Regional Center of the East Bay

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE

YEAR ENDED JUNE 30, 2015

REGIONAL CENTER OF THE EAST BAY, INC.

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

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Board of Directors
Regional Center of the East Bay, Inc.
San Leandro, California

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Regional Center of the East Bay, Inc., a California nonprofit public benefit corporation, 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.

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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Center of the East Bay, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Regional Center of the East Bay, Inc.'s 2015 financial statements, and our report dated November 23, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information on page 19 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 20 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 also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated November 28, 2016 on our consideration of Regional Center of the East Bay, 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 Regional Center of the East Bay, Inc.'s internal control over financial reporting and compliance.

Lindquist, von Husen and Joyce LLP

November 28, 2016

REGIONAL CENTER OF THE EAST BAY, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Unrestricted	*Temporarily Restricted*	*Total*	*Total*
ASSETS				
Cash	$ 27,312,183	$ -	$ 27,312,183	$ 8,119,041
Cash held for others	2,912,079	164,242	3,076,321	3,139,082
Cash held for CPPDD (Note 12)	1,799,312	-	1,799,312	1,799,312
Contract receivable (Note 3)	60,270,760	-	60,270,760	75,797,358
Note receivable (Note 4)	500,465	-	500,465	590,704
Receivable from Intermediate Care Facilities (Note 5)	3,570,898	-	3,570,898	3,287,390
Other receivables	-	36,614	36,614	33,006
Prepaid expenses	1,029,305	-	1,029,305	960,578
Deferred costs for accrued vacation and other leave benefits	1,511,031	-	1,511,031	1,375,215
Deferred costs for rent liability (Note 7)	4,321,199	-	4,321,199	3,849,457
Lease deposits	251,646	-	251,646	251,646
CPPDD vendor advances – lease (Note 12)	172,712	-	172,712	172,712
CPPDD vendor advances – other (Note 12)	78,497	-	78,497	78,497
Total assets	$ 103,730,087	$ 200,856	$ 103,930,943	$ 99,453,998
LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)				
Liabilities:				
Accounts payable	$ 28,588,451	$ -	$ 28,588,451	$ 27,280,286
Contract advance (Note 6)	65,813,542	-	65,813,542	60,860,449
Payable to Department of Developmental Services (Note 5)	581,225	-	581,225	2,916,503
Accrued vacation and other leave benefits	1,511,031	-	1,511,031	1,375,215
Deferred rent liability (Note 7)	4,321,199	-	4,321,199	3,849,457
Net assets held for others (Note 9)	2,914,639	-	2,914,639	2,973,862
Unfunded defined benefit plan liability (Note 11)	6,525,454	-	6,525,454	3,535,905
Total liabilities	110,255,541	-	110,255,541	102,791,677
Net assets (accumulated deficit)	(6,525,454)	200,856	(6,324,598)	(3,337,679)
Total liabilities and net assets (accumulated deficit)	$ 103,730,087	$ 200,856	$ 103,930,943	$ 99,453,998

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

REGIONAL CENTER OF THE EAST BAY, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Unrestricted	*Temporarily Restricted*	*Total*	*Total*
Support and revenue:				
Grants	$ 108,649,633	$ -	$ 108,649,633	$ 102,396,114
Federal awards	233,411,286	-	233,411,286	224,495,525
Intermediate Care Facilities (Note 5)	6,453,438	-	6,453,438	6,580,864
Interest	136,735	86	136,821	103,542
Donations and other income	129,416	4,803	134,219	148,121
	348,780,508	4,889	348,785,397	333,724,166
Net assets released from restrictions (Note 8)	2,259	(2,259)	-	-
Total support and revenue	348,782,767	2,630	348,785,397	333,724,166
Expenses:				
Program services:				
Purchase of services	311,621,379	-	311,621,379	299,619,885
Operating	31,918,404	-	31,918,404	29,338,024
General and administrative:				
Operating	5,242,984	-	5,242,984	4,771,030
Total expenses	348,782,767	-	348,782,767	333,728,939
Change in net assets from operations	-	2,630	2,630	(4,773)
Change in defined benefit plan liability	(2,989,549)	-	(2,989,549)	3,163,366
Change in net assets	(2,989,549)	2,630	(2,986,919)	3,158,593
Net assets (accumulated deficit):				
Beginning of year	(3,535,905)	198,226	(3,337,679)	(6,496,272)
End of year	$ (6,525,454)	$ 200,856	$ (6,324,598)	$ (3,337,679)

