

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Basic Financial Statements

Year Ended June 30, 2017

(with Independent Auditors' Report Thereon)

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Basic Financial Statements

Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Orange County Council of Governments
Irvine, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the Orange County Council of Governments (OCCOG), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OCCOG's basic financial statements as listed in the table of contents.

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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of OCCOG as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and 15-16 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2017, on our consideration of OCCOG'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 OCCOG's internal control over financial reporting and compliance.



Laguna Hills, California
November 17, 2017

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Management's Discussion and Analysis

As Management of the Orange County Council of Governments (OCCOG), we offer readers of OCCOG's financial statements this narrative overview and analysis of OCCOG's financial activities for the fiscal year ended June 30, 2017.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to OCCOG's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of OCCOG's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of OCCOG's assets and liabilities, with the difference between assets and liabilities reported as net position. Over time, increases or decreases in net position may serve as a useful indication on whether the financial position of OCCOG is improving or deteriorating.

The statement of activities presents information showing how OCCOG's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. The government-wide financial statements may be found on pages 7-8.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. OCCOG, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. OCCOG consists of a single governmental fund. The fund financial statements may be found on pages 9-10.

Government-wide Financial Analysis

The total net position of OCCOG was \$375,229 at June 30, 2017 (as noted in Table 1). In comparison, the total net position of OCCOG at June 30, 2016 was \$362,989. OCCOG's net position at June 30, 2017 was unrestricted, meaning there are no external restrictions placed on the future use of the organization's net position.

Table 1.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Net Position at June 30:

	Governmental Activities		Percent Change
	2017	2016	
Current and other assets	\$ 393,219	\$ 381,145	
Total assets	<u>393,219</u>	<u>381,145</u>	3.2%
Current liabilities	17,990	18,156	
Total liabilities	<u>17,990</u>	<u>18,156</u>	-0.9%
Net position:			
Unrestricted	375,229	362,989	
Total net position	<u>\$ 375,229</u>	<u>\$ 362,989</u>	3.4%

The total net position of OCCOG increased by \$12,240, or 3.4%, during FY 2016-17 (see Table 2). This means that revenues exceeded expenses, on a full accrual basis, by \$12,240 for the year. This compares to the increase in net position during FY 2015-16 of \$63,111. Revenues were 58.5% lower than in FY 2015-16, and expenses were 56.7% lower. The decreases in both revenues and expenses in FY 2016-17 were primarily the result of the completion of the major Federal grant-funded Complete Streets Initiative project in FY 2015-16. The increase in net position for FY 2016-17 was 80.6% lower than the increase in FY 2015-16, due primarily to OCCOG's first General Assembly conference held in March 2017, for which expenses exceeded revenues by \$25,127. Membership dues and fees declined in FY 2016-17 by 4.5% as a result of the County of Orange withdrawing from OCCOG membership in FY 2016-17 and the South Coast Air Quality Management District (SCAQMD) not paying its FY 2016-17 dues.

Table 2.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Changes in Net Position
For the Year Ended June 30:**

	Governmental Activities		Percent Change
	2017	2016	
Revenues:			
Program revenues:			
Member dues and fees	\$ 323,326	\$ 338,490	-4.5%
Federal grants	-	503,888	-100.0%
Charges for services	26,474	-	n/a
Total revenues	<u>349,800</u>	<u>842,378</u>	-58.5%
Expenses:			
General government	(285,959)	(275,379)	3.8%
Community development	(51,601)	(503,888)	-89.8%
Total expenses	<u>(337,560)</u>	<u>(779,267)</u>	-56.7%
Change in net position	12,240	63,111	-80.6%
Net position, beginning of year	<u>362,989</u>	<u>299,878</u>	21.0%
Net position, end of year	<u>\$ 375,229</u>	<u>\$ 362,989</u>	3.4%

Financial Analysis of the General Fund

As noted above, OCCOG maintains a single governmental fund, called the General Fund.

OCCOG's revenues for FY 2016-17 came from membership dues and fees, as well as charges for services. Members pay annual membership dues that fund expenditures related to the administration of OCCOG. Members also reimburse OCCOG for the cost of demographic research performed by California State University, Fullerton. There was no change in the dues structure from FY 2015-16 to FY 2016-17. The loss of revenue from the withdrawal of the County of Orange from OCCOG membership did not impact other agencies' dues.

General Fund Budgetary Highlights

The OCCOG Board of Directors adopted a formal budget for the fiscal year ended June 30, 2017, on June 23, 2016, which anticipated an excess of revenues over expenditures for the year of \$128,819. Amendments to the budget were approved by the Board in January and February of 2017, related to membership dues, as well as administrative, professional services and miscellaneous expenditures, that reduced the anticipated ending fund balance by a net of \$15,500, to \$113,319. In addition, the Executive Director approved a budget adjustment affecting the administrative and professional services expenditure budgets that did not change total budgeted expenditures.

