# NORTH LOS ANGELES COUNTY
# REGIONAL CENTER

***(A California Nonprofit Public Benefit Corporation)***

**FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED JUNE 30, 2022 AND 2021**

NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

*(A California Nonprofit Public Benefit Corporation)*

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2022 AND 2021

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LINDQUIST
VON HUSEN
& JOYCE LLP



Board of Trustees
North Los Angeles County Regional Center, Inc.
Chatsworth, California

**INDEPENDENT AUDITOR'S REPORT**

***Report on the Audit of the Financial Statements***

*Opinion*

We have audited the accompanying financial statements of North Los Angeles County Regional Center, Inc., a California nonprofit public benefit corporation, which comprise the statements of financial position as of June 30, 2022, 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 present fairly, in all material respects, the financial position of North Los Angeles County Regional Center, Inc. as of June 30, 2022, 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of North Los Angeles County Regional Center, Inc. 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.

*Prior Period Financial Statements*

The financial statements of North Los Angeles County Regional Center, Inc. as of June 30, 2021 were audited by other auditors whose report dated March 9, 2022 expressed an unmodified opinion on those financial statements.

*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.



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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 North Los Angeles County Regional Center, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

*Auditor's 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 auditor's 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 GAAS 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 GAAS 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 North Los Angeles County Regional 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 North Los Angeles County Regional 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.

*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 on page 26, 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 April 18, 2023 on our consideration of North Los Angeles County Regional Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of North Los Angeles County Regional Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Los Angeles County Regional Center's internal control over financial reporting and compliance.

Lindquist, von Husen and Joyce LLP

April 18, 2023

NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

*(A California Nonprofit Public Benefit Corporation)*

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

| | 2022 | 2021 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 42,285,989 | $ 32,173,592 |
| Cash – client trust funds | 7,407,166 | 6,985,193 |
| Receivables: | | |
| Contract receivable – State of California (Note 3) | 22,237,208 | 26,719,299 |
| Receivable from Intermediate Care Facilities | 4,175,838 | 3,649,229 |
| Other receivables and prepaid expenses | 53,197,235 | 16,296,707 |
| Due from State – deferred rent (Note 6) | 2,488,745 | 2,372,733 |
| Due from State – accrued vacation and other employee benefits (Note 3) | 73,353,271 | 109,369,886 |
| Due from State – equipment financed with debt (Note 4) | 1,141,176 | 1,301,694 |
| Total assets | $ 206,286,628 | $ 198,868,333 |
| **LIABILITIES AND NET ASSETS (DEFICIT)** | | |
| Current liabilities: | | |
| Accounts payable | $ 69,988,199 | $ 64,619,540 |
| Accrued expenses | 1,603,078 | 1,161,347 |
| Accrued vacation and other leave benefits (Note 3) | 3,239,235 | 3,116,432 |
| Deferred revenue | - | 116,914 |
| Due to State | - | 439,866 |
| Note payable (Note 4) | 1,141,176 | 1,301,694 |
| Retirement health care plan obligation (Note 9) | 19,935,963 | 22,834,488 |
| Pension plan obligation (Note 10) | 50,178,073 | 100,452,298 |
| Deferred rent liability (Note 6) | 2,488,745 | 2,372,733 |
| Unexpended client support | 7,783,715 | 5,772,430 |
| Total liabilities | 156,358,184 | 202,187,742 |
| Net assets (deficit): | | |
| Without donor restrictions | 49,928,444 | (3,319,409) |
| Total net assets (deficit) | 49,928,444 | (3,319,409) |
| Total liabilities and net assets (deficit) | $ 206,286,628 | $ 198,868,333 |

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

NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

*(A California Nonprofit Public Benefit Corporation)*

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2022 AND 2021

| | 2022 | 2021 |
|---|---|---|
| Change in net assets without donor restrictions | | |
| Support and revenue: | | |
| Grants – State DDS | $ 694,481,882 | $ 634,652,878 |
| Intermediate Care Facilities (ICF) | 8,823,332 | 9,431,831 |
| CARES Act – Provider Relief Fund | 116,947 | 874,329 |
| Donations | 14,473 | - |
| Interest | 9,254 | 60,310 |
| Other income | 7,406 | 110,511 |
| Total support and revenue | 703,453,294 | 645,129,859 |
| Expenses: | | |
| Program services: | | |
| Direct client services | 691,460,042 | 635,708,827 |
| Supporting services: | | |
| Management and general | 11,600,270 | 9,414,085 |
| Total expenses | 703,060,312 | 645,122,912 |
| Change in net deficit before health care and pension plan-related changes other than net period post-retirement benefit income (cost) | 392,982 | 6,947 |
| Health care and pension plan-related changes other than net periodic post-retirement benefit income | 52,854,871 | 40,621,119 |
| Change in net assets (deficit) | 53,247,853 | 40,628,066 |
| Net assets (deficit), beginning of year | (3,319,409) | (43,947,475) |
| Net assets (deficit), end of year | $ 49,928,444 | $ (3,319,409) |