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

REGIONAL CENTER OF THE EAST BAY, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Program Services	*General and Administrative*	*Total*	*Total*
Purchase of services:				
Out of home	$ 98,903,312	$ -	$ 98,903,312	$ 93,900,904
Day programs	77,305,842	-	77,305,842	76,290,174
Other purchased services	135,412,225	-	135,412,225	129,428,807
Total purchase of services	311,621,379	-	311,621,379	299,619,885
Operating:				
Salaries and related expenses	25,127,293	3,754,654	28,881,947	26,973,748
Office occupancy	3,166,877	473,212	3,640,089	3,418,470
Accounting fees	53,940	8,060	62,000	59,350
ARCA dues	-	73,832	73,832	71,765
Bank charges	-	112,824	112,824	105,584
Board of Directors' expenses	5,337	798	6,135	5,343
Communications	230,919	34,505	265,424	220,703
Conferences and seminars	8,355	1,248	9,603	2,295
Contract and consultant fees	2,058,838	307,643	2,366,481	2,126,150
Data processing	127,820	19,100	146,920	88,828
Equipment rental	96,766	14,459	111,225	76,814
General	-	286,908	286,908	209,838
General office expenses	416,103	62,176	478,279	108,381
Insurance	185,302	27,689	212,991	200,100
Legal fees	86,269	12,891	99,160	40,622
Printing	34,072	5,091	39,163	29,837
Restricted development	1,965	294	2,259	10,275
Staff travel	313,184	46,798	359,982	356,171
Other	5,364	802	6,166	4,780
Total operating	31,918,404	5,242,984	37,161,388	34,109,054
Total expenses	$ 343,539,783	$ 5,242,984	$ 348,782,767	$ 333,728,939

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

REGIONAL CENTER OF THE EAST BAY, INC.

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Unrestricted	*Temporarily Restricted*	*Total*	*Total*
Cash flows from operating activities:				
Change in net assets	$ (2,989,549)	$ 2,630	$ (2,986,919)	$ 3,158,593
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Change in defined benefit plan liability	2,989,549	-	2,989,549	(3,163,366)
(Increase) decrease in assets:				
Contract receivable	15,526,598	-	15,526,598	13,575,072
Note receivable	90,239	-	90,239	98,451
Other receivables	-	(3,608)	(3,608)	5,736
Prepaid expenses	(68,727)	-	(68,727)	3,196
Increase (decrease) in liabilities:				
Accounts payable	1,308,165	-	1,308,165	2,150,956
Payable to Department of Developmental Services	(2,618,786)	-	(2,618,786)	(1,389,328)
Net assets held for others	(59,223)	-	(59,223)	288,220
Total adjustments	17,167,815	(3,608)	17,164,207	11,568,937
Net cash provided by (used in) operating activities	14,178,266	(978)	14,177,288	14,727,530
Cash flows from financing activities:				
Proceeds from contract advance	91,510,306	-	91,510,306	78,776,143
Payment of contract receivable	(86,557,213)	-	(86,557,213)	(92,714,248)
Net cash provided by (used in) financing activities	4,953,093	-	4,953,093	(13,938,105)
Net increase (decrease) in cash	19,131,359	(978)	19,130,381	789,425
Cash, beginning of year	12,892,215	165,220	13,057,435	12,268,010
Cash, end of year	$ 32,023,574	$ 164,242	$ 32,187,816	$ 13,057,435
Cash	$ 27,312,183	$ -	$ 27,312,183	$ 8,119,041
Cash held for others	2,912,079	164,242	3,076,321	3,139,082
Cash held for CPPDD	1,799,312	-	1,799,312	1,799,312
	$ 32,023,574	$ 164,242	$ 32,187,816	$ 13,057,435

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Regional Center of the East Bay, Inc. (the Center), a California nonprofit public benefit corporation under contract with the California Department of Developmental Services (DDS), was formed in 1975 to administer programs for individuals with developmental disabilities and their families, which includes diagnosis, counseling, education services, and dissemination of information on developmental disabilities to the public. The Center is one of 21 regional centers within California and serves Alameda and Contra Costa counties.

