HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

INLAND COUNTIES REGIONAL CENTER, INC.

FINANCIAL STATEMENTS

JUNE 30, 2023

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C O N T E N T S

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Inland Counties Regional Center, Inc.

Opinion

We have audited the accompanying financial statements of Inland Counties Regional Center, Inc. (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2023, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

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 Inland Counties Regional Center Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Inland Counties Regional Center, Inc.'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 Inland Counties Regional Center, Inc.'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.

Other Matter

Report on Summarized Comparative Information

We have previously audited Inland Counties Regional Center, Inc.'s June 30, 2022 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated March 13, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2024, on our consideration of Inland Counties 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 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 Inland Counties Regional Center, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Inland Counties Regional Center, Inc.'s internal control over financial reporting and compliance.

Harrington Group

Pasadena, California
March 11, 2024

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENT OF FINANCIAL POSITION
June 30, 2023
With comparative totals at June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	2023	2022
ASSETS				
Cash and cash equivalents (Note 2)	$ 77,274,454	$ 61,009	**$ 77,335,463**	$ 58,631,108
Cash held for clients - restricted cash (Note 4)	1,809,564		**1,809,564**	1,411,368
Contracts receivable - State of California, net (Note 5)	1,686,140		**1,686,140**	11,967,343
Receivable from intermediate care facility vendors (Note 3)	7,754,336		**7,754,336**	7,750,406
Other receivables (Note 3)	1,185,507		**1,185,507**	1,038,235
Investments (Note 7)	607,103		**607,103**	570,609
Investments - restricted for Master Trust (Note 8)	28,137,406		**28,137,406**	25,749,536
Deposits and prepaid expenses	7,033,814		**7,033,814**	4,747,480
Receivable from the State of California for vacation and sick leave benefits	7,658,802		**7,658,802**	7,080,040
Receivable from the State of California - pension benefit obligation (Note 10)	35,859,104		**35,859,104**	36,767,354
Receivable from the State of California - post-retirement benefits other than pension obligation (Note 11)	16,764,308		**16,764,308**	18,189,154
Right-of-use assets - finance leases (Note 13)	459,099		**459,099**	-
Right-of-use assets - operating leases (Note 13)	90,148,033		**90,148,033**	-
TOTAL ASSETS	$ 276,377,670	$ 61,009	**$ 276,438,679**	$ 173,902,633
LIABILITIES AND NET ASSETS (DEFICIT)				
LIABILITIES				
Accounts payable	$ 85,025,813	$ -	**$ 85,025,813**	$ 73,949,250
Accrued payroll	2,929,911		**2,929,911**	2,565,212
Due to state	3,659,687		**3,659,687**	4,053,921
Accrued vacation and sick leave benefits	7,658,802		**7,658,802**	7,080,040
Amounts held for clients	1,655,055		**1,655,055**	1,257,797
Master Trust obligations	28,137,406		**28,137,406**	25,749,536
Pension benefit obligations (Note 10)	35,859,104		**35,859,104**	36,767,354
Post-retirement benefits other than pension obligations (Note 11)	16,764,308		**16,764,308**	18,189,154
Deferred rent			**-**	16,509,438
Other liabilities	5,049,711		**5,049,711**	6,313,134
Lease liabilities - finance leases (Note 13)	484,132		**484,132**	-
Lease liabilities - operating leases (Note 13)	107,129,937		**107,129,937**	-
TOTAL LIABILITIES	294,353,866	-	**294,353,866**	192,434,836
NET ASSETS (DEFICIT)				
Without donor restrictions	(17,976,196)		**(17,976,196)**	(18,611,874)
With donor restrictions (Note 12)		61,009	**61,009**	79,671
TOTAL NET ASSETS (DEFICIT)	(17,976,196)	61,009	**(17,915,187)**	(18,532,203)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 276,377,670	$ 61,009	**$ 276,438,679**	$ 173,902,633

