FINANCIAL STATEMENTS

June 30, 2018 and 2017
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INDEPENDENT AUDITORS’ REPORT

To the Board of Trustees of
North Los Angeles County Regional Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of North Los Angeles County Regional Center, Inc. (a California nonprofit corporation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Los Angeles County Regional Center, Inc. as of June 30, 2018 and 2017, 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.

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 13, 2019, on our consideration of North Los Angeles County Regional Center, Inc.’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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering North Los Angeles County Regional Center, Inc.’s internal control over financial reporting and compliance.

Winders, Inc.

Long Beach, California
March 13, 2019
NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 15,566,756</td>
</tr>
<tr>
<td>Cash - client trust funds</td>
<td>4,089,002</td>
</tr>
<tr>
<td>Contract receivable - state of California</td>
<td>26,601,494</td>
</tr>
<tr>
<td>Receivables from Intermediate Care Facility vendors</td>
<td>3,331,573</td>
</tr>
<tr>
<td>Other receivables and prepaid expenses</td>
<td>14,960,837</td>
</tr>
<tr>
<td>Due from state - accrued vacation and</td>
<td>87,429,821</td>
</tr>
<tr>
<td>and other employee benefits</td>
<td></td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>$ 151,979,483</td>
</tr>
</tbody>
</table>

| LIABILITIES AND NET ASSETS                  |                   |
| LIABILITIES                                 |                   |
| Accounts payable                            | $ 44,312,592      | $ 41,066,784      |
| Accrued expenses                            | 1,248,700         | 1,155,358         |
| Accrued vacation and other employee benefits| 1,783,855         | 1,656,977         |
| Retirement health care plan obligation      | 22,378,856        | 23,255,684        |
| Pension plan obligation                     | 63,267,110        | 60,882,164        |
| Deferred rent                               | 2,284,494         | 1,020,922         |
| Unexpended client support                   | 3,890,110         | 4,195,614         |
| COMMITMENTS AND CONTINGENCIES (Notes 4, 5, 6 and 7) | 139,165,717 | 133,233,503 |

| NET ASSETS                                  |                   |
| Unrestricted                                | 12,813,766        | 9,339,065         |

| TOTAL LIABILITIES AND NET ASSETS            |                   |
|                                           | $ 151,979,483      | $ 142,572,568     |

The accompanying notes are an integral part of these financial statements.
### NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

**STATEMENTS OF ACTIVITIES**

For the Year Ended June 30, 2018

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CHANGE IN UNRESTRICTED NET ASSET (DEFICIT)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>REVENUE AND SUPPORT</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracts - state of California</td>
<td>$453,576,062</td>
<td>$424,051,170</td>
</tr>
<tr>
<td>Intermediate Care Facility supplemental services income</td>
<td>8,321,977</td>
<td>9,109,587</td>
</tr>
<tr>
<td>Interest income</td>
<td>72,239</td>
<td>38,879</td>
</tr>
<tr>
<td>Other income</td>
<td>141,644</td>
<td>128,560</td>
</tr>
<tr>
<td>Total Support and Revenue</td>
<td><strong>462,111,922</strong></td>
<td><strong>433,328,196</strong></td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program Services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct consumer services</td>
<td>454,095,618</td>
<td>425,107,999</td>
</tr>
<tr>
<td>Supporting Services:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administrative</td>
<td>8,005,521</td>
<td>8,207,788</td>
</tr>
<tr>
<td>Total Expenses</td>
<td><strong>462,101,139</strong></td>
<td><strong>433,315,787</strong></td>
</tr>
<tr>
<td><strong>CHANGE IN NET ASSETS (DEFICIT) BEFORE HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST</strong></td>
<td>10,783</td>
<td>12,409</td>
</tr>
<tr>
<td><strong>HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST</strong></td>
<td>3,463,918</td>
<td>19,175,149</td>
</tr>
<tr>
<td><strong>CHANGE IN NET ASSETS</strong></td>
<td>3,474,701</td>
<td>19,187,558</td>
</tr>
<tr>
<td><strong>NET ASSETS (DEFICIT) AT BEGINNING OF YEAR</strong></td>
<td>9,339,065</td>
<td>(9,848,493)</td>
</tr>
<tr>
<td><strong>NET ASSETS AT END OF YEAR</strong></td>
<td><strong>$12,813,766</strong></td>
<td><strong>$9,339,065</strong></td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