Actual revenues exceeded actual expenditures for the year by \$12,240. Actual revenues for the year of \$349,800 were \$128,526 less than the final budget amount, as a result primarily of General Assembly sponsorship revenue being substantially less than anticipated. Membership dues and fees were less than the final budget amount, due to SCAQMD's non-payment of dues.

Total actual expenditures of \$337,560 were \$27,447 less than expected in the final FY 2016-17 budget. Miscellaneous expenditures were \$13,480 less than the final budget amount. This was the result of insurance and local meeting costs being significantly less than expected. Administrative expenditures came in under budget, due to lower than anticipated costs for certain Strategic Plan initiatives. In addition, there were expenditure savings related to the General Assembly conference.

Contacting OCCOG Management

Questions concerning any of the information provided in this report or requests for additional information should be addressed to the OCCOG Executive Director at Irvine City Hall, 1 Civic Center Plaza, Irvine, California 92623-9575, or to the OCCOG Treasurer at 28241 Crown Valley Parkway, Suite F-484, Laguna Niguel, California 92677.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash (note 2)	\$ 370,632
Accounts receivable	7,786
Prepaid items (note 3)	14,801
Total Assets	<u>393,219</u>
<u>Liabilities</u>	
Accounts payable	<u>17,990</u>
<u>Net Position</u>	
Net position: Unrestricted	<u>\$ 375,229</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Statement of Activities
Year Ended June 30, 2017

	<u>Governmental Activities</u>
Program revenues, operating grants and contributions:	
Membership dues and fees	\$ 323,326
Charges for services	26,474
Total Program Revenues, Operating Grants and Contributions	<u>349,800</u>
Expenses:	
General government	(285,959)
Community development	(51,601)
Total Expenses	<u>(337,560)</u>
Change in net position	12,240
Net position, beginning of year	<u>362,989</u>
Net position, end of year	<u>\$ 375,229</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Governmental Fund
Balance Sheet
June 30, 2017

	<u>General Fund</u>
<u>Assets</u>	
Cash	\$ 370,632
Accounts receivable	7,786
Prepaid items	14,801
Total Assets	<u>\$ 393,219</u>
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable	<u>\$ 17,990</u>
Fund Balance:	
Nonspendable	14,801
Unassigned	<u>360,428</u>
Total Fund Balance	<u>375,229</u>
Total Liabilities and Fund Balance	<u>\$ 393,219</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Governmental Fund
Statement of Revenues, Expenditures and Change in Fund Balance
Year Ended June 30, 2017**

	<u>General Fund</u>
Revenues:	
Membership dues and fees	\$ 323,326
Charges for services	26,474
Total Revenues	<u>349,800</u>
Expenditures:	
Current:	
General government:	
Demographic research	79,941
Administrative	168,555
Professional services	11,197
Miscellaneous	26,266
Community development	
General Assembly conference	51,601
Total Expenditures	<u>337,560</u>
Net change in fund balance	12,240
Fund balance, beginning of year	<u>362,989</u>
Fund balance, end of year	<u><u>\$ 375,229</u></u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements Year Ended June 30, 2017

(1) Summary of Significant Accounting Policies

(a) Organization

A Joint Exercise of Powers Agreement (Agreement) between public agencies located in Orange County, California (Members) created the Orange County Council of Governments (OCCOG) in August 1996. Member agencies include all 34 Orange County cities, the Orange County Transportation Authority, the Transportation Corridor Agencies, Orange County Sanitation Districts, Independent Special Districts of Orange County and the South Coast Air Quality Management District. The Agreement may not be terminated except by an affirmative vote of a majority of total voting membership of the Board of Directors.

The general purpose of OCCOG is: 1) to serve as the Subregional Organization that represents Orange County on mandated and non-mandated Southern California Association of Governments (SCAG) regional planning activities; 2) to develop and adopt an Orange County Projection that serves as Orange County's official growth forecast for local, area-wide and regional planning activities; 3) to provide a vehicle for its members to engage cooperatively and voluntarily on additional regional and cooperative planning efforts with federal, state and regional agencies and to provide Orange County a voice on recommendations and solutions on such additional planning issues to federal, state and regional agencies; and 4) to conduct studies and projects designed to improve and coordinate the common governmental responsibilities and services on an area-wide and regional basis through the establishment of a council of governments. The goal and intent of OCCOG is one of voluntary cooperation among its member agencies for the collective benefit of member agencies in Orange County.

The books and financial records for OCCOG for the year ended June 30, 2017 are maintained by the Orange County Council of Governments at 28241 Crown Valley Parkway, Suite F-484, Laguna Niguel, CA 92677.