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

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENT OF ACTIVITIES
For the year ended June 30, 2023
With comparative totals for year ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	2023	2022
REVENUE				
Contracts - State of California	$ 838,192,011	$ -	**$ 838,192,011**	$ 729,311,572
Intermediate care facility supplemental services income	12,398,963		**12,398,963**	13,779,207
Interest income	2,083,630		**2,083,630**	60,398
Other income	547,243		**547,243**	583,941
Contributions and grants	159,721	14,706	**174,427**	773,234
Special event income, net of expenses of $154,913	37,761		**37,761**	(7,558)
Investment gain (loss)	27,038		**27,038**	(97,293)
TOTAL REVENUE	853,446,367	14,706	**853,461,073**	744,403,501
EXPENSES				
Program services				
Purchase of services	747,687,591	18,726	**747,706,317**	657,187,252
Personnel expenses	58,809,595		**58,809,595**	49,122,664
Operating expenses	1,065,752	14,642	**1,080,394**	523,499
Total program services	807,562,938	33,368	**807,596,306**	706,833,415
General and administrative				
Personnel expenses	28,520,375		**28,520,375**	24,227,699
Operating expenses	16,727,376		**16,727,376**	13,297,510
Total general and administrative	45,247,751	-	**45,247,751**	37,525,209
TOTAL EXPENSES	852,810,689	33,368	**852,844,057**	744,358,624
CHANGE IN NET ASSETS BEFORE RETIREMENT OBLIGATIONS RELATED CHANGES	635,678	(18,662)	**617,016**	44,877
Net periodic benefit costs	(13,156,026)		**(13,156,026)**	(11,255,241)
Retirement obligations related changes other than net periodic benefit costs	13,156,026		**13,156,026**	11,255,241
CHANGE IN NET ASSETS AFTER RETIREMENT OBLIGATIONS RELATED CHANGES	635,678	(18,662)	**617,016**	44,877
NET DEFICIT, BEGINNING OF YEAR	(18,611,874)	79,671	**(18,532,203)**	(18,577,080)
NET DEFICIT, END OF YEAR	$ (17,976,196)	$ 61,009	**$ (17,915,187)**	$ (18,532,203)

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

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2023
With comparative totals for the year ended June 30, 2022

	Program Services	General and Administrative	Total Expenses 2023	Total Expenses 2022
Salaries	$ 42,378,267	$ 20,542,883	**$ 62,921,150**	$ 50,900,735
Employee benefits and retirement benefits	15,453,782	7,489,743	**22,943,525**	21,205,676
Payroll taxes	977,546	487,749	**1,465,295**	1,243,952
Total personnel expenses	58,809,595	28,520,375	**87,329,970**	73,350,363
Purchases of services				
Other purchased services	324,541,592		**324,541,592**	276,428,024
Residential care facilities	279,149,450		**279,149,450**	239,054,410
Day program	144,015,275		**144,015,275**	141,704,818
Rent expense		8,493,990	**8,493,990**	8,494,073
Data processing		3,467,916	**3,467,916**	1,247,940
Equipment purchases		1,526,515	**1,526,515**	1,358,384
General expenses		1,273,939	**1,273,939**	650,954
Staff travel	701,729	97,390	**799,119**	219,548
Insurance	378,665	294,370	**673,035**	628,238
Communication		484,208	**484,208**	656,231
Consultant fees		402,264	**402,264**	92,441
Equipment and facility maintenance		282,472	**282,472**	156,184
Accounting fees		117,023	**117,023**	111,079
ARCA dues		106,405	**106,405**	106,405
Amortization		82,788	**82,788**	-
Legal fees		62,664	**62,664**	92,498
Board expenses		21,221	**21,221**	2,779
Interest		12,373	**12,373**	-
Printing		1,838	**1,838**	4,255
TOTAL 2023 FUNCTIONAL EXPENSES	**$ 807,596,306**	**$ 45,247,751**	**$ 852,844,057**	
TOTAL 2022 FUNCTIONAL EXPENSES	$ 706,833,415	$ 37,525,209		$ 744,358,624

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

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENT OF CASH FLOWS
For the year ended June 30, 2023
With comparative totals for the year ended June 30, 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 617,016	$ 44,877
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Deferred rent	(16,509,438)	617,377
Net realized and unrealized investment (gain) loss	(27,038)	97,293
Dividend reinvested	(9,456)	(7,799)
Amortization of the right-of-use assets - finance leases	82,788	-
Amortization of the right-of-use assets - operating leases	19,416,604	-
Lease liability reduction - operating leases	(2,434,775)	-
(Increase) decrease in operating assets:		
Cash held for clients	(398,196)	458,640
Contracts receivable - State of California	10,281,203	(4,187,868)
Receivable from Intermediate care facility vendors	(3,930)	(507,636)
Other receivables	(147,272)	140,944
Investment - Master Trust	(2,387,870)	1,247,752
Deposits and prepaid expenses	(2,286,334)	355,856
Receivable from state for accrued vacation and sick leave benefits	(578,762)	22,367
Receivable from the State of California - pension benefit obligation	908,250	(35,297,502)
Receivable from the State of California - other post-retirement benefits obligation	1,424,846	2,641,979
Increase (decrease) in operating liabilities:		
Accounts payable	11,076,563	10,480,530
Accrued payroll	364,699	664,627
Due to state	(394,234)	(86,852)
Accrued vacation and sick leave benefits	578,762	(22,367)
Amounts held for clients	397,258	(540,270)
Master trust obligations	2,387,870	(1,247,752)
Pension benefit obligations	(908,250)	35,297,502
Other post-retirement benefits obligations	(1,424,846)	(2,641,979)
Other liabilities	(1,263,423)	(48,588)
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,762,035	7,481,131
CASH FLOWS (TO) FINANCING ACTIVITIES:		
Principal payments on finance leases	(57,680)	-
NET CASH (USED) BY FINANCING ACTIVITIES	(57,680)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	18,704,355	7,481,131
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	58,631,108	51,149,977
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 77,335,463	$ 58,631,108
SUPPLEMENTAL DISCLOSURES:		
Operating activities reflects interest of finance leases paid of	$ 12,373	$ -
NON-CASH FINANCING AND OPERATING ACTIVITIES:		
Right-of-use assets/liability from adoption of ASC 842	$ 110,106,524	$ -