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

NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

*(A California Nonprofit Public Benefit Corporation)*

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2022 AND 2021

| | 2022 | | |
|---|---|---|---|
| | *Program Services* | *Management and General* | *Total* |
| Salaries and related expenses: | | | |
| Salaries | $ 32,841,419 | $ 4,829,418 | $ 37,670,837 |
| Employee health and retirement benefits | 24,375,462 | 3,599,828 | 27,975,290 |
| Payroll taxes | 456,766 | 69,434 | 526,200 |
| Total salaries and related expenses | 57,673,647 | 8,498,680 | 66,172,327 |
| Purchase of services: | | | |
| Other purchased services | 425,276,817 | - | 425,276,817 |
| Residential services | 115,683,094 | - | 115,683,094 |
| Day program | 82,283,117 | - | 82,283,117 |
| Facility rent | 4,538,444 | 412,913 | 4,951,357 |
| General expenses | 951,590 | 954,132 | 1,905,722 |
| Equipment purchases | 1,534,054 | 122,404 | 1,656,458 |
| Contract and consulting services | 1,199,531 | 136,151 | 1,335,682 |
| Communication | 855,718 | 87,462 | 943,180 |
| Legal fees | 477,433 | 79,435 | 556,868 |
| Insurance | 314,096 | 127,948 | 442,044 |
| Data processing | - | 420,326 | 420,326 |
| Facility maintenance | - | 397,345 | 397,345 |
| Equipment rental | 219,674 | 20,127 | 239,801 |
| Office expenses | 187,193 | 19,478 | 206,671 |
| COVID-19 equipment | 116,947 | - | 116,947 |
| ARCA dues | - | 106,406 | 106,406 |
| Staff travel | 79,112 | 14,275 | 93,387 |
| Accounting fees | - | 83,950 | 83,950 |
| Board expenses | - | 79,474 | 79,474 |
| Printing | 62,398 | 4,057 | 66,455 |
| Equipment maintenance | - | 35,707 | 35,707 |
| Help fund expenses | 7,177 | - | 7,177 |
| Total expenses | $ 691,460,042 | $ 11,600,270 | $ 703,060,312 |

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

NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

*(A California Nonprofit Public Benefit Corporation)*

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2022 AND 2021

| | 2021 | | |
|---|---|---|---|
| | *Program Services* | *Management and General* | *Total* |
| Salaries and related expenses: | | | |
| Salaries | $ 29,248,823 | $ 4,683,831 | $ 33,932,654 |
| Employee health and retirement benefits | 21,290,289 | 3,148,704 | 24,438,993 |
| Payroll taxes | 416,912 | 65,833 | 482,745 |
| Total salaries and related expenses | 50,956,024 | 7,898,368 | 58,854,392 |
| Purchase of services: | | | |
| Other purchased services | 391,507,878 | - | 391,507,878 |
| Residential services | 104,955,572 | - | 104,955,572 |
| Day program | 77,837,676 | - | 77,837,676 |
| Facility rent | 3,821,754 | (417,928) | 3,403,826 |
| General expenses | 1,892,439 | 558,221 | 2,450,660 |
| Equipment purchases | 951,052 | 86,950 | 1,038,002 |
| Contract and consulting services | 1,078,101 | 109,428 | 1,187,529 |
| Communication | 899,569 | 79,695 | 979,264 |
| Legal fees | 312,729 | 26,493 | 339,222 |
| Insurance | 284,137 | 115,632 | 399,769 |
| Data processing | - | 408,876 | 408,876 |
| Facility maintenance | - | 154,590 | 154,590 |
| Equipment rental | 124,173 | 11,201 | 135,374 |
| Office expenses | 170,949 | 18,344 | 189,293 |
| COVID-19 equipment | 874,329 | - | 874,329 |
| ARCA dues | - | 106,406 | 106,406 |
| Staff travel | 15,358 | 33,880 | 49,238 |
| Accounting fees | - | 85,650 | 85,650 |
| Board expenses | - | 28,137 | 28,137 |
| Printing | 27,087 | 1,463 | 28,550 |
| Equipment maintenance | - | 108,679 | 108,679 |
| Total expenses | $ 635,708,827 | $ 9,414,085 | $ 645,122,912 |

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

NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

*(A California Nonprofit Public Benefit Corporation)*

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2022 AND 2021

| | 2022 | 2021 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 53,247,853 | $ 40,628,066 |
| Adjustments to reconcile change in net assets (deficit) | | |
| to net cash provided by operating activities: | | |
| (Increase) decrease in assets: | | |
| Cash – client trust funds | (421,973) | (2,524,603) |
| Contract receivable – State of California | 4,482,091 | (6,235,847) |
| Receivable from Intermediate Care Facilities | (526,609) | 1,275,234 |
| Other receivables and prepaid expenses | (36,900,528) | (14,468,774) |
| Due from State – deferred rent | (116,012) | 8,434 |
| Due from State – accrued vacation and other employee benefits | 36,016,615 | 1,861,079 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 5,368,659 | 7,121,888 |
| Accrued expenses | 441,731 | - |
| Accrued vacation and other leave benefits | 122,803 | 771,895 |
| Deferred revenue | (116,914) | 116,914 |
| Due to State | (439,866) | 439,866 |
| Retirement health care plan obligation | (2,898,525) | (14,527,259) |
| Pension plan obligation | (50,274,225) | (15,172,207) |
| Deferred rent liability | 116,012 | (8,434) |
| Unexpended client support | 2,011,285 | 3,010,703 |
| Net cash provided by operating activities | 10,112,397 | 2,296,955 |
| Cash flows from investing activities: | | |
| Reimbursement from State contract for equipment | 160,518 | 1,340,658 |
| Purchase of equipment | (160,518) | (1,340,658) |
| Net cash provided by (used in) investing activities | - | - |
| Increase in cash | 10,112,397 | 2,296,955 |
| Cash, beginning of year | 32,173,592 | 29,876,637 |
| Cash, end of year | $ 42,285,989 | $ 32,173,592 |

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

**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

North Los Angeles County Regional Center, Inc. (the Center), was incorporated on March 13, 1974 as a California nonprofit public benefit corporation under contract with the State of California Department of Developmental Services (DDS) for the purpose of operating the Center and related activities. 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. In accordance with the Lanterman Act, the Center coordinates, through outside providers, diagnostic and assessment of eligible services to persons with developmental disabilities and plans, accesses, coordinates and monitors services to such individuals and their families. The Center is one of 21 regional centers within the State of California system and serves San Fernando, Antelope, and Santa Clarita Valleys.

