

# **Regional Center of the East Bay, Inc.**

**San Leandro, California**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORTS**

**June 30, 2023 and 2022**

**DRAFT**

# Regional Center of the East Bay, Inc.

## TABLE OF CONTENTS

June 30, 2023 and 2022

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	<u>Page Number</u>
Independent Auditor's Report	1
 <b>FINANCIAL SECTION</b>	
Statements of Financial Position	5
Statements of Activities	6
Statements of Functional Expenses	8
Statements of Cash Flows	10
Notes to the Financial Statements	11
 <b>REQUIRED SUPPLEMENTARY INFORMATION SECTION</b>	
Schedule of Expenditures of Federal Awards	30
 <b>OTHER REPORTS SECTION</b>	
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 <i>Government Auditing Standards</i>	32
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance in Accordance With the Uniform Guidance	34
 <b>FINDINGS AND RECOMMENDATIONS SECTION</b>	
Schedule of Findings and Questioned Costs	38
Summary Schedule of Prior Audit Findings	39

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Regional Center of the East Bay, Inc.  
San Leandro, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Regional Center of the East Bay, Inc. (the Center), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Center as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audits 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 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 the Center, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *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 for one year after the date that the financial statements are issued.

## INDEPENDENT AUDITOR'S REPORT

(Continued)

### *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 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 GAAS, 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.

## INDEPENDENT AUDITOR'S REPORT

(Continued)

### Supplementary Information

Our audits were 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 (CFR) 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 Schedule of Expenditures of Federal Awards 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 DATE, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

AGT CPAs & Advisors  
Redding, California  
DATE

FINANCIAL SECTION

DRAFT

# Regional Center of the East Bay, Inc.

## STATEMENTS OF FINANCIAL POSITION

June 30	2023	2022
<b>ASSETS</b>		
Cash and cash equivalents	\$ 51,624,247	\$ 45,015,023
Cash held for others	4,395,712	4,533,615
Cash held for CPPDD	1,799,312	1,799,312
Receivable - State Regional Center contracts	208,922,560	161,618,281
Receivable - Intermediate Care Facility providers - net	3,389,639	3,063,556
Other receivables	594,516	33,883
Prepaid expenses	1,537,025	1,467,540
Due from state - accrued vacation and other leave benefits	2,533,213	2,525,744
Due from state - unfunded defined benefit plan liability	22,702,572	5,873,724
Due from state - deferred rent	-	5,008,348
CPPDD vendor advances - lease	172,712	172,712
CPPDD vendor advances - other	78,497	78,497
Operating lease right-of-use asset	69,493,191	-
<b>TOTAL ASSETS</b>	<b>\$ 367,243,196</b>	<b>\$ 231,190,235</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 62,582,114	\$ 50,765,440
Advance - State Regional Center contracts	200,585,947	159,795,470
Accrued and other liabilities	3,193,509	1,849,409
Accrued vacation and other leave benefits	2,533,212	2,525,744
Deferred rent	-	5,152,825
Client trust funds liability	4,395,712	4,533,615
Unfunded defined benefit plan liability	22,702,572	5,873,724
Operating lease liability - current portion	2,973,563	-
Operating lease liability - long-term portion	67,576,929	-
<b>Total Liabilities</b>	<b>366,543,558</b>	<b>230,496,227</b>
<b>Net Assets</b>		
Without donor restriction	-	-
With donor restriction	699,638	694,008
<b>Total Net Assets</b>	<b>699,638</b>	<b>694,008</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 367,243,196</b>	<b>\$ 231,190,235</b>

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

# Regional Center of the East Bay, Inc.

## STATEMENTS OF ACTIVITIES

Year Ended June 30, 2023	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
State Regional Center contracts	\$ 721,411,603	\$ -	\$ 721,411,603
Intermediate Care Facility supplemental services income	9,104,482	-	9,104,482
Intermediate Care Facility administrative fee	135,267	-	135,267
Contributions	-	9,522	9,522
Interest income	230,244	15,504	245,748
Other income	-	-	-
<b>Total Support and Revenue</b>	<b>730,881,596</b>	<b>25,026</b>	<b>730,906,622</b>
Net assets released from restrictions	19,396	(19,396)	-
<b>Total Support, Revenue, and Net Assets Released From Restrictions</b>	<b>730,900,992</b>	<b>5,630</b>	<b>730,906,622</b>
<b>EXPENSES</b>			
<b>Program Services:</b>			
Purchase of services	669,893,726	-	669,893,726
Operating	54,094,075	-	54,094,075
<b>Supporting Services:</b>			
General and administrative	6,913,191	-	6,913,191
<b>Total Expenses</b>	<b>730,900,992</b>	<b>-</b>	<b>730,900,992</b>
<b>Changes in Net Assets</b>	<b>-</b>	<b>5,630</b>	<b>5,630</b>
<b>Net Assets - Beginning of Year</b>	<b>-</b>	<b>694,008</b>	<b>694,008</b>
<b>Net Assets - End of Year</b>	<b>\$ -</b>	<b>\$ 699,638</b>	<b>\$ 699,638</b>

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



**Regional Center of the East Bay, Inc.**

STATEMENTS OF ACTIVITIES

(Continued)

