South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.

Financial Statements

June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. (a California nonprofit corporation), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2017, on our consideration of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'s internal control over financial reporting and compliance.

Windes, Inc.

Long Beach, California
March 23, 2017

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

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2016	June 30, 2015
CURRENT ASSETS		
Cash	$ 7,435,850	$ 6,865,856
Cash - client trust funds	1,151,472	1,142,387
Certificates of deposit		500,000
Contracts receivable – state of California	8,808,586	19,346,216
Receivables from Intermediate Care Facility vendors	989,603	1,086,280
Other receivables	626,589	847,934
Prepaid expenses	404,849	
Receivable from state for vacation and other leave benefits	955,738	1,003,383
Deposits		117,576
	20,372,687	30,909,632
OTHER ASSETS		
Receivable from state for deferred rent	3,815,668	548,464
TOTAL ASSETS	$ 24,188,355	$ 31,458,096

LIABILITIES AND NET ASSETS

	June 30, 2016	June 30, 2015
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 18,115,291	$ 18,614,846
Accrued vacation and other leave benefits	955,738	1,003,383
Short-term borrowings		10,000,000
Unexpended client support	1,171,179	1,252,779
	20,242,208	30,871,008
NONCURRENT LIABILITIES		
Deferred rent liability	3,815,668	548,464
COMMITMENTS AND CONTINGENCIES (Notes 5 and 6)		
NET ASSETS		
Unrestricted	130,479	38,624
TOTAL LIABILITIES AND NET ASSETS	$ 24,188,355	$ 31,458,096

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

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

STATEMENTS OF ACTIVITIES

	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contracts – state of California	$ 198,257,232	$ 180,801,191
Intermediate Care Facility supplemental services income	2,058,142	2,239,199
Interest income	7,706	15,384
Grants	104,788	97,282
Other income	273,634	166,647
Total Support and Revenue	200,701,502	183,319,703
EXPENSES		
Program Services		
Direct services	183,792,477	169,907,174
Supporting Services		
General and administrative	16,817,170	13,386,350
Total Expenses	200,609,647	183,293,524
CHANGE IN NET ASSETS	91,855	26,179
NET ASSETS AT BEGINNING OF YEAR	38,624	12,445
NET ASSETS AT END OF YEAR	$ 130,479	$ 38,624

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

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

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Supporting Services	
	Direct Services	**General and Administrative**	**Total Expenses**
Salaries	$ 12,146,159	$ 4,313,870	$ 16,460,029
Employee health and retirement benefits	3,418,674	1,214,153	4,632,827
Payroll taxes	173,523	51,767	225,290
Total Salaries and Related Expenses	15,738,356	5,579,790	21,318,146
Purchase of services			
Out of home	50,062,617		50,062,617
Day programs	40,784,179		40,784,179
Transportation services	18,779,284		18,779,284
Other purchased services	58,254,827		58,254,827
Equipment rental		103,410	103,410
Equipment maintenance		54,309	54,309
Data processing maintenance		630,929	630,929
Facility maintenance		43,344	43,344
Facility rent		8,372,332	8,372,332
Communication		296,060	296,060
General office expenses	47,529	245,900	293,429
Postage		82,534	82,534
Printing		17,349	17,349
Insurance		207,401	207,401
Legal fees		100,266	100,266
Equipment purchases		108,511	108,511
Contract consultants	12,317	329,184	341,501
Travel	113,368	185,405	298,773
General expenses		277,347	277,347
Professional fees		55,996	55,996
Dues		83,519	83,519
Interest expense and bank fees		43,584	43,584
TOTAL EXPENSES	$ 183,792,477	$ 16,817,170	$ 200,609,647

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

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

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services	Supporting Services	
	Direct Services	**General and Administrative**	**Total Expenses**
Salaries	$ 10,998,206	$ 3,689,164	$ 14,687,370
Employee health and retirement benefits	3,114,792	1,044,801	4,159,593
Payroll taxes	158,303	76,866	235,169
Total Salaries and Related Expenses	14,271,301	4,810,831	19,082,132
Purchase of services			
Out of home	46,135,986		46,135,986
Day programs	39,422,132		39,422,132
Transportation services	17,873,269		17,873,269
Other purchased services	52,036,053		52,036,053
Equipment rental		12,782	12,782
Equipment maintenance		62,658	62,658
Data processing maintenance		1,073,224	1,073,224
Facility maintenance		1,183,636	1,183,636
Facility rent		3,593,385	3,593,385
Communication		176,884	176,884
General office expenses	34,337	119,299	153,636
Postage		70,836	70,836
Printing		7,408	7,408
Insurance		227,338	227,338
Legal fees		64,282	64,282
Equipment purchases		1,149,712	1,149,712
Contract consultants	29,702	256,667	286,369
Travel	104,394	153,642	258,036
General expenses		267,936	267,936
Professional fees		55,950	55,950
Dues		63,546	63,546
Interest expense and bank fees		36,334	36,334
TOTAL EXPENSES	$ 169,907,174	$ 13,386,350	$ 183,293,524