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

1. Organization

Inland Counties Regional Center, Inc. ("IRC"), was incorporated on August 5, 1971 as a California not-for-profit corporation for the purpose of operating Inland Regional Center and related activities. IRC was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act ("the Act") of the Welfare and Institutions Code of the State of California ("the State"). In accordance with the Act, IRC provides diagnostic evaluations, client program management, and lifelong planning services for persons with development disabilities and their families. The areas served include the Counties of San Bernardino and Riverside.

The Act includes governance provisions regarding the composition of IRC's board of trustees. 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 that various categories of providers from which IRC purchases client services, shall serve as a member of the IRC board. To comply with the Act, IRC's board of trustees includes persons with developmental disabilities, or their parents or legal guardians, who receive services from IRC and a client service provider of IRC.

IRC contracts with the State Department of Developmental Services ("DDS") to operate a regional center from the developmentally disabled and their families. Under the terms of these contracts, IRC's expenses incurred in the performance of the contracts are compensable. Such expenses are billable and reimbursable under the DDS contract when they are paid. For the 2022-2023 contract year, funded expenditures were not to exceed $971,919,729. Actual net expenditures under IRC contract for the 2022-2023 contracts were $828,311,494 as of June 30, 2023.

As discussed above, IRC operates under contracts with the DDS and is only funded on a cost reimbursement basis as expenses are paid. However, generally accepted accounting principles in the United States of America require IRC to recognize and accrue expenses when incurred. IRC's net deficit as of June 30, 2023 on the statement of financial position is primarily the result of the accruals of lease liabilities and the legal settlement with the DDS.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

continued

2. Summary of Significant Accounting Policies, continued

Basis of Accounting

The financial statements of IRC 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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

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

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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions

Contributions, including pledges, are recognized as income 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 in support until the conditions are substantially met.

Cash and Cash Equivalents and Concentration of Credit Risk

IRC has defined cash and cash equivalents as cash in banks and certificates of deposit with an original maturity of six months or less. Cash held for clients is presented separately on the Statement of Financial Position.

IRC places their temporary cash investments with high credit quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. IRC has not incurred losses in such accounts and believes it is not exposed to any significant credit risk on cash.

continued

2. Summary of Significant Accounting Policies, continued

Revenue and Revenue Recognition

IRC's revenue is mainly derived from cost-reimbursable state contracts and grants, which are conditioned upon performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when IRC has incurred expenditures in compliance with specific contract or grant provisions. If amounts are received prior to incurring qualifying expenditures, such amounts are reported as contract advances offsetting with contracts receivable in the Statement of Financial Position as described in (Note 5).

A portion of IRC's revenue is contributions from donors. IRC 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. As of June 30, 2023, IRC has recognized all contributions received with donor restrictions. All conditions were met.

Other Receivables

Other receivables primarily consist of client support receivables and loans and vendor receivables. Other receivables are recorded when support or loans are granted to clients and when vendor audits have been completed and overpayments have been determined by IRC and agreed by vendors. Other receivables are presented on the Statement of Financial Position net of an allowance for doubtful accounts and are written off when they are determined to be uncollectible. Management determined there was no allowance necessary as of June 30, 2023.