Year Ended June 30, 2022	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE</b>			
State Regional Center contracts	\$ 603,820,830	\$ -	\$ 603,820,830
Intermediate Care Facility supplemental services income	9,741,253	-	9,741,253
Intermediate Care Facility administrative fee	134,100	-	134,100
Contributions	-	5,401	5,401
Interest income	9,687	74	9,761
Other income	55,863	-	55,863
<b>Total Support and Revenue</b>	<b>613,761,733</b>	<b>5,475</b>	<b>613,767,208</b>
Net assets released from restrictions	16,401	(16,401)	-
<b>Total Support, Revenue, and Net Assets Released From Restrictions</b>	<b>613,778,134</b>	<b>(10,926)</b>	<b>613,767,208</b>
<b>EXPENSES</b>			
<b>Program Services:</b>			
Purchase of services	560,594,203	-	560,594,203
Operating	46,962,003	-	46,962,003
<b>Supporting Services:</b>			
General and administrative	6,221,928	-	6,221,928
<b>Total Expenses</b>	<b>613,778,134</b>	<b>-</b>	<b>613,778,134</b>
<b>Changes in Net Assets</b>	<b>-</b>	<b>(10,926)</b>	<b>(10,926)</b>
<b>Net Assets - Beginning of Year</b>	<b>-</b>	<b>704,934</b>	<b>704,934</b>
<b>Net Assets - End of Year</b>	<b>\$ -</b>	<b>\$ 694,008</b>	<b>\$ 694,008</b>

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

**Regional Center of the East Bay, Inc.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2023	Program	Supporting	Total
	Services	Services	
	Direct Client	General and	Expenses
	Services	Administrative	
<b>Purchase of Services</b>			
Out of home	\$ 254,585,875	\$ -	\$ 254,585,875
Day programs	130,103,977	-	130,103,977
Other purchase of services	285,203,874	-	285,203,874
<b>Total Purchase of Services</b>	<b>669,893,726</b>	<b>-</b>	<b>669,893,726</b>
<b>Operating</b>			
Salaries and related expenses	45,594,744	5,446,053	51,040,797
Conferences and seminars	5,875	702	6,577
Contract consultants	1,609,554	192,253	1,801,807
Data processing	207,737	24,813	232,550
General expenses	-	346,561	346,561
General office expenses	135,029	16,129	151,158
Communication	388,108	46,358	434,466
Insurance	237,259	28,339	265,598
Legal fees	131,457	15,702	147,159
ARCA dues	-	92,526	92,526
Accounting fees	64,318	7,682	72,000
Restricted grant expense	19,396	-	19,396
Travel	82,132	9,810	91,942
Bank fees and interest expense	-	15,167	15,167
Printing	53,415	6,380	59,795
Board of Directors' expenses	3,572	427	3,999
Lease expense - operating	5,357,565	639,933	5,997,498
Lease expense - variable	203,914	24,356	228,270
<b>Total Operating</b>	<b>54,094,075</b>	<b>6,913,191</b>	<b>61,007,266</b>
<b>Total Expenses</b>	<b>\$ 723,987,801</b>	<b>\$ 6,913,191</b>	<b>\$ 730,900,992</b>

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

# Regional Center of the East Bay, Inc.

## STATEMENTS OF FUNCTIONAL EXPENSES

(Continued)

Year Ended June 30, 2022	Program	Supporting	Total
	Services	Services	
	Direct Client	General and	Expenses
	Services	Administrative	
<b>Purchase of Services</b>			
Out of home	\$ 202,054,991	\$ -	\$ 202,054,991
Day programs	117,106,783	-	117,106,783
Other purchase of services	241,432,429	-	241,432,429
<b>Total Purchase of Services</b>	<b>560,594,203</b>	<b>-</b>	<b>560,594,203</b>
<b>Operating</b>			
Salaries and related expenses	39,975,246	4,940,761	44,916,007
Office occupancy	4,691,063	579,794	5,270,857
Conferences and seminars	12,299	1,520	13,819
Contract consultants	1,206,155	149,075	1,355,230
Data processing	227,107	28,069	255,176
General expenses	-	308,697	308,697
General office expenses	93,716	11,583	105,299
Communication	311,421	38,490	349,911
Insurance	196,838	24,328	221,166
Legal fees	32,009	3,956	35,965
ARCA dues	-	92,526	92,526
Accounting fees	77,293	9,553	86,846
Equipment rental	61,961	7,658	69,619
Restricted grant expense	16,401	-	16,401
Travel	35,299	4,363	39,662
Bank fees and interest expense	-	18,441	18,441
Printing	21,591	2,669	24,260
Board of Directors' expenses	3,604	445	4,049
<b>Total Operating</b>	<b>46,962,003</b>	<b>6,221,928</b>	<b>53,183,931</b>
<b>Total Expenses</b>	<b>\$ 607,556,206</b>	<b>\$ 6,221,928</b>	<b>\$ 613,778,134</b>

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

**Regional Center of the East Bay, Inc.**  
**STATEMENTS OF CASH FLOWS**

Years Ended June 30	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 5,630	\$ (10,926)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) decrease in:		
Receivable - State Regional Center contracts	(47,304,279)	(9,387,201)
Receivable - Intermediate Care Facility providers	(326,083)	1,073,172
Other receivables	496,668	7,184
Prepaid expenses	(69,485)	(122,344)
Increase (decrease) in:		
Accounts payable	11,816,674	5,468,766
Advance - State Regional Center contracts	40,790,477	7,409,952
Accrued and other liabilities	1,344,100	1,142,636
Client trust funds liability	(137,904)	(1,646,770)
Deferred rent	(144,477)	-
<b>Net Cash Provided By Operating Activities</b>	<b>6,471,321</b>	<b>3,934,469</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>6,471,321</b>	<b>3,934,469</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>51,347,950</b>	<b>47,413,481</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 57,819,271</b>	<b>\$ 51,347,950</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
<b>Components of Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 51,624,247	\$ 45,015,023
Cash held for others	4,395,712	4,533,615
Cash held for CPPDD	1,799,312	1,799,312
<b>Total</b>	<b>\$ 57,819,271</b>	<b>\$ 51,347,950</b>
<b>Cash Paid for Interest</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Schedule of Noncash Operating Activities</b>		
Increase in due from state - accrued vacation leave benefits	\$ (7,469)	\$ (55,907)
Increase in due from state - unfunded defined benefit plan liability	(16,828,848)	106,331,802
Decrease in due from state - deferred rent	5,008,348	129,267
Increase in other receivables	(1,057,301)	-
Increase in operating lease right-of-use asset	(69,493,191)	-
Increase in accrued vacation leave benefits	7,469	55,907
Decrease in deferred rent	(5,008,348)	(129,267)
Increase in unfunded defined benefit plan liability	16,828,848	(106,331,802)
Increase in operating lease liability	70,550,492	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>