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

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

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 91,855	$ 26,179
Adjustments to reconcile change in net assets to net cash from operating activities:		
(Increase) decrease in:		
Cash - client trust funds	(9,085)	(224,486)
Contracts receivable – state of California	10,537,630	(10,764,547)
Receivables from Intermediate Care Facility vendors	96,677	(97,436)
Prepaid expenses and other assets	(183,504)	209,017
Receivable from state for vacation and other leave benefits	47,645	(75,251)
Receivable from state for deferred rent	(3,267,204)	(548,464)
Deposits	117,576	
Increase (decrease) in:		
Accounts payable and accrued expenses	(499,555)	3,538,959
Accrued vacation and other leave benefits	(47,645)	75,251
Deferred rent liability	3,267,204	548,464
Unexpended client support	(81,600)	203,328
Net Cash Provided By (Used In) Operating Activities	10,069,994	(7,108,986)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturity of certificate of deposit	500,000	
Net Cash Provided By Investing Activities	500,000	
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in short-term borrowings	(10,000,000)	10,000,000
Net Cash Provided By (Used In) Financing Activities	(10,000,000)	10,000,000
NET CHANGE IN CASH	569,994	2,891,014
CASH AT BEGINNING OF YEAR	6,865,856	3,974,842
CASH AT END OF YEAR	$ 7,435,850	$ 6,865,856

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest during the years ended June 30, 2016 and 2015 was $12,665 and $20,282, respectively.

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

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

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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 $195,207,106 and $179,109,285 for the 2015-2016 and 2014-2015 contract years, respectively. Actual net expenditures under the Center contracts for the 2015-2016 and 2014-2015 contracts were $190,637,102 and $177,753,073, respectively.

NOTE 1 – Organization and Summary of Significant Accounting Policies (Continued)

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, 2016 and 2015, the Center had no temporarily or permanently restricted net assets.

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.

Concentration of Credit Risk

At June 30, 2016 and 2015 and at various time during the year, the Center maintained cash balances in its financial institution 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.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 – Organization and Summary of Significant Accounting Policies (Continued)

Certificates of Deposit

The Center accounts for certificates of deposit at fair value. 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 standards have established 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

Certificates of deposit are financial instruments that are measured at fair value on a recurring basis in the accompanying statements of financial position. Generally, identical instruments to certificates of deposit are not traded in active markets and, as such, fair value is based on estimates using present value or other valuation techniques such as discounted cash flows and observable inputs for similar instruments. Therefore, the certificates of deposit are classified within Level 2 of the fair value hierarchy.

At June 30, 2016 and 2015, the Center held $0 and $500,000 in certificates of deposit, respectively.

Contracts Receivable - State of California

Contracts receivable and contract support are recorded on the accrual method as related expenses are incurred.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 – Organization and Summary of Significant Accounting Policies (Continued)

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.

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 years ended June 30, 2016 and 2015, equipment purchases totaled $108,511 and $1,149,712, respectively.

Accrued Vacation and Other Leave Benefits

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

NOTE 1 – Organization and Summary of Significant Accounting Policies (Continued)

Deferred Rent

The Center leases office facilities under a lease agreement that is 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. The Center has recorded a receivable from the state for the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized.

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.

NOTE 1 – Organization and Summary of Significant Accounting Policies (Continued)

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.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 – Organization and Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Center's management has evaluated subsequent events from the statement of financial position date through March 23, 2017, the date the financial statements were available to be issued for the year ended June 30, 2016, and determined that there are no other items to disclose.

NOTE 2 – Cash - Client Trust Funds 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:

	June 30,	
	2016	2015
Support:		
Social Security and other client support	$ 12,248,878	$ 11,972,928
Disbursements:		
Living out of own home	$ 8,630,247	$ 8,600,813
Other disbursements	3,618,631	3,372,115
	$ 12,248,878	$ 11,972,928

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.

NOTE 3 – Contracts Receivable/Contract Advances – State of California (Continued)

As of June 30, 2016 and 2015, DDS had advanced the Center $32,400,879 and $30,669,800, respectively, 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 follows:

	June 30,	
	2016	**2015**
Contracts receivable – state of California	$ 41,209,465	$ 50,016,016
Contract advances – state of California	(32,400,879)	(30,669,800)
Net contract receivable	$ 8,808,586	$ 19,346,216

The Center has received its contract for the fiscal year ending June 30, 2017. The contract provides for initial funding of $222,162,299.

NOTE 4 – Short-Term Borrowings

The Center had a $15,000,000 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 maximum limit was reduced to $8,000,000 beginning September 5, 2015. The agreement matured on September 5, 2016. There was no balance outstanding as of June 30, 2016 and an outstanding balance of $10,000,000 as of June 30, 2015.