The Center's mission statement is as follows:

> Regional Center of the East Bay supports persons with developmental disabilities and their families with the tools needed to achieve lives of quality and satisfaction, and builds partnerships that result in inclusive communities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

State of California Contract

The Center operates under an annual cost-reimbursement contract with DDS under the Lanterman Developmental Disabilities Services Act (the Lanterman Act). The maximum expenditures under the contract are limited to the contract amount plus interest earned. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual, issued by DDS, and is required to have DDS approval for certain expenses. In the event of termination or nonrenewal of the contract, the State of California maintains the right to assume control of the Center's operation and the obligation of its liabilities.

Accounting Method

The Center uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Center is required to report information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets include those net assets and activities which represent expendable funds for operations related to the DDS contract and is comprised of Operating and Client Trust Funds.

  The Operating Fund is comprised of the primary activities of the Center which are carried out under the DDS contract, the activities of the Community Placement Plan (CPP), and federally funded programs.

The Client Trust Fund includes client social security benefits and other sources of income as the Center serves as representative payee for a majority of its clients in residential care. In this fiduciary capacity, the Center makes payments on behalf of certain developmentally disabled clients who are deemed unable to administer the funds themselves. Client trust transactions do not generate revenue or expenses for the Center and are reflected on the statement of financial position as assets (*cash held for others*) and a liability (*net assets held for others*).

- Temporarily restricted net assets include those net assets and activities that are subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as *net assets released from restrictions*.

  Included in temporarily restricted net assets is the Restricted Trust Fund (also known as the Helping Hand Fund) which is used to record solicited and unsolicited support received by the Center. These funds are used exclusively to fund emergency grants and loans to clients who have no other resources available to them during times of exceptional need.

- Permanently restricted net assets include those net assets and activities that are subject to non-expiring donor restrictions. The Center had no permanently restricted net assets as of June 30, 2016.

<u>Revenue Recognition</u>

Revenue and expenses are recognized in the year the claim is filed with DDS. Depending on the date of the service, claims are classified and charged to the appropriate contract as follows:

- Current year
- Prior year
- Second prior year

<u>Contributions</u>

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recognized when the donor makes a promise to give; that is, in substance, an unconditional promise. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions are recorded at their fair value as unrestricted, temporarily restricted, or permanently restricted, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), the amount is shown as a reclassification of temporarily restricted net assets to unrestricted net assets and reported in the statement of activities as *net assets released from restrictions*.

Government contracts, which are funded on a reimbursement basis, are shown as unrestricted revenue.

<u>Federal Grants</u>

<u>U.S. Department of Health and Human Services:</u>

The Center is a sub-recipient to DDS with regard to the Medicaid Waiver grant. This grant provides funding for a broad range of medical assistance, which includes home and community based services to certain persons of need, as authorized by Title XIX of the Social Security Act of 1965. This grant also funds Targeted Case Management.

U.S. Department of Education:

The Center is a sub-recipient to DDS with regard to the Special Education Grants for Infants and Families, which provides funding for early intervention services for infants and toddlers, through age 3, as authorized by Public Law 102-119.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity. The Center occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation coverage limit. The uninsured cash balance, including restricted cash, was approximately $33,239,000 as of June 30, 2016. The Center has not experienced any losses in such accounts.

Contract and Other Receivables

A majority of the Center's receivables represent or relate to the cost-reimbursement contract with DDS. Bad debts are provided on the allowance method based on historical experience and management evaluation of outstanding grants and accounts receivable. It is the Center's policy to charge off uncollectible accounts receivable when management determines that receivables will not be collected. Management has determined that no allowance for uncollectible accounts was deemed necessary at June 30, 2016.

Note Receivable

The Center entered into a note receivable agreement with one of its transportation vendors as a result of prior year over-billings to the Center (see Note 4). Because the Center operates under a cost-reimbursement contract, the note is offset against monthly payments to the vendor until the note is repaid in full.

Furniture and Equipment

Furniture and equipment is stated at cost of acquisition. Furniture and equipment belongs to the State of California if purchased with contract funds except for the furniture and equipment for use by a consumer. Because the Center is granted a beneficial interest in the furniture and equipment, an offsetting liability is also recorded. The Center is required to track acquisitions of furniture and equipment with an estimated useful life beyond one year.

The Center expenses the cost of furniture and equipment upon acquisition purchased with funds from the DDS contract in accordance with the Regional Center Fiscal Manual. This departure from accounting principles generally accepted in the United States of America does not have a material impact on the financial statements. Equipment purchases for the year ended June 30, 2016 were $58,108. The capitalized furniture and equipment, and reciprocating offset account, at June 30, 2016 totaled $192,672.

