



**FINANCIAL STATEMENTS AND SUPPLEMENTARY
FINANCIAL INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)**

REGIONAL CENTER OF THE EAST BAY, INC.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Regional Center of the East Bay, Inc. (the Center), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. 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. Those standards require that we plan and perform the audit 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 auditors' 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 2020 financial statements referred to above present fairly, in all material respects, the financial position of the Regional Center of the East Bay, Inc., as of June 30, 2020, 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.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Purchase of Services Expenses for the year ended June 30, 2020, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is also presented for the 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.

Report on Summarized Comparative Information

We have previously audited the Center's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 5, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 February 4, 2021, on our consideration of the Center's 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 the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Marcum LLP

Washington, DC
February 4, 2021

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2019)

	2020		2019	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Assets				
Cash	\$ 36,466,341	\$ --	\$ 36,466,341	\$ 8,610,061
Cash held for others	3,735,825	596,378	4,332,203	3,619,350
Cash held for CPPDD (Note 12)	1,799,312	--	1,799,312	1,799,312
Contract reimbursement receivable (Note 2)	120,491,311	--	120,491,311	133,315,581
Claimable costs incurred (Note 3)	130,948,592	--	130,948,592	92,506,668
Note receivable (Note 4)	38,974	--	38,974	213,310
Receivable from Intermediate Care Facilities (Note 5)	3,818,466	--	3,818,466	3,508,468
Prepaid expenses and other assets	1,437,744	48,372	1,486,116	1,538,831
CPPDD vendor advances – lease (Note 12)	172,712	--	172,712	172,712
CPPDD vendor advances – other (Note 12)	78,497	--	78,497	78,497
Total Assets	<u>\$ 298,987,774</u>	<u>\$ 644,750</u>	<u>\$ 299,632,524</u>	<u>\$ 245,362,790</u>
Liabilities and Net Assets				
Liabilities				
Accounts payable	\$ 45,574,471	\$ --	\$ 45,574,471	\$ 36,258,385
Contract advance (Note 7)	118,386,096	--	118,386,096	112,387,865
Payable to Department of Developmental Services (Note 5)	38,974	--	38,974	213,310
Accrued vacation and other leave benefits	2,442,389	--	2,442,389	1,966,076
Deferred rent liability (Note 13)	5,436,843	--	5,436,843	5,402,281
Net assets held for others (Note 8)	3,767,865	--	3,767,865	2,673,359
Unfunded pension benefit obligation (Note 11)	123,341,136	--	123,341,136	85,451,407
Total Liabilities	<u>298,987,774</u>	<u>--</u>	<u>298,987,774</u>	<u>244,352,683</u>
Net Assets	<u>--</u>	<u>644,750</u>	<u>644,750</u>	<u>1,010,107</u>
Total Liabilities and Net Assets	<u>\$ 298,987,774</u>	<u>\$ 644,750</u>	<u>\$ 299,632,524</u>	<u>\$ 245,362,790</u>

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

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	2020		2019	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and Support				
Grants – State DDS	\$ 538,395,734	\$ --	\$ 538,395,734	\$ 468,646,016
Grants – Federal	1,550,237	--	1,550,237	1,716,074
Intermediate Care Facilities (Note 5)	6,388,541	--	6,388,541	6,220,965
Contributions	--	429,581	429,581	14,416
Interest	291,823	51	291,874	248,283
Net assets released from restrictions:				
Satisfaction of program restrictions	794,989	(794,989)	--	--
Total Revenue and Support	<u>547,421,324</u>	<u>(365,357)</u>	<u>547,055,967</u>	<u>476,845,754</u>
Expenses				
Program Services				
Purchase of services	459,657,140	--	459,657,140	408,427,107
Operating	<u>44,106,552</u>	<u>--</u>	<u>44,106,552</u>	<u>42,156,189</u>
Total Program Services	503,763,692	--	503,763,692	450,583,296
Supporting Service				
General and administrative	<u>5,767,903</u>	<u>--</u>	<u>5,767,903</u>	<u>5,899,348</u>
Total Expenses	<u>509,531,595</u>	<u>--</u>	<u>509,531,595</u>	<u>456,482,644</u>
Change in net asset before changes in pension benefit obligation	37,889,729	(365,357)	37,524,372	20,363,110
Change in pension benefit other than periodic benefit costs	<u>(37,889,729)</u>	<u>--</u>	<u>(37,889,729)</u>	<u>(20,355,692)</u>
Change in Net Assets	--	(365,357)	(365,357)	7,418
Net Assets – Beginning	<u>--</u>	<u>1,010,107</u>	<u>1,010,107</u>	<u>1,002,689</u>
Net Assets – Ending	<u>\$ --</u>	<u>\$ 644,750</u>	<u>\$ 644,750</u>	<u>\$ 1,010,107</u>