Investments

IRC values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain on investments, except for the Master Trust investments as described in Note 8.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets
Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets
Level 3 inputs - estimates using the best information available when there is little or no market

IRC is required to measure certain investments at fair value. The specific techniques used to measure fair value for the financial statement element is described in Note 9.

continued

2. Summary of Significant Accounting Policies, continued

Property and Equipment

Pursuant to the terms of the contract with the DDS, equipment purchases become the property of the State and, accordingly, are expensed as incurred. For the year ended June 30, 2023 equipment purchases totaled $1,526,515.

The State requires all sensitive and nonexpendable equipment to be tagged and reported annually. Sensitive equipment is defined as having a normal useful life of greater than one year, costing less than $5,000, and being highly desirable or susceptible to theft. Nonexpendable equipment is defined as having a useful life of greater than one year and costing more than $5,000.

Accrued Vacation and Sick Leave Benefits

IRC has accrued a liability and a receivable from the State for accrued vacation and sick leave benefits earned. These expenses are compensable costs per the terms of the DDS contract and will become billable and reimbursable under the terms of the DDS contract when they are actually paid to employees.

Obligation for Retirement Pension Benefits

IRC is required to recognize the unfunded status of the California Public Employees' Retirement System ("CalPERS") pension plans, measured as the difference between plan assets at fair value and the pension obligation, in the Statement of Financial Position, with an offsetting charge or credit to net assets (deficit). IRC has accrued a liability for the CalPERS pension. IRC has also recorded a receivable from the State for pension benefit obligation to reflect the future reimbursement of such benefits. However, such benefits are reimbursed under the State contract only when actually paid.

Post-Retirement Benefits Other Than Pension

IRC is required to recognize the unfunded status of the Retirement Medical Reimbursement ("RMR") Plan, measured as the difference between plan assets at fair value and the benefit obligation, in the Statement of Financial Position, with an offsetting charge or credit to net assets or net assets (deficit). IRC has accrued a liability for the RMR Plan. Gains or losses and prior service costs will be recognized each year as a separate charge or credit to net assets. Such expenses are compensable costs incurred under the terms of the DDS contract and will become billable and reimbursable only if they are paid. IRC did not contribute to the RMR Plan for the year ending June 30, 2023.

continued

2. Summary of Significant Accounting Policies, continued

Leases

IRC applies Accounting Standards Codification ("ASC") *842, Leases*, in determining whether an arrangement is or contains a lease at the lease inception. An arrangement is considered to include a lease if it conveys the right to control the use of identified property, plant or equipment for a period of time in excess of twelve months in exchange for consideration. IRC defines control of the asset as the right to obtain substantially all of the economic benefits from use of the identified asset as well as the right to direct the use of the identified asset. IRC further determines the existing leases consist of operating leases and finance leases, which are included in ROU assets and leases liabilities separately in the Statement of Financial Position.

Recently Announced Accounting Pronouncement

IRC adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*, which is effective for fiscal years beginning after December 15, 2021, and requires lessees to recognize leases on the Statement of Financial Position and disclose key information about leasing arrangements. IRC elected not to restate the comparative period (fiscal year 2022). IRC also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases, or (iii) initial direct costs for existing leases, as allowed by the standard. As a result of implementing ASU No. 2016-02, IRC recognized Right-of-Use ("ROU") assets of $110,106,524 and lease liabilities totaling $110,106,524 in its Statement of Financial Position as of July 1, 2022. The discount rate used to record the ROU assets and lease liabilities at the transition date of July 1, 2022, was 2.88%. The adoption did not result in a significant effect on amounts reported in the Statement of Activities for the year ended June 30, 2023.

Income Taxes

IRC is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). Consequently, the accompanying financial statements do not include any provisions for income taxes.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by IRC in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. IRC returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing IRC programs and other activities have been presented in the Statement of Functional Expenses. Personnel expenses, purchase of services, travel and insurance expenses are accumulated into separate groupings on a direct-cost basis. All other operating expenses are accumulated into the general and administrative expense and are not allocated.

continued

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America and requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with IRC's financial statements for the year ended June 30, 2022, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through March 11, 2024, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Liquidity and Availability of Resources

IRC regularly monitors its liquidity that is required to meet its operating needs and contractual commitments. IRC's sources of liquidity at its disposal includes cash and cash equivalents, contracts receivable, other receivables, and investments.

For purposes of analyzing resources required to meet operating expense over a 12-month period, IRC considers all expenditures and the pattern of all incomes related to its ongoing activities. The Finance Committee of the Board of Trustees meets regularly to review all financial aspects of the organization.

IRC's major resources are from the State of California in the form of reimbursement of qualified expenses. IRC operates a budget that is allocated and reimbursed by the DDS annually to cover general expenditures.