Income Taxes

The Center is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections. Contributions to the Center qualify for the charitable contribution deduction.

The Center believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Center's federal and state information returns for the years 2011 through 2014 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Defined Benefit Pension Plan

The Center records unfunded liability of its defined benefit pension plan with California Public Employees' Retirement System (CalPERS) on the statement of financial position and recognizes the changes in the funded status on the statement of activities in the year in which the change occurs. CalPERS has characteristics of a multiemployer plan. Effective for the year ended June 30, 2010, the Center must have the actuarial report coinciding with the Center's fiscal year end. Currently, the actuarial report is one year in arrears. This lag in reporting is not in conformity with accounting principles generally accepted in the United States of America; however, this departure is not material to the financial statements. The delay is due to the fact that there is a two-year lag between the Valuation Date and the Contribution Fiscal Year. This lag is necessary due to the amount of time needed to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution rates well in advance of the start of the fiscal year.

Subsequent Events

Management has evaluated subsequent events through November 28, 2016, the date on which these financial statements were available to be issued.

NOTE 3 – CONTRACT RECEIVABLE

Contract receivable is summarized as follows:

POS and operations	$ 58,074,578
CPP	2,196,182
	$ 60,270,760

NOTE 4 – NOTE RECEIVABLE

The Center entered into a note receivable agreement, dated July 1, 2011, in the amount of $984,507 with Mobility Plus Transportation, LLC as a result of prior year over-billings to the Center. The note bears simple interest rate of 3.25%; however, interest may be waived by the Center. Monthly offset payments of $8,204 are to be made until the note is repaid in full in June 2021. As of June 30, 2016, the balance on the note (with a corresponding liability included in the *payable to Department of Developmental Services*) was $500,465. The Center waived interest for the year ended June 30, 2016.

The Center evaluates the note receivable based on the following credit quality indicators: collateral and related versus non-related borrowers. These credit quality indicators are updated at least annually. Details about the note receivable are as follows:

	Collateralized	*Uncollateralized*	*Past Due*	*Allowance*	*Net*
Non-related party	$ -	$ 500,465	$ -	$ -	$ 500,465
Total	$ -	$ 500,465	$ -	$ -	$ 500,465

NOTE 5 – INTERMEDIATE CARE FACILITIES – STATE PLAN AMENDMENT

During the year ended June 30, 2011, various legislative changes were made to the California Welfare and Institutions Code retroactive to July 1, 2007, making Intermediate Care Facility (ICF) providers responsible for providing day programs and transportation services; and ultimately, making such services eligible for reimbursement under California's Home and Community Based Services Program, which is funded by the Medicaid Waiver grant (Medicaid).

Previously, such services provided to the residents were not reimbursable by Medicaid because the funds were not directly billed and received by the ICF's. The legislative changes allow for DDS to bill these services to Medicaid and capture federal funds.

DDS directs the Center to prepare billings for these services on behalf of the ICF's. The billings include a 5.5% Quality Assurance fee for the State Department of Health Care Services (DHCS), a 1.5% administrative fee for the ICF's and a 1.5% administration fee for the Center.

On or before June 30, 2012, DDS advanced the amounts billed to the ICF's. The ICF's were directed to remit to the Center the amount billed less its administration fee and the Quality Assurance fee, which it must remit to DHCS. After the Center received the net payment from the ICF's, the Center was directed to remit the amount to DDS, net of its administration fee. DDS instituted protocols should the ICF's not remit the net amounts due to the Center.

Beginning July 1, 2012, DDS advances the amounts billed to the ICF's. The ICF's are directed to remit to the Center, within 30 days of receipt of funds from the State Controller's Office, the amount billed less its administration fee and the Quality Assurance fee, which it must remit to DHCS. The Center records the entire net amounts due from the ICF's as *receivable from Intermediate Care Facilities* with corresponding *revenue from Intermediate Care Facilities*. The *receivable from Intermediate Care Facilities* reduces contract receivable from DDS. DDS has instituted protocols should the ICF's not remit the net amounts due to the Center.

The r*eceivable from Intermediate Care Facilities* in the amount of $3,570,898 represents the amount DDS paid or will pay to the ICF's net of ICF's administrative fee and Quality Assurance fee in relation to the billings prepared beginning July 1, 2012, and the *payable to Department of Developmental Services* of $581,225 includes $80,760, which represents the amount expected to be paid net of the Center's fee in relation to the billings prepared on or before June 30, 2012. *Revenue from Intermediate Care Facilities* was $6,453,438.

