

REGIONAL CENTER OF ORANGE COUNTY, INC.

FINANCIAL STATEMENTS

June 30, 2025
(with Comparative Totals for 2024)

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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. (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2025, 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, 2025, 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 *Government 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

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 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 2024 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 2, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 March 5, 2026, 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.



Long Beach, California
March 5, 2026

REGIONAL CENTER OF ORANGE COUNTY, INC.

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)**

ASSETS

	June 30,	
	2025	2024
ASSETS		
Cash and cash equivalents	\$ 61,931,240	\$ 57,161,104
Cash – client trust funds	57,660	66,305
Contracts receivable - state of California	43,884,337	14,668,653
Receivables from Intermediate Care Facility vendors	5,401,912	4,625,025
Deposits and prepaid expenses	7,068,860	26,585,829
Other assets	228,155	354,621
Unbilled reimbursable contract costs receivables - state of California	7,030,673	7,067,075
Operating lease right-of-use asset	13,808,393	16,326,485
TOTAL ASSETS	\$ 139,411,230	\$ 126,855,097

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 111,844,595	\$ 77,133,724
Net assets held for clients	66,014	127,604
Accrued vacation and sick leave benefits	3,298,775	2,913,679
Operating lease liability	17,540,292	20,479,881
Unfunded pension benefit obligations	6,450,794	25,992,161
	139,200,470	126,647,049

COMMITMENTS AND CONTINGENCIES (Note 8)

NET ASSETS		
Without donor restrictions	210,760	208,048
TOTAL LIABILITIES AND NET ASSETS	\$ 139,411,230	\$ 126,855,097

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, 2025
(WITH COMPARATIVE TOTALS FOR 2024)**

	For the Year Ended June 30,	
	2025	2024
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
SUPPORT AND REVENUE		
Contracts – state of California	\$ 853,941,918	\$ 713,514,474
Intermediate Care Facility supplemental services income	9,772,677	8,643,560
Interest income	2,888,452	2,224,156
Contributions	10,231	9,444
Total Support and Revenue	866,613,278	724,391,634
EXPENSES		
Program services	861,062,413	719,448,304
Management and general	17,342,477	14,189,616
Total Expenses	878,404,890	733,637,920
CHANGE IN NET ASSETS BEFORE CHANGE IN PENSION BENEFIT OBLIGATION OTHER THAN PERIODIC BENEFIT COSTS	(11,791,612)	(9,246,286)
CHANGE IN PENSION BENEFIT OBLIGATION OTHER THAN PERIODIC BENEFIT COSTS	11,794,324	9,238,516
CHANGE IN NET ASSETS	2,712	(7,770)
NET ASSETS AT BEGINNING OF YEAR	208,048	215,818
NET ASSETS AT END OF YEAR	\$ 210,760	\$ 208,048

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, 2025
(WITH COMPARATIVE TOTALS FOR 2024)**

	Program Services	Management and General	2025 Total Expenses	2024 Total Expenses
PURCHASE OF SERVICES				
Community and Intermediate Care Facilities	\$ 238,946,863	\$ -	\$ 238,946,863	\$ 221,102,288
Day training and day program services	142,440,078	-	142,440,078	126,953,552
Transportation services	21,154,864	-	21,154,864	18,107,492
Respite care services	86,014,280	-	86,014,280	56,602,435
Medical care services	20,119,725	-	20,119,725	12,855,488
Nonmedical services	44,203,246	-	44,203,246	35,063,782
Other purchased services	254,341,482	-	254,341,482	201,191,055
Total Purchase of Services	807,220,538	-	807,220,538	671,876,092
OPERATING EXPENSES				
Salaries and related expenses	53,778,316	4,742,415	58,520,731	51,622,854
Office occupancy	-	3,214,372	3,214,372	3,199,063
Data processing	-	4,963,420	4,963,420	1,994,655
Office expenses	-	920,484	920,484	962,697
Communications	-	760,989	760,989	871,533
Other operating expenses	63,559	2,740,797	2,804,356	3,111,026
Total Operating Expenses	53,841,875	17,342,477	71,184,352	61,761,828
TOTAL EXPENSES	\$ 861,062,413	\$ 17,342,477	\$ 878,404,890	\$ 733,637,920

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, 2025
(WITH COMPARATIVE TOTALS FOR 2024)**

