VIP TOTS
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FINANCIAL STATEMENTS
JUNE 30, 2018

SM&Co
Smith Marion & Co.
Certified Public Accountants

V.I.P. TOTS
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Independent Auditors' Report

The Governing Body of
V.I.P. TOTS

Report on the Financial Statements
We have audited the accompanying financial statements of V.I.P. TOTS, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows, and functional expenses 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 of 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of V.I.P. TOTS as of June 30, 2018 and the changes in its net assets and its cash flows for the year then ended in conformity 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 supplementary information, as described in the table of contents, is presented for purposes of additional analysis, and is not a required part of the financial statements. The 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 other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2019 on our consideration of V.I.P. TOTS' 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 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 V.I.P. TOTS' internal control over financial reporting and compliance.

Smith Marion & Co.

February 21, 2019
Redlands , CA

V.I.P. TOTS
Statement of Financial Position
June 30, 2018

ASSETS		
Current Assets		
Cash		$ 119,369
Accounts receivable		200,824
Deposits and prepaid expenses (current)		3,904
	Total current assets	324,097
Noncurrent Assets		
Investments		2,798
Deposits and prepaid expenses (noncurrent)		41,114
Property and equipment (net)		140,446
	Total noncurrent assets	184,358
	TOTAL ASSETS	$ 508,455
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable		$ 1,758
Accrued liabilities		69,083
Deferred revenue		-
	Total Current Liabilities	70,841
	TOTAL LIABILITIES	70,841
NET ASSET		
Withhout donor restrictions		
Undesignated		431,354
Designated by the board for operating reserve		-
With donor restrictions		6,260
	TOTAL NET ASSETS	437,614
	TOTAL LIABILITIES AND NET ASSETS	$ 508,455

NET ASSETS WITHOUT DONOR RESTRICTIONS	
Unrestricted revenues and gains	
Cash contributions	$ 14,570
Grants and contracts	1,295,632
Fees for service	88,486
Investment Return	117
Special events (net)	14,231
Cost of goods sold (net)	1,156
Miscellaneous	42
Total unrestricted revenues and gains	1,414,234
Net assets released from restriction	-
TOTAL UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT	1,414,234
Expenses	
Program Services	
Inland Regional Center	373,188
Training and Childcare	946,194
Total Program Expenses	1,319,382
Support Services	
Management and general	95,888
Fundraising	265
Total Support Services	96,153
TOTAL EXPENSES	1,415,535
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(1,301)
NET ASSETS WITH DONOR RESTRICTIONS	
Contributions	10,000
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	10,000
CHANGE IN NET ASSETS	8,699
BEGINNING NET ASSETS	362,926
Prior period adjustment	65,989
ENDING NET ASSETS	$ 437,614

V.I.P. TOTS
Statement of Cash Flows
Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	8,699
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Non-Cash Items:		
Depreciation expense		23,107
Prior period adjustments		65,989
(Increase)/Decrease in:		
Accounts receivable		(97,365)
Prepaids		18,130
Increase/(Decrease) in:		
Accounts payable		(16,184)
Accrued liabilities		4,206
Deferred revenue		(47,048)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES		(40,466)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments		(81)
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES		(81)
CASH FLOWS FROM FINANCIAL ACTIVITIES		
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES		-
Net Increase/(Decrease) in Cash		(40,547)
BEGINNING CASH		159,916
ENDING CASH	$	119,369
SUPPLEMENTAL INFORMATION		
Interest Paid		-

V.I.P. TOTS
Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services	
	Inland Regional Center	Training and Childcare
Compensation and related expenses		
Compensation	$ 282,104	$ 627,619
Employee benefits	18,223	48,778
Payroll taxes	26,156	57,077
Mileage	29,592	2,670
Total compensation and related expenses	356,075	736,144
Administration		
Professional services	5,717	56,304
Insurance	-	2,089
Telephone services	50	6,182
Advertising & marketing	84	1,539
Postage and printing	61	2,794
Dues and subscriptions	20	2,268
Licenses, fees and taxes	7	2,708
Supplies and office expenses	37	6,711
Tavel and meetings	341	5,128
Miscellaneous	-	-
Total administration	6,317	85,723
Occupancy		
Rent	150	25,015
Utilities	144	20,905
Maintenancne	96	13,709
Janitorial	103	17,067
Total occupancy	493	76,696
Equipment		
Rental and leases	27	4,047
Non-capital purchases	8	1,639
Total equipment	35	5,686
Development & training	253	232
Program activities	769	30,952
Collection losses	-	1,009
Donations	3	509
Interest	-	-
Depreciation	9,243	9,243
TOTAL FUNCTIONAL EXPENSES	$ 373,188	$ 946,194