NOTE 6 – CONTRACT ADVANCE

Contract advance represents fund advances from DDS to the Center at the beginning of each fiscal year to provide interest-free working capital. DDS uses its discretion in determining the balance on a month-to-month basis. If DDS so chooses, the advance may be paid by off-setting claim reimbursements partially or in full. As of June 30, 2016, contract advance balance was $65,813,542.

NOTE 7 – LEASE COMMITMENTS

The Center leases office space in San Leandro and Concord, California, and also leases various equipment. During the year, the Center moved the Concord office and signed a new lease for another Concord office space for approximately seven years. The facility leases include rent escalation clauses for insurance and real estate taxes. All leases are classified as operating leases. Rental expense was $3,554,262 for the year ended June 30, 2016.

The difference between the recognition of rental expense under the straight-line method and actual cash payments is reflected in *deferred costs for rent liability* and *deferred rent liability* in the accompanying statement of financial position and has a balance of $4,321,199 as of June 30, 2016.

Future minimum lease payments are as follows:

2017	$ 3,599,402
2018	4,007,247
2019	4,117,301
2020	4,199,292
2021	4,244,256
Thereafter	37,656,447
	$ 57,823,945

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows:

	June 30, 2015	*Contributions and Interest*	*Releases from Restrictions*	*June 30, 2016*
Helping Hand Fund	$ 198,226	$ 4,889	$ (2,259)	$ 200,856
	$ 198,226	$ 4,889	$ (2,259)	$ 200,856

NOTE 9 – NET ASSETS HELD FOR OTHERS

The Center's activities for the year consist of the following:

Beginning balance	$ 2,973,862
Client support received	25,772,642
Less purchase of service disbursements	(25,831,865)
Ending balance	$ 2,914,639

NOTE 10 – LINE OF CREDIT

In October 2014, the Center obtained a $49,600,000 line of credit with MUFG Union Bank, N.A., secured by substantially all of the Center's assets. Interest under the line of credit was charged at the bank's reference rate of 3.50%. The line of credit expired on September 30, 2015 and was renewed in February 2016 for an additional six months from April 1, 2016 through September 30, 2016. As of June 30, 2016, the Center had not drawn on the line of credit.

NOTE 11 – DEFINED BENEFIT PENSION PLAN

On October 14, 2002, the Center adopted a defined benefit pension plan covering substantially all employees by becoming a member of CalPERS. All employees are, immediately upon hire, enrolled in the pension plan. The Center contributes 12.94% of the employees' gross salary to CalPERS. Participants are fully vested after five years of full-time service. For the year ended June 30, 2016, $2,853,861 was paid to CalPERS.

The Public Employees' Retirement Law (Part 3 of the California Government Code, §20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

The unfunded liability as of June 30, 2015, the most current actuarial valuation, was as follows:

Present value of projected benefits	$ 94,274,351
Less present value of future:	
Employer normal costs	(11,982,315)
Employee contributions	(11,486,937)
Entry age normal accrued liability	70,805,099
Market value of assets	(64,279,645)
Unfunded liability	$ 6,525,454

The reconciliation of the market value of assets over the prior year was as follows:

Beginning balance – June 30, 2014	$ 61,571,281
Contributions:	
Employer	1,943,703
Employee	1,363,502
Investment return	1,310,146
Benefit payments to retirees	(1,682,794)
Refunds	(233,086)
Other transfers and miscellaneous adjustments	6,893
Ending balance – June 30, 2015	$ 64,279,645

The significant actuarial assumptions as of June 30, 2015, were as follows:

Long-term discount rate	7.50%
Payroll growth	3.00%
Expected long-term rate of return	7.50%

The expected payment on the unfunded liability for the year ended June 30, 2016 is $713,964.

The asset allocation as of June 30, 2015, was as follows:

Asset Class	*Current Allocation*
Public equity	53.8%
Private equity	9.6%
Fixed income	17.6%
Cash equivalent	2.5%
Real assets	10.5%
Inflation assets	5.2%
Absolute Return Strategy	0.8%
	100.0%

The starting point and most important element of CalPERS' return on investment is the asset allocation or diversification among stocks, bonds, cash and other investments. Asset allocation is not an asset-only or liability-only decision. All factors, including liabilities, benefit payments, operating expenses, and employer and member contributions are taken into account in determining the appropriate asset allocation mix. The goal is to maximize returns at a prudent level of risk which presents an ever-changing balancing act between market volatility and long-term goals.