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

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	2020		2019	
	Program Services	General and Administrative	Total	Total
Purchase of Services				
Out of home	\$ 167,906,360	\$ --	\$ 167,906,360	\$ 145,688,420
Day programs	93,298,664	--	93,298,664	84,693,044
Other purchased services	198,452,116	--	198,452,116	178,045,643
Total Purchase of Services	<u>459,657,140</u>	<u>--</u>	<u>459,657,140</u>	<u>408,427,107</u>
Operating				
Salaries and related expenses	36,864,518	4,556,289	41,420,807	39,921,536
Office occupancy	4,017,894	496,594	4,514,488	4,465,576
Contract and consultant fees	1,207,391	149,228	1,356,619	1,748,708
Restricted grant expense	794,990	--	794,990	7,018
Staff travel	277,814	34,337	312,151	427,601
Communications	230,657	28,112	258,769	231,809
General	--	255,413	255,413	233,075
Insurance	171,682	21,219	192,901	169,899
General office expenses	157,725	19,494	177,219	250,965
Equipment rental	135,431	16,739	152,170	146,967
Data processing	98,729	12,202	110,931	67,076
ARCA dues	--	92,527	92,527	92,527
Accounting fees	76,754	9,486	86,240	87,980
Bank charges	--	67,244	67,244	41,938
Legal fees	32,616	4,031	36,647	124,830
Conferences and seminars	13,762	1,701	15,463	5,269
Printing	22,530	2,785	25,315	27,456
Board of Directors' expenses	4,059	502	4,561	5,307
Total Operating	<u>44,106,552</u>	<u>5,767,903</u>	<u>49,874,455</u>	<u>48,055,537</u>
Total Expenses	<u>\$ 503,763,692</u>	<u>\$ 5,767,903</u>	<u>\$ 509,531,595</u>	<u>\$ 456,482,644</u>

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

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2020

(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2019)

	2020		2019	
	Without Donor Restrictions	With Donor Restricted	Total	Total
Cash Flows From Operating Activities				
Change in net assets	\$ --	\$ (365,357)	\$ (365,357)	\$ 7,418
Adjustments to reconcile change in net assets to net provided by (used in) operating activities:				
Changes in defined benefit plan liability	37,889,729	--	37,889,729	20,355,692
Changes in assets and liabilities:				
Contract reimbursement receivable	12,824,270	--	12,824,270	(52,320,086)
Claimable costs incurred	(38,441,924)	--	(38,441,924)	(20,359,458)
Receivable from Intermediate Care Facilities	(309,998)	--	(309,998)	(286,731)
Prepaid expenses and other assets	71,796	(19,081)	52,715	(172,327)
Accounts payable	9,316,086	--	9,316,086	1,418,575
Payable to Department of Developmental Services	(174,336)	--	(174,336)	(100,187)
Accrued vacation and other leave benefits	476,313	--	476,313	167,089
Deferred rent liability	34,562	--	34,562	149,773
Net assets held for others	1,094,506	--	1,094,506	(1,354,643)
Net Cash Provided By (Used in) Operating Activities	<u>22,781,004</u>	<u>(384,438)</u>	<u>22,396,566</u>	<u>(52,494,885)</u>
Cash Flows From Investing Activities				
Notes receivable	<u>174,336</u>	<u>--</u>	<u>174,336</u>	<u>90,246</u>
Net Cash Provided by Investing Activities	<u>174,336</u>	<u>--</u>	<u>174,336</u>	<u>90,246</u>
Cash Flows From Financing Activities				
Proceeds from contract advance	118,058,088	--	118,058,088	105,376,080
Repayment of contract advance	<u>(112,059,857)</u>	<u>--</u>	<u>(112,059,857)</u>	<u>(57,550,487)</u>
Net Cash Provided by Financing Activities	<u>5,998,231</u>	<u>--</u>	<u>5,998,231</u>	<u>47,825,593</u>
Net Increase (Decrease) in Cash	28,953,571	(384,438)	28,569,133	(4,579,046)
Cash – Beginning	<u>13,047,907</u>	<u>980,816</u>	<u>14,028,723</u>	<u>18,607,769</u>
Cash – Ending	<u>\$ 42,001,478</u>	<u>\$ 596,378</u>	<u>\$ 42,597,856</u>	<u>\$ 14,028,723</u>
Statement of Financial Position Presentation				
Cash	\$ 36,466,341	\$ --	\$ 36,466,341	\$ 8,610,061
Cash held for others	3,735,825	596,378	4,332,203	3,619,350
Cash held for CPPDD	<u>1,799,312</u>	<u>--</u>	<u>1,799,312</u>	<u>1,799,312</u>
	<u>\$ 42,001,478</u>	<u>\$ 596,378</u>	<u>\$ 42,597,856</u>	<u>\$ 14,028,723</u>

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

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

Organization

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

Governance

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

Mission Statement

The Center's mission statement is as follows:

The Regional Center of the East Bay supports persons with developmental disabilities and their families with the tools needed to achieve lives of quality and satisfaction, and builds partnerships that result in inclusive communities.

