

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Basic Financial Statements

Year Ended June 30, 2019

(with Independent Auditor's Report Thereon)

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Basic Financial Statements

Year Ended June 30, 2019

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Independent Auditor's 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, 2019, 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, 2019, 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 on pages 3 to 6 and budgetary comparison information on pages 16 and 17 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 14, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OCCOG's 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 14, 2019

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, 2019.

Overview of the Financial Statements

This discussion and analysis is 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 and 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 and 10.

Government-wide Financial Analysis

The total net position of OCCOG was \$361,577 at June 30, 2019 (as noted in Table 1). In comparison, the total net position of OCCOG at June 30, 2018 was \$362,756. OCCOG's net position at June 30, 2019 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
	2019	2018	
Current and other assets	\$ 370,693	\$ 383,313	-3.3%
Total assets	<u>370,693</u>	<u>383,313</u>	
Current liabilities	9,116	20,557	-55.7%
Total liabilities	<u>9,116</u>	<u>20,557</u>	
Net position			
Unrestricted	361,577	362,756	-0.3%
Total net position	<u>\$ 361,577</u>	<u>\$ 362,756</u>	

The total net position of OCCOG decreased by \$1,179, or .32%, during FY 2018-19 (see Table 2). This means that expenses exceeded revenues, on a full accrual basis, by \$1,179 for the year. This compares to the decrease in net position during FY 2017-18 of \$12,473. Revenues were 1.1% higher than in FY 2017-18, and expenses were 2% lower. The increase in revenues can be attributed to an increase in Investment Earnings of \$3,503. Fiscal Year 2018-19 we had a full year invested in Local Agency Investment Fund (LAIF), while Fiscal Year 2017-18 we only invested in LAIF for a little more than half the year. The decrease in Charges for services was due to less money received in sponsorship funds for the April 2019 General Assembly conference, compared to March 2018 General Assembly conference. Membership dues and fees remained relatively unchanged in FY 2018-19 compared to FY 2017-18. The decrease in expenses can be attributed to decreased spending for the April 2019 General Assembly conference, where expenses were \$44,077 lower in FY 2018-19 compared to FY 2017-18. The decrease in expenses for General Assembly were partially offset by spending for Grant Strategy and Advocacy Services, in the amount of \$22,500. We also saw an increase in Demographic research fees of \$6,484.

Table 2.
 ORANGE COUNTY COUNCIL OF GOVERNMENTS
 Changes in Net Position
 For the Year Ended:

	Governmental Activities		Percent Change
	2019	2018	
Revenues:			
Program revenues:			
Member dues and fees	\$ 331,767	\$ 325,324	2.0%
Charges for services	27,296	33,296	-18.0%
Investment earnings	6,909	3,406	102.8%
Total revenues	<u>365,972</u>	<u>362,026</u>	1.1%
Expenses:			
General government	(326,694)	(290,821)	12.3%
Community development	(40,457)	(83,678)	-51.7%
Total expenses	<u>(367,151)</u>	<u>(374,499)</u>	-2.0%
Change in net position	(1,179)	(12,473)	-90.5%
Net position, beginning of year	362,756	375,229	-3.3%
Net position, end of year	<u>\$ 361,577</u>	<u>\$ 362,756</u>	-0.3%

Financial Analysis of the General Fund

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

OCCOG's revenues for FY 2018-19 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 2017-18 to FY 2018-19.

General Fund Budgetary Highlights

The OCCOG Board of Directors adopted a formal budget for the fiscal year ended June 30, 2019, on September 27, 2018, which anticipated a deficit of revenues over expenditures for the year of \$(3,425).

Actual expenditures exceeded actual revenues for the year by \$1,179. Actual revenues for the year of \$365,972 were \$32,795 less than the final budget amount, as a result primarily of General Assembly sponsorship revenue being substantially less than anticipated.

Total actual expenditures of \$367,151 were \$35,041 less than expected in the final FY 2018-19 budget. Professional expenditures were \$13,886 less than the final budget amount. This was the result of Marketing Communications Support that was budgeted for but not utilized. General Assembly conference final expenditures were \$20,393 less than budget due to cut backs on paid speakers, and conference room costs for the April 2019 General Assembly.

