6,031,362

Amounts recognized in the statement of financial position as of June 30, 2017 is $53,994,848.

Pension benefit changes other than net periodic benefit costs during the year ended June 30, 2017 is $3,915,319.

(Continued)

NOTE 5 - EMPLOYEE BENEFIT PLAN (Continued)

Change in benefit obligation	
Benefit obligation, beginning of year	$ 110,223,393
Service cost	5,587,085
Interest cost	4,149,342
Assumption change (gain) or loss	(4,409,863)
Experience (gain) or loss	704
Benefits and expenses paid	(2,060,375)
Benefit obligation, end of year	113,490,286
Change in fair value of plan assets	
Fair value of plan assets, beginning of year	52,313,226
Actual return on plan assets	5,949,665
Employer contributions	2,120,278
Employee contributions	1,172,644
Benefits and expenses paid	(2,060,375)
Fair Value of plan assets at end of year	59,495,438
Plan net pension liability	$ (53,994,848)

The Unrecognized net (gain) or loss for the year ended June 30, 2017 is as follows:

Unrecognized net (gain) or loss	
Beginning of year	$ -
Experience (gain) or loss	704
Asset (gain) or loss	(2,244,600)
Amortization amount	-
Assumption change (gain) or loss	(4,409,863)
End of year	$ (6,653,759)

The assumptions used in the measurement of the benefit obligations at June 30, 2017 are as follows:

Discount rate (benefit expense)	3.8%
Discount rate (benefit obligation)	4.0%
Expected long-term return on plan assets	7.0%
Rate of compensation increase	4.0%

(Continued)

NOTE 5 - EMPLOYEE BENEFIT PLAN (Continued)

This discount rate was derived from the Above Median Citigroup Pension Discount Curve as of the end of June 2017 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 3.80%. The Long-term rate of return on Plan assets is the expected return used by CalPERS for their pension fund and was derived based on their long term expectation of asset returns in consultation with CalPERS investment staff and advisors. The annual pension expense under ASC 715 is based on the expected return on plan assets during the fiscal year. For the Mortality rate, the actuary used the RP- 2014 Healthy Mortality Table projected generationally from 2006 using Scale MP-2017. 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 2017.

The actual allocations for the pension assets and target allocations by asset class as of June 30, 2017 are as follows:

Current Asset Class	Percentage of Plan Assets		Target Allocation	
Global equity	48.3	%	46.0	%
Private equity	8.0		8.0	
Global fixed income	19.4		20.0	
Liquidity	4.8		4.0	
Real assets	11.2		13.0	
Inflation sensitive assets	7.8		9.0	
Other	0.5		-	
	100.0	%	100.0	%

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. Accounting principles generally accepted in the United States of America establish 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.

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 in its entirety. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

(Continued)

NOTE 5 - EMPLOYEE BENEFIT PLAN (Continued)

Plan assets of $59,495,438 are held in a pooled investment account managed by CalPERS and are considered level three 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 End	Expected Payment
2018	$ 2,363,857
2019	2,648,798
2020	2,926,685
2021	3,198,116
2022	3,444,910
2023 – 2027 aggregate	21,266,998

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Commitments: The Center is obligated under various operating lease agreements expiring through April 2049 for office equipment and office facilities. The terms of the office lease agreement provide for payment of minimum annual rental payments, with fixed increases, as discussed in Note 7.

Future minimum lease commitments as of June 30, 2017 are as follows:

	Office Facility	Equipment	Total
2018	$ 5,027,834	$ 11,400	$ 5,039,234
2019	5,178,669	5,700	5,184,369
2020	5,334,030	-	5,334,030
2021	5,494,050	-	5,494,050
2022	5,658,872	-	5,658,872
Thereafter	235,118,291	-	235,118,291
Total	$ 261,811,746	$ 17,100	$ 261,828,846

Rent expense consisted of the following for the years ended June 30, 2017:

Facilities and office equipment rental payments	$ 5,133,869
Deferred rent liability increase	3,125,027
	$ 8,258,896

Contingencies: In accordance with the terms of the contract with the DDS, an audit may be performed by an authorized DDS representative. Should such audit disclose any unallowable costs, the Center may be liable to the DDS for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2017 and for the years then ended.

(Continued)

NOTE 6 - COMMITMENTS AND CONTINGENCIES (Continued)

The Center is dependent on continued funding provided by the DDS to operate and provide services for its clients. The Center's contract with the DDS provides funding for services under the Lanterman Act. In the event that the state determines that the Center has insufficient funds to meet its contractual obligations, the state shall make its best effort to secure additional funding and/or provide the Center with regulatory relief.