CalPERS follows a strategic asset allocation policy that identifies the percentage of funds to be invested in each asset class.

The asset allocation and market value of assets shown above reflect the values of the Public Employees' Retirement Fund (PERF) in its entirety as of June 30, 2015. The assets for the Center are part of the PERF and are invested accordingly.

For the year ended June 30, 2016, the actuarial computed employer and employee contribution rates are 9.490% and 6.956%, respectively.

NOTE 12 – COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES

Background

In March 2006, the Bay Area Housing Plan (BAHP) was developed by Golden Gate Regional Center, Inc. (GGRC), Regional Center of the East Bay, Inc. (the Center) and San Andreas Regional Center (SARC), working in collaboration under the Bay Area Unified Plan (collectively, the Regional Centers).

The BAHP was established to provide affordable, community based housing for people with developmental disabilities in the San Francisco Bay Area, through a Housing Development Agreement among the Regional Centers and a master developer (the Agreement). The BAHP meets the requirements to provide housing to people with developmental disabilities under AB 2100, as codified in Welfare and Institutions Code §4688.5.

The initial beneficiaries of the BAHP were the residents of the Agnews Developmental Center (Agnews) in San Jose as they were transitioned to community housing from Agnews due to its scheduled closure. The BAHP established the strategy and timeline for the acquisition, construction, and financing for the completion of homes for these residents. All of the residents were successfully transitioned out of Agnews.

The Regional Centers determined, in their discretion, the types, amounts, and locations of these residences. A total of 60 properties were purchased and developed by the master developer.

For the purpose of managing the Regional Centers' responsibilities under the Agreement, the Regional Centers formed a Steering Committee, which is comprised of the three Executive Directors of the Regional Centers. The Steering Committee has the authority to administer the Agreement and bind the Regional Centers to the terms and conditions of the Agreement. The Steering Committee makes all decisions by consensus where possible, but may also act by a majority vote. Notwithstanding the foregoing, if the action to be taken by the Steering Committee concerns a specific property located within a Regional Center's catchment area, the Executive Director for that Regional Center must vote in favor of such action for it to be binding on the Steering Committee.

Three non-profit organizations (NPOs) acquired fee title to the properties from the master developer. The NPOs were:

- Bay Area Housing Corporation (BAHC), which acquired 32 residences in SARC's catchment area.
- Housing Consortium of the East Bay (HCEB), which acquired 15 residences in the Center's catchment area.
- West Bay Housing Corporation (WBHC), which acquired 13 residences in GGRC's catchment area.

Subsequently, the NPOs conveyed their ownership interests in the residencies to three single member limited liability companies (LLCs), each owned by its respective NPO. The LLCs are:

- Casa Milagro LLC, owner of 32 residences (from BAHC)
- Inclusive Communities East Bay, LLC, owner of 15 residencies (from HCEB)
- A Home for Life, LLC, owner of 13 residences (from WBHC)

The LLCs lease such properties to the Regional Centers' service providers under 60 long-term operating leases. The service providers operate the properties for the benefit of consumers who receive services from the Regional Centers.

The leases will terminate on the 17th anniversary of their commencement dates or 18 months after the date that the applicable LLC/landlord fully repays the current lender's permanent financing (discussed below).

All of the 60 properties are encumbered by Lease Assurance Covenants, Conditions and Restrictions and Memorandum of Agreement and Lease which provides, among other things, that the use of each property shall be solely for the benefit of qualified individuals with developmental disabilities in perpetuity, in compliance with the requirements in Welfare and Institutions Code §4688.5.

The master developer borrowed funds from Bank of America to acquire and develop the 60 properties. California Housing Finance Agency (CalHFA) then lent funds to the LLCs to refinance the Bank of America's loans. CalHFA's loans remained in effect until February 18, 2011, when they were paid off through the bond financing discussed below.

Bond Financing

In December 2010, the California Health and Human Services Agency and DDS provided their approval for the LLCs to obtain bond financing to refinance the CalHFA loans.

In the refinance plan and thereafter, the BAHP is referred to as the Community Placement Plan for Individuals with Developmental Disabilities (CPPDD).