<table>
<thead>
<tr>
<th></th>
<th>Program Services</th>
<th>Supporting Services</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct Consumer</td>
<td>General and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>Administrative</td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>$ 25,114,813</td>
<td>$ 3,430,387</td>
<td>$ 28,545,200</td>
</tr>
<tr>
<td>Employee health and retirement</td>
<td>14,912,637</td>
<td>1,825,930</td>
<td>16,738,567</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>335,091</td>
<td>45,026</td>
<td>380,117</td>
</tr>
<tr>
<td><strong>Total Salaries and Related Expenses</strong></td>
<td><strong>40,362,541</strong></td>
<td><strong>5,301,343</strong></td>
<td><strong>45,663,884</strong></td>
</tr>
</tbody>
</table>

**Purchase of Services**

|                                |                 |                    |                |
|                                | Other purchased services | - | 253,545,913 |
| Day program                    | 83,818,773      | -                   | 83,818,773     |
| Residential services           | 66,089,239      | -                   | 66,089,239     |
| Facility rent                  | 3,055,445       | 432,715             | 3,488,160      |
| General expenses               | 3,181,575       | 610,417             | 3,791,992      |
| Data processing                | -               | 697,563             | 697,563        |
| Contract and consulting services | 1,806,906   | 95,867              | 1,902,773      |
| Legal fees                     | 478,047         | 71,171              | 549,218        |
| Communication                  | 237,640         | 38,219              | 275,859        |
| Staff travel                   | 352,017         | 37,851              | 389,868        |
| Insurance                      | 247,088         | 84,205              | 331,293        |
| Equipment purchases            | 359,029         | 41,616              | 400,645        |
| Office expenses                | 338,514         | 18,678              | 357,192        |
| Facility maintenance           | -               | 200,215             | 200,215        |
| Equipment rental               | 140,937         | 13,404              | 154,341        |
| ARCA dues                      | -               | 106,406             | 106,406        |
| Printing                       | 81,954          | 3,958               | 85,912         |
| Accounting fees                | -               | 83,481              | 83,481         |
| Board expenses                 | -               | 69,573              | 69,573         |
| Equipment maintenance          | -               | 98,839              | 98,839         |
| **TOTAL EXPENSES**             | **$ 454,095,618** | **$ 8,005,521**     | **$ 462,101,139** |

The accompanying notes are an integral part of these financial statements.
NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

<table>
<thead>
<tr>
<th>Program Services</th>
<th>Supporting Services</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Consumer Services</td>
<td>General and Administrative</td>
<td></td>
</tr>
<tr>
<td>Salaries $23,127,520</td>
<td>$3,415,039</td>
<td>$26,542,559</td>
</tr>
<tr>
<td>Employee health and retirement benefits $19,254,553</td>
<td>$2,731,210</td>
<td>$21,985,763</td>
</tr>
<tr>
<td>Payroll taxes $333,363</td>
<td>$40,285</td>
<td>$373,648</td>
</tr>
<tr>
<td><strong>Total Salaries and Related Expenses</strong> $42,715,436</td>
<td>$6,186,534</td>
<td>$48,901,970</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Purchase of Services</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other purchased services $228,474,010</td>
<td>-</td>
</tr>
<tr>
<td>Day program $84,700,453</td>
<td>-</td>
</tr>
<tr>
<td>Residential services $61,625,247</td>
<td>-</td>
</tr>
<tr>
<td>Facility rent $3,230,170</td>
<td>$147,408</td>
</tr>
<tr>
<td>General expenses $1,699,399</td>
<td>$151,998</td>
</tr>
<tr>
<td>Data processing -</td>
<td>$996,525</td>
</tr>
<tr>
<td>Contract and consulting services $464,887</td>
<td>$24,006</td>
</tr>
<tr>
<td>Legal fees $288,097</td>
<td>$103,487</td>
</tr>
<tr>
<td>Communication $353,494</td>
<td>$37,514</td>
</tr>
<tr>
<td>Staff travel $318,997</td>
<td>$29,108</td>
</tr>
<tr>
<td>Insurance $263,338</td>
<td>$65,602</td>
</tr>
<tr>
<td>Equipment purchases $406,499</td>
<td>$18,722</td>
</tr>
<tr>
<td>Office expenses $371,786</td>
<td>$17,765</td>
</tr>
<tr>
<td>Facility maintenance -</td>
<td>$139,904</td>
</tr>
<tr>
<td>Equipment rental $117,429</td>
<td>$7,828</td>
</tr>
<tr>
<td>ARCA dues -</td>
<td>$100,633</td>
</tr>
<tr>
<td>Printing $78,757</td>
<td>$5,061</td>
</tr>
<tr>
<td>Accounting fees -</td>
<td>$80,383</td>
</tr>
<tr>
<td>Board expenses -</td>
<td>$66,695</td>
</tr>
<tr>
<td>Equipment maintenance -</td>
<td>$28,615</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong> $425,107,999</td>
<td>$8,207,788</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these financial statements.
### NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

