Eastern Los Angeles Regional Center

EASTERN LOS ANGELES REGIONAL CENTER FOR THE DEVELOPMENTALLY DISABLED, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2015)

EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

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MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Eastern Los Angeles Regional Center
for the Developmentally Disabled, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc. (the Center), which comprise the statement of financial position as of June 30, 2016 and the related statements of activities and changes in net assets, 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.

Auditors' 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 auditors' 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.

MARCUMGROUP
MEMBER

Marcum LLP ■ 101 Montgomery Street ■ Suite 1900 ■ San Francisco, California 94104 ■ Phone 415.432.6200 ■ Fax 415.432.6201 ■ marcumllp.com

Opinion

In our opinion, the 2016 financial statements referred to above present fairly, in all material respects, the financial position of the Center 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.

Other Matters

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 (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

The 2015 financial statements of Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc. were audited by Lautze & Lautze, CPA's & Financial Advisors whose practice was combined with Marcum LLP as of June 1, 2016, and whose reported dated November 13, 2015, expressed an unmodified opinion on those statements. As part of our audit of the 2016 financial statements, we also audited the adjustment described in Note 1 that was applied to restate the 2015 financial statements. In our opinion, such an adjustment is appropriate and has been properly applied to the summarized comparative information presented herein as of and for the year ended June 30, 2015, which is otherwise consistent with the audited financial statements from which it has been derived. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc. other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2015 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 January 9, 2017, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Marcum LLP

San Francisco, California
January 9, 2017

EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016
(WITH COMPARATIVE TOTAL AS OF JUNE 30, 2015)

	2016	2015 (Restated)
Assets		
Cash	$ 15,739,464	$ 2,591,714
Cash - client trust funds	595,332	638,809
Contract reimbursement receivable	40,125,316	48,317,297
Receivable from Intermediate Care Facilities	1,597,994	1,581,535
Other receivables	241,456	330,883
Prepaid expenses	409,496	348,873
Deposits	102,824	98,727
Total Assets	$ 58,811,882	$ 53,907,838
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	19,637,529	$ 18,038,184
Contract advance	35,146,586	32,193,403
Payable to Department of Developmental Services	966,626	1,236,782
Accrued vacation and other leave benefits	1,691,443	1,367,592
Deferred rent liability	935,483	589,875
Unexpended client support	388,585	436,376
Total Liabilities	58,766,252	53,862,212
Unrestricted Net Assets	45,630	45,626
Total Liabilities and Net Assets	$ 58,811,882	$ 53,907,838

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

EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	2016	2015 (Restated)
Revenue and Other Support		
Grants	$ 194,613,450	$ 182,489,281
Grants - Federal	1,651,954	1,988,383
Interest	10,548	8,854
Other income	62,834	75,203
Total Revenue and Other Support	196,338,786	184,561,721
Expenses		
Program Services		
Intake	1,787,169	1,667,547
Case management	12,875,059	12,111,188
Program development	4,024,653	3,800,127
Other client services	1,846,951	1,614,914
Out of home	32,793,943	30,810,273
Medical and dental	6,625,293	5,226,898
Day program	36,061,859	33,326,780
Camps and respite	12,617,982	11,529,074
Other purchased services	85,359,241	81,998,487
Total Program Services	193,992,150	182,085,288
Supporting Services		
General and Administrative	2,346,632	2,476,430
Total Expenses	196,338,782	184,561,718
Change in Net Assets	4	3
Unrestricted Net Assets - Beginning	45,626	45,623
Unrestricted Net Assets - Ending	$ 45,630	$ 45,626