In the refinance plan dated February 1, 2011, the California Health Facilities Finance Agency (CHFFA) agreed to loan $76,970,000 to the LLCs through the issuance of insured revenue bonds. The Office of Statewide Health Planning and Development (OSHPD) provided loan insurance for the bonds. The bonds were issued as:

- $44,725,000 Series 2011A due at various dates, with interest rates ranging from 4.00% up to 6.25%, with the longest term bonds due on February 1, 2026.
- $32,245,000 Taxable Series 2011B due at various dates, with interest rates ranging from 3.30% up to 8.00%, with the longest term bonds due on February 1, 2026.

The Bond trustee was Deutsche Bank National Trust Company (Bond trustee) until August 23, 2013, on which day the trustee servicing was transferred to U.S. Bank National Association.

CHFFA issued the bonds to investors, and lent the proceeds from the sale of the bonds to the LLCs, on or about February 18, 2011. The loans from CHFFA to each LLC repaid the CalHFA loans in full and also covered one year of required debt reserves and other costs and expenses.

Responsibility for repayment of the loans for these bonds has been divided among the LLCs. The Loan Agreements call for monthly payments by each LLC. Each loan is secured by, among other things, deeds of trust on the residences and a pledge of the LLCs' gross revenues.

CHFFA, DDS, the Regional Centers and the LLCs all agreed that the LLCs would obtain insurance for the payment of the Bonds from the OSHPD's Cal-Mortgage Loan Insurance Division. As partial consideration for the bond insurance the Regional Centers and the LLCs entered into a Regulatory Agreement with CHFFA and OSHPD that contains financial and reporting covenants, payment obligations and use restrictions consistent with the Welfare and Institutions Code §4688.5.

As further consideration for the bond insurance the Regional Centers and the LLCs agreed to the following:

1) The Regional Centers executed a Lender Lease Assurance Agreement, whereby they unconditionally agreed, jointly and severally to pay the rent and other obligations of all service providers under all leases should the service providers fail to meet such obligations. (This is relevant, since the LLCs rely on the receipt of such rent to repay the bond financing.)

2) The Regional Centers agreed to maintain a liquidity operating fund in three separate accounts (one for each Regional Center), in the aggregate sum of $5,000,000. CHFFA and OSHPD have the right to draw on the liquidity operating fund to cure any defaults by the LLCs under the loan documents. Subject to such right, the Regional Centers' use of these funds are unrestricted; however each Regional Center must replenish any withdrawal from its liquidity operating fund necessary to maintain the required initial balance within twelve months from the date of such withdrawal. The Center's share of the liquidity operating fund is $1,799,312. The remaining share of the fund is funded by GGRC and SARC.

3) Both the Regional Centers and the LLCs agreed to indemnify CHFFA and OSHPD for any post foreclosure transfer environmental losses.

The Regional Centers remit payments to each service provider for the services they provide to the consumers residing in the properties. The service providers then use such funds and other funds available to them to cover their costs, including their rent under the leases. Under each lease the applicable service provider is responsible for paying both the monthly base rent (which is equal to the monthly debt service payable to the Bond trustee) and additional charges as defined in the lease, including property taxes (if applicable), insurance and a replacement reserve (which is a minimum of $2,400 a year for each property). The LLCs, in turn, use the rents they receive under the leases to repay the CHFFA loans.

In order to make all of the debt service payments equal, one additional "smooth out" payment was required to be made to the Bond trustee. The Center (and the other Regional Centers) made this payment via advances to its service providers, which were then forwarded to the Bond trustee. The service providers will repay these receivables to the Center at the end of the bond financing term, via applicable offsets that the Center will apply against funds it owes to the service providers under the Service Provider Agreements. At June 30, 2016, CPPDD vendor advances – other totaled $78,497.

Due to the timing of the bond financing, one additional debt service payment was required to be made to the Bond trustee. The Center made this payment via advances to its service providers, which was then forwarded to the Bond trustee. The service providers will repay these receivables to the Center at the end of the bond financing term, via applicable offsets that the Center will apply against funds it owes to the service providers under the Service Provider Agreements. At June 30, 2016, CPPDD vendor advances – lease totaled $172,712.

NOTE 13 – CONTINGENCIES

The majority of the Center's funding is provided under annual grants and contracts with federal and California agencies. If a significant reduction in the level of funding provided by these governmental agencies were to occur, it may have an effect on the Center's programs and activities. The Center's revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies.