#### STATEMENTS OF CASH FLOWS

For the Year Ended June 30,

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$ 3,474,701</td>
<td>$ 19,187,558</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash from operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash - client trust funds</td>
<td>219,785</td>
<td>(959,562)</td>
</tr>
<tr>
<td>Contracts receivable - state of California</td>
<td>(18,223,091)</td>
<td>4,958,262</td>
</tr>
<tr>
<td>Receivable from Intermediate Care Facility vendors</td>
<td>748,909</td>
<td>(1,558,011)</td>
</tr>
<tr>
<td>Other receivables and prepaid expenses</td>
<td>(3,229,954)</td>
<td>(9,555,754)</td>
</tr>
<tr>
<td>Due from state - accrued vacation and other employee benefits</td>
<td>(2,066,412)</td>
<td>2,029,597</td>
</tr>
<tr>
<td>Increase (decrease) in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>3,245,808</td>
<td>1,705,140</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>93,342</td>
<td>288,868</td>
</tr>
<tr>
<td>Accrued vacation and other employee benefits</td>
<td>126,878</td>
<td>(261,713)</td>
</tr>
<tr>
<td>Retirement health care plan obligation</td>
<td>(876,828)</td>
<td>(6,818,448)</td>
</tr>
<tr>
<td>Pension plan obligation</td>
<td>2,384,946</td>
<td>(6,396,390)</td>
</tr>
<tr>
<td>Deferred rent</td>
<td>1,263,572</td>
<td>(500,037)</td>
</tr>
<tr>
<td>Unexpended client support</td>
<td>(305,504)</td>
<td>634,624</td>
</tr>
<tr>
<td><strong>Net Cash Provided By (Used In) Operating Activities</strong></td>
<td>(13,143,848)</td>
<td>2,754,134</td>
</tr>
</tbody>
</table>

#### NET CHANGE IN CASH AND CASH EQUIVALENTS

(13,143,848) 2,754,134

#### CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR

28,710,604 25,956,470

#### CASH AND CASH EQUIVALENTS AT END OF YEAR

$ 15,566,756 $ 28,710,604

The accompanying notes are an integral part of these financial statements.
NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation

The North Los Angeles County Regional Center, Inc. (the Center) was incorporated on March 13, 1974 as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State of California. In accordance with the Act, the Center provides diagnostic evaluations, client program management, and lifelong planning services for persons with developmental disabilities, and their families. The areas served include the San Fernando, Antelope, and Santa Clarita Valleys.

The Act includes governance provisions regarding the composition of the Center’s Board of Trustees (the Board). The Act states that the Board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50% 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 regional center purchases client services, shall serve as a member of the regional center board. To comply with the Act, the Board 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.

The Center contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for the developmentally disabled, and their families. Under the terms of these contracts, funded expenditures are not to exceed $451,661,672 for the 2017-2018 contract year and $421,046,330 for the 2016-2017 contract year. As of June 30, 2018 and 2017, actual net expenditures were $435,787,604 under the 2017-2018 contract and $410,463,152 under the 2016-2017 contract.
NOTE 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

As discussed above, the Center operates under contracts with the DDS. Contract revenue is funded on a cost reimbursement basis. The net asset reported as of June 30, 2018 and 2017 on the statements of financial position is primarily the result of the implementation of an accounting standard regarding the reporting of the Center’s post-retirement health care plan and pension plan. As further discussed in Note 5 and Note 6, the accounting standard required the Center to recognize as a charge to net assets the actuarial gains and prior service cost, which had not yet been recognized as components of periodic plan expenses and amounted to $12,679,387 and $9,215,469 as of June 30, 2018 and 2017, respectively. For purposes of reporting plan expenses, the unrecognized actuarial gains and prior service costs will continue to be amortized into plan expenses over future years. Plan expenses under the post-retirement health care and pension plans are reimbursed under the DDS contract as the Center funds each plan. Although the Center expects that the plan costs will ultimately be funded over future years, plan funding will depend on continued funding by DDS.

