Regional Center of Orange County, Inc.

Financial Statements

June 30, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Regional Center of Orange County, Inc.

Opinion

We have audited the accompanying financial statements of Regional Center of Orange County, Inc., which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Center of Orange County, Inc. (the Center) as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, beginning July 1, 2022, the Center adopted Accounting Standards Update No. 2016-02, *Leases (Topic 842)* and its related amendments using the modified-retrospective transition method. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Responsibilities of Management for the Financial Statements (Continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Center's 2022 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 1, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2024, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Windes, Inc.

Long Beach, California
May 2, 2024

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

ASSETS

	June 30, 2023	June 30, 2022
ASSETS		
Cash and cash equivalents	$ 43,736,121	$ 33,146,465
Cash – client trust funds	144,074	178,097
Contracts receivable - state of California	-	17,391,305
Receivables from Intermediate Care Facility vendors	4,409,293	8,326,109
Deposits and prepaid expenses	600,199	583,806
Other assets	398,514	440,526
Unbilled reimbursable contract costs receivables - state of California	44,389,698	61,458,292
Operating lease right-of-use asset	18,762,094	-
TOTAL ASSETS	$ 112,439,993	$ 121,524,600

LIABILITIES AND NET ASSETS

	2023	2022
LIABILITIES		
Accounts payable	$ 37,531,272	$ 58,084,056
Due to state of California	-	52,523
Contract advances - state of California	9,652,838	-
Net assets held for clients	171,668	171,668
Accrued vacation and other leave benefits	4,449,315	4,164,417
Operating lease liability	23,235,450	-
Deferred rent liability	-	4,694,734
Unfunded pension benefit obligations	37,183,632	54,153,683
	112,224,175	121,321,081
COMMITMENTS AND CONTINGENCIES (Note 8)		
NET ASSETS		
Unrestricted	215,818	203,519
TOTAL LIABILITIES AND NET ASSETS	$ 112,439,993	$ 121,524,600

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

	For the Year Ended June 30, 2023	For the Year Ended June 30, 2022
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contracts – state of California	$ 549,255,235	$ 467,520,093
Intermediate Care Facility supplemental services income	7,805,492	8,899,685
Interest income	1,086,645	45,151
Contributions	19,180	35,998
Total Support and Revenue	558,166,552	476,500,927
EXPENSES		
Program services	561,739,987	526,886,404
Management and general	13,977,338	12,396,385
Total Expenses	575,717,325	539,282,789
CHANGE IN NET ASSETS BEFORE CHANGES IN PENSION BENEFIT OBLIGATION	(17,550,773)	(62,781,862)
CHANGE IN PENSION BENEFIT OBLIGATION OTHER THAN PERIODIC BENEFIT COSTS	17,563,072	62,806,003
CHANGE IN NET ASSETS	12,299	24,141
NET ASSETS AT BEGINNING OF YEAR	203,519	179,378
NET ASSETS AT END OF YEAR	$ 215,818	$ 203,519

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

			For the Year Ended June 30,	
	Program Services	Management and General	2023 Total Expenses	2022 Total Expenses
PURCHASE OF SERVICES				
Community and intermediate care facilities	$ 168,654,201	$ -	$ 168,654,201	$ 157,418,619
Day training and day program services	93,914,056	-	93,914,056	94,934,129
Transportation services	12,040,207	-	12,040,207	7,047,641
Respite care services	48,056,009	-	48,056,009	42,420,880
Medical care services	11,412,038	-	11,412,038	10,173,310
Nonmedical services	23,937,892	-	23,937,892	18,961,312
Other purchased services	153,592,567	-	153,592,567	146,883,563
Total Purchase of Services	511,606,970	-	511,606,970	477,839,454
OPERATING				
Salaries and related expenses	50,078,347	4,354,639	54,432,986	53,265,108
Office occupancy	-	3,197,929	3,197,929	3,189,480
Data processing	-	2,295,806	2,295,806	1,792,418
Office expenses	-	649,730	649,730	512,575
Communications	-	800,407	800,407	531,189
Other operating expenses	54,670	2,678,827	2,733,497	2,152,565
Total Operating	50,133,017	13,977,338	64,110,355	61,443,335
TOTAL EXPENSES	$ 561,739,987	$ 13,977,338	$ 575,717,325	$ 539,282,789

