



(A California Nonprofit Public Benefit Corporation)

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED JUNE 30, 2013**

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
 FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2014
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

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Board of Directors
San Andreas Regional Center
Campbell, California

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INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of San Andreas Regional Center, a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2014, 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.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Andreas Regional Center as of June 30, 2014, 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.

Report on Summarized Comparative Information

The financial statements of San Andreas Regional Center, as of June 30, 2013, were audited by other auditors, whose report dated February 18, 2014, expressed an unqualified opinion on those statements. These financial statements have been furnished to us and summarized to provide comparative information and is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on page 19 as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated December 15, 2014 on our consideration of San Andreas Regional Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Andreas Regional Center's internal control over financial reporting and compliance.

Sindquist, von Huesen and Joyce LLP

December 15, 2014

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014

WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

	2014			2013
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Total</i>
ASSETS				
Cash and cash equivalents	\$ 7,293,961	\$ -	\$ 7,293,961	\$ 5,834,330
Cash and cash equivalents held for others	2,413,651	163,177	2,576,828	2,398,617
Cash and cash equivalents held for CPPDD (Note 11)	2,181,135	-	2,181,135	2,181,135
Contract receivable (Note 3)	89,922,385	-	89,922,385	67,374,292
Client trust funds receivable	18,893	-	18,893	41,153
Other receivables	14,563	-	14,563	3,117
Receivable from Intermediate Care Facilities (Note 4)	2,202,595	-	2,202,595	2,500,591
Prepaid expenses	158,965	-	158,965	175,507
Deferred costs for accrued vacation and other leave benefits	2,293,550	-	2,293,550	2,274,827
Deposits	44,951	-	44,951	44,951
CPPDD vendor advances – lease (Note 11)	359,130	-	359,130	359,130
CPPDD vendor advances – other (Note 11)	163,235	-	163,235	163,235
Total assets	<u>\$107,067,014</u>	<u>\$ 163,177</u>	<u>\$107,230,191</u>	<u>\$ 83,350,885</u>
LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)				
Liabilities:				
Accounts payable	\$ 27,490,576	\$ -	\$ 27,490,576	\$ 25,530,738
Contract advance (Note 5)	73,264,054	-	73,264,054	51,090,330
Payable to Department of Developmental Services (Note 4)	1,594,248	-	1,594,248	2,025,955
Accrued vacation and other leave benefits	2,293,550	-	2,293,550	2,274,827
Net assets held for others (Note 8)	2,424,586	-	2,424,586	2,240,706
Unfunded defined benefit plan liability (Note 10)	13,351,063	-	13,351,063	7,176,701
Total liabilities	120,418,077	-	120,418,077	90,339,257
Net assets (accumulated deficit)	<u>(13,351,063)</u>	<u>163,177</u>	<u>(13,187,886)</u>	<u>(6,988,372)</u>
Total liabilities and net assets (accumulated deficit)	<u>\$107,067,014</u>	<u>\$ 163,177</u>	<u>\$107,230,191</u>	<u>\$ 83,350,885</u>