The Lanterman Act includes governance provisions regarding the composition of the Center's Board of Trustees. 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% of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25% 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 Center's board of trustees includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the Center and a client service provider of the Center.

The Center's mission is to provide lifelong partnerships and planning to persons with developmental disabilities by promoting their civil and personal rights, providing comprehensive information, advocating in cooperation with consumers, promoting and providing quality of services, and supporting full participation of consumers and families in all aspects of community life.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*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.

Under the terms of these contracts, funded expenditures are not to exceed $722,933,025, $641,723,945, and $568,859,467 for the FY 2021-2022, FY 2020-2021, and FY 2019-2020 contract years, respectively, and are subject to budget amendments. As of June 30, 2022, actual net expenditures under the FY 2021-2022, FY 2020-2021, and FY 2019-2020 contracts were $604,912,595, $624,872,936, and $559,788,234, respectively. The unexpended balance under these contracts amounting to $118,020,430, $16,851,009, and $9,071,233 for the FY 2021-2022, FY 2020-2021, and FY 2019-2020 contract years, represents a conditional contribution that will be used to fund expenditures in the next fiscal years until the contract amounts are fully expended or expire. The Center can bill DDS in the future for expenses relating to previous fiscal years if the expenses billed relate to the previous fiscal year. As a result, the Center internally tracks revenue by current year, previous year and second previous year.

*Accounting Method*

The Center uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

*Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 expense during the reporting period. Actual results could differ from those estimates.

*Basis of Presentation*

The Center reports information regarding its financial position and activities according to two classes of net assets, as applicable: net assets without donor restrictions and net assets with donor restrictions.

- Net assets without donor restrictions include those assets over which the Board of Trustees has discretionary control in carrying out the operations of the Center.

- Net assets with donor restrictions include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires – that is, when a stipulated time restriction ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as *net assets released from restrictions*. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

  The Center had no net assets with donor restrictions as of June 30, 2022 and 2021.

*Revenue Recognition:*

*Contributions*

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. If donors' restrictions are satisfied in the same period that the contribution is received, the contribution is reported as support without donor restrictions.

Government contracts, which are funded on a reimbursement basis, are shown as revenue without donor restriction. A portion of the Center's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Center has incurred expenditures in compliance with specific contract or grant provisions.

*Federal Grants*

U.S. Department of Education

The Center is a sub-recipient to DDS with regard to the Special Education Grants for Infants and Families, Part C, which provides funding for early intervention services for infants and toddlers, through age 3, as authorized by Public Law 102-119.

This grant is conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. During the year ended June 30, 2022, the Center recognized grants revenue totaling $791,431 from this award. Amounts earned and released within the same year under conditional awards are reported as increases in net assets without donor restrictions in the accompanying statements of activities.

*Cash and Restricted Cash*

Cash is defined as cash in demand deposit accounts as well as cash on hand. Restricted cash are funds restricted as to their use, regardless of liquidity. The Center occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance, including restricted cash, was approximately $50,084,000 as of June 30, 2022. The Center has not experienced any losses in such accounts.

*Contract and Other Receivables*

The majority of the Center's receivables represents or relates to the cost-reimbursement contract with DDS. Receivables are recorded at their net realizable value. The Center uses the allowance method to account for uncollectible receivables. Management believes that the receivables are fully collectible and, therefore, has not provided an allowance for doubtful accounts as of June 30, 2022 and 2021.

*State Equipment*

State Equipment is stated at cost of acquisition. Pursuant to the terms of the DDS contract, equipment purchases become the property of the State of California and, accordingly, are charged as expenses when incurred. The Center expenses the cost of equipment upon acquisition if purchased with funds from the DDS contract in accordance with the Regional Center Fiscal Manual.

State Equipment purchases for the year ended June 30, 2022 totaled $547,943. State Equipment disposals for the year ended June 30, 2022 totaled $8,380. The capitalized equipment and reciprocating offset account at June 30, 2022 totaled $4,806,157.

*Accrued Vacation, Sick and Other Leave Benefits*

The Center has accrued a liability for vacation and sick leave benefits earned by employees which is reimbursable under the DDS contract; however, such benefits are reimbursed under the DDS contract only when actually paid. The amount of accrued vacation and other leave benefits is included in the amount due from the State of California (See Note 3).

*Deferred Revenue*

The Center received advances from the CARES Act-Provider Relief Fund and recognizes revenue as the Center incurs qualifying expenditures. Any unspent amount is classified as deferred revenue until incurring qualifying expenditures. For the years ended June 30, 2022 and 2021, deferred revenue related to the CARES Act-Provider Relief Fund totaled $- and $116,914, respectively.