STATE OF CALIFORNIA CONTRACT

The Center operates under an annual cost-reimbursement contract with DDS under the Lanterman Act. The maximum expenditures under the contract are limited to the contract amount plus interest earned. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual, issued by DDS, and is required to have DDS approval for certain expenses. In the event of termination or nonrenewal of the contract, the State of California maintains the right to assume control of the Center's operation and the obligation of its liabilities.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STATE OF CALIFORNIA CONTRACT (CONTINUED)

Under the terms of these DDS contracts, funded expenditures are not to exceed \$520,715,420, \$455,504,711, and \$411,490,065 for the 2019/2020, 2018/2019, and 2017/2018 contract years, respectively. As of June 30, 2020, actual net expenditures under the 2019/2020, 2018/2019, 2017/2018 contracts were \$403,539,702, \$446,387,849, and \$403,539,702, respectively.

BASIS OF ACCOUNTING

The Center prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which involves the application of accrual accounting; consequently, revenue and gains are recognized when earned, and expenses and losses are recognized when incurred, regardless of the timing of cash flows.

CLASSIFICATION OF NET ASSETS

The Center's net assets are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of the Center at the discretion of the Center's management and the Board. They include expendable funds for operations related to the DDS contract, Community Placement Plan (CPP), and a federally funded program.
- Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of the Center or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. As of June 30, 2020, the Center had no net assets with donor restrictions that are required to be maintained in perpetuity.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of receivable and accounts payable approximate fair value because of the short maturity of these instruments.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CONTRACT REIMBURSEMENT RECEIVABLE, CLAIMABLE COSTS INCURRED AND RECEIVABLE FROM INTERMEDIATE CARE FACILITIES

The majority of the Center's receivables represents or relates to the cost-reimbursement contract with DDS. Receivables are recorded at their net realizable value. The Center uses the allowance method to account for uncollectible receivables. As of June 30, 2020, management believes that the receivables are fully collectible and, therefore, has not provided an allowance for doubtful accounts.

NOTE RECEIVABLE

The Center entered into a note receivable agreement with one of its transportation vendors as a result of prior year over-billings to the Center (see Note 4). Because the Center operates under a cost-reimbursement contract, the note is offset against monthly payments to the vendor until the note is repaid in full.

STATE EQUIPMENT

Pursuant to the terms of the DDS contract, equipment purchases become the property of the State of California and, accordingly, are charged as expenses when incurred. The Center tracks items which cost more than \$5,000 and have an estimated useful life of more than one year. For the year ended June 30, 2020, equipment purchases totaled \$21,689 and no disposed equipment. The aggregate equipment costs at June 30, 2020, totaled \$245,438.

ACCRUED VACATION AND OTHER LEAVE BENEFITS

The Center has accrued a liability for vacation and sick leave benefits earned which is reimbursable under the DDS contract; however, such benefits are reimbursed under the DDS contract only when actually paid. The Center accrues vacation as earned up to 280 hours. When the employee separates from service, the employee will receive their unused vacation.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEFERRED RENT

The Center leases office facilities under lease agreements that are subject to scheduled acceleration of rental payments. The scheduled rent increases are amortized evenly over the term of the lease in accordance with U.S. GAAP. The deferred rent liability of \$5,436,843 at June 30, 2020, represents the difference between the cash payments made and the amount expensed since inception of the lease. The DDS contract reimburses the Center for rent after it is paid and this amount is included in claimable costs incurred on the statement of financial position.

CLIENT TRUST FUND

The Center serves as representative payee for a portion of its clients. In this fiduciary capacity, it receives social security benefits and other sources of income and makes payments on behalf of certain developmentally disabled clients who are deemed unable to administer the funds themselves. Client trust transactions are not considered revenue or expenses of the Center. The cash that is received and outstanding receivables, net of interfund liabilities, are reported as a liability, *net assets held for others*, until it is distributed.