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

# Regional Center of the East Bay, Inc.

## NOTES TO THE FINANCIAL STATEMENTS

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### 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Activities** The Regional Center of the East Bay, Inc. (the Center), a California nonprofit public benefit corporation under contract with the State of California Department of Developmental Services (DDS), was formed in 1975 to administer programs for individuals with developmental disabilities and their families, which includes diagnosis, counseling, education services, and dissemination of information on developmental disabilities to the public. The Center is one of 21 regional centers within California and serves Alameda and Contra Costa counties.

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

The Center's mission statement is as follows: The Regional Center of the East Bay, Inc. supports persons with developmental disabilities and their families with the tools needed to achieve lives of quality and satisfaction, and builds partnerships that result in inclusive communities.

**Basis of Accounting** The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Reimbursements from the state are considered earned when the qualifying expense is incurred.

**Basis of Presentation** The Center's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under FASB ASC Topic 958, the Center is required to report information regarding its financial position and activities according to two classes of net assets based upon the existence or absence of donor-imposed restrictions, as follows:

*Net Assets Without Donor Restrictions:* Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**Net Assets With Donor Restrictions:** Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Center reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, 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.

**Fund Accounting** The accounts of the Center are maintained in accordance with the principles of fund accounting. Under fund accounting, resources are classified for accounting and reporting considerations into funds established according to their nature and purpose.

**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 receivable and accounts payable approximate fair value because of the short maturity of these instruments.

**Cash and Cash Equivalents** For purposes of the statements of cash flows, the Center considers all highly liquid cash debt instruments with original maturities of three months or less to be cash equivalents. As required by the contract with DDS, funds received from DDS are deposited into interest-bearing accounts in a bank legally authorized to do business in California, which are established solely for the operation of the Center. The accounts are in the name of both the Center and DDS, as required by DDS.

**Significant Concentrations of Credit Risk** Due to the unique requirements of DDS and the large fluctuations in account balances the Center can have during the year, it is not feasible for the Center to diversify its cash balances among various financial institutions. Therefore, the Center maintains substantially all of its cash and temporary cash investments at one financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash exceeded federally insured limits by \$60,402,941 and \$52,017,638 at June 30, 2023 and 2022, respectively. While the amount in the banks typically exceeded FDIC coverage during the years, historically the Center has not experienced any losses on such accounts. For these reasons, management believes it is not exposed to any significant credit risk on such accounts.

**State Regional Center Contract Receivables and Advances** Contracts receivable represent amounts due from the State for reimbursement of expenditures made by the Center under the annual regional center contracts. The Center considers all amounts receivable under grant contracts to be collectible; accordingly, no allowance for doubtful accounts exists.

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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The contract advance balance represents cash advances received by the Center under the annual regional center contracts. Amounts receivable from the State are offset against advances payable when the State notifies the Center that a right of offset exists.

**Receivables from Intermediate Care Facility Vendors** The Centers for Medicare and Medicaid Services (CMS) approved federal financial participation in the funding of day and related transportation services purchased by the Center for consumers who reside in Intermediate Care Facilities (ICFs). CMS agreed that the day and related transportation services are part of the ICF service; however, the federal rules allow for only one provider of the ICF service. Accordingly, all the funding for the ICF residents must go through the applicable ICF provider.

The DDS has directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. The Center is directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services are 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. The Center receives a 1.5% administrative fee based on the funds received to cover the additional workload.

The net receivable from Intermediate Care Facilities in the amount of \$3,389,639 and \$3,063,556 at June 30, 2023 and 2022, respectively, represents the amount DDS paid or will pay to the ICF's net of ICF's administrative fee and Quality Assurance fee. Revenue from Intermediate Care Facilities was \$9,104,482 and \$9,741,253 at June 30, 2023 and 2022, respectively.

**Prepaid Expenses** Payments made to vendors for services that will benefit the Center for periods beyond the current fiscal year are recorded as prepaid expenses.

**Property and Equipment** In accordance with the State Regional Center contracts, all equipment purchased with contract funds is the property of the State. The Center is required to maintain memorandum records of equipment purchases and dispositions. Equipment purchases are recorded as supporting or program service expenses when they are incurred. The cost basis of the property utilized by the Center and owned by the state was \$262,344 and \$262,344 at June 30, 2023 and 2022, respectively. These balances include only the equipment that is sensitive or exceeds \$5,000 as required by State Administrative Manual (SAM) guidelines.

**Leases** The Center accounts for leases in accordance with FASB ASC 842. The Center is a lessee in noncancellable operating leases for office space, as well as several operating leases for equipment. The Center determines if an arrangement is a lease, or contains a lease, at inception of a contract and when terms of an existing contract are changed. The Center determines if an arrangement conveys the right to use an identified asset and whether the Center obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. The Center recognizes a lease liability and right-of-use (ROU) asset at the commencement date of the lease.

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**Operating Lease Liabilities:** A lease liability is measured based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable lease payments depend on an index or rate and are measured using the index or rate at the commencement date. Lease payments, including variable payments made based on an index or rate, are remeasured when any of the following occur: (1) the lease is modified (and the modification is not accounted for as a separate contract), (2) certain contingencies related to variable lease payments are resolved, or (3) there is a reassessment of any of the following: the lease term, purchase options, or amounts that are probable of being owed under a residual value guarantee. The discount rate is the rate implicit in the lease if it is readily determinable; otherwise, the Center has elected to use the risk-free borrowing rate per Accounting Standards Update (ASU) No. 2021-09, *Leases (Topic 842): Discount Rate for Lessees That are Not Public Business Entities*. The Center has elected to use this rate for all classes of underlying assets.