As of June 30, 2023, the following table shows the total financial assets held by IRC and the amounts of those financial assets that could be readily available within one year of the statement of financial position date to meet general expenditures.

Cash and cash equivalents	$77,335,463
Contracts receivable	1,686,140
Receivable from Intermediate Care Facility vendors	7,754,336
Other receivables	1,185,507
Investments	607,103
Assets available to meet general expenditures within one year	$88,568,549

continued

4. Cash Held for Clients and Unexpended Client Support

IRC functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. The cash balances are segregated from the operating cash accounts of IRC and are restricted for client support. Since IRC 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 client support and expenses not reported in the statement of activity for the year ending June 30, 2023:

Social Security and other client support	$ 13,182,523
Residential care and other disbursements	(12,785,303)
Support over disbursements	397,220
Changes to reconcile support over disbursement to net cash for support and care activities:	
Increase in amounts due to IRC	275,377
Increase in receivable from state and federal agencies	(274,401)
Increase in cash	976
Add cash at beginning of the year	1,411,368
Cash at end of the year	$ 1,809,564

5. Contracts Receivable/Contract Advances – State of California

IRC's major source of revenue is from the State in the form of reimbursement of qualified expenses. Each fiscal year, IRC enters into a new contract with the State for a specified funding amount subject to IRC's approved budget amendments. Revenue 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 IRC or by applying the claims reimbursements against advances already made to IRC by the State.

As of June 30, 2023, DDS had advanced IRC $249,091,799 under the contracts with DDS. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from DDS as of June 30, 2023 as follows:

Contracts receivable - State of California	$ 250,777,939
Contract advances - State of California	(249,091,799)
Net contract receivable	$ 1,686,140

IRC has received its contract for the year ending June 30, 2024. The contract provides for initial allocation of $869,628,744.

continued

6. Receivables from Intermediate Care Facility Vendors

The Centers for Medicare and Medicaid Services ("CMS") has approved federal financial participation in the funding of the day and related transportation services purchased by IRC for consumers who reside in Intermediate Care Facilities ("ICFs"). CMS agreed that the day and related transportation services are part of the ICFs service; however, the federal rules allow for only one provider of the ICFs service. Accordingly, all the Medicaid funding for the ICFs residents must go through the applicable ICFs provider. IRC receives a 1.5% administrative fee based on the funds received to cover the additional workload.

The DDS has directed IRC to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. IRC 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 IRC's administrative fee, to IRC within 30 days of receipt of funds from the State Controller's Office.

7. Investments

Investments at June 30, 2023 are summarized as follows:

Mutual funds	$433,287
Money market funds	172,974
Fixed income funds	842
	$607,103

The above investments were maintained in the following funds:

Another Way fund	$343,785
General fund	154,076
Master Trust Endowment fund	109,242
	$607,103

Investment income including interest on bank accounts and other sources are as follows:

Realized and unrealized loss	$ 27,038
Interest and dividend income	2,083,630
	$2,110,668

continued

8. Investments – Restricted for Master Trust

IRC Master Trust of California ("Master Trust") was established in 1978 to receive property from individuals or other entities (trustors), and administered for the benefit of specified disabled persons (beneficiaries). Property is admitted as a separate trust into the Master Trust upon approval of IRC Trustee through the Master Trust of California Committee; then by the direction of a court order, or the execution of a Joinder and Trust Agreement by a Trustor.

Distributions from a trust are made in accordance with the direction of the Master Trust of California Trust Committee. Termination of a Trust Agreement will occur upon the death of the beneficiary, depletion of the trust assets, according to court order, or according to the trust document.

Only the assets and obligations of the Master Trust are shown on the Statement of Financial Position. Trustee fees charged by IRC are included in the Statement of Activities.

The Master Trust assets classified as restricted investments were as follows:

Investments in marketable securities	
Equities	$12,199,058
Fixed income	5,569,670
Certificate of deposit	147,528
Other assets	
Pooled cash	5,840,986
Accrued interest and dividend receivable, net	27,105
Other assets	4,353,059
Total investments	$28,137,406

9. Fair Value Measurements

The table below presents the balance of the IRC's assets measured at fair value at June 30, 2023 on a recurring basis:

	Level 1	Level 2	Level 3	Total
Mutual funds	$433,287	$ -	$ -	**$433,287**
Fixed income funds				
U.S. government securities		842		**842**
	$433,287	$842	$ -	**$434,129**

The fair value of certain mutual funds have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of the fixed income funds are measured through analytical reviews and assessment of current market activity using market data obtained from external, independent sources. (Level 2 inputs).