*Post-Retirement Health Care Plan and Pension Plan*

The Center is required to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in the statement of financial position, with an offsetting charge or credit to net assets. Gains or losses, prior service costs or credits that arise during the period but are not recognized as components of net period benefit cost, will be recognized each year as a separate charge or credit to net assets.

*Income Taxes*

The Center is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections. Contributions to the Center qualify for the charitable contribution deduction.

The Center believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Center's federal and state information returns for the years 2018 through 2021 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

*Functional Expenses Allocation*

The costs of providing program and supporting services are summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Expenses directly attributed to a specific functional area of the Center are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by management to be equitable. Shared costs are generally allocated among the program and supporting service benefited based on an analysis of personnel time and square footage occupied by the program and supporting services.

*Subsequent Events*

In February 2023, the Center ratified a new collective bargaining agreement effective February 17, 2023 through February 16, 2028 with the Union, as discussed in Note 11.

Management has evaluated subsequent events through April 18, 2023, the date on which the financial statements were available to be issued for the year ended June 30, 2022 and except for the item noted above, there was no other subsequent event requiring disclosure.

*Reclassification*

Certain amounts previously reported in the 2021 financial statements were reclassified to conform to the 2022 presentation for comparative purposes.

## NOTE 3 – CONTRACT REIMBURSEMENT RECEIVABLE

The Center's primary source of revenue is from the State of California. Subject to renewal, the Center enters into a five-year contract with the State of California's Department of Developmental Services that is subject to annual appropriations by the State. The Center completed its third year of a 5-year contract with DDS that started fiscal year ended June 30, 2020. Revenue from the State is recognized monthly when a claim (invoice) for reimbursement of actual expenses is submitted to DDS for payment. These claims are paid at the State's discretion either through a direct payment to the Center or by offsetting the claim against the cash advances received by the Center from the State.

Contract reimbursement receivables at June 30, 2022 and 2021 are summarized, as follows:

| | 2022 | 2021 |
|---|---|---|
| Claims submitted: | | |
| Current year | $ 194,786,489 | $ 149,637,776 |
| Prior year | 6,817,970 | 2,781,524 |
| Second prior year | 705,753 | 65,071 |
| Third prior year and other receivable | (931,272) | (826,661) |
| Total | $ 201,378,940 | $ 151,657,710 |

DDS advanced the Center 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 DDS as follows:

| | 2022 | 2021 |
|---|---|---|
| Contracts receivable | $ 201,378,940 | $ 151,657,710 |
| Contract advances | (179,141,732) | (124,938,411) |
| Net contracts receivable/contract advances | $ 22,237,208 | $ 26,719,299 |

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 generally accepted accounting principles; however, such benefits are reimbursed by the state contract only when actually paid. These expenses relate to accrued vacation and other employee benefits and the obligations for the post-retirement health care benefits and pension plan.

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.

Due from State – accrued vacation and other employee benefits consisted of the following as of June 30:

| | 2022 | 2021 |
|---|---|---|
| Vacation and other employee benefits | $ 3,239,235 | $ 3,116,432 |
| Retirement health care and pension plan obligation, net of unrecognized loss on pension | 101,630,617 | 106,253,454 |
| | $ 104,869,852 | $ 109,369,886 |

**NOTE 4 – LINE OF CREDIT AND NOTE PAYABLE**

In May 2021, the Center obtained a revolving line of credit (LOC) agreement with a bank whereby it may borrow up to $55,000,000 until the expiration of the agreement on June 30, 2022. In May 2022, the Center amended the LOC agreement by increasing the maximum line amount up to $60,000,000 and extending the maturity date through June 30, 2023. Borrowings are unsecured with interest payable monthly at the greater of 2.10%, or 1% below the bank's prime rate. There was no balance outstanding as of June 30, 2022. The agreement contains affirmative covenants. The Center was in compliance with all covenants as of June 30, 2022.

During March 2021, the Center entered into an equipment financing agreement with a bank to finance a maximum loan amount of $3,000,000 for costs associated with relocation to a new facility. The Center drew $1,358,728 under this agreement of which $1,141,176 is outstanding as of June 30, 2022 and $1,301,694 was outstanding as of June 30, 2021. The note bears interest at a fixed rate of 3.71% with monthly payments of principal and interest of $18,389, with the final payment due March 31, 2028. The agreement contains affirmative covenants. The Center was in compliance with all covenants as of June 30, 2022.

The relocation costs will be reimbursed in full by the State and any equipment purchases will be owned by the State. As a result, there is a corresponding receivable balance in an equal amount included in due from state - equipment financed with debt on the statement of financial position.

The following future principal payments are to be made under this agreement:

| | |
|---|---|
| Fiscal year ended June 30, | |
| 2023 | $ 181,434 |
| 2024 | 188,275 |
| 2025 | 195,373 |
| 2026 | 202,738 |
| 2027 | 210,381 |
| Thereafter | 162,975 |
| | $ 1,141,176 |

In November 2021, the Center entered into a second loan agreement for up to $3,000,000, subject to the Center's need for equipment and facilities remodeling, with a term of five years at a fixed interest rate of 3.80%. The loan agreement also had an interest rate swap agreement for the term of the loan at an index rate of 1.26%. The construction projects were delayed, and the Center did not draw down any funds from the second loan. During 2022, the loan agreement expired.