**Operating Lease – Right-of-Use (ROU) Asset:** A ROU asset is measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the lease liability (that is the present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

The Center has elected not to recognize the ROU assets and lease liabilities that arise from short-term leases (have a lease term of 12 months or less, but greater than one month at lease commencement, and do not include an option to purchase the underlying assets that the Center is reasonably certain to exercise) for any class of underlying asset and instead recognize the lease payments in the statements of functional expenses.

**Accrued Vacation and Other Leave Benefits** The Center has accrued a liability for vacation and other leave benefits earned. However, such benefits are reimbursed under the state contract only when actually paid. The Center has also recorded a receivable from the state for the accrued leave benefits to reflect the future reimbursement of such benefits. The Center accrues vacation as earned up to 280 hours per employee. When the employee separates from service, the employee will receive their unused vacation.

**Deferred Rent** For the year ended June 30, 2022, the Center leased their office facilities under lease agreements that were subject to scheduled acceleration of rental payments. The scheduled rent increases were amortized evenly over the life of the leases in accordance with U.S. GAAP. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. The Center recorded a receivable from the State equal to the deferred rent liability to reflect the future reimbursement of the additional rent expense. As of July 1, 2022 (as noted above), the Center adopted ASU 2016-02 *Leases (Topic 842)*. As a result of this adoption, the Center no longer records deferred rent, rather, ROU asset and lease liability. Refer to footnote 5 for more detail on the leases.



## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**Defined Benefit Pension Plan** The Center records the unfunded liability of its defined benefit pension plan (the Plan) with California Public Employees' Retirement System (CalPERS) on the statement of financial position. CalPERS has characteristics of a multiemployer plan. The Center uses the actuarial report coinciding with the Center's fiscal year end; however, the actuarial report is one year in arrears. The delay is due to the fact that there is a two-year lag between the Valuation Date and the Contribution Fiscal Year. This lag is necessary due to the amount of time needed to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution rates well in advance of the start of the fiscal year. Accordingly, the actual unfunded liability may differ from the recorded amount. As of June 30, 2023, the difference cannot be reasonably determined. The Center believes the CalPERS actuarial report provides the best estimation of the Plan's unfunded defined benefit plan liability since it is calculated and provided directly by CalPERS.

**Post-Retirement Health Benefit Plan** Since April 2010, the Center has participated in a Public Employees' Medical and Hospital Care Act (PEMHCA) post-retirement health benefit plan through CalPERS in which the Center pays a portion of an employee's health insurance after they retire. As of June 30, 2023, there are 422 plan participants, 46 of which are retired. Unlike the defined benefit pension plan, there is no actuarial valuation estimating the unfunded portion of the future liability associated with these post-retirement health benefits. As such, the unfunded portion of the post-retirement health benefit plan is indeterminable and is not reflected in these financial statements. The Center expects that any future payments required by this plan will be reimbursed by the DDS through the claim reimbursement process. Amounts paid by the Center under this plan for the years ended June 30, 2023 and 2022, are included in salaries and related expenses on the statements of functional expenses.

**Revenue Concentration** State Regional Center contract revenue is revenue received under an annual cost reimbursement contract from the State of California in accordance with the Lanterman Act. Approximately ninety-nine percent of revenue is derived from this source. Each fiscal year, the Center enters into a new contract with the state for a specified funding amount subject to budget amendments. Revenue from the state is recognized monthly when a claim for reimbursement of actual expenses is filed with the state. These reimbursement claims are paid at the state's discretion either through direct payments to the Center or by applying the claims reimbursements against advances already made to the Center. 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.

**Labor Concentration** At June 30, 2023 and 2022, approximately 81% and 83%, respectively, of the employees of the Center are represented by the Local 1021, Service Employees International Union, CtW, CLC (the Union) for collective bargaining purposes. Periodically the collective bargaining agreement is subject to renegotiation. The most recent collective bargaining agreement expires on November 30, 2023.

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**Revenue and Revenue Recognition** The Center recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

A significant 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. Amounts received prior to incurring qualifying expenditures are reported as Advance – State Regional Center contracts on the statements of financial position. The Center received cost-reimbursable grants of \$200,585,947 and \$159,795,470 that have not been recognized in revenue at June 30, 2023 and 2022, respectively, because qualifying expenditures have not yet been incurred, with the advance payments of \$200,585,947 and \$159,795,470 recognized in the statements of financial position as Advance - State Regional Center contracts as of June 30, 2023 and 2022, respectively.

**Federal Grants** The Center received two federal grants as of June 30, 2023, as follows:

*U.S. Department of Education:* The Center was a sub-recipient to State of California DDS with regard to the Special Education Grants for Infants and Families, which provides funding for early intervention services for infants and toddlers, through age 3, as authorized by Public Law 102-119. Revenue received from this program for the years ended June 30, 2023 and 2022, was \$1,697,427 and \$1,685,885 respectively, and is included in State Regional Center contracts revenue on the statements of activities.

*U.S. Department of Health and Human Services:* The Center was a recipient of the CARES Act Provider Relief Fund made available to providers of health care services and supports, including agencies serving people with developmental disabilities. Allowable expenses under the Provider Relief Fund must be used to prevent, prepare for and respond to coronavirus (COVID-19), and for related expenses or lost revenues attributable to COVID-19. Funding cannot be used where another source has reimbursed or is obligated to reimburse these expenses or losses. Revenue received from this program for the years ended June 30, 2023 and 2022, was \$0 and \$55,863, respectively, and is included in other income on the statements of activities.