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

EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	Program Services										Supporting Services		
	Intake	Case Management	Program Development	Other Client Services	Out of Home	Medical and Dental	Day Program	Camps and Respite	Other Purchased Services	Total Program Services	General and Administrative	Total	2105 (Restated)
Salaries and Related Expenses													
Salaries	$ 927,854	$ 8,129,052	$ 2,507,252	$ 1,233,897	$ --	$ --	$ --	$ --	$ --	$ 12,798,055	$ 1,260,686	$ 14,058,741	$ 12,685,955
Employee health and other benefits	103,417	982,633	266,922	160,903	--	--	--	--	--	1,513,875	91,955	1,605,830	1,575,680
Retirement benefits	71,315	646,005	201,334	101,769	--	--	--	--	--	1,020,423	103,140	1,123,563	1,063,372
Payroll taxes	66,555	602,661	197,363	90,745	--	--	--	--	--	957,324	86,872	1,044,196	972,521
Total Salaries and Related Expenses	1,169,141	10,360,351	3,172,871	1,587,314	--	--	--	--	--	16,289,677	1,542,653	17,832,330	16,297,528
Purchase of services	--	--	--	--	32,793,943	6,625,293	36,061,859	12,617,982	85,359,241	173,458,318	--	173,458,318	162,891,512
Equipment rental	715	9,711	1,936	--	--	--	--	--	--	12,362	1,389	13,751	12,699
Equipment maintenance	--	--	--	--	--	--	--	--	--	--	3,694	3,694	62,626
Information technology	3,184	36,737	8,615	--	--	--	--	--	--	48,536	8,198	56,734	106,316
Facility rent	194,186	1,444,367	473,719	188,885	--	--	--	--	--	2,301,157	530,005	2,831,162	3,026,496
Communications	4,930	60,330	24,532	5,248	--	--	--	--	--	95,040	5,230	100,270	106,267
General office expense	9,429	104,937	22,712	19,703	--	--	--	--	--	156,781	63,927	220,708	187,746
Postage	4,393	54,673	11,887	960	--	--	--	--	--	71,913	7,665	79,578	106,925
Printing	3,097	40,347	8,919	1,438	--	--	--	--	--	53,801	4,418	58,219	46,550
Insurance	6,806	59,653	18,416	7,186	--	--	--	--	--	92,061	76,023	168,084	145,764
Legal fees	--	13,978	28,403	--	--	--	--	--	--	42,381	5,587	47,968	60,198
Board expenses	--	--	--	--	--	--	--	--	--	--	4,382	4,382	4,537
Equipment purchases	13,616	248,288	54,640	21,329	--	--	--	--	--	337,873	65,324	403,197	563,997
Consultant fees	364,834	227,213	102,180	--	--	--	--	--	--	694,227	--	694,227	629,112
Staff travel	1,109	58,990	25,758	--	--	--	--	--	--	85,857	7,369	93,226	81,950
ARCA dues	3,840	33,428	10,390	8,213	--	--	--	--	--	55,871	(679)	55,192	53,875
General expenses	4,254	87,976	49,493	6,523	--	--	--	--	--	148,246	13,697	161,943	106,320
Accounting fees	3,635	34,080	10,182	152	--	--	--	--	--	48,049	7,750	55,799	71,300
Total Expenses	$ 1,787,169	$ 12,875,059	$ 4,024,653	$ 1,846,951	$ 32,793,943	$ 6,625,293	$ 36,061,859	$ 12,617,982	$ 85,359,241	$ 193,992,150	$ 2,346,632	$ 196,338,782	$ 184,561,718

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

EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015)

	2016	2015 (Restated)
Cash Flows From Operating Activities		
Change in net assets	$ 4	$ 3
Adjustments to reconcile net assets to net cash provided by operating activities:		
Changes in Operating Assets and Liabilities:		
Contract reimbursement receivable	8,191,981	2,539,802
Other receivables	89,427	24,954
Prepaid expenses	(60,623)	(141,818)
Deposits	(4,097)	(14,047)
Accounts payable and accrued expenses	1,599,345	1,097,912
Payable to Department of Developmental Services	(286,615)	143,873
Accrued vacation and other leave benefits	323,851	57,522
Deferred rent liability	345,608	417,867
Unexpended client support	(47,791)	(122,194)
Net Cash Provided by Operating Activities	10,151,090	4,003,874
Cash Flows From Financing Activities		
Proceeds from contract advance	47,800,427	42,319,128
Payment of contract advance	(44,847,244)	(49,682,638)
Net Cash Provided by (Used in) Financing Activities	2,953,183	(7,363,510)
Net Increase (Decrease) in Cash	13,104,273	(3,359,636)
Cash - Beginning	3,230,523	6,590,159
Cash - Ending	$ 16,334,796	$ 3,230,523