	For the Year Ended June 30,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 2,712	\$ (7,770)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Changes in operating assets and liabilities:		
Contracts receivable -state of California	(29,215,684)	(14,668,653)
Receivables from Intermediate Care Facility vendors	(776,887)	(215,732)
Deposits and prepaid expenses	19,516,969	11,198,002
Other assets	126,466	43,893
Unbilled reimbursable contract costs receivables - state of California	36,402	138,991
Accounts payable	34,710,871	39,602,452
Contract advances - state of California	-	(9,652,838)
Net assets held for clients	(61,590)	(44,064)
Accrued vacation and sick leave benefits	385,096	(1,535,636)
Operating lease right-of-use asset and lease liability	(421,497)	(319,960)
Unfunded pension benefit obligations	(19,541,367)	(11,191,471)
Net Cash Provided By Operating Activities	<u>4,761,491</u>	<u>13,347,214</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND CASH - CLIENT TRUST FUNDS	4,761,491	13,347,214
CASH, CASH EQUIVALENTS, AND CASH - CLIENT TRUST FUNDS AT BEGINNING OF YEAR	<u>57,227,409</u>	<u>43,880,195</u>
CASH, CASH EQUIVALENTS, AND CASH - CLIENT TRUST FUNDS AT END OF YEAR	<u>\$ 61,988,900</u>	<u>\$ 57,227,409</u>
STATEMENT OF FINANCIAL POSITION PRESENTATION		
Cash and cash equivalents	\$ 61,931,240	\$ 57,161,104
Cash - client trust funds	<u>57,660</u>	<u>66,305</u>
TOTAL CASH, CASH EQUIVALENTS, AND CASH - CLIENT TRUST FUNDS	<u>\$ 61,988,900</u>	<u>\$ 57,227,409</u>

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 1 – Summary of Significant Accounting Policies

Purpose and Organization

Regional Center of Orange County, Inc. (the Center), a California nonprofit 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 was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State of California (the state). The Center is one of 21 regional centers within California and serves Orange County.

The Act includes governance provisions regarding the composition of the Center's Board of Directors (the Board). The 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 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 \$837,221,261 for the 2024-2025 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 in contracts receivable – state of California on the statement of financial position.

As of June 30, 2025, actual net expenditures for the 2024-2025 contract year were \$791,222,655. The remaining amounts on the 2024-2025 contract year in which the Center can be reimbursed for qualifying expenditures is approximately \$45,999,000, subject to any future budget amendments.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

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 Act. The maximum expenditure under the contract is 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's approval for certain expenses. In the event of termination or nonrenewal of the contract, the state maintains the right to assume control of the Center's operations and the obligation of its liabilities.

Basis of Accounting

The Center prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP); accordingly, 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.

Financial Statement Presentation

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 – Net assets and activities that represent expendable funds for operations related to the DDS contract and a federally funded program.

With Donor Restrictions – Net assets and activities that 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, 2025, and for the year then ended, the Center did not have any net assets with donor restrictions.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

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, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Center defines cash 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.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Center to a concentration of credit risk, principally consist of cash and cash equivalents, contracts receivable, and receivables from ICF vendors. The Center places cash and cash equivalents 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 the Center is dependent upon the overall economic well-being of the state. The Center has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

Cash – Client Trust Funds and Net Assets Held for Clients

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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Contracts Receivable – State of California

Contracts receivable represent claims billed according to the terms of the DDS 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 credit losses.

Receivables from Intermediate Care Facility Vendors

The Centers for Medicare and Medicaid Services (CMS) approved federal 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 ICF services; however, the federal rules allow for only one provider of ICF services. Accordingly, all the Medicaid Waiver grant (Medicaid) funding for ICF residents must go through the applicable ICF provider. The Center receives a 1.5% administrative fee based on the invoices submitted to the DDS for the administrative work to implement the state plan amendment (SPA 07-004).

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 its 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 property of the state and, accordingly, are expensed as incurred. The Center tracks items that 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, 2025, totaled approximately \$2,500,000.

Leasehold Improvements

Leasehold improvements are capitalized and are amortized over the shorter of the asset's estimated useful life or the term of the lease. As of June 30, 2025, leasehold improvements, net of amortization totaled \$219,281 and are included in other assets on the statement of financial position.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Accrued Vacation and Sick 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. Employees accrue earned vacation up to 320 hours. When an employee separates from service, the employee will receive payment for any unused vacation hours.