REVENUE AND SUPPORT RECOGNITION

The Center coordinates through outside providers diagnostic and assessment of eligible services to persons with developmental disabilities and their families. The Center pays for these services and is reimbursed the same from DDS. The Center recognizes grants revenue from DDS as services are provided and costs incurred. Depending on the date of service, claims related to the DDS grant are classified and charged to the appropriate contract as follows:

- Current year
- Prior year
- Second prior year

The Center is also a sub-recipient to DDS with regard to the following federal grant:

U.S. Department of Education

The Office of Special Education Programs provides the Grants for Infants and Families, Part C, which provides funding for early intervention services for infants and toddlers, through age three, as authorized by Public Law 102-119.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE AND SUPPORT RECOGNITION (CONTINUED)

This grant is conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. During the year ended June 30, 2020, the Center recognized grants revenue totaling \$1,550,237 from this award. Amounts earned and released within the same year under conditional awards are reported as increases in net assets without donor restrictions in the accompanying statement of activities.

Intermediate care facility (ICF) revenue are reimbursements from Medicaid for day treatment and transportation services provided to patients. The Center recognizes intermediate care facility revenue as services are provided. Included in ICF revenue is ICF processing income, which represents fees earned from providing administrative functions for intermediate care facility providers, such as preparing billings, submitting claims and paying the ICFs for the services. ICF processing income is computed as 1.5% of the total billings processed by the Center on behalf of the ICF providers during the fiscal year. During the year ended June 30, 2020, the Center recognized ICF processing income totaling \$92,278.

Interest income is recognized when earned.

Unconditional gifts and grants of cash and other assets are recognized as revenue and support at their net realizable value when an unconditional promise to give is received by the Center. The Center reports unconditional gifts and grants of cash and other assets as revenue without donor restrictions, unless specifically restricted by the donor. The Center reports unconditional gifts of cash and other assets as revenue and support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets for purpose or time. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions. Contributions with donor restrictions for which the restriction is met in the same reporting period in which the contribution is received are recorded as without restriction.

INCOME TAXES

The Center is a qualified organization exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and franchise taxes under §23701d of the California Revenue and Taxation Code. Accordingly, it is exempt from federal and California income taxes and is not liable for federal unemployment taxes.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAXES (CONTINUED)

Management evaluated the Center's tax positions and concluded that they maintained their tax exempt status and had taken no uncertain tax positions that would require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. The tax returns of the Center are subject to examination by federal and state taxing authorities. However, there are currently no examinations pending or in progress.

DEFINED BENEFIT PENSION PLAN

The Center records its unfunded liability relating to the defined benefit pension plan with the California Public Employees' Retirement System (CalPERS) on the statement of financial position and recognizes the changes in the funded status on the statement of activities in net assets in the year in which the change occurs.

FUNCTIONAL EXPENSES ALLOCATION

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of functional expenses. Expenses directly attributed to a specific functional area of the Center are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by management to be equitable. Expenses are allocated based on a mid-year analysis of staff time. The total administrative cost cannot exceed 15% of total operating costs.

CONCENTRATIONS OF RISKS

Credit Risk

Financial instruments, which potentially subject the Center to a concentration of credit risk, principally consist of cash, contract receivable, and receivable from vendors. The Center places cash in deposit accounts, which may at times, exceed the federally-insured limit. Through its contract with DDS, the Center is reimbursed for its expenses. The ability of DDS to honor its obligations and to continue funding is dependent upon the overall economic well-being of the State of California. The Center has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

Labor Force

For the year ended June 30, 2020, the labor force through Local 1021, Service Employees International Union, CtW, CLC (the Union) comprises 84% of the total number of employees. The Center's collective bargaining agreement expired on November 30, 2019.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATIONS OF RISKS (CONTINUED)

The Center's collective bargaining agreement was renewed for 4 years, expiring on November 30, 2023.

SUMMARIZED COMPARATIVE FINANCIAL INFORMATION

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 U.S. GAAP. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The Center adopted ASU 2014-09 and related amendments on July 1, 2019, using the modified retrospective method and elected to apply the standard only to program service contracts that were not completed as of that date. The adoption of the standard did not impact the Center's results of operations or change in net assets.

In June 2018, FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. ASU 2018-08 assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions, subject to other guidance, and determining whether a contribution is conditional. The Center adopted ASU 2018-08 on July 1, 2019, using the modified prospective basis and the adoption of the standard did not result in a material change to the financial statements or the timing of revenue recognition for the Center's grants and contributions.

In November 2016, FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard did not have an impact on the statement of cash flows presentation.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEW ACCOUNTING STANDARD

FASB issued ASU 2016-02 *Leases (Topic 842)*. Entities that hold equipment and real estate leases, in particular those with operating leases, will be most affected by the new guidance. The amendments in ASU 2016-02 are expected to impact the balance sheet by adding lease-related assets and liabilities. This may affect the compliance with contractual agreements and loan covenants. Current U.S. GAAP requires only capital (finance) leases to be recognized in the balance sheet and amounts related to operating leases largely are reflected in the statement of operations and changes in net assets as rent expense and in disclosure to the financial statements.