The Center is involved in various claims and lawsuits arising in the normal conduct of its operations. The Center's management believes it has adequate defenses and insurance coverage for these actions and, thus, has made no provision in the financial statements for any costs relating to the settlement of such claims.

NOTE 7 - TRANSACTIONS WITH AFFILIATES

Friends of South Central Los Angeles Regional Center for the Developmentally Disabled Persons, Inc. (Friends) is a separately incorporated California nonprofit corporation organized to improve the quality of life of the developmentally disabled consumers and families of the Center by providing assistance and activities that are not otherwise available through the Center or any other agency. The Center provides certain in-kind administrative services. The value of such services is not deemed significant and has not been recorded in the financial statements.

In August 2013, a limited liability company owned by Friends borrowed $55,000,000 from the California Municipal Finance Authority through the issuance of California Municipal Finance Authority Revenue Bonds to finance the construction of office buildings in Los Angeles for use by the Center. In connection with the issuance of the bonds, the limited liability company entered into a long-term lease with the Center and has pledged the rent payments to be received under the lease with the Center as the primary source of revenues to secure the repayment of the bonds. Rent under the lease commenced in May 2015 with a term of 34 years, or until the rent necessary to repay the bonds is received. Office and parking rent commenced in May 2015 and started at $392,970 per month for the first year and increases annually by three percent. The Center will also be responsible for operating expenses as defined in the agreement.

NOTE 8 - RESTATEMENT

Accounting principles generally accepted in the United States of America require that the unfunded projected benefit obligation be measured as of the current fiscal year end and to recognize the funded status as an asset or liability in its statements of financial position and to recognize changes in that funded status in unrestricted net assets in the year in which the change occurs. Management has not been recording the unfunded projected benefit obligation due to lack of available information from the pension plan administrator, and due to the misclassification of the plan as a multiemployer plan. As a result, the July 1, 2016 unrestricted net asset balance account has been restated to reflect these adjustments.

Additionally, a review of balances receivable from the state, under the Center’s contract with DDS, in the current year indicated that receivables related to deferred rent should not be recognized until rent is paid in cash. The prior year receivable has been removed, and the impact on beginning net assets is summarized in the schedule below.

(Continued)

NOTE 8 - RESTATEMENT (Continued)

The impact of these restatements has been summarized in the schedule below.

	As Originally Reported	Effect of Change	As Restated
Statement of Activities			
Net assets, June 30, 2016	$ 130,479	$ -	$ 130,479
Reduction in net position to record unfunded retirement obligation	-	(57,910,167)	(57,910,167)
Reduction in net position to remove receivable from State- deferred rent	-	(3,815,668)	(3,815,668)
Net deficit, July 1, 2016	$ 130,479	$ (61,725,835)	$ (61,595,356)

The impact of the change in net assets for the prior year ended June 30, 2016, is not determinable.

SUPPLEMENTARY INFORMATION

Federal Grantor/Pass-Through Entity Program or Cluster Title	CFDA Number	Identification Number	Federal Expenditures
U.S. Department of Education			
Passed through State of California Department of Developmental Services			
Special Education – Grants for Infants and Families with Disabilities	84.181	H181A150037	$ 1,112,840

See accompanying notes to schedule of expenditure of federal awards.

NOTE I – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. for the year ended June 30, 2017. 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 South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. operations, it does not present the financial position, changes in net assets, or cash flows of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.

Expenditures reported on the Schedule are reported on the accrual basis of accounting and based on state contract budget allocations. South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Expenditures are recognized following cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

INDEPENDENT AUDITOR'S 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*

Board of Directors
South Central Los Angeles Regional Center
For Developmentally Disabled Persons, Inc.
Los Angeles, California

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 South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. (the Center), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2018.

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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs, as items 2017-001 and 2017-002, that we consider to be material weaknesses.

(Continued)

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*.

The Center's Response to Findings

The Center's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Costa Mesa, California
April 30, 2018

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
South Central Los Angeles Regional Center
For Developmentally Disabled Persons, Inc.
Los Angeles, California

Report on Compliance for Each Major Federal Program

We have audited South Central Los Angeles Regional Center For Developmentally Disabled Persons, 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 each of the Center's major federal programs for the year ended June 30, 2017. The Center's major federal programs are identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 each 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 each of its major federal programs for the year ended June 30, 2017.

(Continued)

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Costa Mesa, California
April 30, 2018

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	X Yes	____ No
Significant deficiency(ies) identified?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major federal programs:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiencies identified not considered to be material weaknesses?	____ Yes	X None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____ Yes	X No
Identification of major federal program: CFDA Number 84.181	Special Education – Grants for Infants and Families with Disabilities	
Dollar threshold used to distinguish between type A and type B programs:	$ 750,000	
Auditee qualified as low-risk auditee?	X Yes	____ No

SECTION II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

2017-001 Information Systems (Material Weakness in Internal Control)

Criteria
Internal controls over information systems are a key component of an organization's control environment. Entities should have policies and procedures regarding user access and monitor changes to user security profiles. This includes removing access to information systems on a timely basis for terminated employees.