**NOTE 5 – OPERATING LEASES**

The Center is obligated under certain operating leases for its office facilities and office equipment. The lease terms expire in various years through 2036. The Center is required to pay for taxes, utilities, maintenance, and insurance on the facilities. Future minimum rental commitments for noncancelable operating leases are as follows:

| *For the Years Ending June 30,* | |
|---|---|
| 2023 | $ 5,206,792 |
| 2024 | 5,353,543 |
| 2025 | 5,512,036 |
| 2026 | 5,675,397 |
| 2027 | 4,643,870 |
| Thereafter | 18,629,873 |
| Total | $ 45,021,511 |

Total office equipment and facilities rental expense for the years ended June 30, 2022 and 2021 was $4,814,789 and $3,537,933, respectively.

In January 2022, the Center amended the lease agreement for their Santa Clarita office by extending the lease term through May 2032 and taking on additional space. The terms of the amendment call for an initial monthly rental payment approximating $61,450 per month and escalating to $80,226 per month through the amended lease term. In addition, the amended lease provides for a moving allowance to the Center for the purpose of moving into the expanded space and for any additional renovations to the existing space. The amended lease calls for a termination fee should the Center decide to terminate the amended lease early. The Center also has the option to extend the amended lease for an additional five years beyond May 2032.

**NOTE 6 – DEFERRED RENT LIABILITY**

The Center leases office facilities under lease agreements that are subject to scheduled increases of rental payments. The scheduled rent increases are amortized evenly over the term of the lease in accordance with U.S. GAAP. The deferred rent liability of $2,488,745 and $2,372,733 at June 30, 2022 and 2021, respectively, represents the difference between the cash payments made and the amount expensed since inception of the leases. The DDS contract reimburses the Center for rent after it is paid and this amount is included in contract reimbursement receivable on the statement of financial position. The Center has also recorded a receivable from the State equal to the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized.

**NOTE 7 – CASH – CLIENT TRUST FUNDS AND UNEXPENDED CLIENT SUPPORT**

The Center functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center consumers. 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 statements of activities. The following is a summary of operating activity not reported in the statements of activities for the years ended June 30, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Support: | | |
| Social Security and other client support | $ 11,774,039 | $ 14,392,953 |
| Disbursements: | | |
| Living out of home | $ 6,016,340 | $ 7,818,311 |
| Other disbursements | 5,757,699 | 6,574,642 |
| | $ 11,774,039 | $ 14,392,953 |

**NOTE 8 – LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restriction limiting their use, within one year of the statement of financial position at June 30, 2022 and 2021, comprise the following:

| | 2022 | 2021 |
|---|---|---|
| Financial assets at end of year available within one year: | | |
| Cash | $ 42,285,989 | $ 32,173,592 |
| Contract reimbursement receivable, net of contract advance | 22,237,208 | 26,719,299 |
| Accounts receivable from Intermediate Care Facilities | 4,175,838 | 3,649,229 |
| Financial assets available for general expenditures within one year | $ 68,699,035 | $ 62,542,120 |

Each regional center submits a monthly purchase of service expenditure projection to DDS, beginning in December of each fiscal year. By February 1st of each year, DDS shall allocate to all regional centers no less than one hundred percent (100%) of the enacted budget for Operations and ninety-nine percent (99%) of the enacted budget for Purchase of Service. To do this, it may be necessary to amend the Center's contract in order to allocate funds made available from budget augmentations and to move funds among regional centers. In the event that DDS determines that a regional center has insufficient funds to meet its contractual obligations, DDS shall make best efforts to secure additional funds and/or provide the regional center with regulatory and statutory relief. The contract with DDS allows for adjustments to the Center's allocations and for the payment of claims up to two years after the close of each fiscal year.

In addition, the Center maintains a line of credit (see Note 4) to manage cash flow requirements as needed should there be delays in reimbursement for expenditures from DDS.

**NOTE 9 – POST-RETIREMENT HEALTH CARE PLAN**

The Center sponsors a post-retirement health care plan through the California Public Employees' Retirement System (PERS) for its employees. The actuarial cost method used for determining the benefit obligations is the Projected Unit Benefit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current active employees and retirees. The Accumulated Post-Retirement Benefit Obligation (APBO) is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. The APBO equals the present value of projected benefits multiplied by a fraction equal to service to date over service at full eligibility age. The Periodic Benefit Cost is the actuarial present value of benefits attributed to one year of service. This equals the present value of benefits divided by service at expected retirement. The actuarial assumptions are summarized below:

| | *June 30, 2022* | *June 30, 2021* |
|---|---|---|
| Discount Rate | | |
| Used to determine Net Periodic Benefit Cost | 2.90% | 2.90% |
| Used to determine Benefit Obligations | 4.65% | 2.90% |
| Long-term Rate of Return on Plan Assets | | |
| Used to determine Net Periodic Benefit Cost | 5.50% | 5.00% |
| Used to determine Benefit Obligations | 6.00% | 5.50% |
| General inflation | 2.30% | 2.30% |
| Health Cost Trend | | |
| Health care cost trend rate assumed for next year | 6.64% | 4.76% |
| Rate to which the cost trend is assumed to decline (the ultimate trend rate) | 4.25% | 4.00% |
| Year that the rate reaches the ultimate trend rate | 2070 | 2073 |
| Number of Participants | | |
| Active employees | 551 | 531 |
| Retired employees | 172 | 164 |

The Center is required to recognize an expense each year equal to the Net Periodic Post Retirement Benefit Cost.