V.I.P. TOTS
Statement of Functional Expenses
Year Ended June 30, 2018

	Support Services		
	Management and General	Fundraising	Total
Compensation and related expenses			
Compensation	$ 73,919	$ -	$ 983,642
Employee benefits	9,584	-	76,585
Payroll taxes	(3,800)	-	79,433
Mileage	511	-	32,773
Total compensation and related expenses	80,214	-	1,172,433
Administration			
Professional services	5,853	9	67,883
Insurance	-	-	2,089
Telephone services	1,055	-	7,287
Advertising & marketing	565	220	2,408
Postage and printing	4	-	2,859
Dues and subscriptions	190	-	2,478
Licenses, fees and taxes	26	-	2,741
Supplies and office expenses	82	-	6,830
Tavel and meetings	186	-	5,655
Miscellaneous	-	-	-
Total administration	7,961	229	100,230
Occupancy			
Rent	102	-	25,267
Utilities	1	-	21,050
Maintenancne	1,155	-	14,960
Janitorial	966	-	18,136
Total occupancy	2,224	-	79,413
Equipment			
Rental and leases	-	-	4,074
Non-capital purchases	96	-	1,743
Total equipment	96	-	5,817
Development & training	600	-	1,085
Program activities	(7)	36	31,750
Collection losses	-	-	1,009
Donations	179	-	691
Interest	-	-	-
Depreciation	4,621	-	23,107
TOTAL FUNCTIONAL EXPENSES	$ 95,888	$ 265	$ 1,415,535

NOTE 1 - INTRODUCTION

V.I.P. TOTS (Organization, we, us, our) was organized in 1979 as a non-profit organization for the purpose of providing early intervention services for children with disabilities and training to staff, parents, and the community. We are licensed by the State of California Community Care Licensing to provide childcare services. Additionally, we are a vendor agency with Inland Regional Center to provide services to children. We fulfill our mission by focusing our efforts in two primary service areas.

Child Development and Child Care.
Our quality child development classes serve toddlers and preschool children. Programs serve children with and without special needs. Preschool classes have one teacher for 8 to 11 children. Children participate in activities that promote learning in all areas of development. Staff members have experience and training in early childhood and monitor children's needs and progress closely. Teachers communicate frequently with parents. Toddlers 18 months to 24 months are served through a scholarship grant from First 5 Riverside. Children ages two to six are enrolled through parent pay tuition, funded childcare or First 5 scholarships.

Early Intervention.
We offer a variety of early intervention services to meet the needs of families who have children with a delay or are at risk of having a delay in all areas of their development.

Home Program serves children ages 0-36 months that have a 33% delay or are at high risk of a developmental delay as designated and funded by Inland Regional Center. We serve families for two to twenty hours per month in their homes. We use a coaching model helping caregivers help their children to progress to the best of their abilities through parent participation. Through our Home Program we serve the communities of Temecula, Murrieta, Menifee, Lake Elsinore, Perris, Moreno Valley, Canyon Lake, Hemet, San Jacinto, Anza, Beaumont, Banning, Calimesa, Yucaipa and Redlands.

"Mommy and Me" is a center based Program with a ratio of 3 children to 1 teacher in an inclusive classroom setting and is funded by Inland Regional Center as an alternative to Home Program Services. A child with a delay can attend this center based program for 39 hours per month with a parent attending with them in order to learn how to help their child in a group setting. This program must be requested and authorized by Inland Regional Center and is available for children ages 18-36 months.