For operating leases, a lessee is required to do the following:

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the balance sheet.
- Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis.
- Classify all cash payments within operating activities in the statement of cash flows.

In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply.

An entity that elects to apply practical expedients will use the effective date of the new leases standard as the date of initial application and will not have to adjust their comparative period financial statements for the effects of the new leases standard, or make the new required lease disclosures for periods before the effective date. The new transition method changes when an entity initially applies the transition requirements of ASC 842; however, it does not change how those requirements are applied.

Entities that elect this transition option will include the disclosures that were required under Accounting Standards Codification (ASC) 840 for each comparative period presented in the financial statements prepared post-adoption, as well as the prior year annual balance sheet disclosures (e.g. operating and/or capital lease maturity tables). The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2021. Early application is permitted. Management is evaluating the impact of this new guidance.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 2 – CONTRACT REIMBURSEMENT RECEIVABLE

Contract reimbursement receivable consists of the following:

Claims submitted:

Current year	\$ 119,338,041
Prior year	1,308,957
Second prior year	<u>(155,687)</u>
Total	<u>\$ 120,491,311</u>

NOTE 3 – CLAIMABLE COSTS INCURRED

Claimable costs incurred consists of the following:

Unfunded defined benefit plan liability	\$ 123,341,136
Deferred costs for rent liability	5,165,067
Deferred costs for accrued vacation and other leave benefits	<u>2,442,389</u>
Total	<u>\$ 130,948,592</u>

NOTE 4 – NOTE RECEIVABLE

The Center entered into an uncollateralized note receivable agreement dated July 1, 2011, in the amount of \$787,605 with Mobility Plus Transportation, LLC as a result of prior year over-billings to the Center. The note bears simple interest at the rate of 3.25%; however, interest may be waived by the Center. Monthly offset payments of \$8,204 are to be made until the note is repaid in full in June 2021. As of June 30, 2020, the balance of the note (with a corresponding liability included in the payable to Department of Developmental Services) was \$38,974. For the year ended June 30, 2020, offset payments totaled \$174,336. The Center waived interest for the year ended June 30, 2020.

NOTE 5 – INTERMEDIATE CARE FACILITIES – STATE PLAN AMENDMENT

During the year ended June 30, 2011, various legislative changes were made to the California Welfare and Institutions Code retroactive to July 1, 2007, making Intermediate Care Facility (ICF) providers responsible for providing day programs and transportation services; and ultimately, making such services eligible for reimbursement under California's Home and Community Based Services Program, which is funded by the Medicaid Waiver grant (Medicaid).

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 5 – INTERMEDIATE CARE FACILITIES – STATE PLAN AMENDMENT (CONTINUED)

Previously, such services provided to the residents were not reimbursable by Medicaid because the funds were not directly billed and received by the ICF's. The legislative changes allow for DDS to bill these services to Medicaid and capture federal funds.

DDS directs the Center to prepare billings for these services on behalf of the ICF's. The billings include a 5.5% Quality Assurance fee for the State of Department of Health Care Services, a 1.5% administrative fee for the ICF's and a 1.5% administration fee for the Center.

Effective July 1, 2012, DDS directed the Center to prepare billings for these services on behalf of the ICF's and submit a separate state claim report for these services in addition to paying the ICF directly for their 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 ICF's. DDS advances the amount according to the state claim to the ICF's. The ICF's 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.

As of June 30, 2020, the *Receivable from Intermediate Care Facilities* totaling \$3,818,466 represents the amount DDS paid or will pay to the ICF's net of ICF's administrative fee and Quality Assurance fee in relation to the billings prepared beginning July 1, 2012, and the *payable to Department of Developmental Services* of \$38,974. *Revenue from Intermediate Care Facilities* totaled \$6,388,541 for the year ended June 30, 2020.

NOTE 6 – LINE OF CREDIT

In April 2019, the Center obtained a revolving line of credit from the Bank of Tokyo-Mitsubishi UFJ, LTD, which expired on September 30, 2019. The Center had \$25,000,000 available under this line of credit. The line of credit was secured by substantially all of the Center's assets. Interest on funds drawn on the line bore interest at the bank's reference rate plus 5.00%.

On June 1, 2020, the Center obtained another revolving line of credit from MUFG Union Bank, N.A. whereby it was able to borrow up to \$40,000,000 from the line through September 30, 2020. The line of credit was secured by substantially all of the Center's assets. Interest on funds drawn on the line bear interest at the bank's reference rate plus 5.00%. As of June 30, 2020, the Center had no outstanding balance on this line of credit. This line has not been renewed.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 7 – CONTRACT ADVANCE

Contract advance represents funds DDS advances to the Center at the beginning of each fiscal year to provide interest-free working capital. DDS uses its discretion in determining the balance on a month-to-month basis. If DDS so chooses, the advance may be paid by off-setting the contract reimbursement receivable partially or in full. As of June 30, 2020, contract advance balance totaled \$118,386,096.