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, CA 92623-9575, or to the OCCOG Treasurer at 3972 Barranca Parkway Suite J127, Irvine, California 92606.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments (note 2)	\$ 357,656
Accrued interest	1,812
Prepaid items (note 3)	<u>11,225</u>
Total Assets	<u>370,693</u>
<u>Liabilities</u>	
Accounts payable	<u>9,116</u>
<u>Net Position</u>	
Net position: Unrestricted	<u>\$ 361,577</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Statement of Activities
Year Ended June 30, 2019**

	<u>Governmental Activities</u>
General Government:	
Program revenues and contributions	
Membership dues and fees	\$ 331,767
Charges for services	27,296
Total program revenues and contributions	<u>359,063</u>
Expenses:	
General government	(326,694)
Community development	(40,457)
Total expenses	<u>(367,151)</u>
Net program expense	(8,088)
General Revenues:	
Investment earnings	<u>6,909</u>
Change in net position	(1,179)
Net position, beginning of year	<u>362,756</u>
Net position, end of year	<u>\$ 361,577</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Governmental Fund
Balance Sheet
June 30, 2019

	<u>General Fund</u>
<u>Assets</u>	
Cash and investments	\$ 357,656
Accrued interest	1,812
Prepaid items	11,225
Total Assets	<u>\$ 370,693</u>
<u>Liabilities and Fund Balance</u>	
Liabilities:	
Accounts payable	<u>\$ 9,116</u>
Fund Balance:	
Nonspendable	11,225
Unassigned	<u>350,352</u>
Total Fund Balance	<u>361,577</u>
Total Liabilities and Fund Balance	<u>\$ 370,693</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, 2019**

	<u>General Fund</u>
Revenues:	
Membership dues and fees	\$ 331,767
Charges for services	27,296
Investment earnings	6,909
Total Revenues	<u>365,972</u>
Expenditures:	
Current:	
General government:	
Demographic research	94,089
Administrative	147,676
Professional services	55,614
Miscellaneous	30,165
Community development	
General Assembly conference	39,607
Total Expenditures	<u>367,151</u>
Net change in fund balance	(1,179)
Fund balance, beginning of year	<u>362,756</u>
Fund balance, end of year	<u>\$ 361,577</u>

See accompanying notes to the financial statements.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements Year Ended June 30, 2019

(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 County of Orange, 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 Sub-regional 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 all member agencies in Orange County.

The books and financial records for OCCOG for the year ended June 30, 2019 are maintained by the Orange County Council of Governments at 3972 Barranca Pkwy, Suite J127, Irvine, California 92606.

(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, 2019

(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. OCCOG performs General Government and Community Development activities. Net program expense for the activities was as follows:

<u>Program</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Net (Expense) Revenues</u>
General Government	\$ 359,063	\$ (326,694)	\$ 32,369
Community Development	-	(40,457)	(40,457)
			<u>\$ (8,088)</u>

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.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Notes to the Financial Statements
Year Ended June 30, 2019**

(2) Cash and Investments

As of June 30, 2019, cash and investments were reported in the financial statements as follows:

Statement of net position:

Cash and investments	\$ 357,656
Total cash and investments	<u>\$ 357,656</u>

Cash and investments as of June 30, 2019 consist of the following:

Deposits with financial institutions	\$ 74,152
Investments	<u>283,504</u>
Total cash and investments	<u>357,656</u>

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 California public agency depositors. As of June 30, 2019, the carrying amount of OCCOG deposits was \$74,153 and the bank balance was \$87,466. The \$13,313 difference represents outstanding checks.