(b) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The basis financial statements of OCCOG are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements Year Ended June 30, 2017

(1) Summary of Significant Accounting Policies (Continued)

(b) Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Government-wide Financial Statements

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

OCCOG reports the following major governmental fund:

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

(c) Use of Estimates

The financial statements have been prepared in accordance with generally accepted accounting principles and may include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

(2) Cash

Cash consists of bank demand deposit accounts. The California Government Code requires California banks and savings and loan associations to secure a government's deposits by pledging government securities with a value of 110% of a government's deposits. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes at 150% of the value of the government's total deposits. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. These securities are physically held in an undivided pool of all

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Notes to the Financial Statements
Year Ended June 30, 2017**

(2) Cash (Continued)

California public agency depositors. As of June 30, 2017, OCCOG held \$373,132 in bank deposits, \$123,132 of which was in excess of Federal Deposit Insurance Corporation limits and was collateralized per State law.

(3) Prepaid Items

Prepaid items at June 30, 2017 consisted of the following:

Prepaid insurance	\$ 12,301
Room deposit for March 2018 General Assembly meeting	<u>2,500</u>
	<u>\$ 14,801</u>

(4) Liability Insurance

(a) Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The Orange County Council of Governments became a member of the California Joint Powers Insurance Authority (Authority) in February 2017. The Authority is composed of 117 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The California JPIA began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors. The Board operates through a nine-member Executive Committee.

(b) Self-Insurance Programs of the Authority

Each member pays an annual contribution at the beginning of the coverage period. A retrospective adjustment is then conducted annually thereafter, for coverage years 2012-13 and prior. Coverage years 2013-14 and forward are not subject to routine annual retrospective adjustment. The total funding requirement for self-insurance programs is based on an actuarial analysis. Costs are allocated to individual agencies based on payroll and claims history, relative to other members of the risk-sharing pool.

Primary Liability Program

Claims are pooled separately between police and general government exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Notes to the Financial Statements
Year Ended June 30, 2017**

(4) Liability Insurance (Continued)

(b) Self-Insurance Programs of the Authority (Continued)

(4) Incurred costs from \$750,000 to \$50 million, are distributed based on the outcome of cost allocation within the first and second loss layers.

For 2016-17 the Authority's pooled retention is \$2 million per occurrence, with reinsurance to \$20 million, and excess insurance to \$50 million. The Authority's reinsurance contracts are subject to the following additional pooled retentions: (a) \$2.5 million annual aggregate deductible in the \$3 million in excess of \$2 million layer, and (b) \$3 million annual aggregate deductible in the \$5 million in excess of \$10 million layer. There is a third annual aggregate deductible in the amount of \$2.5 million in the \$5 million in excess of \$5 million layer, however it is fully covered under a separate policy and therefore not retained by the Authority. The overall coverage limit for each member, including all layers of coverage, is \$50 million per occurrence. Costs of covered claims for subsidence losses have a sub-limit of \$30 million per occurrence.

(c) Adequacy of Protection

During the past three fiscal years, the above program of protection did not experience settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured liability coverage in 2016-17.

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**Required Supplementary Information
General Fund
Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive/ (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	
Revenues:				
Membership dues and fees	\$ 339,826	\$ 330,826	\$ 323,326	\$ (7,500)
Charges for services	147,500	147,500	26,474	(121,026)
Total Revenues	<u>487,326</u>	<u>478,326</u>	<u>349,800</u>	<u>(128,526)</u>
Expenditures:				
Current:				
General government:				
Demographic research	79,941	79,941	79,941	-
Administrative	168,750	175,950	168,555	7,395
Professional services	20,000	12,700	11,197	1,503
Miscellaneous	33,146	39,746	26,266	13,480
Community development				
General Assembly Conference	56,670	56,670	51,601	5,069
Total Expenditures	<u>358,507</u>	<u>365,007</u>	<u>337,560</u>	<u>27,447</u>
Net Change in Fund Balance	<u>\$ 128,819</u>	<u>\$ 113,319</u>	<u>\$ 12,240</u>	<u>\$ (101,079)</u>

See accompanying note to the required supplementary information.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Note to Required Supplementary Information
General Fund
Year Ended June 30, 2017**

Budgetary Data

OCCOG establishes accounting control through formal adoption of an annual operating budget. The budget is prepared in conformity with accounting principles generally accepted in the United States of America. The adopted budget can be amended by the Board as unforeseen circumstances come to management's attention. In addition, for FY 2016-17, the Executive Director was granted authority to approve amendments to the budget, provided that any individual amendment did not exceed \$10,000 and further provided that any and all such amendments did not increase the total amount of budgeted expenditures. Individual budget amendments in excess of \$10,000 and increases in the total amount of budgeted expenditures required the approval of the Board of Directors.

The legal level of budgetary control is the account level within the General Fund.



**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**

Board of Directors
Orange County Council of Governments
Irvine, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and general fund of the Orange County Council of Governments (OCCOG), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise OCCOG's basic financial statements, and have issued our report thereon dated November 17, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OCCOG'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCCOG's internal control. Accordingly, we do not express an opinion on the effectiveness of OCCOG's internal control.

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

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

Compliance and Other Matters

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



Laguna Hills, California
November 17, 2017