Supplemental Disclosures of Cash Flow Information

	2016	2015 (Restated)
Cash	$ 15,739,464	$ 2,591,714
Cash - client trust funds	595,332	638,809
	$ 16,334,796	$ 3,230,523

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

Organization

Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc. (the Center), doing business as Eastern Los Angeles Regional Center, was incorporated on February 20, 1986, as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Lanterman Act) of the Welfare and Institutions Code of the State of California. In accordance with the Lanterman Act, the Center provides diagnostic evaluations, client program management and lifelong planning services for persons with developmental disabilities and their families. The Center is one of 21 regional centers within the State of California system and serves the Los Angeles County Health Districts of Northeast Los Angeles, East Los Angeles, Alhambra, and Whittier.

Governance

The Lanterman Act includes governance provisions regarding the composition of the Center's Board of Directors (the Board). The Lanterman 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 percent of the governing Board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25 percent of the members of the governing Board shall be persons with developmental disabilities. In addition, a member of a required advisory committee composed of persons representing the various categories of providers from which the Center purchases client services, shall serve as a member of the Board. To comply with the Lanterman Act, the 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.

Mission Statement

The Center's mission statement is as follows:

Eastern Los Angeles Regional Center is committed to serving individuals with developmental disabilities and their families by promoting partnerships which empower them to achieve meaningful and fulfilling lifestyles in their community.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STATE OF CALIFORNIA CONTRACT

The Center operates under an annual cost-reimbursement contract with the Department of Developmental Services (the DDS) of the State of California under the Lanterman Act. Maximum expenditures under the contract are limited to the contract amount plus interest earned. The Center is required to have DDS approval for certain expenses. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual issued by the DDS. 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.

Under the terms of these contracts, funded expenditures are not to exceed $195,362,559, $184,523,619 and $172,406,613 for the 2015/16, 2014/15, and 2013/14 contract years, respectively, and are subject to budget amendments. As of June 30, 2016, actual net expenditures under the 2015/16, 2014/15, and 2013/14 contracts were $190,924,888, $184,115,971 and $171,987,189, respectively.

BASIS OF ACCOUNTING

The Center prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred regardless of the timing of cash flows.

CLASSIFICATION OF NET ASSETS

U.S. GAAP requires that the Center 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 follows:

Unrestricted
Those net assets and activities which represent expendable funds for operations related to the DDS contract, Community Placement Plan (CPP), and a federally funded program.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CLASSIFICATION OF NET ASSETS (CONTINUED)

Unrestricted (Continued)
The unrestricted net asset includes the following:

Operating Fund
These accounts are used to record primary activities of the Center which are carried out under the DDS contract. These accounts also record the activities of the Community Placement Plan (CPP) and federally funded programs.

Donation Fund
The Donation Fund is used to record solicited and unsolicited support received by the Center for the benefit of its clients.

Temporarily Restricted
Those net assets and activities which are donor-restricted for (a) support of specific operating activities; or (b) use in a specified future period.

Permanently Restricted
Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

As of June 30, 2016, and for the year then ended, the Center did not have any temporarily or permanently restricted net assets or activities.