Investments Authorized by OCCOG's Investment Policy

The table below identifies the investment types that are authorized by OCCOG's investment policy:

<u>Investments Types</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund (LAIF)	N/A	None	None
Local Government Investment Pool	N/A	30%	None
Money Market Mutual Fund	N/A	20%	None

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements
Year Ended June 30, 2019

(2) Cash and Investments (Continued)

Investments in State Investment Pool

OCCOG is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code under the oversight of the Treasurer of the State of California. The fair value of OCCOG's investment in this pool is reported in the accompanying financial statements at amounts based upon OCCOG's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

As of June 30, 2019, in accordance with GASB statement No. 40 requirements, OCCOG is exposed to concentration of credit risk whenever they have invested more than 5% of their total investments in any one issuer. As of June 30, 2019 OCCOG was not exposed to concentration of credit risk.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The custodial credit risk for investments is the risk that, in the event of failure of a counterparty to a transaction, a government will not be able to recover the value of investment in collateral securities that are in the possession of an outside party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF). As of June 30, 2019, none of OCCOG's deposits or investments were exposed to custodial credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. OCCOG's investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. LAIF has an investment maturity of less than 1 year.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

Notes to the Financial Statements
Year Ended June 30, 2019

(3) Cash and Investments (Continued)

Fair Value Classifications

Fair value measurements are categorized based on the valuation inputs used to measure fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Investments in LAIF investment pool are uncategorized as deposit and withdrawals are made on the basis of \$1 and not fair value.

(3) Prepaid Items

Prepaid items at June 30, 2019 consisted of the following:

Prepaid insurance	\$ 11,225
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(4) Liability Insurance

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

The Orange County Council of Governments is a member of the California Joint Powers Insurance Authority (the Authority), which provides joint protection programs and group purchased insurance for local government agencies. The Authority is composed of 116 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. OCCOG participates in the Authority's Primary Liability Program, which does not have a self-insured retention or member deductible.

The overall coverage limit for each member, including all layers of coverage, is \$50 million per occurrence. Subsidence losses have a sub-limit of \$40 million per occurrence. The coverage structure includes retained risk that is pooled among members, reinsurance, and excess insurance. More detailed information about the various layers of coverage is available on the following website: <https://cjpia.org/protection/coverage-programs>.

During the past three fiscal years, the Primary Liability Program did not experience settlements or judgments that exceeded pooled or insured coverage. There were also no significant reductions in pooled or insured coverage in 2018-19.

OCCOG pays an annual contribution to the Authority and may share in any member refunds in the event that pooled funding exceeds the cost of pooled claims and claim-related expenses, or OCCOG may be required to pay additional contributions based upon the Authority's operating results. The Authority's financial statements may be obtained from its administrative office located at 8081 Moody Street, La Palma, California 90623, or by calling (562) 467-8700.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Required Supplementary Information
General Fund
Year Ended June 30, 2019**

	Budgeted Amounts			Variance with Final Budget Positive/ (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Membership dues and fees	\$ 331,767	\$ 331,767	\$ 331,767	\$ -
Charges for services	65,000	65,000	27,296	(37,704)
Investment earnings	2,000	2,000	6,909	4,909
Total revenues	<u>398,767</u>	<u>398,767</u>	<u>365,972</u>	<u>(32,795)</u>
Expenditures:				
Current:				
General government:				
Demographic research	94,088	94,088	94,089	(1)
Administrative	162,000	150,000	147,676	2,324
Professional services	57,500	69,500	55,614	13,886
Miscellaneous	28,604	28,604	30,165	(1,561)
Community development				
General Assembly conference	60,000	60,000	39,607	20,393
Total expenditures	<u>402,192</u>	<u>402,192</u>	<u>367,151</u>	<u>35,041</u>
Net change in fund balance	<u>\$ (3,425)</u>	<u>\$ (3,425)</u>	<u>\$ (1,179)</u>	<u>\$ 2,246</u>

See accompanying notes to the required supplementary information.

ORANGE COUNTY COUNCIL OF GOVERNMENTS

**Note to Required Supplementary Information
General Fund
Year Ended June 30, 2019**

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 2018-19, 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 Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
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 the general fund of the Orange County Council of Governments (“OCCOG”), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise OCCOG’s basic financial statements, and have issued our report thereon dated November 14, 2019.

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.

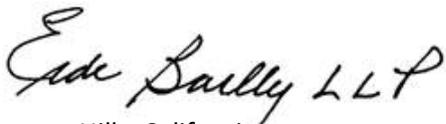
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Laguna Hills, California
November 14, 2019