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2023
(WITH SUMMARIZED TOTALS FOR 2022)

	For the Year Ended June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 12,299	$ 24,141
Adjustments to reconcile change in net assets to net cash from operating activities:		
Changes in operating assets and liabilities:		
Contracts receivable -state of California	17,391,305	5,879,946
Receivables from Intermediate Care Facility vendors	3,916,816	(1,095,869)
Deposits and prepaid expenses	(16,393)	(10,748)
Other assets	42,012	90,211
Unbilled reimbursable contract costs receivables - state of California	17,068,594	57,289,862
Accounts payable	(20,552,784)	5,882,617
Due from state of California	(52,523)	-
Contract advances - state of California	9,652,838	-
Net assets held for clients	-	(154,685)
Accrued vacation and other leave benefits	284,898	1,627,173
Operating lease right-of-use asset and lease liability	(221,378)	-
Deferred rent liability	-	(125,671)
Unfunded pension benefit obligations	(16,970,051)	(57,236,822)
Net Cash Provided By Operating Activities	10,555,633	12,170,155
NET CHANGE IN CASH, CASH EQUIVALENTS, AND CASH HELD FOR CLIENTS	10,555,633	12,170,155
CASH, CASH EQUIVALENTS, AND CASH HELD FOR CLIENTS AT BEGINNING OF YEAR	33,324,562	21,154,407
CASH, CASH EQUIVALENTS, AND CASH HELD FOR CLIENTS AT END OF YEAR	$ 43,880,195	$ 33,324,562
STATEMENT OF FINANCIAL POSITION PRESENTATION		
Cash and cash equivalents	$ 43,736,121	$ 33,146,465
Cash held for clients	144,074	178,097
TOTAL CASH, CASH EQUIVALENTS, AND CASH HELD FOR CLIENTS	$ 43,880,195	$ 33,324,562

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

NOTE 1 – Summary of Significant Accounting Policies

Purpose and Organization

Regional Center of Orange County, Inc. (the Center), a California nonprofit public benefit corporation under contract with the State of California Department of Developmental Services (DDS), was formed in 1977 to administer programs for individuals with developmental disabilities and their families, which includes diagnosis, counseling, education services, and dissemination of information on developmental disabilities to the public. The Center is one of 21 regional centers within California and serves Orange County.

The Center was organized in accordance with the provision of the Lanterman Developmental Disabilities Services Act (the Lanterman Act) of the Welfare and Institutions Code of the State of California. The Lanterman Act includes governance provisions regarding the composition of the Center's Board of Directors (the Board). The Lanterman Act states that the Board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50 percent of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25 percent of the members of the governing board shall be persons with developmental disabilities. In addition, a member of a required advisory committee composed of persons representing the various categories of providers from which the Center purchases client services, shall serve as a member of the Board. To comply with the Lanterman Act, the Board includes persons with developmental disabilities, or their parents or legal guardians, who receive services through the Center and a client service provider of the Center.

The Center contracts with DDS to operate a regional center for the developmentally disabled, and their families. Under the terms of these contracts, funded expenditures are not to exceed $716,113,718 for the 2022-2023 contract year. Amounts received from DDS contracts are recognized as revenue when the Center has incurred qualifying expenditures per the DDS contracts. Amounts received prior to incurring qualifying operational expenditures are recorded as contract advances and are included with contracts receivable – state of California and the net receivable or advance amount is reported on the statement of financial position.

As of June 30, 2023, actual net expenditures for the 2022-2023 contract year were $537,782,849. The remaining amounts on the 2022-2023 contract year where the Center can be reimbursed for qualifying expenditures is approximately $178,331,000, subject to any future budget amendments.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

State of California Contract

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

Basis of Accounting

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

Classification of Net Assets

U.S. GAAP requires that the Center report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, the net assets of the Center are classified and reported as follows:

> ***Without Donor Restrictions*** – Those net assets and activities which represent expendable funds for operations related to the DDS contract. These accounts also record the activities of a federally funded program.
>
> ***With Donor Restrictions*** – Those net assets and activities which are donor-restricted for holdings of (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; (d) the acquisition of long-lived assets; (e) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (f) assets donated with stipulations that they be invested to provide a permanent source of income.