Basis of Accounting

The financial statements of the Center have been prepared on the accrual basis of accounting and, accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Reimbursements from the state are considered earned when a qualifying expense is incurred.

Financial Statement Presentation

The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Accordingly, the net assets of the Center are classified and reported as described below:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Center or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.
NOTE 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation (Continued)

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

As of June 30, 2018 and 2017, the Center had no temporarily or permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor-imposed restrictions.

Contributions, including pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

All contributions are considered to be available for unrestricted use unless specially restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor’s stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted contributions and net assets have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.
NOTE 1 – Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing 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. Principal areas requiring the use of estimates are assumptions utilized for the post-retirement health care plan, pension plan, and the functional allocation of expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the statements of cash flows, the Center considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. As of June 30, 2018 and 2017 and at various times during the years, the Center maintained cash balances in its bank in excess of federally insured limits.

Contracts Receivable – State of California

Support and contracts receivable – state of California is recorded on the accrual method as related expenses are incurred.

Receivables from Intermediate Care Facility Vendors

The Centers for Medicare and Medicaid Services (CMS) approved federal financial participation in the funding of day and related transportation services purchased by the Center for consumers who reside in Intermediate Care Facilities (ICFs). CMS agreed that the day and related transportation services are part of the ICF service; however, the federal rules allow for only one provider of the ICF service. Accordingly, all the Medicaid funding for the ICF residents must go through the applicable ICF provider. The Center receives a 1.5% administrative fee based on the invoice submitted to DDS for the administrative work to implement the state plan amendment (SPA 07-004).
NOTE 1 – Summary of Significant Accounting Policies (Continued)

Receivables from Intermediate Care Facility Vendors (Continued)

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

Equipment

Pursuant to the terms of the DDS contract, equipment purchases become the property of the state and, accordingly, are charged as expenses when incurred. For the years ended June 30, 2018 and 2017, equipment purchases totaled $400,645 and $425,221, respectively.

Accrued Vacation and Other Employee Benefits

The Center has accrued a liability and receivable from the state for leave benefits earned, and for post-retirement health care and pension plan as discussed in Note 5 and Note 6. However, such benefits are reimbursed under the DDS contract only when actually paid.

Deferred Rent

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 life of the lease.

The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. The Center has recorded a receivable from the state for the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized.
NOTE 1 – Summary of Significant Accounting Policies (Continued)

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 statements 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.

Allocation of Expenses

The statements of functional expenses allocate expenses to the program and supporting service categories based on a direct-cost basis for purchase of services and salaries and related expenses. Operating expenses are allocated to supporting services, which are allocated on a direct cost basis.

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 and Section 23701(d) of the Revenue and Taxation Code, respectively.

The Center recognizes the financial statement benefit of tax positions, such as a 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.
NOTE 1 – Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018 (fiscal year ending June 30, 2020 for the Center). The Center has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases” (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Center’s fiscal years beginning after December 15, 2019 (fiscal year ending June 30, 2021 for the Center), with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

In August 2016, the FASB released ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958). The update amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes relate to: (a) presentation of classes of net assets, (b) the presentation of underwater endowment funds and related disclosures, (c) recognition of the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) statement of functional expense, (e) disclosure of quantitative and qualitative information regarding liquidity and availability of resources; and a few smaller items. The ASU is effective for fiscal years beginning after December 15, 2017 (fiscal year ending June 30, 2019 for the Center). The Center is currently evaluating the impact of the adoption of the new standard on the financial statements.
NOTE 1 – Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Center’s management has evaluated subsequent events from the statement of financial position date through March 13, 2019, the date the financial statements were available to be issued for the year ended June 30, 2018, and determined there are no other items to disclose.