Revenue Recognition – State of California Grants

The Center has a five-year cost-reimbursement contract with DDS. 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 eligible customers. All eligible contract costs that are incurred but not paid, therefore not billed yet, are recognized as revenue and expense on an accrual basis. Such billable costs are recorded as receivables in the statement of financial position, as the Center does not intend to cancel its contract with DDS. Contract advances represent 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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

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. These transactions are reported as net assets released from restrictions in the statement of activities.

Income Taxes

The Center has received tax-exempt status 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 the Center has maintained its 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 benefit obligations is determined in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 715-30, *Defined Benefit Plans – Pension* (FASB ASC 715-30). The Center recognized the incurred but unpaid pension benefits costs as part of unbilled reimbursable contract costs receivables – state of California on the statement of financial position. Pension benefit costs are billed to DDS when paid by the Center to CalPERS.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Functional Expenses Allocation

The costs of providing 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 program services or management and general on a direct-cost basis. All other operating expenses are allocated to management and general.

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, 2024, and for the year then ended, from which the summarized comparative information was derived.

Leasing Arrangements

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'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.

Subsequent Events

In February 2026, the Center amended their lease agreement to extend their lease agreement for the current office space expire to January 2038 with escalating monthly rates starting at \$223,15 to \$266,458. In addition, the Center also leased additional office space for a term of nine years starting February 2026 and expiring January 2025 with escalating monthly rates starting at \$49,414 to \$69,596.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Subsequent Events (Continued)

The Center’s management has evaluated subsequent events from the statement of financial position date through March 5, 2026, the date the financial statements were available to be issued for the year ended June 30, 2025, and except for as noted above, determined there are no other items to disclose.

NOTE 2 – Cash - Client Trust Funds

The Center acts as fiduciary for client support funds received directly on behalf of clients from certain governmental agencies. At June 30, 2025, the Center held \$57,660 on behalf of clients 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 acts 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, 2025:

Support:	
Social Security and other client support	\$ <u>205,893</u>
Disbursements:	
Living out of home	\$ 83,165
Other disbursements	<u>122,728</u>
	<u>\$ 205,893</u>

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

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

REGIONAL CENTER OF ORANGE COUNTY, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)**

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

As of June 30, 2025, DDS advanced the Center \$217,448,701 under regional center contracts. For the financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from the DDS contract as follows:

	June 30,	
	2025	2024
Contracts receivable	\$ 261,333,038	\$ 186,461,959
Contract advances	<u>(217,448,701)</u>	<u>(171,793,306)</u>
	<u>\$ 43,884,337</u>	<u>\$ 14,668,653</u>

The Center has renewed its contract with the state for the fiscal year ending June 30, 2026. The contract and amendments provide for funding of \$961,679,431.

In addition, the Center has accrued contracts receivable 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 include vacation, sick leave, and any other benefits.

The Center’s contract with DDS includes various fiscal provisions, which provide that the state 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 incurred by the Center pursuant to and in the performance of its contract with DDS.

Unbilled reimbursable contract costs receivables as of June 30, 2025, consist of the following:

Deferred costs for rent liability	\$ 3,731,898
Deferred costs for accrued vacation and sick leave benefits	<u>3,298,775</u>
Total	<u>\$ 7,030,673</u>

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 4 – Receivables from Intermediate Care Facilities

Receivables from ICFs in the amount of \$5,401,912 represents the amount owed to the Center for day and related transportation services. Revenue from ICFs for the year ended June 30, 2025, totaled \$9,772,677.

NOTE 5 – Line of Credit

The Center established a revolving line of credit with a financial institution for a maximum borrowing amount of \$70,000,000. The line of credit matured on September 30, 2025 and was secured by substantially all assets of the Center with interest due monthly at the bank's reference rate (7.50% at June 30, 2025). As of June 30, 2025, 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 the state. Substantially all of the Center's employees participate in CalPERS.

FASB ASC 715-30 requires the Center to recognize the funded status of a defined benefit retirement plan as an asset or liability in the 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 to new entrants 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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

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, which reflects greater life expectancies among members and expected continued improvements. The actuarial assumptions and methods used in public agency valuations are approved by the CalPERS 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 represents the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and amortization of the unfunded liability as a level percentage of assumed future payoffs.