As of June 30, 2023, and for the year then ended, the Center did not have any net assets with donor restrictions.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of receivables and accounts payable approximate fair value because of the short maturity of these instruments.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. The Center considers all financial instruments with a maturity of three months or less when purchased to be cash equivalents.

Contracts Receivable – State of California

Contracts receivable represent claims billed according to the terms of the contract for costs incurred through the end of the year. Management believes that these receivables are fully collectible and, therefore, has not provided an allowance for doubtful accounts.

Receivables from Intermediate Care Facility Vendors

The Centers for Medicare and Medicaid Services (CMS) approved federal financial participation in the funding of day and related transportation services purchased by the Center for consumers who reside in Intermediate Care Facilities (ICFs). CMS agreed that the day and related transportation services are part of the ICF service; however, the federal rules allow for only one provider of the ICF service. Accordingly, all the Medicaid Waiver grant (Medicaid) funding for the ICF residents must go through the applicable ICF provider. The billings include a 5.5% Quality Assurance fee for the State of California Department of Health Care Services, a 1.5% administrative fee for the ICFs, and a 1.5% administration fee for the Center.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Receivables from Intermediate Care Facility Vendors (Continued)

The DDS has directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. The Center was directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICFs. DDS advances the amount according to the state claim to the ICFs. The ICFs are then required to pass on the payments received, as well as the Center's administrative fee to the Center within 30 days of receipt of funds from the State Controller's Office.

State Equipment

Pursuant to the terms of the contract with DDS, equipment purchases become the property of the state of California and, accordingly, are charged as expenses when incurred. The Center tracks items, which cost more than $5,000 and have an estimated useful life of more than one year. The aggregate equipment costs for the year ended June 30, 2023, totaled $2,382,213.

Leasehold Improvements

Leasehold improvements are capitalized and are amortized over the shorter of the asset's life or the term of the lease. As of June 30, 2023, leasehold improvements net of amortization were $366,778 and are included in other assets on the statement of financial position.

Client Trust Assets and Liabilities

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

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Accrued Vacation and Other Leave Benefits

The Center has accrued a liability for vacation and sick leave benefits earned which are reimbursable costs under the contract with DDS; however, such benefits are reimbursed only when actually paid, therefore, these deferred costs are recognized as unbilled reimbursable contract costs receivables - state of California on the statement of financial position. The Center accrues earned vacation up to 320 hours. When the employee separates from service, the employee will receive the unused vacation.

Revenue Recognition – State of California Grants

The Center has a five-year cost-reimbursement contract with DDS which will expire June 30, 2024. Within those five years, each fiscal year has separate contract(s), allocations, and budget amendments. The Center is obligated to provide direct consumer services to persons with developmental disabilities and is reimbursed by DDS for contract related costs based on predetermined rates and budgeted costs. Revenue and expenses are recognized equal to the costs incurred when the Center satisfies its performance obligation by delivering the contracted services to the eligible customers. All eligible contract costs that are incurred but not paid, therefore not billed yet, are recognized as revenue and expense on accrual basis. Such billable costs are recorded as receivables in the statement of financial position, as the contract with DDS will not be cancelled. The contract advance represents the funds received at the inception of each fiscal year and are yet to be exhausted against the costs of services expected to be performed and delivered. Total costs and revenue are reviewed and a final financial settlement is made with DDS 24 months after the close of each fiscal year. Depending on the date of the service, claims are classified and charged to the appropriate contract as follows: (1) current year, (2) prior year, (3) second prior year.

Contributions

The Center recognizes all contributions when they are received or unconditionally promised, regardless of compliance with restrictions. Contributions are recognized based on the existence or absence of donor-imposed restrictions. Contributions with donor-imposed restrictions may be expendable or are required to be held in perpetuity.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

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

Income Taxes

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

Management evaluated the Center's tax positions and concluded that they maintained their tax-exempt status and had taken no uncertain tax positions that would require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. The Center is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress or pending.