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 maximum limit increased to $33,000,000 beginning July 1, 2016 until the earlier of October 1, 2016 or the effective date of a state of California budget with respect to the General Fund for the fiscal year commencing July 1, 2016, then $20,000,000 until the maturity date of June 30, 2017. 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%. There was no balance outstanding as of June 30, 2016.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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.

CalPERS uses the Entry Age Normal Cost Method to fund benefits. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire to the assumed retirement age. The cost allocated to the current fiscal year is called the normal cost.

The actuarial accrued liability for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for members entitled to deferred benefits, is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants.

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.

A summary of principal assumptions and methods used, provided in the Annual Valuation Report prepared by the CalPERS Actuarial Office, is as follows:

Valuation Date	June 30, 2015
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Asset Valuation Method	Market value of assets
Actuarial Assumptions:	
Discount Rate	7.50% (net of expenses)
Projected Salary Increases	Varies by age and service
Inflation	2.75%
Payroll Growth	3.00%

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 – Employee Benefit Plan (Continued)

The asset allocation shown below, provided by the CalPERS Actuarial Office, reflects the CalPERS fund in total as of June 30, 2015. The assets of the Center's plan are part of the CalPERS fund and are invested accordingly.

Asset Class	Current Allocation	Target Allocation
Global equity	53.8 %	51.0 %
Private equity	9.6	10.0
Global fixed income	17.6	20.0
Liquidity	2.5	1.0
Real assets	10.5	12.0
Inflation sensitive assets	5.2	6.0
Other	0.8	0.0
	100.0 %	100.0 %

The Schedule of Funding Progress below, provided by the CalPERS Actuarial Office, shows the recent history of the actuarial accrued liability, the market value of assets, the funded ratio, and the annual covered payroll.

Valuation Date	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll
6/30/11	$ 43,271,971	$ 32,547,069	$ 10,724,902	75.2%	$ 11,430,712
6/30/12	$ 46,449,173	$ 34,111,473	$ 12,337,700	73.4%	$ 11,375,281
6/30/13	$ 51,177,372	$ 40,183,110	$ 10,994,262	78.5%	$ 12,077,302
6/30/14	$ 58,015,635	$ 48,750,412	$ 9,265,223	84.0%	$ 12,133,881
6/30/15	$ 61,813,194	$ 50,995,310	$ 10,817,884	82.5%	$ 12,621,067

NOTE 5 – Employee Benefit Plan (Continued)

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.

Total retirement expense for the years ended June 30, 2016 and 2015, was $2,492,013 and $2,091,399, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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 rentals, with fixed increases, as discussed in Note 7.

Future minimum lease commitments as of June 30, 2016 are as follows:

For the Year Ending June 30,	Office Facility	Equipment	Total
2017	$ 4,881,393	$ 11,400	$ 4,892,793
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
Thereafter	240,777,163		240,777,163
Total	$ 266,693,139	$ 28,500	$ 266,721,639

Rent expense consisted of the following for the years ended June 30, 2016 and 2015:

	June 30, 2016	June 30, 2015
Facilities and office equipment rental payments	$ 5,208,538	$ 3,057,703
Deferred rent liability increase	3,267,204	548,464
	$ 8,475,742	$ 3,606,167

NOTE 6 – Commitments and Contingencies (Continued)

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, 2016 and 2015, and for the years then ended.

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 April 2013, Friends of SCLARC entered into a $500,000 revolving line of credit agreement with a financial institution which matures in May 2016 that is guaranteed by the Center. In November 2015, Friends paid off outstanding borrowings and terminated the revolving line of credit agreement.

NOTE 7 – Transactions with Affiliates (Continued)

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 increased annually by three percent. The Center will also be responsible for operating expenses as defined in the agreement.

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant 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	84.181	H181A150037	$ 1,082,212

See accompanying notes to schedule of expenditures of federal awards.

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

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc., it is not intended to, and 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting and based on state contract budget allocations. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 23, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'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 South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Windes, Inc.

Long Beach, California
March 23, 2017

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'s major federal programs for the year ended June 30, 2016. South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'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 South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'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 South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. 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, 2016.

Report on Internal Control over Compliance

Management of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. 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 South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'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 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 South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'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.

Windes, Inc.

Long Beach, California
March 23, 2017

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued – Unmodified

Internal control over financial reporting:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Noncompliance material to financial statements noted? – No

Federal awards

Internal control over major programs:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Type of auditors' report issued on compliance for major programs? – Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? – No

Identification of major programs: Special Education – Grants for Infants and Families, CFDA #84.181

Dollar threshold used to distinguish between type A and type B programs was $750,000.

Auditee qualified as low-risk auditee? – Yes

FINDINGS – FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None