Net periodic benefit cost consists of the following components:

Service cost	\$ 8,851,136
Interest cost	9,819,870
Expected return on plan assets	(10,647,729)
Amortization of prior service cost	16,969
Recognized net actuarial gain	<u>(2,260,541)</u>
Net periodic benefit cost	<u>\$ 5,779,705</u>

Net periodic benefit cost is included in salaries and related expenses on the statement of functional expenses.

Pension benefit changes other than net periodic benefit costs during the year ended June 30, 2025, are as follows:

Assumption loss	\$ (7,477,837)
Experience gain	1,770,307
Recognized net actuarial loss	(8,330,366)
Investment experience	<u>2,243,572</u>
Changes other than net periodic benefit costs	<u>\$ (11,794,324)</u>

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 6 – Defined Benefit Pension Plan (Continued)

Benefit obligation and unfunded status as of June 30, 2025, are as follows:

Benefit obligation	\$ 186,300,869
Market value of assets	<u>(179,850,075)</u>
Unfunded pension benefit obligation	<u>\$ 6,450,794</u>

Reconciliation of Benefit Obligations

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

Obligations at beginning of year	\$ 178,288,671
Service cost	8,851,136
Interest cost	9,819,870
Experience gain	1,770,307
Assumptions loss	(7,477,837)
Benefits and expenses paid	<u>(4,951,278)</u>
Obligations at end of year	<u>\$ 186,300,869</u>

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

Fair value of plan assets at beginning of year	\$ 152,296,510
Actual return on plan assets	18,978,095
Total contributions	13,526,748
Benefits and expenses paid	<u>(4,951,278)</u>
Fair value of plan assets at end of year	<u>179,850,075</u>
Net amount recognized in the statements of financial position	<u>\$ (6,450,794)</u>

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 6 – Defined Benefit Pension Plan (Continued)

Reconciliation of Benefit Obligations (Continued)

The discount rate was derived from the Above Median FTSE Pension Discount Curve as of June 30, 2025, 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 5.76%. Below is a comparison of the effect on the benefit obligation with a 1% change in the discount rate:

Increase of 1% (6.76%)	\$ (21,389,427)
Current discount rate (5.76%)	\$ 6,450,794
Decrease of 1% (4.76%)	\$ 42,585,388

The assumptions used in the measurement of the benefit obligations at June 30, 2025, are as follows:

Discount rate	5.76%
Long-term rate of return	6.80%
Salary scale (annual increase)	4.00%
Maximum benefit and annual compensation limit increases	2.30%

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 FASB ASC 715-30 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.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2025
 (WITH COMPARATIVE TOTALS FOR 2024)

NOTE 6 – Defined Benefit Pension Plan (Continued)

Reconciliation of Benefit Obligations (Continued)

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 employer’s 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 the plan.

The actual allocations for pension assets and target allocations by asset class as of June 30, 2025, are as follows:

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target Allocation</u>
Global Equity	38.9 %	40.4 %
Private Equity	17.7	15.0
Global Fixed Income	30.3	29.1
Real Assets	13.1	15.0
Other	-	0.5
	<u>100.0 %</u>	<u>100.0 %</u>

Fair Value Measurements

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 Center has the ability to access.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 6 – Defined Benefit Pension Plan (Continued)

Fair Value Measurements (Continued)

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.

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 \$179,850,075 are held in a pooled investment account managed by CalPERS and are considered level 3 investments.

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 6 – Defined Benefit Pension Plan (Continued)

Cash Flow Estimates for Future Benefit Payments

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

<u>Year Ending June 30,</u>	
2026	\$ 5,406,194
2027	5,808,411
2028	6,339,613
2029	6,783,330
2030	7,285,117
2031-2035	<u>46,832,445</u>
	<u>\$ 78,455,110</u>

NOTE 7 – Leasing Arrangement

The Center leases its office space under an operating lease for an initial term of 12 years. The lease includes 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 right-of-use assets and liabilities.

The agreement provides for minimum lease payments and includes 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 right-of-use assets and liabilities. The lease agreement does not include any material residual value guarantees or restrictive covenants.