NOTE 2 – 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 clients. 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, 2018 and 2017:

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>Support:</td>
<td></td>
</tr>
<tr>
<td>Social Security and other client support</td>
<td>$17,279,965</td>
</tr>
<tr>
<td>Disbursements:</td>
<td></td>
</tr>
<tr>
<td>Living out of home</td>
<td>$10,024,403</td>
</tr>
<tr>
<td>Other disbursements</td>
<td>7,255,562</td>
</tr>
<tr>
<td></td>
<td>$17,279,965</td>
</tr>
</tbody>
</table>
NOTE 3 – Contracts Receivable – State of California

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. For fiscal year ended June 30, 2018, the Center completed its fourth year of its five year contract with DDS that started fiscal year ended June 30, 2015. 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.

As of June 30, 2018 and 2017, DDS had advanced the Center, under the regional center contracts, $62,986,750 and $104,353,882, respectively. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from DDS as follows:

<table>
<thead>
<tr>
<th>June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>Contracts receivable</td>
<td>$ 89,588,244</td>
</tr>
<tr>
<td>Contract advances</td>
<td>(62,986,750)</td>
</tr>
<tr>
<td>Net contracts receivable/contract advances</td>
<td>$ 26,601,494</td>
</tr>
</tbody>
</table>

The Center has renewed its contract with the state for the fiscal year ending June 30, 2019. The most recent contract amendment provides for funding of $375,397,591.

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

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:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vacation and other employee benefits</td>
<td>$1,783,855</td>
<td>$1,656,977</td>
</tr>
<tr>
<td>Retirement health care and pension plan obligation</td>
<td>$85,645,966</td>
<td>$83,706,432</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$87,429,821</strong></td>
<td><strong>$85,363,409</strong></td>
</tr>
</tbody>
</table>

NOTE 4 – Short-Term Borrowings

The Center has a revolving line of credit agreement with a bank whereby it may borrow up to $40,000,000 and $35,000,000 until the expiration of the agreement on June 30, 2018 and 2017, respectively. Borrowings are secured by substantially all assets of the Center with interest payable monthly at the greater of 2.25%, or 1% below the bank’s prime rate. There was no balance outstanding as of June 30, 2018 and 2017.
NOTE 5 – 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:

Valuation Date  
June 30

Economic Assumptions

<table>
<thead>
<tr>
<th>Economic Assumption</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Discount Rate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Used to determine Net Periodic Benefit Cost</td>
<td>3.95%</td>
<td>3.95%</td>
</tr>
<tr>
<td><strong>Long-term Rate of Return on Plan Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Used to determine Net Periodic Benefit cost</td>
<td>5.75%</td>
<td>6.25%</td>
</tr>
<tr>
<td>Used to determine Benefit Obligations</td>
<td>5.50%</td>
<td>5.75%</td>
</tr>
<tr>
<td>General inflation</td>
<td>2.50%</td>
<td>2.50%</td>
</tr>
<tr>
<td><strong>Health Cost Trend</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health care cost trend rate assumed for next year</td>
<td>6.75%</td>
<td>6.25%</td>
</tr>
<tr>
<td>Rate to which the cost trend is assumed to decline (the ultimate trend rate)</td>
<td>4.50%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Year that the rate reaches the ultimate trend rate</td>
<td>2100</td>
<td>2100</td>
</tr>
</tbody>
</table>
NOTE 5 – Post-Retirement Health Care Plan (Continued)

Economic Assumptions (Continued)

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:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2018</th>
<th>June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unamortized prior service costs</td>
<td>$ 660,177</td>
<td>$ 990,270</td>
</tr>
<tr>
<td>Unamortized actuarial net gain</td>
<td>(3,743,097)</td>
<td>(558,854)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ (3,082,920)</strong></td>
<td><strong>$ 431,416</strong></td>
</tr>
</tbody>
</table>

The pension-related changes other than net periodic pension cost decreased net assets by $3,514,336 and $9,528,264 for the years ended June 30, 2018 and 2017, respectively.

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

Reconciliation of Benefit Obligation

<table>
<thead>
<tr>
<th></th>
<th>For the Year Ended June 30, 2018</th>
<th>For the Year Ended June 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in benefit obligation</td>
<td>$ 45,760,110</td>
<td>$ 49,459,087</td>
</tr>
<tr>
<td>Obligation at beginning of year</td>
<td>$ 45,760,110</td>
<td>$ 49,459,087</td>
</tr>
<tr>
<td>Service cost</td>
<td>3,009,723</td>
<td>3,735,531</td>
</tr>
<tr>
<td>Interest cost</td>
<td>1,776,903</td>
<td>1,905,946</td>
</tr>
<tr>
<td>Actuarial gain</td>
<td>(3,094,212)</td>
<td>(8,346,968)</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,025,811)</td>
<td>(993,486)</td>
</tr>
<tr>
<td><strong>Obligation at end of year</strong></td>
<td><strong>$ 46,426,713</strong></td>
<td><strong>$ 45,760,110</strong></td>
</tr>
</tbody>
</table>
NOTE 5 – Post-Retirement Health Care Plan (Continued)