**Allocation of Expenses** The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of functional expenses. 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. Expenses are allocated based on a mid-year analysis of staff time. The total administrative cost cannot exceed 15% of total operating costs.

**Income Taxes** The Center has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the *Internal Revenue Code* (IRC) and Section 23701(d) of the *California Revenue and Taxation Code*.

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The Center recognizes the financial statement benefit of tax positions, such as the filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California purposes is generally three and four years, respectively. As of the years ended June 30, 2023 and 2022, there was no provision for income taxes or an income tax liability.

**Use of Estimates and Assumptions** Management uses estimates and assumptions in preparing the financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

**Subsequent Events** The Center's management has evaluated subsequent events through DATE, the date on which the financial statements were available to be issued.

**Change in Accounting Principle** In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which required lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard established a ROU model that required lessees to recognize a ROU asset and lease liability on the statement of financial position for most leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of activities. The Center has implemented ASU No. 2016-02 effective July 1, 2022, and has adjusted the presentation in these financial statements accordingly.

## 2. LIQUIDITY AND AVAILABILITY

The Center regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

June 30	2023	2022
Cash and cash equivalents	\$ 51,624,247	\$ 45,015,023
Receivable - State Regional Center contracts	208,922,560	161,618,281
Less: Advance - State Regional Center contracts	(200,585,947)	(159,795,470)
Receivable - Intermediate Care Facility providers - net	3,389,639	3,063,556
Other receivables	53,284	33,883
Less: Donor restricted assets	(699,634)	(694,008)
<b>Total</b>	<b>\$ 62,704,149</b>	<b>\$ 49,241,265</b>

# Regional Center of the East Bay, Inc.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The Center has various sources of liquidity at its disposal, including cash, which is available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of the Center throughout the year. This is done through monitoring and reviewing the Center's cash flow needs on a monthly basis. As a result, management is aware of the cyclical nature of the Center's cash flow related to the Center's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, certain excess cash is invested in short term US Treasury bill with a maturity of less than 1 year to support organizational initiatives.

Each regional center submits a monthly purchase of service expenditure projection to DDS, beginning in December of each fiscal year. By February 1<sup>st</sup> of each year, DDS allocates 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 will 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 revolving line of credit (Note 4) to manage cash flow requirements as needed should there be delays in reimbursement for expenditures from DDS.

### 3. FUNDING LIMITS

The Center's contract is funded by the State's General Fund and federal reimbursements. Allocated amounts are based primarily on projected client caseloads, and are subject to amendment based upon actual services provided.

Contracts are open for the current and two prior fiscal years as follows:

Fiscal Years Ended	Contract Amount	Cumulative Expenses	Unexpended Balance
June 30, 2023	\$ 803,177,447	\$ 693,322,221	\$ 109,855,226
June 30, 2022	\$ 654,693,467	\$ 604,495,388	\$ 50,198,079
June 30, 2021	\$ 575,397,364	\$ 558,191,171	\$ 17,206,193

Management monitors the unexpended balance annually to avoid overspending the contract limits. A majority of the unexpended balance is related to purchase of service client services and this amount could change due to delinquent billings. Management believes that total expenditures for each open year will not exceed the final approved State contract amount.

The Center has renewed its contract for the fiscal year ending June 30, 2024. The first contract allocation provides for initial funding of \$839,138,995.

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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#### 4. LINE OF CREDIT

The Center had a committed revolving line of credit (secured by all personal property and assets) with US Bank, N.A. whereby it could borrow up to \$40,000,000 until August 31, 2023. Interest was payable at the bank's reference rate; a rate of 8.25% at June 30, 2023. Effective September 1, 2022, the Center revised their agreement to an uncommitted revolving \$40,000,000 line of credit with the bank, secured by the Center's assets, to fund current operating needs through May 31, 2024. At June 30, 2023 and 2022, the outstanding balance on the line of credit was \$0 and \$0, respectively.

#### 5. COMMITMENTS

##### Operating Leases

The Center is obligated under operating lease agreements for its office facilities and various equipment. The facility leases include rent escalation clauses and a recovery for insurance and real estate taxes. All leases are classified as operating leases.

The Center has obligations as a lessee for office facilities with initial noncancellable terms in excess of one year. The primary office space lease has an initial term of 20 years with the ability to renew the lease for an additional 10 years. Because the Center is reasonably certain to exercise the renewal, the optional period is included in determining the lease term, and associated payments under this renewal option are included in lease payments used to determine the lease liability. The Center also leases office space in Concord, California with a lease term that has been extended to December 31, 2033. The Center's leases do not include guaranteed residual values or restrictive financial or other covenants.

Some of the Center's operating leases also require the Center to make monthly payments for their proportionate share of the excess operating costs. These variable lease payments are not included in lease payments used to determine lease liabilities and are recognized as variable lease costs when incurred.

Supplemental cash flow information related to leases included in the Statements of Cash Flows, were as follows:

Year Ended June 30, 2023

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Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for operating leases	\$ 2,614,968
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ -

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## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Maturities of operating lease liabilities are as follows:

Years Ending June 30	Total
2024	\$ 5,222,517
2025	5,460,276
2026	5,539,302
2027	5,683,827
2028	5,852,142
Thereafter	62,908,130
<b>Total Lease Payments</b>	<b>90,666,194</b>
Less: Present value adjustment	20,115,702
<b>Present Value of Lease Liabilities</b>	<b>\$ 70,550,492</b>

The table below presents additional information related to the Center's leases:

June 30, 2023	
Weighted average remaining lease term:	
Operating leases	15.50 years
Weighted average discount rate:	
Operating leases	3.27%

Upon adoption of ASU No. 2016-02, the risk-free rate used for existing leases was established using the Daily Treasury Par Yield Curve rate as of July 1, 2022.