NOTE 8 – NET ASSETS HELD FOR OTHERS

The activities in the net assets held for others for the year ended June 30, 2020, consist of the following:

Beginning Balance	\$ 2,673,359
Client support received	28,310,641
Less: Cash accrued in prior year	(32,472)
Less: Purchase of service disbursements	<u>(27,183,663)</u>
Ending Balance	<u>\$ 3,767,865</u>

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

As of June 30, 2020, net assets with donor restrictions were restricted for the following purposes or period:

Subject to expenditure for specified purpose:

Jim Burton Helping Hand Fund	<u>\$ 644,750</u>
Total Subject to Expenditure for Specified Purpose	<u>644,750</u>
Total Net Assets With Donor Restrictions	<u>\$ 644,750</u>

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 10 – AVAILABILITY AND LIQUIDITY

The Center regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. The Center's financial assets available within one year of the statement of financial position date for general expenditures at June 30, 2020, were as follows:

Cash	\$ 36,466,341
Contract reimbursement receivable, net of contract advance	2,105,215
Claimable costs incurred	7,607,456
Note receivable	38,974
Receivable from Intermediate Care Facilities	<u>3,818,466</u>
Total Financial Assets Available Within One Year	50,036,452
Less: Amounts unavailable for general expenditures within one year due to donor's restriction with purpose restriction	<u>(644,750)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 49,391,702</u>

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

NOTE 11 – DEFINED BENEFIT PENSION PLAN

On October 14, 2002, the Center adopted a defined benefit pension plan covering substantially all employees by becoming a member of CalPERS. All employees, immediately upon hire, are enrolled in the pension plan. Participants are fully vested after five years of full-time service. For the year ended June 30, 2020, the Center contributed 11.78% of the employees' gross salary or \$3,812,853 to CalPERS.

The Public Employees' Retirement Law (Part 3 of the California Government Code, §20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 11 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

FASB ASC 715-30, *Defined Benefit Plans – Pension*, requires the Center to recognize the funded status of a defined benefit retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in net assets without donor restrictions in the year in which the change occurs. The FASB valuation information in this note is based on the ASC 715 actuarial valuation report performed by Milliman, Inc., an actuarial firm, measured as of June 30, 2020

The CalPERS Board of Administration adopted changes to the demographic assumptions based on the most recent experience study. The most significant of these is the improvement in post-retirement mortality acknowledging the greater life expectancies in membership and expected continued improvements. The actuarial assumptions and methods used in CalPERS public agency valuations are approved by the Board of Administration upon the recommendation of the Chief Actuary.

The excess of the total actuarial accrued liability over the market value of plan assets 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 payoffs.

Net periodic benefit cost for the year ended June 30, 2020 is as follows:

Service cost	\$ 11,045,135
Interest cost	6,624,458
Expected return on assets	<u>(6,833,272)</u>
Net Periodic Benefit Cost	<u>\$ 10,836,321</u>

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

Pension benefit changes other than net periodic benefit costs during the year ended June 30, 2020 are as follows:

Assumption change	\$ 29,546,772
Investment experience	<u>1,448,289</u>
Changes Other Than Net Periodic Benefit Costs	<u>\$ 30,995,061</u>

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 11 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefit obligation and funded status as of June 30, 2020 are as follows:

Change in Benefit Obligation

Benefit Obligation – Beginning	\$ 181,937,658
Service cost	11,045,135
Interest cost	6,624,458
Assumption change loss	29,546,772
Difference between expected and actual experience	1,448,289
Benefits and expenses paid	<u>(3,694,858)</u>
Benefit Obligation – Ending	<u>226,907,454</u>

Change in Fair Value of Plan Assets

Fair Value of Plan Assets – Beginning	96,486,251
Actual return on plan assets	4,816,232
Employer contributions	3,812,853
Contributions by employees	2,145,840
Benefits payments	<u>(3,694,858)</u>
Fair Value of Plan Assets – Ending	<u>103,566,318</u>

Unfunded Projected Benefit Obligation \$(123,341,136)

The assumptions used in the measurement of the benefit obligations at June 30, 2020 are as follows:

Discount rate	2.92%
Expected long-term return on plan assets	7.00%
Rate of compensation increase	4.00%

The discount rate was derived from the Above Median Citigroup Pension Discount Curve as of the end of June 2020 using the expected payouts from the Plan. The curve produced by Citigroup uses bond market data close to the measurement date for durations as of the end of the fiscal year, using an interest rate of 2.92%. The rate used as of the beginning of the fiscal year (used to calculate the expense for the year) was 3.65%.