The Center's contract with DDS provides funding for services under the Lanterman Act. In the event that the operations of the Center result in a deficit position at the end of the contract year, DDS may reallocate surplus funds within the State of California system to supplement the Center's funding. Should a system-wide deficit occur, DDS is required to report to the Governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. DDS recommendations are subsequently reviewed by the Governor and the Legislature and a decision is made with regard to specific actions, including the possible suspension of the entitlement.

Union employees account for 85% of the Center's total employee levels. The current collective bargaining agreement will expire on November 30, 2016.

NOTE 14 – LEGAL MATTERS

The Center is named in various claims and legal actions in the normal course of its activities. Based upon counsel and management's opinion, the outcomes of such matters are not expected to have a material adverse effect on the financial position or changes in net assets of the Center.

SUPPLEMENTARY INFORMATION

REGIONAL CENTER OF THE EAST BAY, INC.

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF PURCHASE OF SERVICE EXPENSES

YEAR ENDED JUNE 30, 2016

Out of home:	
Community care facility	$ 96,448,121
ICF/SNF facility	2,455,191
Total out of home	$ 98,903,312
Day programs:	
Training	$ 74,964,258
Day care	2,341,584
Total day programs	$ 77,305,842
Other services:	
Medical care:	
Professional	$ 4,631,158
Programs	31,160
Medical equipment	1,655,054
Nonmedical:	
Professional	4,611,342
Programs	25,399,189
Other authorized services	52,634,562
Personal and incidental	93,221
Prevention services	11,079,153
Respite	17,859,847
Transportation	17,417,539
Total other services	$ 135,412,225

REGIONAL CENTER OF THE EAST BAY, INC.

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	*Federal CFDA Number*	*Agency or Pass-Through Number*	*Federal Expenditures*	*Expenditures to Subrecipients*
Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services:				
Pass-through award from:				
State of California Department of Developmental Services:				
Medical Assistance Program (Medicaid; Title XIX)	93.778	HD099015	$ 213,718,378	$ -
Targeted Case Management	93.778	HD099015	17,758,423	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			231,476,801	-
Office of Special Education and Rehabilitative Services of the U.S. Department of Education:				
Pass-through award from:				
State of California Department of Developmental Services:				
Special Education – Grants for Infants and Families	84.181	HD099015	1,934,485	-
TOTAL U.S. DEPARTMENT OF EDUCATION			1,934,485	-
TOTAL FEDERAL AWARDS			$ 233,411,286	$ -

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of Regional Center of the East Bay, Inc. and is presented on the accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The purpose of the Schedule is to present a summary of those activities of Regional Center of the East Bay, Inc. for the year ended June 30, 2016, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly and indirectly between Regional Center of the East Bay, Inc. and the federal government. Regional Center of the East Bay, Inc. did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

REGIONAL CENTER OF THE EAST BAY, INC.

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance?	____ Yes	X No
Identification of major programs:	*Name of Federal Program or Cluster*	
CFDA #93.778	Medical Assistance Program: (Medicaid; Title XIX)	
CFDA #93.778	Targeted Case Management	
Dollar threshold used to distinguish between Type A and Type B programs:	$3,000,000	
Auditee qualified as low-risk auditee?	X Yes	____ No

Section II – Financial Statement Findings

None noted.

Section III – Federal Awards Findings and Questioned Costs

None noted.

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VON HUSEN
& JOYCE LLP

Board of Directors
Regional Center of the East Bay, Inc.
San Leandro, California

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*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Regional Center of the East Bay, Inc., 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 November 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Regional Center of the East Bay, 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 Regional Center of the East Bay, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Regional Center of the East Bay, 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Regional Center of the East Bay, 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 Regional Center of the East Bay, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Regional Center of the East Bay, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindquist, von Husen and Joyce LLP

November 28, 2016

LINDQUIST
VON HUSEN
& JOYCE LLP

Board of Directors
Regional Center of the East Bay, Inc.
San Leandro, California

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

Report on Compliance for Each Major Federal Program

We have audited Regional Center of the East Bay, 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 Regional Center of the East Bay, Inc.'s major federal programs for the year ended June 30, 2016. Regional Center of the East Bay, Inc.'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 the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Regional Center of the East Bay, 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 Regional Center of the East Bay, 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 on Regional Center of the East Bay, Inc.'s compliance.

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Opinion on Each Major Federal Program

In our opinion, Regional Center of the East Bay, 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 Regional Center of the East Bay, 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 Regional Center of the East Bay, 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 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 Regional Center of the East Bay, 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.

Lindquist, von Husen and Joyce LLP

November 28, 2016