Client Fund
The Center serves as representative payee for a portion of its clients. In this fiduciary capacity, it receives social security benefits and other sources of income and makes payments on behalf of certain developmentally disabled clients who are deemed unable to administer the funds themselves. Client trust transactions are not considered revenue or expenses of the Center. The cash that is received and outstanding receivables, net of interfund liabilities, are reported as a liability, *unexpended client support*, until it is distributed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

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. The carrying amounts of receivables and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables and payables approximate fair value as these receivables and payables earn or are charged interest based on the prevailing rates.

ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

CONTRACT REIMBURSEMENT AND OTHER RECEIVABLES

The majority of the Center's receivables represents or relates to the cost-reimbursement contract with DDS. Management believes that the receivables are fully collectible and, therefore, has not provided an allowance for doubtful accounts.

STATE EQUIPMENT

Pursuant to the terms of the DDS contract, equipment purchases become the property of the State of California and, accordingly, are charged as expenses when incurred. The Center is required to track acquisitions of furniture and equipment with a cost value in excess of $5,000 and with an estimated life beyond one year. For the year ended June 30, 2016, equipment purchases totaled $261,062 and disposed equipment costs totaled $29,833. The aggregated tracked state equipment at June 30, 2016, totaled $1,260,061.

ACCRUED VACATION AND OTHER LEAVE BENEFITS

The Center has accrued a liability for vacation and other leave benefits earned which is reimbursable under the DDS contract. However, such benefits are reimbursed under the DDS contract only when actually paid. The Center accrues vacation as earned up to 480 hours. When the employee separates from service, the employee will receive the unused vacation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED RENT

The Center leases office facilities under lease agreements that are subject to scheduled rent increases. The scheduled rent increases are amortized evenly over the term of the lease. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. According to the DDS contract, the DDS reimburses the Center for rent after it is paid.

REVENUE RECOGNITION - GRANTS

The Center recognizes revenue based upon costs incurred. Depending on the date of service, claims related to the DDS grant are classified and charged to the appropriate contract as follows:

- Current year
- Prior year
- Second prior year

CONTRIBUTIONS

The Center recognizes all contributions when they are received or unconditionally promised, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as temporarily restricted or permanently restricted support, depending upon the type of restriction.

The satisfaction of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. This occurs by increasing one class of net assets and decreasing another in the statements of activities. These transactions are reported as *net assets released from restrictions* and are reported separately from other transactions.

FEDERAL GRANTS

The Center is a sub-recipient to DDS with regard to the following grant:

U.S. Department of Education
The Special Education Grants for Infants and Families with Disabilities provides funding for early intervention services for infants and toddlers, through age 3, as authorized by Public Law 102-119.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES

The Center is a qualified organization exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code (IRC) and franchise taxes under §23701d of the California Revenue and Taxation Code. Accordingly, it is exempt from federal and California income taxes and is not liable for federal unemployment taxes.

Management evaluated the Center's tax positions and concluded that they maintained their tax exempt status and had taken no uncertain tax positions that would require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. The tax returns of the Center are subject to examination by federal and state taxing authorities. However, there are currently no examinations pending or in progress.

CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject the Center to a concentration of credit risk, principally consist of cash, contract receivables, and receivables from vendors. The Center maintains its cash in various bank deposit accounts which, at times, may exceed the federally-insured limit. Through its contract with DDS, the Center is reimbursed for its expenses. The ability of DDS to honor its obligations and to continue funding is dependent upon the overall economic well-being of the State of California. The Center has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk related to concentrations.

FUNCTIONAL ALLOCATION OF EXPENSES

The statement of functional expenses allocates expenses for all funds to the program and supporting service categories based on a direct cost basis for purchases of services, salaries, and related expenses. Operating expenses are allocated based on a percentage of salaries and related expenses per category to total salaries and related expenses, except for certain expenses that are designated as program or supporting services.