Defined Benefit Pension Plan

The Center records the unfunded liability of its defined benefit pension plan with California Public Employees' Retirement System (CalPERS) on the statement of financial position and recognizes the changes in the funded status on the statement of activities in the year in which the change occurs. The Center's share in the unfunded projected pension benefits obligations is determined in accordance with the provisions of Financial Accounting Standards Board (FASB) Standards Codification (ASC) 715, *Defined Benefit Plans – Pension*. The Center recognized the incurred but unpaid pension benefits costs as part of the unbilled reimbursable contract cost receivables – state of California on the statement of financial position. Pension benefits costs are billed to DDS when paid by the Center to CalPERS.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Functional Expenses Allocation

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and functional expenses. Purchase of services, salaries, and related expenses are allocated to the program services or management and general on a direct-cost basis. All other operating expenses are allocated to management and general.

Concentrations of Credit Risk

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

Summarized Comparative Financial Information

The financial statements include certain prior year summarized comparative financial information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Center's financial statements as of June 30, 2022, and for the year then ended, from which the summarized information was derived.

Leasing Arrangements

In February 2016, the FASB issued new lease accounting guidance in Accounting Standards Update (ASU) 2016-02 *Leases* (Topic 842) (ASU 2016-02), which modifies lease accounting for lessees to increase transparency and comparability by requiring the Center to recognize a lease liability and related right-of-use assets for all leases (with the exception of short-term leases) at the commencement date of the lease and to disclose key information about leasing arrangements.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Leasing Arrangements (Continued)

Effective July 1, 2022, the Center adopted ASU 2016-02. The Center determines if an arrangement contains a lease at inception based on whether the Center has the right to control the asset during the contract period and other facts and circumstances. The Center elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The Center's policy for determining its lease discount rate used for measuring lease liabilities is to use the rate implicit in the lease whenever that rate is readily determinable. If the rate implicit in the lease is not readily determinable, then the Center has elected to use the risk-free discount rate, as permitted by U.S. GAAP, determined using a period comparable with that of the lease term.

The Center has elected a policy to account for short-term leases, defined as any lease with a term less than 12 months, by recognizing all components of the lease payment in the statement of activities in the period in which the obligation for the payments is incurred.

The Center adopted ASU 2016-02 utilizing the modified-retrospective transition method through a cumulative-effect adjustment. The adoption of ASU 2016-02 resulted in the recognition of right-of-use assets, net of prepaid lease payments and lease incentives, of $21,120,429 and operating lease liabilities of $25,815,163, and derecognition of deferred rent of $4,694,734 as of July 1, 2022. Results for periods beginning prior to June 30, 2022 continue to be reported in accordance with the Center's historical accounting treatment. The adoption of ASU 2016-02 did not have a material impact on the Center's results of operations, cash flows, or debt covenants.

Deferred Rent

Prior to 2016-02, the Center accounted for leases under Accounting Standards Codification 840, *Leases*. The deferred rent liability of $4,694,734 at June 30, 2022, represents the accumulated difference between the cash payments made and the amount expensed since inception of the lease. DDS reimburses the Center for rent cost after it is paid. Therefore, deferred rent is recognized on the statement of financial position as part of the unbilled reimbursable contract costs receivables - state of California.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

In June 2016, FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326: Measurement of Credit Losses on Financial Instruments.* The standards' main goal is to improve financial reporting by requiring earlier recognition of credit losses on financing receivables and other financial assets in scope. The standard is effective for fiscal years beginning after December 31, 2022. Early adoption is permitted. Management is evaluating the impact of this guidance.

Subsequent Events

The Center's management has evaluated subsequent events from the statement of financial position date through May 2, 2024, the date the financial statements were available to be issued for the year ended June 30, 2023, and determined there are no other items to disclose.