The long-term rate of return on plan assets is the expected return used by CalPERS for their pension fund and was derived based on their long term expectation of assets in consultation with CalPERS investment staff and advisors. The annual pension expense under ASC 715 is based on the expected return on plan assets during the fiscal year.

For the mortality rate, the actuary used the Pri-2012 mortality table projected generationally using the MP-2020 projection scale. This assumption is expected to be a best estimate of future mortality experience, being based on the latest published study by the Society of Actuaries, which was finalized in October 2020.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 11 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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

The actual allocations for the pension assets and target allocations by asset class as of June 30, 2020 are as follows:

Current Assets Class	Percentage of Plan Assets	Target Allocation
Global equity	50.2%	50.0%
Private equity	7.1%	8.0%
Global fixed income	28.7%	28.0%
Liquidity	1.0%	1.0%
Real assets	11.0%	13.0%
Inflation sensitive assets	0.0%	0.0%
Other	2.0%	0.0%
	<u>100%</u>	<u>100%</u>

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. U.S. GAAP establish 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1

Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

Level 2

Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 11 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement in its entirety. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Plan assets of \$103,566,318 are held in a pooled investment account managed by CalPERS and are considered Level 3 investments.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the fiscal years ending June 30:

Expected Future Service

2021	\$ 4,175,671
2022	4,558,230
2023	4,933,000
2024	5,404,495
2025	5,930,615
2026-2028	38,206,177

For the year ended June 30, 2020, the actuarial computed employer and employee contribution rates are 5.53% and 6.25%, respectively.

NOTE 12 – COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES

BACKGROUND

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

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

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 12 – COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BACKGROUND (CONTINUED)

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

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

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

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

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

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

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

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 12 – COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BACKGROUND (CONTINUED)

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

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

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

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

BOND FINANCING

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

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

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

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

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 12 – COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BOND FINANCING (CONTINUED)

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

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

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

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

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

- 1) The Regional Centers executed a Lender Lease Assurance Agreement, whereby they unconditionally agreed, jointly and severally to pay the rent and other obligations of all service providers under all leases should the service providers fail to meet such obligations. (This is relevant, since the LLCs rely on the receipt of such rent to repay the bond financing.)
- 2) The Regional Centers agreed to maintain a liquidity operating fund in three separate accounts (one for each Regional Center), in the aggregate sum of \$5,000,000. CHFFA and OSHPD have the right to draw on the liquidity operating fund to cure any defaults by the LLCs under the loan documents. Subject to such right, the Regional Centers' use of these funds are unrestricted; however each Regional Center must replenish any withdrawal from its liquidity operating fund necessary to maintain the required initial balance within 12 months from the date of such withdrawal. The Center's share of the liquidity operating fund is \$1,799,312. The remaining balance of the liquidity operating fund is funded by GGRC and SARC.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 12 – COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BOND FINANCING (CONTINUED)

- 3) Both the Regional Centers and the LLCs agreed to indemnify CHFFA and OSHPD for any post foreclosure transfer environmental losses.

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

In order to make all of the debt service payments equal, one additional “smooth out” payment was required to be made to the Bond trustee. The Center (and the other Regional Centers) made this payment via advances to its service providers, which were then forwarded to the Bond trustee. The service providers will repay these receivables to the Center at the end of the bond financing term, via applicable offsets that the Center will apply against funds it owes to the service providers under the Service Provider Agreements. At June 30, 2020, CPPDD vendor advances – other totaled \$78,497.

Due to the timing of the bond financing, one additional debt service payment was required to be made to the Bond trustee. The Center made this payment via advances to its service providers, which was then forwarded to the Bond trustee. The service providers will repay these receivables to the Center at the end of the bond financing term, via applicable offsets that the Center will apply against funds it owes to the service providers under the Service Provider Agreements. At June 30, 2020, CPPDD vendor advances – lease totaled \$172,712.

NOTE 13 – LEASE COMMITMENTS

The Center leases office space in San Leandro and Concord, California, and also leases various equipment. The facility leases include rent escalation clauses and a recovery for insurance and real estate taxes. All leases are classified as operating leases. Rent expense totaled \$4,514,488 for the year ended June 30, 2020.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 13 – LEASE COMMITMENTS (CONTINUED)

Future minimum lease payments are as follows:

For the Years Ending June 30,	Amount
2021	\$ 4,345,861
2022	4,345,861
2023	4,120,405
2024	3,820,383
2025	3,520,360
Thereafter	<u>16,721,711</u>
Total	<u>\$ 36,874,581</u>

NOTE 14 – RISKS AND CONTINGENCIES

The majority of the Center's funding is provided under annual grants and contracts with federal and California agencies. If a significant reduction in the level of funding provided by these governmental agencies were to occur, it may have an effect on the Center's programs and activities.