continued

9. Fair Value Measurements, continued

The table below presents the balances of Master Trust's assets measured at fair value at June 30, 2023 on a recurring basis:

	Level 1	Level 2	Level 3	Total
Equities				
Domestic common and foreign stock	$ 3,819,499	$ -	$ -	**$ 3,819,499**
Mutual funds - equity	4,844,535			**4,844,535**
Exchange traded	3,535,024			**3,535,024**
	12,199,058	-	-	**12,199,058**
Fixed income				
Municipal bonds		72,367		**72,367**
Corporate bonds		1,160,315		**1,160,315**
U.S. government securities		321,254		**321,254**
Mutual funds - fixed income	4,015,734			**4,015,734**
	4,015,734	1,553,936	-	**5,569,670**
	$16,214,792	$1,553,936	$ -	**$17,768,728**

The fair value of equities and mutual funds-fixed income are measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of municipal bonds, corporate bonds, and U.S. government securities have been measured on a recurring basis using quoted prices in active market for the same or similar assets (Level 2 inputs).

There are no investments classified as Level 3.

10. Pension Benefit Obligation

Since 1998, IRC has participated in CalPERS, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public employers within the State. All eligible employees of IRC are enrolled in CalPERS.

The Public Employee's 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 Q Street, Sacramento, California, 95811 and at www.calpers.ca.gov.

continued

10. Pension Benefit Obligation, continued

IRC has two retirement plans with CalPERS. One plan is a 2%-at-age-55 formula, which closed as of December 31, 2012. All employees hired prior to January 1, 2013 participate in this plan. The second plan is a 2%-at-age-62 formula which was established by the Public Employees' Pension Reform Act of 2013 (PEPRA) and all employees hired on or after January 1, 2013 participate in this plan. The total required employee contributions are 7% of earnings for the 2%-at-age-55 plan, 6.5% of earnings for the 2%-at-age-62 plan.

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

The net periodic benefit cost for the year ended June 30, 2023 was $10,694,556.

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

Change in benefit obligation	
Benefit obligation, beginning of year	$270,565,665
Service cost	8,403,956
Interest cost	18,507,863
Change of assumptions	200,894
Experience (gain) or loss	(2,611,351)
Benefits and expenses paid	(8,254,567)
Benefit obligation, end of year	$286,812,460
Change in fair value of plan assets	
Fair value of plan assets, beginning of year	$233,798,311
Employer contributions	7,138,585
Employee contributions	3,968,903
Net investment income	14,474,048
Benefits and expenses paid	(8,254,567)
Administrative and other expenses	(171,924)
Fair value of plan asset, end of year	$250,953,356
Plan net pension liability	$35,859,104

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

Discount rate	6.90%
Expected long-term return on plan assets	7.00%
Rate of compensation increase	2.75%

10. Pension Benefit Obligation, continued

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

Plan assets of $250,953,356 are held in a pooled investment account managed by CalPERS. The fair value measurement inputs can be found on the CalPERS Comprehensive Annual Financial Report (CAFR) at www.calpers.ca.gov.

The following projected benefit payments for the next seven years provided by CalPERS, which reflect expected future service, as appropriate, are expected to be paid at June 30, 2023 and for the years then ended:

Year ending June 30,	Expected Payment
2024	$ 6,548,500
2025	7,175,813
2026	7,817,599
2027	8,495,720
2028	8,969,643
2029 – 2030 Aggregate	20,359,754
	$59,367,029

11. Post-Retirement Medical Reimbursement Plan

IRC instituted an unfunded RMR Plan, effective July 1, 1988. The RMR Plan was established to provide reimbursement of medical expenses for the medical care of each participant and eligible dependents up to their maximum yearly allowance. An IRC employee who meets certain age and length of service requirements becomes a participant of the RMR Plan upon separation from service. Investments are maintained in an irrevocable trust for the RMR Plan from funds set aside in previous years. IRC did not contribute to the RMR Plan assets for the year ended June 30, 2023.

IRC has the right to amend the RMR Plan at any time. The RMR Plan and its obligations will terminate when the assets in the plan are completely exhausted. IRC uses a June 30 measurement date.