NOTE 2 – Cash - Client Trust Funds

The Center acts as fiduciary for the client support funds received directly on behalf of clients from certain governmental agencies. At June 30, 2023, $144,074 were held on behalf of clients by the Center for such purchase of services. These cash balances are segregated from the operating cash accounts of the Center and are restricted for consumer support. Since the Center is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying statement of activities. The following is a summary of operating activity not reported in the statement of activities for the year ended June 30, 2023:

Support:	
Social Security and other client support	$ 457,700
Disbursements:	
Living out of home	$ 218,383
Other disbursements	239,317
	$ 457,700

NOTE 3 – Contracts Receivable (Advances) – State of California

The Center's major source of revenue is from the state of California. Subject to renewal, the Center enters into a new contract with the state for a specified funding amount subject to budget amendments.

As of June 30, 2023, the DDS had advanced the Center $172,687,624 under the regional center contracts. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from the DDS contracts as follows:

Contracts receivable	$ 163,034,785
Contract advances	(172,687,624)
Net contract advances	$ (9,652,839)

The Center has renewed its contract with the state for the fiscal year ending June 30, 2024. The contract and subsequent amendment provides for funding of approximately $754,000,000.

In addition, the Center has accrued receivables from the state for expenses that will be settled in cash in future years. These expenses are required to be recognized as liabilities under U.S. GAAP; however such benefits are reimbursed by the state contract only when actually paid. Accrued benefits shall include vacation, sick leave, and any other benefits.

The Center's contract with DDS includes various fiscal provisions, which provide that the state of California retains all rights, title, and interest to the funds provided by DDS and that funds received from DDS may only be used for the purpose of satisfying claims against or expenses of the Center incurred pursuant to and in the performance of its contract with DDS.

Unbilled reimbursable contract costs receivables as of June 30, 2023, consist of the following:

Unfunded defined benefit plan obligations	$ 37,183,632
Deferred costs for rent liability	4,473,357
Deferred costs for accrued vacation and other leave benefits	2,732,710
Total	$ 44,389,698

NOTE 4 – Intermediate Care Facilities – State Plan Amendment

The receivable from ICFs in the amount of $4,409,293 represents the amount owed to the Center based for day and related transportation services. Revenue from ICFs for the year ended June 30, 2023, was $7,805,492.

NOTE 5 – Line of Credit

The Center established a revolving line of credit with a financial institution for $44,500,000. The line of credit matured on September 30, 2023 and was secured by substantially all assets of the Center with interest due monthly at the bank's reference rate (8.50% at June 30, 2023). As of June 30, 2023, there was no outstanding borrowing on the line of credit. As of the issuance date of these financial statements, the line of credit is in the process of being renewed subject to the Board's approval.

NOTE 6 – Defined Benefit Pension Plan

The Center contributes to CalPERS for retirement benefits. CalPERS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within California. Substantially all of the Center's employees participate in CalPERS.

FASB ASC 715-30, *Defined Benefit Plans – Pension*, requires the Center to recognize the funded status of a defined benefit retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the change in net assets without donor-imposed restrictions in the year in which the change occurs.

The Center has two retirement plans with CalPERS. The first plan is at a 2%-at-age-55 formula, which closed as of December 31, 2012. All eligible employees hired prior to January 1, 2013, participate in this plan. The second plan is a 2%-at-age-62 formula, which was established by the Public Employee's Pension Reform Act of 2013; all eligible employees hired on or after January 1, 2013 participate in this plan. The total required employee contributions are 7% of earnings for the 2%-at-age-55 plan and 6.75% of earnings for the 2%-at-age-62 plan. The Center is required to contribute the remaining amounts necessary to fund the benefits for its employees, using the actuarial basis adopted by the CalPERS Board of Administration.

NOTE 6 – Defined Benefit Pension Plan (Continued)

The CalPERS Board of Administration adopted changes to the demographic assumptions based on the most recent experience study report. The most significant of these is the improvement in post-retirement mortality acknowledging the greater life expectancies in membership and expected continued improvements. The actuarial assumptions and methods used in CalPERS public agency valuations are approved by the Board of Administration upon the recommendation of the Chief Actuary.

The excess of the total actuarial accrued liability over the market value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payoffs.