The Center recognizes the post-retirement health care plan liability as the unfunded APBO in its financial statements. All previously unrecognized actuarial gains or losses are reflected in the statement of financial position. The plan items not yet recognized as a component of periodic plan expenses, but included as a separate charge to net assets, are unamortized actuarial net gains of $17,859,584 and $13,554,627 for the years ended June 30, 2022 and 2021, respectively.

The pension-related changes other than net periodic pension cost increased net assets by $4,304,957 and $13,554,627 for the years ended June 30, 2022 and 2021, respectively.

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

| | *June 30, 2022* | *June 30, 2021* |
|---|---|---|
| Obligations at beginning of year | $ 55,310,549 | $ 63,387,477 |
| Services cost | 3,960,066 | 5,159,586 |
| Interest cost | 1,614,656 | 1,782,775 |
| Actuarial (gain) loss | (10,858,283) | (13,811,845) |
| Benefits paid | (1,402,959) | (1,207,444) |
| Obligations at end of year | $ 48,354,029 | $ 55,310,549 |

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

| | *June 30, 2022* | *June 30, 2021* |
|---|---|---|
| Fair value of plan assets at beginning of year | $ 32,476,061 | $ 26,025,730 |
| Actual return on plan assets | (4,204,059) | 6,272,102 |
| Employer contributions | 1,549,023 | 1,385,673 |
| Benefits paid | (1,402,959) | (1,207,444) |
| Fair value of plan assets at end of year | 28,418,066 | 32,476,061 |
| Net amount recognized in the statements of financial position | ($ 19,935,963) | ($ 22,834,488) |

Net periodic post-retirement benefit cost consists of the following components:

| | *June 30, 2022* | *June 30, 2021* |
|---|---|---|
| Service cost | $ 3,690,066 | $ 5,159,586 |
| Interest cost | 1,614,656 | 1,782,775 |
| Return on assets | (1,790,200) | (1,305,742) |
| Amortization of (gains) or losses | (559,067) | - |
| Net periodic post-retirement benefits costs | $ 2,995,455 | $ 5,636,619 |

The net amount recognized as a separate increase in net assets of $17,859,584 and $13,554,627 as of June 30, 2022 and 2021, respectively, for prior service cost and unamortized net actuarial gain (loss) does not have an offsetting accrual from the DDS to reflect the future reimbursement of such benefits. The gain is recognized as a prepaid expense on the statements of financial position.

<u>*Plan Assets*</u>

The plan's assets are reported at fair value. 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. A recent accounting standard has established 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following tables set forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30:

| *June 30, 2022* | *Level 1* | *Level 2* | *Level 3* | *Total* |
|---|---|---|---|---|
| Cash and cash equivalents | $ 1,233,730 | $ - | $ - | $ 1,233,730 |
| Mutual funds: | | | - | |
| Equity | 16,723,532 | 344,332 | - | 17,067,864 |
| Fixed income | 7,438,003 | 1,839,198 | - | 9,277,201 |
| Balanced | - | 839,271 | - | 839,271 |
| Total | $ 25,395265 | $ 3,022,801 | $ - | $ 28,418,066 |

| *June 30, 2021* | *Level 1* | *Level 2* | *Level 3* | *Total* |
|---|---|---|---|---|
| Cash and cash equivalents | $ 939,890 | $ - | $ - | $ 939,890 |
| Mutual funds: | | - | - | |
| Equity | 20,484,764 | - | - | 20,484,764 |
| Fixed income | 10,231,237 | - | - | 10,231,237 |
| Balanced | 820,170 | - | - | 820,170 |
| Total | $ 32,476,061 | $ - | $ - | $ 32,476,061 |

The investment objective of the plan is to provide a rate of return commensurate with a moderate degree of risk of loss of principal and return volatility. A trustee administers the plan assets and investment responsibility for the assets is assigned to outside investment managers. The assets of the plan are periodically rebalanced to remain within the desired target allocations.

*Variability of Estimated APBO*

Actual future costs may vary significantly from the estimates used in calculating the APBO for a variety of reasons. Future costs may vary from estimates due to a variety of factors including, but not limited to, changes in medical costs, applicable laws, mortality rates, retirement rates, termination rates, rate of return, or other changes in economic or demographic assumptions.

*Cash Flow Estimates for Future Benefit Payments*

The following estimated benefit payments for the next ten years are expected to be paid on a fiscal year basis as follows:

| *Years Ending June 30,* | |
|---|---|
| 2023 | $ 1,504,987 |
| 2024 | 1,614,292 |
| 2025 | 1,675,086 |
| 2026 | 1,817,892 |
| 2027 | 2,030,232 |
| 2028 – 2032 | 12,639,595 |
| Total | $ 21,282,084 |

**NOTE 10 – PENSION PLAN**

The Center contributes to the California Public Employees' Retirement System (PERS), 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 PERS.

PERS uses the Entry Age Normal Cost Method to fund benefits. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire to the assumed retirement age. The cost allocated to the current fiscal year is called the normal cost.

Employee contributions are approximately 7% of salary and wages. The Center is required to contribute the remaining amount necessary to fund benefits for its employees, using the actuarial basis adopted by the PERS Board of Administration. Total retirement expense for the years ended June 30, 2022 and 2021 was $2,761,021 and $2,270,084, respectively.