#### Disclosures Related to Periods Prior to the Adoption of ASU No. 2016

As of June 30, 2022, the Center had six operating leases for the use of office space and equipment. Rent expense for the year ended June 30, 2022 was \$5,270,857.

The future minimum facilities lease commitments required under the leases are as follows:

Years Ending June 30	
2023	\$ 4,931,732
2024	5,137,115
2025	5,328,670
2026	5,404,058
2027	5,544,527
Thereafter	21,797,025
<b>Total</b>	<b>\$ 48,143,127</b>

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

#### Contract Commitments

There are a number of open contracts at year end in which an exact dollar amount could not be determined. It is management's understanding that all future contract commitments will be reimbursed under the DDS contract.

#### 6. PENSION PLAN

On October 14, 2002, the Center adopted a defined benefit pension plan covering substantially all employees by becoming a member of CalPERS. All employees are, immediately upon hire, enrolled in the pension plan. The Center contributes to CalPERS 12.64% and 12.47% of the employees' gross salary for fiscal years ended June 30, 2023 and 2022, respectively. Participants are fully vested after five years of full-time service. For the years ended June 30, 2023 and 2022, \$7,498,348 and \$5,170,624, respectively, was paid to CalPERS.

The Public Employees' Retirement Law (Part 3 of the California Government Code, §20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

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

The unfunded liability measured at June 30, 2022 and 2021, which was the most current actuarial valuation available due to a one-year lag in measurement reporting, was as follows:

Years Ended June 30	2022	2021
Present value of projected benefits	\$ 194,509,511	\$ 182,920,136
Less present value of future:		
Future employer normal costs	25,514,524	26,833,321
Future employee contributions	22,828,755	20,422,776
<b>Entry Age Normal Accrued Liability</b>	<b>146,166,232</b>	<b>135,664,039</b>
Market value of assets	123,463,660	129,790,315
<b>Unfunded Defined Benefit Plan Liability</b>	<b>\$ 22,702,572</b>	<b>\$ 5,873,724</b>

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The reconciliation of the market value of assets over the prior year was as follows:

June 30	2022	2021
<b>Beginning of Year</b>	\$ 129,790,315	\$ 103,272,055
Contributions:		
Employer	5,310,824	4,200,370
Employee	2,325,402	2,218,481
Net investment return - net of investment expenses	(9,826,770)	23,840,718
Benefit payments to retirees and beneficiaries	(4,005,213)	(3,551,276)
Refunds	(76,462)	(65,204)
Other transfers and miscellaneous adjustments	(54,436)	(124,829)
<b>End of Year</b>	\$ 123,463,660	\$ 129,790,315

The significant actuarial assumptions were as follows:

June 30	2022	2021
Actuarial cost method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Asset valuation method	Market Value	Market Value
Long-term discount rate (net of investment and administrative expenses)	6.80%	6.80%
Payroll growth	2.80%	2.80%
Inflation	2.30%	2.30%
Expected long-term rate of return	4.50%	4.50%

#### Sensitivity of the Net Pension Liability to the Changes in the Discount Rate

The following presents the unfunded liability of the Plan, calculated using the discount rate of 6.8%, as well as what the unfunded liability would be if it were calculated using a discount rate that is one percentage point lower (5.8%) or one percentage point higher (7.8%) than the current rate:

	1% Decrease (5.8%)	Current Discount Rate (6.8%)	1% Increase (7.8%)
Unfunded liability	\$ 45,087,645	\$ 22,702,572	\$ 4,483,173

The expected payment on the unfunded liability for the year ended June 30, 2024, is \$1,242,091.



**Regional Center of the East Bay, Inc.**

**NOTES TO THE FINANCIAL STATEMENTS**

(Continued)

The asset allocation of plan assets was as follows:

June 30	2022	2021
<b>Asset Class</b>		
Public equity	46.3%	51.4%
Private equity	11.6%	8.3%
Global fixed income	23.5%	29.8%
Real assets	17.1%	9.6%
Other	1.5%	0.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

The starting point and most important element of CalPERS’ return on investment is the asset allocation or diversification among stocks, bonds, cash and other investments. Asset allocation is not an asset-only or liability-only decision. All factors, including liabilities, benefit payments, operating expenses, and employer and member contributions are taken into account in determining the appropriate asset allocation mix. The goal is to maximize returns at a prudent level of risk which presents an ever-changing balancing act between market volatility and long-term goals.

CalPERS follows a strategic asset allocation policy that identifies the percentage of funds to be invested in each asset class. The asset allocation and market value of assets shown above reflect the values of the Public Employees’ Retirement Fund (PERF) in its entirety as of June 30, 2022 and 2021. The assets for the Center are part of the PERF and are invested accordingly.

For the years ended June 30, 2023 and 2022, the actuarial computed employee contribution rates are 6.87% and 6.88%, respectively.

**7. CLIENT TRUST FUNDS**

The Center functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. These cash balances are segregated from the operating cash accounts of the Center and are restricted for client 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.

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The Center's client trust fund activity consisted of the following:

Years Ended June 30	2023	2022
<b>Client Trust Fund Liability - Beginning of Year</b>	\$ 4,533,615	\$ 6,180,385
Client support received	28,717,109	27,718,809
<b>Subtotal</b>	<b>33,250,724</b>	<b>33,899,194</b>
Less: Residential Care	19,944,518	18,727,775
Less: Other disbursement	8,872,197	10,612,560
Less: Change in accounts receivable and accounts payable	38,297	25,244
<b>Client Trust Fund Liability - End of Year</b>	<b>\$ 4,395,712</b>	<b>\$ 4,533,615</b>

## 8. NET ASSETS

June 30	2023	2022
<b>NET ASSETS WITHOUT DONOR RESTRICTION</b>		
Undesignated	\$ -	\$ -
<b>Total Net Assets Without Donor Restriction</b>	<b>\$ -</b>	<b>\$ -</b>
<b>NET ASSETS WITH DONOR RESTRICTION</b>		
<b>Subject to Expenditures Restricted for a Specified Purpose</b>		
Jim Burton Helping Hand Fund	\$ 699,638	\$ 694,008
<b>Total Net Assets With Donor Restriction</b>	<b>\$ 699,638</b>	<b>\$ 694,008</b>

## 9. COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CPPDD)

### Background

In March 2006, the Bay Area Housing Plan (BAHP) was developed by the Center, Golden Gate Regional Center, Inc. (GGRC), and San Andreas Regional Center (SARC), working in collaboration under the Bay Area Unified Plan (collectively, the Regional Centers).