Intensive Services Program is for children with behavioral challenges and provides a one to one teacher/child ratio. This program must be requested and authorized by Inland Regional Center for up to 65 hours per month. This is a combination of center based and home program hours with parent participation throughout. This also includes a parent training module program.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting.
Our financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents.
We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Receivables.
Accounts receivable represent amounts receivable for childcare and early intervention services. We determine the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Management deems all receivables to be fully collectible at June 30, 2018, therefore, no allowance for uncollectible accounts has been established.

Investments.
We record investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Building, Equipment, and Leasehold Improvements.
Buildings, Equipment, and Leasehold Improvements are capitalized at cost. It is the policy of the Organization to capitalize expenditures for these items in excess of $500. Buildings, Equipment, and Leasehold Improvements are depreciated using the straight-line method over their estimated useful lives from 3 to 35 years.

Net Assets.
Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

- *Net Assets with Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition.
Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Functional Allocation of Expenses.
The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes.
We are exempt from income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue Code Section 23701d. We are classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Internal Revenue Code.

In accordance with accounting standards, which provide accounting and disclosure guidance about uncertain tax positions taken by the Organization, management believes that all of the positions taken by the Organization in its federal and state income tax returns are more likely than not to be sustained upon examination. We file returns in the U.S. Federal jurisdiction and the State of California. Our income tax returns for the prior three tax years remain subject to examination by the Internal Revenue Service. Our California income tax returns for the prior four tax years remain subject to examination by the Franchise Tax Board.

Estimates.
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk.
We manage deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by us to be creditworthy. At times, amounts on deposit may exceed insured limits or accounts.

Advertising.
We expense advertising costs as they are incurred. Advertising expenses amount to $2,408 during the fiscal year ended June 30, 2018.

Fair Value Measurements.
FASB ASC 820-10 regarding fair value measurements clarifies the definition of fair value for financial reporting and establishes a three-tier hierarchy as a framework for measuring fair value which requires an entity to give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements) when measuring fair value. The standard also requires additional disclosure about the use of fair value measurements.

Fair value is defined as the price to sell an asset or transfer a liability between market participants as of the measurement date. The three levels of the fair value hierarchy under this standard are as follows:

- Level 1 - Inputs are unadjusted quoted prices for identical instruments in active markets.
- Level 2 - Inputs are input other than quoted prices included within Level 1 that are directly or indirectly observable, such as quoted prices for similar instruments in active markets, or quoted prices for identical or similar instruments in inactive markets.
- Level 3 - Inputs are unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from techniques which one or more significant value drivers are observable.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels.

Subsequent Events.
We have evaluated subsequent events through February 21, 2019**,** the date the financial statements were available to be issued.

Change in Accounting Principle .
Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities:

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented which resulted in no effect on net assets.

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NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash and cash equivalents without donor restrictions	
Petty cash	$ 875
Checking & money market accounts	112,234
Total cash and cash equivalents without donor restrictions	113,109
Deposits and prepaid Expenses	3,904
Total without donor restrictions	230,122
Accounts receivable	21,218
	$ 251,340

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its operating reserve, which was $- as of June 30, 2018.

NOTE 4 - CASH AND CASH EQUIVALENTS

The following provides a breakdown of cash and cash equivalents as of June 30, 2018:

	2018
Without donor restrictions	
Petty cash	$ 875
Checking and money market	112,234
Subtotal	113,109
With donor restrictions	
Restricted cash	6,260
Subtotal	6,260
Total Cash and Cash Equivalents	$ 119,369

NOTE 5 – INVESTMENTS

Investments held at June 30, 2018 are summarized as follows:

	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Other Unobservable Inputs (Level III)	Total
Mutual funds	$ 2,798	$ -	$ -	$ 2,798
Total	$ 2,798	$ -	$ -	$ 2,798

Investment Return:	
Interest	$ -
Dividends	117
Unrealized gains/(losses)	-
Total Investment Return	$ 117

The securities are valued at the closing price of the active market in which the security is traded. The fair value of all the above marketable securities have been measured on a recurring basis using Level 1 inputs.