Reconciliation of Benefit Obligation (Continued)

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

<table>
<thead>
<tr>
<th>For the Year Ended</th>
<th>June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>$22,504,426</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>1,388,490</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>1,180,752</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(1,025,811)</td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>24,047,857</td>
</tr>
<tr>
<td>Net amount recognized in the statements of financial position</td>
<td>$(22,378,856)</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>For the Year Ended</th>
<th>June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>Service cost</td>
<td>$3,009,723</td>
</tr>
<tr>
<td>Interest cost</td>
<td>1,776,903</td>
</tr>
<tr>
<td>Return on assets</td>
<td>(1,298,459)</td>
</tr>
<tr>
<td>Recognized net actuarial loss</td>
<td>-</td>
</tr>
<tr>
<td>Amortization of unrecognized prior service cost</td>
<td>330,093</td>
</tr>
<tr>
<td>Net periodic post-retirement benefit cost</td>
<td>$3,818,260</td>
</tr>
</tbody>
</table>
NOTE 5 – Post-Retirement Health Care Plan (Continued)

Reconciliation of Benefit Obligation (Continued)

The net amount recognized as a separate charge to net assets of $3,082,920 and ($431,416) as of June 30, 2018 and 2017, 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 and the loss is netted with the receivable from DDS included in due from state accrued vacation and other employee benefits on the statement of financial position.

Plan Assets

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.
Plan Assets (Continued)

The following tables set forth by level, within the fair value hierarchy, the plan’s assets at fair value as of June 30, 2018 and 2017:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2018</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 1,469,349</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$ 1,469,349</td>
</tr>
<tr>
<td>Equity funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>13,866,748</td>
<td>-</td>
<td>-</td>
<td></td>
<td>13,866,748</td>
</tr>
<tr>
<td>Fixed income</td>
<td>7,856,173</td>
<td>-</td>
<td>-</td>
<td></td>
<td>7,856,173</td>
</tr>
<tr>
<td>Balanced</td>
<td>855,587</td>
<td></td>
<td>-</td>
<td>-</td>
<td>855,587</td>
</tr>
<tr>
<td>Total</td>
<td>$ 24,047,857</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>$ 24,047,857</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2017</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 1,379,752</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$ 1,379,752</td>
</tr>
<tr>
<td>Equity funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>12,509,643</td>
<td>-</td>
<td>-</td>
<td></td>
<td>12,509,643</td>
</tr>
<tr>
<td>Fixed income</td>
<td>7,757,743</td>
<td>-</td>
<td>-</td>
<td></td>
<td>7,757,743</td>
</tr>
<tr>
<td>Balanced</td>
<td>857,288</td>
<td></td>
<td>-</td>
<td>-</td>
<td>857,288</td>
</tr>
<tr>
<td>Total</td>
<td>$ 22,504,426</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>$ 22,504,426</td>
</tr>
</tbody>
</table>

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.
NOTE 5 – Post-Retirement Health Care Plan (Continued)

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 are expected to be paid on a fiscal year basis:

<table>
<thead>
<tr>
<th>For the Year Ending</th>
<th>June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$ 1,058,193</td>
</tr>
<tr>
<td>2020</td>
<td>1,193,788</td>
</tr>
<tr>
<td>2021</td>
<td>1,320,641</td>
</tr>
<tr>
<td>2022</td>
<td>1,476,763</td>
</tr>
<tr>
<td>2023</td>
<td>1,629,702</td>
</tr>
<tr>
<td>2024-2028</td>
<td>9,866,296</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 16,545,383</td>
</tr>
</tbody>
</table>

NOTE 6 – 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.
NOTE 6 – Pension Plan (Continued)

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, 2018 and 2017 was $1,306,674 and $1,877,800, respectively.