RECLASSIFICATIONS

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) issued new guidance, Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), and its international counterpart, IFRS 15, to provide sweeping new, globally applicable converged guidance concerning recognition and measurement of revenue. In addition, significant additional disclosures are required about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, and will replace virtually all existing revenue guidance, including most industry-specific guidance. The FASB also issued ASU 2015-14 which deferred the effective date. The guidance is applicable for annual reporting periods beginning after December 15, 2018. Management is evaluating the impact of this new guidance.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases*. The new standard creates Topic 842, *Leases*, in the FASB *Accounting Standards Codification* (FASB ASC) and supersedes FASB ASC 840, *Leases*. Entities that hold numerous equipment and real estate leases, in particular those with numerous operating leases, will be most affected by the new guidance. The amendments in ASU 2016-02 are expected to impact the statement of financial position at many companies by adding lease-related assets and liabilities. This may affect compliance with contractual agreements and loan covenants.

The main difference between the existing guidance on accounting for leases and the new standard is that operating leases will now be recorded in the statement of financial position as assets and liabilities. Current U.S. GAAP requires only capital (finance) leases to be recognized in the statement of financial position and amounts related to operating leases largely are reflected in the financial statement of activities and changes in net assets as rent expense on the statement and in disclosures to the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

ASU 2016-02 requires a lessee to recognize the assets and liabilities that arise from leases (operating and finance).

For operating leases, a lessee is required to do the following:

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position
- Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis
- Classify all cash payments within operating activities in the statement of cash flows

The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019. Early application of the amendments is permitted for all entities.

In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that start before the effective date in accordance with previous U.S. GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous U.S. GAAP. Management is evaluating the impact of this new guidance.

On August 18, 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, representing the completion of the first phase of a two-phase project to amend not-for-profit (NFP) financial reporting requirements as set out in FASB ASC 958, *Not-for-Profit Entities*.

This standard eliminates:

- The distinction between resources with permanent restrictions and those with temporary restrictions from the face of the financial statements by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- Removes the current requirement to present or disclose the indirect method (reconciliation) when using the direct method of reporting cash flows.

- Requires NFPs to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.

- Requires NFPs to use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

NFPs will reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption. This amendment eliminates the current option that, in the absence of explicit donor stipulations, had allowed an NFP to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed) rather than when placed in service.

ASU 2016-14 also requires enhanced disclosures about:

- Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.

- Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.

- Qualitative information that communicates how an NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position.

- Quantitative information and additional qualitative information in the notes as necessary, that communicates the availability of an NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.

- Amounts of expenses by both their natural classification and their functional classification and the methods used to allocate costs among program and support functions.

- Underwater endowment funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

NFP entities are required to adopt this standard for annual reporting periods beginning after December 15, 2018. Management is evaluating the impact of this new guidance.

RESTATEMENT

The 2015 summarized financial statements have been restated to reflect the change in deferred rent liability and accrued vacation on the statements of activities and changes in net assets and functional expenses. In addition, there is a reclassification of those items on the statement of financial position to contract reimbursement receivable to reflect reimbursable expenses under the DDS grant not yet submitted.

	June 30, 2015 Balance as Originally Stated	Adjustment	July 1, 2015 Balance as Restated
Contract reimbursement receivable	$ 46,359,830	$ 1,957,467	$ 48,317,297
Expenses for accrued vacation and other leave benefits	1,367,592	(1,367,592)	--
Expenses for rent liability	589,875	(589,875)	--
Grants	182,013,893	475,388	182,489,281
Program services			
Intake	1,634,286	33,261	1,667,547
Case management	12,075,524	35,664	12,111,188
Program development	3,789,626	10,501	3,800,127
Other client services	1,609,865	5,049	1,614,914
Supporting services			
General and administrative	2,085,516	390,914	2,476,430
Salaries	12,628,432	57,523	12,685,955
Facility rent	2,608,630	417,866	3,026,496

There was no effect on total net assets based on this restatement.