The BAHP was established to provide affordable, community based housing for people with developmental disabilities in the San Francisco Bay Area, through a Housing Development Agreement among the Regional Centers and a master developer (the Agreement). The BAHP meets the requirements to provide housing to people with developmental disabilities under AB 2100, as codified in Welfare and Institutions Code §4688.5.

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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The initial beneficiaries of the BAHP were the residents of the Agnews Developmental Center (Agnews) in San Jose as they were transitioned to community housing from Agnews due to its scheduled closure. The BAHP established the strategy and timeline for the acquisition, construction, and financing for the completion of homes for these residents. All of the residents were successfully transitioned out of Agnews.

The Regional Centers determined, in their discretion, the types, amounts, and locations of these residences. A total of 60 properties were purchased and developed by the master developer.

For the purpose of managing the Regional Centers' responsibilities under the Agreement, the Regional Centers formed a Steering Committee, which is comprised of the three Executive Directors of the Regional Centers. The Steering Committee has the authority to administer the Agreement and bind the Regional Centers to the terms and conditions of the Agreement. The Steering Committee makes all decisions by consensus where possible, but may also act by a majority vote. Notwithstanding the foregoing, if the action to be taken by the Steering Committee concerns a specific property located within a Regional Center's catchment area, the Executive Director for that Regional Center must vote in favor of such action for it to be binding on the Steering Committee.

Three non-profit organizations (NPOs) acquired fee title to the properties from the master developer. The NPOs were:

- Bay Area Housing Corporation (BAHC), which acquired 32 residences in SARC's catchment area.
- Housing Consortium of the East Bay (HCEB), which acquired 15 residences in the Center's catchment area.
- West Bay Housing Corporation (WBHC), which acquired 13 residences in GGRC's catchment area.

Subsequently, the NPOs conveyed their ownership interests in the residences to three single member limited liability companies (LLCs), each owned by its respective NPO. The LLCs are:

- Casa Milagro LLC, owner of 32 residences (from BAHC)
- Inclusive Communities East Bay, LLC, owner of 15 residences (from HCEB)
- A Home for Life, LLC, owner of 13 residences (from WBHC)

The LLCs lease such properties to the Regional Centers' service providers under 60 long-term operating leases. The service providers operate the properties for the benefit of individuals who receive services from the Regional Centers.

The leases will terminate on the 17th anniversary of their commencement dates or 18 months after the date that the applicable LLC/landlord fully repays the current lender's permanent financing (discussed below).

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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All of the 60 properties are encumbered by Lease Assurance Covenants, Conditions and Restrictions and Memorandum of Agreement and Lease which provides, among other things, that the use of each property shall be solely for the benefit of qualified individuals with developmental disabilities in perpetuity, in compliance with the requirements in Welfare and Institutions Code §4688.5.

The master developer borrowed funds from Bank of America to acquire and develop the 60 properties. California Housing Finance Agency (CalHFA) then lent funds to the LLCs to refinance the Bank of America's loans. CalHFA's loans remained in effect until February 18, 2011, when they were paid off through the bond financing discussed below.

#### **Bond Financing**

In December 2010, the California Health and Human Services Agency (CHHSA) and DDS provided their approval for the LLCs to obtain bond financing to refinance the CalHFA loans.

In the refinance plan and thereafter, the BAHP is referred to as the Community Placement Plan for Individuals with Developmental Disabilities (CPPDD).

In the refinance plan dated February 1, 2011, the California Health Facilities Finance Agency (CHFFA) agreed to loan \$76,970,000 to the LLCs through the issuance of insured revenue bonds. The Office of Statewide Health Planning and Development (OSHPD) provided loan insurance for the bonds. The bonds were issued as:

- \$44,725,000 Series 2011A due at various dates, with interest rates ranging from 4.00% up to 6.25%, with the longest term bonds due on February 1, 2026.
- \$32,245,000 Taxable Series 2011B due at various dates, with interest rates ranging from 3.30% up to 8.00%, with the longest term bonds due on February 1, 2026.

The Bond trustee was Deutsche Bank National Trust Company (Bond trustee) until August 23, 2013, on which day the trustee servicing was transferred to U.S. Bank National Association.

CHFFA issued the bonds to investors, and lent the proceeds from the sale of the bonds to the LLCs, on or about February 18, 2011. The loans from CHFFA to each LLC repaid the CalHFA loans in full and also covered one year of required debt reserves and other costs and expenses.

Responsibility for repayment of the loans for these bonds has been divided among the LLCs. The Loan Agreements call for monthly payments by each LLC. Each loan is secured by, among other things, deeds of trust on the residences and a pledge of the LLCs' gross revenues.

CHFFA, DDS, the Regional Centers and the LLCs all agreed that the LLCs would obtain insurance for the payment of the Bonds from the OSHPD's Cal-Mortgage Loan Insurance Division. As partial consideration for the bond insurance the Regional Centers and the LLCs entered into a Regulatory Agreement with CHFFA and OSHPD that contains financial and reporting covenants, payment obligations and use restrictions consistent with the Welfare and Institutions Code §4688.5.