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 Benefit Obligation (ABO) is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. 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:

<table>
<thead>
<tr>
<th>Valuation Date</th>
<th>June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Assumptions</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td><em>Discount Rate</em></td>
<td>3.95%</td>
</tr>
<tr>
<td><em>Long-term Rate of Return on Plan Assets</em></td>
<td>7.00%</td>
</tr>
<tr>
<td><em>Salary Increases (annually)</em></td>
<td>4.00%</td>
</tr>
</tbody>
</table>

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 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:

<table>
<thead>
<tr>
<th>June 30,</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Unamortized experience loss</em></td>
<td>$ 8,885,217</td>
<td>$ 2,567</td>
</tr>
<tr>
<td><em>Unamortized gain from asset return</em></td>
<td>(4,617,074)</td>
<td>(3,597,769)</td>
</tr>
<tr>
<td><em>Unamortized gain from assumption changes</em></td>
<td>(13,864,610)</td>
<td>(6,051,683)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$(9,596,467)</td>
<td>$(9,646,885)</td>
</tr>
</tbody>
</table>
NOTE 6 – Pension Plan (Continued)

Economic Assumptions (Continued)

The pension-related changes other than net periodic pension cost increased net assets by $50,418 and $9,646,885 for the years ended June 30, 2018 and 2017, respectively.

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

Reconciliation of Benefit Obligation

<table>
<thead>
<tr>
<th>For the Year Ended</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30,</td>
<td></td>
</tr>
<tr>
<td>Change in benefit obligation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligation at beginning of year</td>
<td>$156,334,359</td>
<td>$152,069,412</td>
</tr>
<tr>
<td>Service cost</td>
<td>8,969,602</td>
<td>7,919,593</td>
</tr>
<tr>
<td>Interest cost</td>
<td>6,525,548</td>
<td>5,715,537</td>
</tr>
<tr>
<td>Actuarial gain</td>
<td>(7,812,927)</td>
<td>(6,051,683)</td>
</tr>
<tr>
<td>Experience loss</td>
<td>8,882,650</td>
<td>2,567</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(4,153,165)</td>
<td>(3,321,067)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Obligation at end of year</td>
<td>$168,746,067</td>
<td>$156,334,359</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>For the Year Ended</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>June 30,</td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at beginning of year</td>
<td>$95,452,195</td>
<td>$84,790,858</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>7,779,609</td>
<td>9,571,281</td>
</tr>
<tr>
<td>Employer and employee contributions</td>
<td>6,400,318</td>
<td>4,411,123</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(4,153,165)</td>
<td>(3,321,067)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at end of year</td>
<td>105,478,957</td>
<td>95,452,195</td>
</tr>
</tbody>
</table>

Net amount recognized in the statements of financial position

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net amount recognized in the statements of financial position</td>
<td>$ (63,267,110)</td>
<td>$ (60,882,164)</td>
</tr>
</tbody>
</table>
NOTE 6 – Pension Plan (Continued)

Reconciliation of Benefit Obligation (Continued)

Net periodic postretirement benefit cost consists of the following components:

<table>
<thead>
<tr>
<th>For the Year Ended</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>$ 8,969,602</td>
<td>$ 7,919,593</td>
</tr>
<tr>
<td>Interest cost</td>
<td>6,525,548</td>
<td>5,715,537</td>
</tr>
<tr>
<td>Return on assets</td>
<td>(6,760,304)</td>
<td>(5,973,512)</td>
</tr>
<tr>
<td><strong>Net periodic post-retirement benefit cost</strong></td>
<td><strong>$ 8,734,846</strong></td>
<td><strong>$ 7,661,618</strong></td>
</tr>
</tbody>
</table>

The net amount recognized as a separate credit to net assets of $9,596,467 and $9,646,885 as of June 30, 2018 and 2017, respectively, for unamortized net actuarial gain does not have an offsetting accrual from the DDS to reflect the future reimbursement of such benefits. The amount is recognized as a prepaid expense on the statement of financial position.