Net periodic benefit cost consists of the following components:

Service cost	$ 8,745,751
Interest cost	8,223,431
Expected return on plan assets	(8,530,097)
Amortization of prior service cost	16,969
Recognized net actuarial gain	(365,979)
Net periodic benefit cost	$ 8,090,075

Net periodic benefit cost is included in salaries and benefits expenses on the statement of activities.

Pension benefit changes other than net periodic benefit costs during the year ended June 30, 2023, are as follows:

Assumption gain	$ (18,585,750)
Experience gain	(356,182)
Recognized net actuarial loss	1,029,850
Investment experience	349,010
Changes Other than Net Periodic Benefit Costs	$ 17,563,072

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2023
(WITH COMPARATIVE TOTALS FOR 2022)

NOTE 6 – Defined Benefit Pension Plan (Continued)

Benefit obligation and unfunded status as of June 30, 2023, are as follows:

Benefit obligation	$ 172,058,237
Market value of assets	(134,874,605)
Unfunded Pension Benefit Obligation	$ 37,183,632

The following table provides a reconciliation of the changes in the plan's benefit obligations:

Reconciliation of Benefit Obligations

Change in benefit obligations	
Obligations at beginning of year	$ 177,882,411
Service cost	8,745,751
Interest cost	8,223,431
Experience gain	(356,182)
Assumptions gain	(18,367,867)
Benefits and expenses paid	(4,069,307)
Obligations at end of year	$ 172,058,237

The following table provides a reconciliation of the changes in the plan's assets:

Fair value of plan assets at beginning of year	$ 123,728,728
Actual return on plan assets	7,718,130
Total contributions	7,497,054
Benefits and expenses paid	(4,069,307)
Fair value of plan assets at end of year	134,874,605
Net amount recognized in the statements of financial position	$ (37,183,632)

NOTE 6 – Defined Benefit Pension Plan (Continued)

The discount rate was derived from the Above Median FTSE Pension Discount Curve as of June 30, 2023, using the expected payouts from the plan. The rate used as of the beginning of the fiscal year (used to calculate the expense for the year) was 5.24%. Below is a comparison of the effect on the benefit obligation with a 1% change in the discount rate:

Increase of 1% (6.24%)	$ 10,166,830
Current discount rate (5.24%)	$ 37,183,632
Decrease of 1% (4.24%)	$ 72,549,642

The assumptions used in the measurement of the benefit obligations at June 30, 2023, are as follows:

Discount Rate	5.24%
Long-term rate of return	6.80%
Salary Scale (annual increase)	4.00%
Maximum benefit and annual compensation limit increases	2.50%

CalPERS long-term rate of return on plan assets is 6.80% which is determined in consultation with CalPERS investment staff and advisors. The annual pension expense under ASC 715 is based on the expected return on plan assets during the fiscal year.

For the mortality rate, the actuary used the male and female, Pri-2012 Total Dataset Mortality Tables projected forward using Mortality Improvement Scale MP-2020 on a generation basis. This assumption is expected to be a best estimate of future mortality experience, being based on the latest published study by the Society of Actuaries, which was finalized in October 2020.

The plan is reported as a pension trust fund, and is accounted for using the accrual basis of accounting. Contributions to the plan are recognized in the period in which the contributions are due pursuant to legal requirements. Member contribution rates are defined by law and depend on the respective employers benefit formulas. Member and employer contribution rates are determined by periodic actuarial valuations. Actuarial valuations are based on the benefit provisions and employee groups of each employer. Benefits and refunds are recognized when currently due and payable in accordance with the terms of each rate plan.

NOTE 6 – Defined Benefit Pension Plan (Continued)

The actual allocations for the pension assets and target allocations by asset class as of June 30, 2023, are as follows:

Asset Class	Current Allocation	Target Allocation
Global Equity	45.1 %	48.8 %
Private Equity	12.9	10.0
Global Fixed Income	26.4	27.4
Real Assets	15.2	13.8
Other	0.4	0.0
	100.0 %	100.0 %

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy under Topic 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

NOTE 6 – Defined Benefit Pension Plan (Continued)

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Plan assets of $134,874,605 are held in a pooled investment account managed by CalPERS and are considered level 3 investments.