The net periodic post-retirement benefit cost for the year ended June 30, 2023 was $2,461,470.

continued

11. **Post-Retirement Medical Reimbursement Plan**, continued

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

Change in benefit obligation	
Benefit obligation, beginning of year	$19,872,938
Service cost	1,395,001
Interest cost	922,228
Experience (gain) or loss	(3,381,081)
Benefits and expenses paid	(243,830)
Benefit obligation, end of year	$18,565,256
Change in fair value of plan assets	
Fair value of plan assets, beginning of year	$1,683,784
Employer contributions	222,594
Employee contributions	-
Net investment income	138,400
Benefits and expenses paid	(243,830)
Fair value of plan asset, end of year	$1,800,948
Plan net pension liability	$16,764,308

The following projected benefit payments for the next ten years, which reflect expected future service, as appropriate, are expected to be paid at June 30, 2023 and for the years then ended:

Year ending June 30,	Expected Payment
2024	$ 342,846
2025	373,411
2026	436,919
2027	454,632
2028	526,089
2029 – 2033 Aggregate	4,251,110
	$6,385,007

12. **Net Assets With Donor Restrictions**

Net assets with donor restrictions at June 30, 2023 consist of the following:

Another Way Program	$53,018
Staff training	7,991
	$61,009

For the year ended June 30, 2023, net assets released from purpose restrictions were $33,368.

continued

13. Right-of-Use Assets and Liabilities – Operating Leases

IRC evaluated current contracts to determine which met the criteria of a lease. Right-of-Use ("ROU") assets represent IRC's ROU underlying assets for the lease term, and the lease liabilities represent IRC's obligation to make lease payments arising from these leases. The ROU assets and lease liabilities, all of which arise from financing leases, were calculated based on the present value of future lease payments over the lease terms. IRC used the rate implicit in the lease, if it is determinable. When the rate implicit in the lease is not determinable, IRC uses the risk-free rate of return at the lease commencement date to determine the present value of the future lease payments. Lease terms, in the calculations, may include renewal or extension options to the extent they are reasonably certain to be exercised. Lease expense is recognized on a straight-line basis over the lease term.

Operating Leases

IRC is obligated under various operating lease agreements, which expire at various dates through June 2045 for office facilities. The terms of the office lease agreement provide for payment of minimum annual rental payments, with fixed increases.

In November 2007, IRC entered into an operating lease agreement with California Housing Foundation to lease office facilities at San Bernardino County (see Note 16). The original lease term was 32 years and began on September 1, 2009. During the year ended June 30, 2016, the agreement was amended to extend the lease term to end June 30, 2045.

In September 2020, IRC renewed an operating lease agreement with The SB Hillside Properties, LLC, the successor of The Grove Business Parks, LLC to lease office facilities at Riverside County. The agreement was amended to extend the lease term to end August 31, 2029.

The weighted average of remaining lease terms and weighted average of discount rates for operating leases as of June 30, 2023 were 256.37 months and 3.26%, respectively.

Cash paid for the operating leases for the year ended June 30, 2023 was $5,954,068. There were no non-cash financing transactions related to leasing during the year ended June 30, 2023.

Future maturities under operating leases are as follows:

Year ending June 30,	
2024	$ 6,073,150
2025	6,247,473
2026	6,372,422
2027	6,485,552
2028	6,600,694
Thereafter	119,609,103
	151,388,394
Less: present value discount	(44,258,457)
	$107,129,937

Lease expense under operating leases for the year ended June 30, 2023 was $5,954,068.

continued

13. Right-of-Use Assets and Liabilities – Operating Leases, continued

ROU assets – operating leases – July 1, 2022	$109,564,712
Less: deferred rent as of July 1, 2022 reclassified to ROU assets	(16,509,438)
Less: accumulated amortization	(2,907,241)
ROU assets – operating leases – June 30, 2023	$ 90,148,033

Finance Leases

IRC's finance leases consist of copier leases. The ROU assets and lease liabilities for these leases were determined based on the current terms in force as of June 30, 2023. No additional options have been included.

The weighted average of remaining lease terms and weighted average of discount rates for financing leases as of June 30, 2023 were 61 months and 2.65%, respectively.

Cash paid for the finance leases for the year ended June 30, 2023 was $70,053. There were no non-cash financing transactions related to leasing during the year ended June 30, 2023.

Future maturities under finance leases are as follows:

Year ending June 30,	
2024	$ 83,427
2025	91,770
2026	100,946
2027	111,041
2028	122,145
Thereafter	10,257
	519,586
Less: present value discount	(35,454)
	$484,132

Amortization expense and interest expense under finance lease for the years ended June 30, 2023 were $82,788 and $12,373, respectively.