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

The Center's revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies. In accordance with the terms of the DDS contract, an audit may be performed by an authorized DDS representative. Should such an audit disclose any unallowable costs, the Center may be liable to the State of California for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements as of June 30, 2020, and for the year then ended.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 14 – RISKS AND CONTINGENCIES (CONTINUED)

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic that continues to spread throughout the United States. The Center is monitoring the outbreak of COVID-19 and the related business and travel restrictions and changes to behavior intended to reduce its spread, in addition to the impact on its employees. The Center has been able to continue to provide services to its consumers working both remotely and on-site with limited staff in the office, following directives issued by DDS that specify the services to be provided and the process for providers to bill during the pandemic and State of Emergency. At this point, the full extent to which COVID-19 will impact the Center's operations is uncertain.

NOTE 15 – LEGAL MATTERS

The Center is named in various claims and legal actions in the normal course of its activities. Based upon counsel and management's opinion, the outcomes of such matters are not expected to have a material adverse effect on the financial position or changes in net assets of the Center.

NOTE 16 – SUBSEQUENT EVENTS

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through February 4, 2021, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

REGIONAL CENTER OF THE EAST BAY, INC.

SCHEDULE OF PURCHASE OF SERVICE EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

Out of Home

Community care facility	\$ 166,746,089
ICF/skilled nursing facility	<u>1,160,271</u>

Total Out of Home	<u>\$ 167,906,360</u>
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Day Programs

Training	\$ 92,323,991
Day care	<u>974,673</u>

Total Day Programs	<u>\$ 93,298,664</u>
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Other Purchased Services

Nonmedical:	
Programs	\$ 28,154,315
Professional	4,141,146
Respite	33,403,912
Transportation	16,496,349
Medical care:	
Professional	14,040,911
Programs	466,053
Prevention services	13,456,512
Medical equipment	1,771,275
Personal and incidental	111,470
Other authorized services	<u>86,410,173</u>

Total Other Purchased Services	<u>\$ 198,452,116</u>
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See independent auditors' report.

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

To the Board of Directors of the
Regional Center of the East Bay, 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 the Regional Center of the East Bay, Inc. (the Center), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities and changes in net assets, 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 February 4, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) as a basis for designing 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 the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our 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 the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Washington, DC
February 4, 2021

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

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

Report on Compliance for Each Major Federal Program

We have audited the Regional Center of the East Bay, Inc.'s (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2020. The Center'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 the Center'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 requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

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

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

Marcum LLP

Washington, DC
February 4, 2021

REGIONAL CENTER OF THE EAST BAY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2020

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Office of Special Education and Rehabilitative Services of the U.S. Department of Education passed-through the State of California Department of Developmental Services:				
Early Intervention Services:				
Special Education – Grants for Infants and Families	84.181	HD149015	\$ --	\$ 1,550,237
Total Expenditures of Federal Awards			<u>\$ --</u>	<u>\$ 1,550,237</u>

See independent auditors' report and notes to the schedule of expenditures of federal awards.

REGIONAL CENTER OF THE EAST BAY, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of the Regional Center of the East Bay, Inc. (the Center). 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 the Center, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the Center.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3 – INDIRECT COST RATE

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

REGIONAL CENTER OF THE EAST BAY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2020

SECTION I – SUMMARY OF THE AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether
financial statements audited were prepared
in accordance with GAAP:

 X Unmodified Qualified
 Adverse Disclaimer

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Type of auditors' report issued on compliance for
major federal programs:

 X Unmodified Qualified
 Adverse Disclaimer

Internal control over major federal programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None Reported

Any audit findings disclosed that are required to be
reported in accordance with 2 CFR, 200 516(a)? Yes X No

Identification of Major Federal Program(s):

<u>CFDA Number(s)</u>	<u>Program Title(s)</u>
84.181	Special Education – Grants for Infants and Families

Dollar threshold used to distinguish between
Type A and Type B programs:

 \$ 750,000

Auditee qualified as a low-risk auditee?

 X Yes No

REGIONAL CENTER OF THE EAST BAY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2020

SECTION II – FINDINGS – FINANCIAL STATEMENT AUDIT

None required to be reported.

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

None required to be reported.

SECTION IV – STATUS OF PRIOR YEAR FINDINGS

Financial Statement Audit Findings

None required to be reported.

Major Federal Award Programs Audit Findings and Questioned Costs

None required to be reported.