Cash Flow Estimates for Future Benefit Payments

The following estimated benefit payments are expected to be paid on a fiscal year basis:

For the Year Ended June 30,	
2024	$ 4,376,106
2025	4,789,543
2026	5,228,207
2027	5,614,359
2028	6,205,692
2029-2033	39,212,185
	$ 65,426,092

NOTE 7 – Leasing Arrangements

The Center leases its office space under operating leases for initial terms of 12 years. Most leases include renewal options which can extend the lease term up to 5 years. The exercise of these renewal options is at the sole discretion of the Center, and only lease options that the Center believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities.

NOTE 7 – Leasing Arrangements (Continued)

While all of the agreements provide for minimum lease payments, some include payments for variable non-lease components. Variable payments are not determinable at the lease commencement and are not included in the measurement of the lease assets and liabilities. The lease agreements do not include any material residual value guarantees or restrictive covenants.

The components of operating lease expenses that are included in "Management and general" expenses in the statement of activities were as follows:

	For the Year Ended June 30, 2023	For the Year Ended June 30, 2022
Operating lease costs	$ 3,064,622	$ 3,064,622
Variable lease costs	592,463	480,716
	$ 3,657,085	$ 3,545,338

The following table summarizes the supplemental cash flow information for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 3,285,995
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases obtained from adoption of ASC 842	$ 21,120,429

The weighted-average remaining lease term and discount rate were at year-end:

Weighted-average remaining lease term - operating leases	7.17 years
Weighted-average discount rate - operating leases	2.90%

NOTE 7 – Leasing Arrangements (Continued)

The maturities of operating lease liabilities as of June 30, 2023 are as follows:

Year Ending June 30,	
2024	$ 3,384,578
2025	3,486,116
2026	3,590,699
2027	3,698,420
2028	3,238,846
Thereafter	8,400,390
Total minimum lease payments	25,799,049
Less amount representing interest	(2,563,599)
Present value of minimum lease payments	$ 23,235,450

NOTE 8 – Commitments and Contingencies

Commitments

In accordance with the terms of the contract with DDS, an audit may be performed by an authorized DDS representative. Should such audit disclose any unallowable costs, the Center may be liable to DDS for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2023, and for the year then ended.

The Center is dependent on continued funding provided by DDS to operate and provide services for its clients. The Center's contract with DDS provides funding for services under the Lanterman Act. In the event that the state determines that the Center has insufficient funds to meet its contractual obligations, the state shall make its best effort to secure additional funding and/or provide the Center with regulatory and statutory relief.

The Center has elected to self-insure its unemployment insurance using the prorated cost-of-benefits method. Under this method, the Center is required to reimburse DDS for benefits paid to certain former employees. The Center had $838,391 in a reserve cash account to pay for any potential unemployment claims at June 30, 2023.

NOTE 8 – Commitments and Contingencies (Continued)

Legal Proceedings

The Center is subject to various legal proceedings and state claims arising in the ordinary course of its business. While the ultimate outcome of these matters is difficult to predict, management believes that the ultimate resolution of these matters will not have a material adverse effect on the Center's financial position or activities.

NOTE 9 – Financial Assets and Liquidity Resources

As of June 30, 2023, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial Assets:	
Cash and cash equivalents	$ 43,736,121
Receivable from Intermediate Care Facility vendors	4,409,293
Total financial assets available within one year	$ 48,145,414

The Center's sources of liquidity include cash advances from DDS, which are available for general expenditures, liabilities, and other obligations as they come due. Management regularly reviews its cash flow needs and maintains sufficient liquidity throughout the year. To help manage unexpected liquidity needs at the end of the fiscal year and before receipt of the cash advances, the Center has a practice of obtaining a line of credit, which it is currently and actively pursuing since the expiration of its most recent agreement.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Regional Center of Orange County, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Regional Center of Orange County, Inc. (the Center), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 2, 2024.

Reporting on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Windes, Inc.

Long Beach, California
May 2, 2024