Cash Flow Estimates for Future Benefit Payments

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

<table>
<thead>
<tr>
<th>For the Year Ending</th>
<th>June 30,</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$ 3,983,737</td>
</tr>
<tr>
<td>2020</td>
<td>4,358,361</td>
</tr>
<tr>
<td>2021</td>
<td>4,858,735</td>
</tr>
<tr>
<td>2022</td>
<td>5,268,852</td>
</tr>
<tr>
<td>2023</td>
<td>5,635,115</td>
</tr>
<tr>
<td>2024-2028</td>
<td>33,634,404</td>
</tr>
</tbody>
</table>

$ 57,739,204
NOTE 7 – Commitments and Contingencies

Commitments

The Center is obligated under certain operating leases for its office facilities and office equipment. The lease terms expire in various years through 2027. The Center is required to pay for taxes, utilities, maintenance, and insurance on the facilities. Future minimum rental commitments for noncancellable operating leases are as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$ 3,037,937</td>
</tr>
<tr>
<td>2020</td>
<td>3,199,982</td>
</tr>
<tr>
<td>2021</td>
<td>3,177,949</td>
</tr>
<tr>
<td>2022</td>
<td>2,711,005</td>
</tr>
<tr>
<td>2023</td>
<td>2,780,599</td>
</tr>
<tr>
<td>Thereafter</td>
<td>11,191,909</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 26,099,381</strong></td>
</tr>
</tbody>
</table>

Total office equipment and facilities rental expense for the years ended June 30, 2018 and 2017 was $3,642,501 and $3,502,835, respectively.

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 expired on February 28, 2019, and was mutually extended indefinitely while the parties negotiate a new collective bargaining agreement. Under the agreement to extend the collective bargaining agreement, either party may terminate the extended collective bargaining agreement at any time by giving ten (10) days written notice to the other party. The Center and the union are currently in active negotiations for a new collective bargaining agreement, and the Center does not anticipate that either party will exercise the option to terminate the collective bargaining agreement at this time.
NOTE 7 – Commitments and Contingencies (Continued)

Contingencies

Funding

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 be immaterial to financial statements at June 30, 2018 and 2017 and for the years then ended.

The Center is dependent on continued funding provided by DDS to operate and provide services for its consumers. The Center’s contract with DDS provides funding for services under The Lanterman Act. In the event that 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.

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 Proceedings

The Center is subject to various legal proceedings and claims arising in the ordinary course of its operations. The Center’s management believes that the ultimate resolution of these matters will not have a material adverse effect on the Center’s financial position or activities.
NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<table>
<thead>
<tr>
<th>Federal Grantor/ Pass-Through Grantor/</th>
<th>Federal CFDA Number</th>
<th>Grant Identification Number</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Department of Education</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passed through State of California</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department of Developmental Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Education – Grants for Infants and Families with Disabilities</td>
<td>84.181A</td>
<td>H181A170037</td>
<td>$1,071,834</td>
</tr>
</tbody>
</table>

See accompanying notes to schedule of expenditures of federal awards.
NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of North Los Angeles County Regional Center, Inc. under programs of the federal government for the year ended June 30, 2018. 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). Because the Schedule presents only a selected portion of the operations of North Los Angeles County Regional Center, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of North Los Angeles County Regional Center, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - INDIRECT COST RATE

North Los Angeles County Regional Center, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of North Los Angeles County Regional Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of North Los Angeles County Regional Center, Inc. (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 combination of a 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.
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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 North Los Angeles County Regional Center, Inc.’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Long Beach, California
March 13, 2019
INDEPENDENT AUDITORS’ REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of
North Los Angeles County Regional Center, Inc.

Report on Compliance for Each Major Federal Program

We have audited North Los Angeles County Regional Center, Inc.’s 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, Inc.’s major federal program for the year ended June 30, 2018. North Los Angeles County Regional Center, Inc.’s major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors’ Responsibility

Our responsibility is to express an opinion on compliance for North Los Angeles County Regional Center, Inc.’s major federal program 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 requirement 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 North Los Angeles County Regional Center, Inc.’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 North Los Angeles County Regional Center, Inc.’s compliance.
Opinion on Each Major Federal Program

In our opinion, North Los Angeles County Regional Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of North Los Angeles County Regional Center, Inc. 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 North Los Angeles County Regional Center, Inc.’s internal control over compliance with the types of requirements that could have a direct and material effect on the 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 North Los Angeles County Regional Center, Inc.’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.
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.

Long Beach, California
March 13, 2019
NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

   Material weakness(es) identified? – No
   Significant deficiencies identified? – None reported
Noncompliance material to financial statements noted? – No

Federal awards

Internal control over major programs:

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

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

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

Identification of major programs:
   Special Education – Grants for Infants and Families with Disabilities CFDA #84.181A

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

Auditee qualified as low-risk auditee? – Yes

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

None

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