The actuarial calculations and contribution rates generated by CalPERS are based on various assumptions about long-term demographic and economic trends and behavior. The CalPERS actuarial assumptions and calculations are in accordance with Governmental Accounting Standards Board (GASB) guidance. However, GASB guidance is not applicable to the Center, as the Center is a nonprofit organization where the appropriate generally accepted accounting principles for reporting should be in accordance with Financial Accounting Standards Board (FASB) guidance. In order for the Center to obtain a valuation report in accordance with FASB, the Center has obtained the census data from PERS along with plan asset balances for the fiscal year ended June 30, 2022 and 2021 and had an actuarial valuation performed in accordance with FASB to record the unfunded pension obligation and related pension expense in the statements of financial position and statements of activities, respectively, as of and for the years ended June 30, 2022 and 2021. The actuarial assumptions are summarized below:

*Economic Assumptions*

| | *June 30, 2022* | *June 30, 2021* |
|---|---|---|
| Discount Rate | 4.70% | 2.95% |
| Long-term Rate of Return on Plan Assets | 6.80% | 7.00% |
| Salary Increases (annually) | 4.00% | 4.00% |

*Number of Participants*

| | *June 30, 2022* | *June 30, 2021* |
|---|---|---|
| Active members | 557 | 525 |
| Transferred members | 74 | 68 |
| Terminated members | 374 | 350 |
| Retired members or beneficiaries | 269 | 258 |

The Center is required to recognize an expense each year equal to the Net Periodic Post-Retirement Benefit Cost.

The Center recognizes the pension plan liability as the unfunded ABO in its financial statements. All previously unrecognized actuarial gains or losses are reflected in the statements of financial position. The plan items not yet recognized as a component of periodic plan expenses, but included as a separate charge to net assets, are:

| | *June 30, 2022* | *June 30, 2021* |
|---|---|---|
| Unamortized experience loss | $ 8,602,605 | $ 6,558,033 |
| Unamortized (gain) loss from asset return | 2,834,791 | (20,307,133) |
| Unamortized (gain) loss from assumption changes | (42,953,977) | 30,782,432 |
| End of year (gain) loss | ($ 31,516,581) | $ 17,033,332 |

The pension-related changes other than net periodic pension cost increased net assets by $48,549,913 and $21,842,914 for the years ended June 30, 2022 and 2021, respectively.

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

| | *June 30, 2022* | *June 30, 2021* |
|---|---|---|
| Obligations at beginning of year | $ 253,494,616 | $ 239,680,310 |
| Services cost | 13,768,629 | 13,675,354 |
| Interest cost | 7,439,703 | 6,943,926 |
| Actuarial (gain) loss | (73,736,409) | (4,098,269) |
| Experience (gain) loss | 2,044,572 | 2,250,731 |
| Benefits paid | (6,419,642) | (4,957,436) |
| Obligations at end of year | $ 196,591,469 | $ 253,494,616 |

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

| | *June 30, 2022* | *June 30, 2021* |
|---|---|---|
| Fair value of plan assets at beginning of year | $ 153,042,318 | $ 124,055,805 |
| Actual return on plan assets | (12,223,745) | 27,306,706 |
| Employer and employee contributions | 12,014,465 | 6,637,243 |
| Benefits paid | (6,419,642) | (4,957,436) |
| Fair value of plan assets at end of year | 146,413,396 | 153,042,318 |
| Net amount recognized in the statements of financial position | ($ 50,178,073) | ($100,452,298) |

Net periodic postretirement benefit cost consists of the following components:

| | *June 30, 2022* | *June 30, 2021* |
|---|---|---|
| Service cost | $ 13,768,629 | $ 13,675,354 |
| Interest cost | 7,439,703 | 6,943,926 |
| Expected (return) on plan assets | (10,918,179) | (8,743,070) |
| Recognized net actuarial (gains) and losses | - | 1,431,740 |
| Net periodic post-retirement benefit costs | $ 10,290,153 | $ 13,307,950 |

The net amount recognized as a separate increase (charge) to net assets of $31,516,581 and ($17,033,332) as of June 30, 2022 and 2021, respectively, for unamortized net actuarial gain (loss) does not have an offsetting accrual from the DDS to reflect the future reimbursement of such benefits. Gains are recognized as a prepaid expense and losses are offset with receivables from the State for pension plan on the statements of financial position as of June 30, 2022 and 2021, respectively.

The following estimated benefit payments for the next ten years are expected to be paid on a fiscal year basis as follows:

| *Years Ending June 30,* | |
|---|---|
| 2023 | $ 5,848,220 |
| 2024 | 6,323,288 |
| 2025 | 6,772,558 |
| 2026 | 7,307,909 |
| 2027 | 7,769,786 |
| 2028 - 2032 | 47,710,905 |
| Total | $ 81,732,666 |

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

In accordance with the terms of the DDS contract, an audit may be performed by an authorized state representative. Should such audit disclose any unallowable costs, the Center may be liable to the State 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 as of June 30, 2022 and 2021.

The Center's contract with DDS provides funding for services under the Lanterman Act. In the event that the operations of the Center result in a deficit position at the end of the contract year, DDS may reallocate surplus funds within the State of California system to supplement the Center's funding. Should a system-wide deficit occur, DDS is required to report to the Governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. DDS recommendations are subsequently reviewed by the Governor and the Legislature and a decision is made with regard to specific actions, including the possible suspension of the entitlement.

*Collective Bargaining Agreements*

The Center retains a substantial portion of its labor force through Social Services Union, Local 721, Services Employees International Union. This labor force is subject to collective bargaining agreements and, as such, renegotiation of such agreements could expose the Center to an increase in hourly costs and work stoppages. The Center's collective bargaining agreement with the union is effective through December 18, 2022.