NOTE 2 - CASH – CLIENT FUNDS AND UNEXPENDED CLIENT SUPPORT

The Center functions as the custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of a portion of the Center's clients. The following is a summary of operating activity not reported in the statements of activities:

Support	
Social Security and other client support	$ 7,519,435
Disbursements	
Living out of home	$ 5,361,249
Other disbursements	2,158,186
	$ 7,519,435

NOTE 3 - CONTRACT REIMBURSEMENT RECEIVABLE

Contract reimbursement receivable consists of the following at June 30, 2016:

Claims submitted:	
Current year	$ 35,187,855
Prior year	2,310,535
	37,498,390
Reimbursable expense not yet submitted	2,626,926
	$ 40,125,316

NOTE 4 - 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 treatment 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 ICFs. The legislative changes allow for the DDS to bill these services to Medicaid and capture federal funds.

Prior to the year ended June 30, 2012, the DDS directed the Center to prepare billings for these services on behalf of the ICFs for the period from July 1, 2007 to June 30, 2011. The billings included a 5.5% Quality Assurance fee for the State Department of Health Care Services (DHCS), a 1.5% administrative fee for the ICFs, and a 1.5% administration fee for the Center.

Prior to the year ended June 30, 2012, the DDS advanced the amounts billed to the ICFs. The ICFs 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 ICFs, the Center was directed to remit the amount to the DDS, net of its administration fee. The DDS has instituted protocols should the ICFs not remit the net amounts due to the Center.

Effective July 1, 2012, DDS directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services in addition to paying the ICF directly for their 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.

NOTE 4 - INTERMEDIATE CARE FACILITIES – STATE PLAN AMENDMENT (CONTINUED)

The Center's activity related to the above funding was as follows as of June 30:

Beginning Balance	$	1,581,535
Total billed due from vendors		1,264,816
Amounts remitted by vendors		(1,248,357)
Receivable from ICFs	$	1,597,994
Beginning Balance	$	1,236,782
Total billed due to DDS		159,120
Amount remitted by Center to the DDS		(429,276)
Payable to the DDS	$	966,626
Deferred Adminstrative Fee	$	18,229

NOTE 5 - LINE OF CREDIT

The Center has a revolving line of credit with City National Bank, expiring June 30, 2017, for a maximum borrowing amount of $23,000,000 until June 30, 2016, then $38,000,000 until the earlier date of October 1, 2016 or the effective date of a State of California budget with respect to the State General Fund for the fiscal year commencing July 1, 2016, then $23,000,000 until the maturity date of June 30, 2017. Interest is payable monthly at the greater of 2.25% or 1.00% below the bank's prime rate, 3.25% at June 30, 2016. The line of credit is unsecured and requires the Center to comply with certain reporting covenants. The Center was in compliance with the reporting covenants. The Center did not use this line of credit during the year ended June 30, 2016. There was no outstanding balance on the line of credit at June 30, 2016.

NOTE 6 - CONTRACT ADVANCE

The contract advance balance represents monies the DDS advances to the Center at the beginning of each fiscal year to provide interest-free working capital. The DDS uses its discretion in determining the balance on a month-to-month basis. If the DDS so chooses, the advance can be paid by offsetting claim reimbursements partially or in full or require the Center to make a payment.

NOTE 7 - PENSION PLANS

The Center has a money purchase pension plan which has been restated, effective April 1, 2005. The plan is available for all employees who have been continuously employed for one year and have worked at least 1,000 hours. The Center contributes 9% of the participant's eligible compensation, with no required contribution from participants. A participant vests in employer contributions at the rate of 20% for each year of service, with 100% vesting after five years. The total pension expense for the year ended June 30, 2016 was $1,123,564.

In addition, the Center has a retirement plan pursuant to §403(b) of the IRC. Eligible participants are full-time employees who have completed one month of service. All eligible employees may make voluntary contributions by salary reduction to the plan, up to the limit allowed by law. The Center does not make a matching contribution to the §403(b) retirement plan.