REGIONAL CENTER OF ORANGE COUNTY, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)**

NOTE 7 – Leasing Arrangements (Continued)

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

Operating lease costs	\$ 3,064,622
Variable lease costs	<u>509,143</u>
	<u>\$ 3,573,765</u>

The following table summarizes the supplemental cash flow information for the year ended June 30, 2025:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating lease	<u>\$ 3,486,116</u>

The weighted-average remaining lease term and discount rate for the operating lease were as follows at June 30, 2025:

Weighted-average remaining lease term	5.27 years
Weighted-average discount rate	2.90%

The maturities of operating lease liabilities as of June 30, 2025 are as follows:

Year Ending June 30,	
2026	\$ 3,590,699
2027	3,698,420
2028	3,238,846
2029	3,284,145
2030	3,382,669
Thereafter	<u>1,733,577</u>
Total minimum lease payments	18,928,356
Less amount representing interest	<u>(1,388,064)</u>
Present value of minimum lease payments	<u>\$ 17,540,292</u>

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025
(WITH COMPARATIVE TOTALS FOR 2024)

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.

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 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 \$803,953 in a reserve cash account to pay for any potential unemployment claims at June 30, 2025.

Legal Proceedings

The Center may be 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, 2025, financial assets and liquidity resources available within one year of the statement of financial position date for general expenditure, such as operating expenses, were as follows:

Cash and cash equivalents	\$ 61,931,240
Contracts receivable - state of California	43,884,337
Receivables from Intermediate Care Facility vendors	<u>5,401,912</u>
Total financial assets available within one year	<u>\$ 111,217,489</u>

REGIONAL CENTER OF ORANGE COUNTY, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

(WITH COMPARATIVE TOTALS FOR 2024)

NOTE 9 – Financial Assets and Liquidity Resources (Continued)

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. (See Note 5.)

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, 2025, 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 March 5, 2026.

Report 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 audits, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies 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.

A handwritten signature in cursive script that reads "Windes, Inc.".

Long Beach, California
March 5, 2026

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Regional Center of Orange County, Inc.'s (the Center) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2025. The Center's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

Basis for Opinion on Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the Center's major federal program. Our audit does not provide a legal determination of the Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Center's federal program.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Center's compliance with the requirements of its major federal program.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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



Long Beach, California
March 5, 2026

REGIONAL CENTER OF ORANGE COUNTY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Grant Identification Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education Passed through State of California Department of Developmental Services			
Special Education – Grants for Infants and Families	84.181A	H181A220037	\$ <u>2,113,509</u>
Total federal expenditures			\$ <u>2,113,509</u>

REGIONAL CENTER OF ORANGE COUNTY, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025**

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Regional Center of Orange County, Inc. (the Center) under programs of the federal government for the year ended June 30, 2025. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Center, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Center.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting and based on state contract budget allocations. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

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

REGIONAL CENTER OF ORANGE COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

The independent auditors’ report expresses an unmodified opinion on whether the financial statements of Regional Center of Orange County, Inc. were prepared in accordance with generally accepted accounting principles.

Internal control over financial reporting:

- Material weakness(es) identified? – No
- Significant deficiencies identified? – No
- Noncompliance material to financial statements noted? – No

Federal awards

Internal control over major programs

- Material weakness(es) identified? – No
- Significant deficiencies identified? – None reported

Type of auditors’ report issued on compliance for major programs? – Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? – No

Identification of major program: Special Education – Grants for Infants and Families, CFDA #84.181A

Dollar threshold used to distinguish between type A and type B programs was \$750,000.

Auditee qualified as low-risk auditee? – No

SECTION II – FINDINGS - FINANCIAL STATEMENTS AUDIT

None

SECTION III – FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

REGIONAL CENTER OF ORANGE COUNTY, INC.

SCHEDULE OF PRIOR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2025

2024-001 – Monitoring of Receivables from Intermediate Care Facility Vendors

- Condition:** During our review of receivables from Intermediate Care Facility (ICF) vendors, the following deficiencies were noted:
- A detail reconciliation of ICF receivables documenting which vendor and what amount was due to the Center at year end was not readily available.
 - Checks payments for ICF receivables were not timely deposited leading management to find approximately \$3 million in an employee's work space when the employee resigned their position from the Center.
 - Approximately \$5 million, which includes the \$3 million noted above, was recorded as unapplied cash in the trial balance instead of being directly offset with the applicable receivable.
- Criteria:** Management is responsible for establishing and maintaining an effective system of internal control over financial statement reporting, including the review, reconciliation, and collections of receivables from ICF.
- Status:** Management implemented changes for the fiscal year ended June 30, 2025 and provided a detailed reconciliation of ICF receivables with payments timely applied. There were no unapplied cash noted during the review of the detailed reconciliation. No similar findings over ICF receivables were noted in fiscal year ended June 30, 2025.