Assets related to the finance leases at June 30, 2023 consist of the following:

ROU assets – finance leases – July 1, 2022	$541,887
Less: accumulated amortization	(82,788)
ROU assets – finance leases – June 30, 2023	$459,099

The above maturities reflect rental agreements in effect as of June 30, 2023. IRC continually renegotiates its lease agreements; therefore, future maturity amounts may change.

continued

14. Contingencies

In accordance with the terms of the contract with the DDS, an audit may be performed by an authorized DDS representative. DDS conducted fiscal compliance audits of IRC for the period of July 1, 2008 through June 30, 2012 and issued its final audit reports with various findings and recommendations that IRC should repay to DDS. IRC has entered into an agreement with DDS to settle the disputed audit findings. The provision for the total amount due to DDS is included in other liabilities on the statement of financial position and annual installments payments began on August 15, 2019.

DDS issued its final audit reports for July 1, 2012 through June 30, 2014 on April 17, 2018 with various findings and recommendations that IRC should repay to DDS various amounts in a combined total which immaterial to the financial statements at June 30, 2023. IRC pursued its administrative appeal of the findings and recommendations and provisions for the repayment to the State has not been recorded on the statement of financial position. IRC has complied with, or is in the process of complying with, other findings and recommendations that are not being appealed and that have no direct fiscal impact on IRC.

On November 19, 2018, DDS issued its final audit reports for July 1, 2014 through June 30, 2015 with various findings and recommendations that have no direct fiscal impact on IRC. IRC has complied with the findings and recommendations.

On May 17, 2019, DDS issued its final audit reports for July 1, 2015 through June 30, 2016 and July 1, 2016 through June 30, 2017. No audit finding was reported.

On February 26, 2020, DDS issued its final audit report for July 1, 2017 through June 30, 2018 with a finding and recommendation that have no direct fiscal impact on IRC. IRC has complied with the finding and recommendation.

On July 22, 2020, DDS issued its final audit reports for July 1, 2018 through June 30, 2019. No audit finding was reported.

On October 28, 2022, DDS issued its final audit report for July 1, 2019 through June 30, 2021 with various findings and recommendations that have no direct fiscal impact on IRC. IRC has complied with the findings and recommendations.

IRC is dependent on continued funding provided by the DDS to operate and provide services for its clients. IRC's contract with the DDS provides funding for services under the Act. In the event that the operations of IRC result in a deficit position at the end of any contract year for client program services, DDS may reallocate surplus funds within the Regional Center system to supplement IRC's funding. In the event that the State determines that IRC has insufficient funds to meet its contractual obligations, the State shall make its best effort to secure additional funding and/or provide IRC with regulatory relief.

continued

14. Contingencies, continued

IRC's investments are exposed to various risks, such as interest rate, market, and credit risks. Market risks include global events which could impact the value of investments securities, such as pandemic or international conflict. Due to the level of risk associated with certain investments, it is at least reasonable possible that changes in the value of investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statement of financial position.

IRC is required to reimburse the State for state unemployment insurance benefits paid to its former employees. A trust fund is maintained to fund any reimbursements. As of June 30, 2023, the trust fund balance was $1,461,008, which is included in other assets on the statement of financial position.

IRC is involved as a defendant in other various matters of litigation arising in the normal course of its business. IRC accrues for potential liability arising from proceedings when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated. In view of the inherent difficulty of predicting the outcome of legal proceedings, IRC cannot state what will be the eventual outcomes of the currently pending matters, the timing of their ultimate resolution or the eventual losses, fines, penalties or impact related to those matters. IRC believes based upon its current knowledge, after consultation with counsel, that legal proceedings currently pending against it should not have a material adverse effect on IRC's financial position, thus, has made no provision in the financial statements for any costs relating to such matters. IRC notes, however, that considering the uncertainties involved in such proceedings, there is no assurance of the ultimate resolution of these matters.

15. Other Transactions

California Housing Foundation ("the Foundation") was formed by members of IRC's board of trustees for the purpose of providing support services for consumers of IRC. The Foundation and IRC have no common board members. The Foundation provides residential facilities for occupancy by persons with developmental disabilities.

IRC entered into an operating lease agreement with the Foundation in November 2007. Lease payments made to the Foundation amounted to $7,562,830 for the year ended June 30, 2023. These amounts are included within the rent expense.

IRC entered into multiple contracts with the Foundation to provide advance funding for the purchase of homes to be used as residential facilities for its consumers. The advances are secured by promissory notes, bear no interest, require no principal payments, and will be forgiven based on the terms of the agreement. In the event that the contract is breached, the Foundation would be responsible to repay IRC the total amount of the advance with interest at a rate equal to 10%. During the year ended June 30, 2023, IRC made no advances to the Foundation. As of June 30, 2023, total advances which have not been forgiven were $150,000.