NOTE 8 - OPERATING LEASES

The Center leases its office facilities in Alhambra and Whittier under operating leases. On May 1, 2014, a new lease agreement was signed for the Alhambra office facility and is scheduled to expire on July 31, 2026, with a 3% annual increase in the base rent. On June 26, 2014, a new lease agreement was signed for the Whittier office facility and is scheduled to expire on June 30, 2024, with an annual increase in rent of $0.05 per square foot.

These leases generally require the Center to pay for its share of the facilities' annual direct expenses including maintenance, insurance, janitorial, and gardening expenses. The Center's share of direct expenses ranges between 7% - 15% for the premises. Rent expense for the year ended June 30, 2016, was $2,831,163.

NOTE 8 - OPERATING LEASES (CONTINUED)

Future obligations on leases in effect at June 30, are as follows:

For the Years Ended June 30,	Amount
2017	$ 2,692,665
2018	2,774,365
2019	2,858,302
2020	2,944,548
2021	3,033,171
Thereafter	16,206,266
Total	$ 30,509,317

NOTE 9 - CONTINGENCIES

LITIGATION

The Center is currently a defendant in several litigious actions, in addition to threats of litigation arising out of the normal course of 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. These matters have been referred to the Center's attorneys and/or insurance carriers. In management's opinion, a material unfavorable outcome is remote.

FUNDING

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 contract with the 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, the DDS may reallocate surplus funds within the State of California system to supplement the Center's funding. Should a system-wide deficit occur, the 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. The 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.

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Center's revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies. In accordance with the terms of the DDS contract, an audit may be performed by an authorized representative of the DDS. Should such an audit disclose any unallowable costs, the Center may be liable to the State of California 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 as of June 30, 2016, and for the year then ended.

NOTE 10 - SUBSEQUENT EVENTS

The Center has evaluated all subsequent events through January 9, 2017, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements have been identified.

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
Eastern Los Angeles Regional Center
for the Developmentally Disabled, 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 *Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc.* (the Center), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, 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 January 9, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

MARCUMGROUP
MEMBER

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center'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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

San Francisco, California
January 9, 2017

MARCUM
ACCOUNTANTS ▲ ADVISORS

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

To the Board of Directors of
Eastern Los Angeles Regional Center
for the Developmentally Disabled, Inc.

Report on Compliance for Each Major Federal Program

We have audited *Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc.'s* (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2016. The Center's major federal program is 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Center's major federal program 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 Award* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Center's compliance.

MARCUMGROUP
MEMBER

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Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Marcum LLP

San Francisco, California
January 9, 2017

EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, 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	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Office of Special Education and Rehabilitative Services of the Department of Education passed-through to the State of California Department of Developmental Services:				
Early Intervention Services				
Special Education - Grants for Infants and Families	84.181	HD149004	$ --	$ 1,651,954
Total Expenditures of Federal Awards			$ --	$ 1,651,954

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

EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc. (the Center) 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 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 the Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Center.

Note 2: Summary of Significant Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as a reimbursement.

Note 3: Indirect Cost Rate

The Center has elected not to use the 10% de minimis indirect cost rate.

EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

SECTION 1 – SUMMARY OF THE AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified:	No
Significant deficiency(ies) identified that are not considered material weaknesses:	None reported
Noncompliance material to financial statements:	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified:	No
Significant deficiency(ies) identified that are not considered material weaknesses:	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 200.516(a)?	No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016

SECTION I – SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

Identification of major programs:

CFDA Number	Name of Federal Program/Cluster
84.181	Special Education - Grants for Infants and Families

Dollar threshold to distinguish between type A and type B programs: $750,000

Audit qualified as low-risk auditee: No

SECTION II – FINANCIAL STATEMENT FINDINGS No matters reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS No matters reported

SECTION IV – STATUS OF PRIOR YEAR AUDIT FINDINGS There were no prior year findings for federal award programs