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NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 consisted of the following:

	2017	Additions	Deletions	2018
Non-Depreciable				
Land	39,479	-	-	39,479
Leasehold Improvements	213,751	-	-	213,751
	253,230	-	-	253,230
Depreciable				
Building and Improvments	313,849	-	-	313,849
Furniture and Equipment	254,515	-	-	254,515
	568,364	-	-	568,364
Accumulated Deprec.	(658,041)	(23,107)	-	(681,148)
Net Fixed Assets	163,553	(23,107)	-	140,446

NOTE 7 - LEASES

We lease offices and equipment under various operating leases expiring at various dates through 2022.

Future minimum lease payments are as follows:

Future minimum lease payments:

Year ending	Balance
2019	28,284
2020	28,284
2021	28,284
2022	12,936
Thereafter	-
Total	$28,284

Rent expense for the year ending June 30, 2018 was $25,267.

NOTE 8 - SPECIAL EVENTS

Annually we hold fundraising events. The revenue and related expenses from such events for the year ended June 30, 2018 were as follows:

Event	Revenue	Expenses	Net
Duck Race	$17,207	$ 2,976	$14,231
Total	$17,207	$ 2,976	$14,231

NOTE 9 - EMPLOYEE BENEFITS

We sponsor a 401(k) defined contribution plan. Employees meeting specified age and service requirements are eligible to participate in the plan. During the fiscal year ended June 30, 2018, we made no contributions to the plan.

NOTE 10 - FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

NOTE 11 – CONCENTRATIONS

We derive significant revenues from contracts with and grants from the County of Riverside, California for childcare and educational services. Loss of some or all of these contracts could have a significant detrimental effect on the Organization’s operations.

NOTE 12 - NET ASSETS WITH DONOR RESTIRCTION

A summary of activity for our net assets with donor restrictions for year ended June 30, 2018 are as follows:

	2017	Additions	Releases	2018
Community Foundation - Tuition/Scholarship	$ -	$ 10,000	$ (3,740)	$ 6,260

Community Foundation- Tuition/ Scholarship.
These funds are restricted for use to provide tuition assistance/scholarships to low-income families.

NOTE 13 – PRIOR-PERIOD ADJUSTMENT

Our financial statements for the year ended June 30, 2018 required a prior period adjustment to net assets related to prior errors made resulting from yearend reconciliation discrepancies. See below:

Ending net assets as previously reported at June 30, 2017	$ 362,926
Prior period adjustment - correction of error:	
Reconciliation descrepancies	65,989
Total adjustments	65,989
Net assets as restated as of June 30, 2017	$ 428,915

V.I.P. TOTS

Statement of Activities – First 5 Special Needs

Year Ended June 30, 2018

		CHILDCARE #14202 SN
REVENUES		
Grant Income		191,278
	TOTAL REVENUES	191,278
COSTS AND EXPENSES		
Compensation and related		197,205
Administration		10,478
Occupancy		8,848
Equipment		1,335
Development and training		125
Program Activites		1,233
	TOTAL COSTS AND EXPENSES	219,224
	CHANGE IN NET ASSETS	(27,946)
	BEGINNING NET ASSETS	-
	ENDING NET ASSETS	$ (27,946)

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*

Independent Auditors' Report

The Governing Body of
V.I.P. TOTS

We have audited, 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, the financial statements of V.I.P. TOTS, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 21, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered V.I.P. TOTS' 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 V.I.P. TOTS' internal control. Accordingly, we do not express an opinion on the effectiveness of V.I.P. TOTS' 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. We noted no such deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether V.I.P. TOTS' 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.

Smith Marion & Co.

February 21, 2019
Redlands, CA

SECTION I - Summary of Auditor's Results

Financial Statements

1. Type of Auditor Report on the financial statements: Unmodified.

2. Internal control over financial reporting:
   a. Material weakness identified ______yes __X___no
   b. Significant deficiency identified that are not considered to be material weaknesses? ______yes __X__ none reported

3. Noncompliance material to financial statements? ______yes __X___no

SECTION II – Financial Statement Findings

1. There are no auditor findings required to be reported in accordance with GAGAS.

The following represents the current status of findings for the prior year ended June 30, 2017:

2017-1 General Ledger Accounts

Condition
There were several general ledger accounts that were not reconciled at the end of the year. In particular, the accounts receivable. During our revenue testing, we noted that not all revenue earned during the year was recorded.

Status
Corrected.