In February 2023, the Center ratified a new collect bargaining agreement effective February 17, 2023, through February 16, 2028.

*Unemployment Insurance*

The Center has elected to self-insure its unemployment insurance. The Center is required to reimburse the state of California for benefits paid to its former employees.

*Legal Matters*

The Center is involved in various claims and legal actions in the normal course of business. Based upon counsel and management's opinion, the resolution of such matters is either covered by insurance or will not have a material adverse effect on the financial position, result of operation or cash flows.

*COVID-19 Pandemic*

The emergence and spread of the coronavirus (COVID-19) beginning in the first quarter of 2020 has affected businesses and economic activities in the U.S. and beyond. The extent of the impact of COVID-19 on the Center's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the effects on supply chains, service providers, and business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time.

## SUPPLEMENTARY INFORMATION

NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

*(A California Nonprofit Public Benefit Corporation)*

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

| *Federal Grantor/Pass-Through Grantor/ Program Title* | *Assistance Listing Number* | *Agency or Pass-Through Number* | *Federal Expenditures* | *Expenditures to Subrecipients* |
|---|---|---|---|---|
| U.S. Department of Education: | | | | |
| Special Education – Grants for Infants and Families Passed through State of California Department of Developmental Services Early Intervention Services | 84.181 | H181A190037 | $ 791,431 | $ - |
| U.S. Department of Health and Human Services Health Resources and Services Administration: | | | | |
| Provider Relief Fund (PRF) COVID-19 direct award | 93.498 | N/A | 991,227 | - |
| **TOTAL FEDERAL AWARDS** | | | $ 1,782,658 | $ - |

## NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant and loan activities of North Los Angeles County Regional Center, Inc. and is presented on the accrual basis of accounting. The information in this 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The purpose of the Schedule is to present a summary of those activities of North Los Angeles County Regional Center, Inc. for the year ended June 30, 2022, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly and indirectly between North Los Angeles County Regional Center, Inc. and the federal government. North Los Angeles County Regional Center, Inc. did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

## Section I – Summary of Auditor's Results

*Financial Statements*

| | | |
|---|---|---|
| Type of auditor's report issued: | Unmodified | |
| Internal control over financial reporting: | | |
| Material weakness(es) identified? | ____ Yes | X No |
| Significant deficiency(ies) identified that are not considered to be material weakness(es)? | ____ Yes | X None reported |
| Noncompliance material to financial statements noted? | ____ Yes | X No |

*Federal Awards*

| | | |
|---|---|---|
| Internal control over major programs: | | |
| Material weakness(es) identified? | ____ Yes | X No |
| Significant deficiency(ies) identified that are not considered to be material weakness(es)? | ____ Yes | X None reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified | |
| Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance? | ____ Yes | X No |
| Identification of major programs: | *Name of Federal Program or Cluster* | |
| ALN 84.181 | Special Education – Grants for Infants and Families | |
| ALN 93.948 | Provider Relief Fund | |
| Dollar threshold used to distinguish between Type A and Type B programs: | $750,000 | |
| Auditee qualified as low-risk auditee? | X Yes | ____ No |

## Section II – Financial Statement Findings

None noted.

## Section III – Federal Awards Findings and Questioned Costs

None noted.

Board of Directors
North Los Angeles County Regional Center, Inc.
Chatsworth, California

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

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 North Los Angeles County Regional Center, Inc., which comprise the statement of financial position as of June 30, 2022, 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 April 18, 2023.

*Report on Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered North Los Angeles County Regional Center, Inc.'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 North Los Angeles County Regional Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of North Los Angeles County Regional Center, Inc.'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 or significant deficiencies may exist that were not identified.



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*Report on Compliance and Other Matters*

As part of obtaining reasonable assurance about whether North Los Angeles County Regional Center, Inc.'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 financial statements. 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindquist, von Husen and Joyce LLP

April 18, 2023

Lindquist von Husen & Joyce LLP

Alexis H. Wong
Charlotte Siew-Kun Tay
Cathy L. Hwang
Rita B. Dela Cruz
Scott K. Smith
Crisanto S. Francisco
Joe F. Huie

Sherman G. Leong

Board of Directors
North Los Angeles County Regional Center, Inc.
San Francisco, California

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

## ***Report on Compliance for Each Major Federal Program***

### *Opinion on Each Major Federal Program*

We have audited North Los Angeles County Regional Center' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on North Los Angeles County Regional Center' major federal programs for the year ended June 30, 2022. North Los Angeles County Regional Center' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, North Los Angeles County Regional 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 programs for the year ended June 30, 2022.

### *Basis for Opinion on Each 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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of North Los Angeles County Regional Center, Inc. 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 each major federal program. Our audit does not provide a legal determination of North Los Angeles County Regional Center, Inc.' compliance with the compliance requirements referred to above.



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*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 provision of contracts or grant agreements applicable to North Los Angeles County Regional Center' federal programs.

*Auditor's 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 North Los Angeles County Regional Center' 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 North Los Angeles County Regional Center' compliance with the requirements of each major federal program as a whole.

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 North Los Angeles County Regional Center' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of North Los Angeles County Regional Center' 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 North Los Angeles County Regional Center' 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 Auditor's 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lindquist, von Husen and Joyce LLP

April 18, 2023