Condition
During our review over information systems, we selected a sample of 32 terminated employees to determine whether access to information systems was removed on a timely basis. This represented the entire population of terminated employees during the fiscal year. We noted that there is no evidence that user access is timely removed from the financial reporting system and active directory for terminated employees when there is no longer a business need for access.

Cause
Management did not have a process in place to document that access for terminated employees has been removed in a timely manner.

Effect
Improperly designed procedures will limit management's ability to detect when there is inappropriate activity on user accounts for terminated employees.

Recommendation
We recommend that management establish written policies or procedures to document the removal of access to user accounts. Further, we recommend that management conduct a comprehensive review of all user accounts to determine if there is a continued business need for each account, and disable those which are no longer needed.

Management's Response and Planned Corrective Action
We agree with the recommendations and have implemented the following procedures to ensure that system access is disabled or deleted for separated employees:

1. When a staff member separates from the agency, a notification of separation is sent from HR to IT. The IT staff will then proceed to delete the network account, and email address as per the timeline specified in the notification e-mail. All relevant documents are saved and stored for reference. (Notification e-mail, screenshot of the account before deletion, a signed document including date & time for confirming when the deletion occurred);

2. All existing network accounts have been reviewed and verified of user assignment. Any stale accounts including utility and test accounts have been updated and those that are outdated have been removed.

2017-002 Financial Reporting, Pensions and Deferred Rent (Material Weakness in Internal Control)

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

The Center contracts with DDS to operate a regional center for individuals with developmental disabilities and their families. Under the terms of this contract, in Article III: Fiscal Provisions, 4. Payment Provisions, it states, ""In consideration of the services rendered by the Contractor pursuant to this contract, the State shall reimburse the Contractor, for cash expenditures, monthly in arrears".

Condition
During the course of our audit, we identified two errors in financial reporting that resulted in a restatement of beginning net assets as follows:

The Center contributes to the California Public Employees' Retirement Systems (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. During prior years, management did not record the unfunded status of the defined benefit retirement plan in its financial statements. However, management obtained an actuarial valuation to record the unfunded status of the defined benefit retirement plan as of June 30, 2016 by restating beginning net assets by $57,910,167.

The Center leases office facilities under a lease agreement that are subject to scheduled acceleration of rental payments. The scheduled rent increases are amortized evenly over the life of the lease. Management recorded a deferred rent liability which represents the difference between the cash payments made and the amount expensed since inception of the lease. In prior years, management also recorded a receivable from DDS and corresponding revenue in the amount of $3,815,668 that is equal to the deferred rent liability. However, while facility and occupancy costs, directly associated with administrative functions are allowable costs per the DDS contract, the deferred rent liability does not represent a reimbursement from the State as it is not related to a cash disbursement for rents paid.

Cause
During prior years, management did not record the unfunded status of the defined benefit retirement plan in its financial statements due to the Plan being incorrectly identified as a multi-employer plan, instead of a multiple employer plan in accordance with ASC 715-30. CalPERS provides actuarial valuations in accordance with Governmental Accounting Standards Board (GASB). However, such actuarial valuations are not applicable to the Center, as the Center is a California nonprofit corporation where the appropriate generally accepted accounting principles is based on the standards promulgated by the Financial Accounting Standards Board (FASB).

The Center previously recorded a receivable from the State for the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized. However, such expenses are reimbursed under the state contract only when actually paid by the Center.

Effect
Prior year net assets were overstated by $57,910,167 and $3,815,668 for the funded status of the defined benefit retirement plan and deferred rent receivable, respectively. Management corrected both errors through a restatement of beginning net assets.

Recommendation

We recommend that management continue to implement procedures to obtain actuarial valuations in accordance with ASC 715-30 and record the funded status of the defined benefit retirement plan annually. In addition, we recommend that management ensure that receivables recorded represent reimbursements for cash expenditures in accordance with their contract with DDS.

Management's Response and Planned Corrective Action

The organization will comply with the auditors request to obtain an annual actuarial valuation for the defined benefit plan based on FASB accounting standards. However, we continue to strongly support our position to record a receivable from the State of California to offset the pension and deferred rent liabilities. The annual amortization payments for these liabilities are part of our annual appropriation and therefore approved by DDS and the State of California. It is not necessary for DDS to confirm these receivables. Therefore, we believe from a business perspective, and consistent with past practices, recording receivables to offset the liabilities reflected would help the reader understand the economics of the transactions.

SECTION III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

None reported

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None reported