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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As further consideration for the bond insurance the Regional Centers and the LLCs agreed to the following:

1. The Regional Centers executed a Lender Lease Assurance Agreement, whereby they unconditionally agreed, jointly and severally to pay the rent and other obligations of all service providers under all leases should the service providers fail to meet such obligations. (This is relevant, since the LLCs rely on the receipt of such rent to repay the bond financing.)
2. The Regional Centers agreed to maintain a liquidity operating fund in three separate accounts (one for each Regional Center), in the aggregate sum of \$5,000,000. CHFFA and OSHPD have the right to draw on the liquidity operating fund to cure any defaults by the LLCs under the loan documents. Subject to such right, the Regional Centers' use of these funds are unrestricted; however each Regional Center must replenish any withdrawal from its liquidity operating fund necessary to maintain the required initial balance within twelve months from the date of such withdrawal. The Center's share of the liquidity operating fund is \$1,799,312 and included in cash on the balance sheet. The remaining share of the fund is funded by GGRC and RCEB.
3. Both the Regional Centers and the LLCs agreed to indemnify CHFFA and OSHPD for any post foreclosure transfer environmental losses.

The Regional Centers remit payments to each service provider for the services they provide to the consumers residing in the properties. The service providers then use such funds and other funds available to them to cover their costs, including their rent under the leases. Under each lease the applicable service provider is responsible for paying both the monthly base rent (which is equal to the monthly debt service payable to the Bond trustee) and additional charges as defined in the lease, including property taxes (if applicable), insurance and a replacement reserve (which is a minimum of \$2,400 a year for each property). The LLCs, in turn, use the rents they receive under the leases to repay the CHFFA loans.

In order to make all of the debt service payments equal, one additional "smooth out" payment was required to be made to the Bond trustee. The Center (and the other Regional Centers) made this payment via advances to its service providers, which were then forwarded to the Bond trustee. The service providers will repay these receivables to the Center at the end of the bond financing term, via applicable offsets that the Center will apply against funds it owes to the service providers under the Service Provider Agreements. At June 30, 2023 and 2022, CPPDD vendor advances - other totaled \$78,497 and \$78,497, respectively.

Due to the timing of the bond financing, one additional debt service payment was required to be made to the Bond trustee. The Center made this payment via advances to its service providers, which was then forwarded to the Bond trustee. The service providers will repay these receivables to the Center at the end of the bond financing term, via applicable offsets that the Center will apply against funds it owes to the service providers under the Service Provider Agreements. At June 30, 2023 and 2022, CPPDD vendor advances - lease totaled \$172,712 and \$172,712, respectively.

## Regional Center of the East Bay, Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

#### 10. OTHER PURCHASED SERVICES

Other purchased services consisted of the following:

June 30	2023	2022
Other authorized services	\$ 134,925,241	\$ 115,456,503
Respite	45,678,048	39,685,257
Programs	40,833,342	35,921,394
Medical care	22,262,015	19,767,801
Prevention services	19,906,360	15,908,531
Transportation	13,253,151	8,396,079
Professional	5,720,740	3,765,552
Medical equipment	2,488,694	2,429,866
Personal and incidental	136,283	101,446
<b>Total Other Purchased Services</b>	<b>\$ 285,203,874</b>	<b>\$ 241,432,429</b>

#### 11. CONTINGENCIES

In accordance with the terms of the DDS contract, 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 not be material to the financial statements at June 30, 2023 and 2022, and for the years then ended.

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

#### 12. LEGAL PROCEEDINGS

The Center is subject to various legal proceedings and 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.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

DRAFT

**Regional Center of the East Bay, Inc.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Contract Year(s)	Pass-Through Grant Number	Assistance Listing Number	Disbursements/ Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed Through State of California Department of Developmental Services - Special Education - Grants for Infants and Families with Disabilities (Part C)				
	22/23	H181A220037	84.181A	\$ 1,697,427
<b>Total U.S. Department of Education</b>				<b>1,697,427</b>
<b>Total Expenditures of Federal Awards</b>				<b>\$ 1,697,427</b>

**Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Center under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of the Center, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Center.

**Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. 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. Part C expenditures are based on state contract budget allocations.

**Indirect Cost Rate**

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



OTHER REPORTS SECTION

DRAFT

**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**

To the Board of Directors  
Regional Center of the East Bay, Inc.  
San Leandro, California

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

**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 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 Center's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**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**

(Continued)

**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 financial statement. 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.

AGT CPAs & Advisors  
Redding, California  
DATE

DRAFT

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Directors  
Regional Center of the East Bay, Inc.  
San Leandro, California

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

We have audited the Regional Center of the East Bay, Inc.’s, (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center’s major federal programs for the year ended June 30, 2023. The Center’s major federal programs are identified in the summary of auditors’ results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors’ Responsibility***

Our responsibility is to express an opinion on compliance for each of the Center’s major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Center’s compliance.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE UNIFORM GUIDANCE**

(Continued)

***Opinion on Each Major Federal Program***

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 each of its major federal programs for the year ended June 30, 2023.

**Report on Internal Control Over Compliance**

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE UNIFORM GUIDANCE**

(Continued)

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.

AGT CPAs & Advisors  
Redding, California  
DATE

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**FINDINGS AND RECOMMENDATIONS SECTION**

**DRAFT**

**SECTION I**  
**SUMMARY OF AUDITOR'S RESULTS**

DRAFT



**Regional Center of the East Bay, Inc.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2023**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Is any noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No
Identification of major programs:	
Assistance Listing Number   84.181A   Special Education - Grants for Infants and Families With Disabilities (Part C)	
Threshold for distinguishing types A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

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**SECTION II FINDINGS**  
**FINANCIAL STATEMENTS AUDIT**

None

**SECTION III FINDINGS**  
**FEDERAL AWARDS AUDIT**

None

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None

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