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

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Total</i>
Support and revenue:				
Grants	\$ 100,473,460	\$ -	\$ 100,473,460	\$ 105,418,545
Federal awards	209,743,022	-	209,743,022	192,268,760
Intermediate Care Facilities (Note 4)	1,753,596	-	1,753,596	1,391,386
Interest	5,732	305	6,037	478
Donations and other income	47,541	33,289	80,830	270,337
	<u>312,023,351</u>	<u>33,594</u>	<u>312,056,945</u>	<u>299,349,506</u>
Net assets released from restrictions (Note 7)	<u>58,746</u>	<u>(58,746)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>312,082,097</u>	<u>(25,152)</u>	<u>312,056,945</u>	<u>299,349,506</u>
Expenses:				
Program:				
Purchase of services:				
Other purchased services	110,339,990	-	110,339,990	102,903,241
Residential care facilities	90,105,905	-	90,105,905	87,755,713
Day programs	84,295,696	-	84,295,696	81,658,243
Other programs	952,366	-	952,366	1,097,321
Operating:				
Salaries and benefits	18,750,602	-	18,750,602	17,968,912
General and administrative:				
Operating:				
Salaries and benefits	3,837,963	-	3,837,963	3,417,918
Office occupancy	1,376,813	-	1,376,813	1,310,021
Other expenses	2,422,762	-	2,422,762	3,075,555
Total expenses	<u>312,082,097</u>	<u>-</u>	<u>312,082,097</u>	<u>299,186,924</u>
Change in net assets from operations	-	(25,152)	(25,152)	162,582
Change in defined benefit plan liability	<u>(6,174,362)</u>	<u>-</u>	<u>(6,174,362)</u>	<u>1,336,425</u>
Change in net assets	(6,174,362)	(25,152)	(6,199,514)	1,499,007
Net assets (accumulated deficit):				
Beginning of year	<u>(7,176,701)</u>	<u>188,329</u>	<u>(6,988,372)</u>	<u>(8,487,379)</u>
End of year (Note 10)	<u>\$ (13,351,063)</u>	<u>\$ 163,177</u>	<u>\$ (13,187,886)</u>	<u>\$ (6,988,372)</u>

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

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2014

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	<i>Program Services</i>	<i>General and Administrative</i>	<i>Total</i>	<i>Total</i>
Salaries and related expenses				
Salaries	\$ 13,758,736	\$ 2,418,732	\$ 16,177,468	\$ 15,422,387
Benefits	4,794,932	1,385,498	6,180,430	5,745,271
Payroll Taxes	196,934	33,733	230,667	219,172
Total salaries and related expenses	18,750,602	3,837,963	22,588,565	21,386,830
Purchase of services				
Other purchased services	110,339,990	-	110,339,990	102,903,241
Residential care facilities	90,105,905	-	90,105,905	87,755,713
Day programs	84,295,696	-	84,295,696	81,658,243
Facility rent	-	1,376,813	1,376,813	1,310,021
CPP - Agnews	598,298	-	598,298	753,496
General	-	86,063	86,063	784,115
Communication	-	368,458	368,458	396,031
Contract and consultant fee	-	348,273	348,273	352,916
Foster grandparent and senior companion	354,068	-	354,068	343,825
Staff travel	-	313,074	313,074	326,272
Legal fees	-	132,498	132,498	295,618
Equipment and facility maintenance	-	252,852	252,852	218,598
ARCA dues	-	71,765	71,765	136,499
Equipment rental	-	114,944	114,944	117,313
Insurance	-	46,768	46,768	101,926
General office expenses	-	148,582	148,582	99,503
Data processing	-	82,699	82,699	66,475
Printing	-	36,444	36,444	34,482
Accounting fees	-	65,841	65,841	34,000
Donations	-	58,726	58,726	30,718
Equipment purchases	-	207,168	207,168	29,054
Utilities	-	18,907	18,907	18,133
Board expenses	-	14,434	14,434	11,646
Interest expense	-	13,125	13,125	8,668
Security	-	14,290	14,290	8,218
Bank charges	-	27,851	27,851	5,370
Total expenses	\$ 304,444,559	\$ 7,637,538	\$ 312,082,097	\$ 299,186,924

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

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	2014			2013
	<i>Temporarily</i>			
	<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>	<i>Total</i>
Cash flows from operating activities:				
Change in net assets	\$ (6,174,362)	\$ (25,152)	\$ (6,199,514)	\$ 1,499,007
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Change in defined benefit plan liability	6,174,362	-	6,174,362	(1,336,425)
(Increase) decrease in assets:				
Contract receivable	(22,548,093)	-	(22,548,093)	3,833,937
Client trust funds receivable	22,260	-	22,260	(9,223)
Other receivables	(11,446)	-	(11,446)	51,839
Prepaid expenses	16,542	-	16,542	(51,033)
Increase (decrease) in liabilities:				
Accounts payable	1,959,838	-	1,959,838	1,641,049
Payable to Department of Developmental Services	(133,711)	-	(133,711)	(416,801)
Net assets held for others	183,880	-	183,880	(945,126)
Total adjustments	(14,336,368)	-	(14,336,368)	2,768,217
Net cash provided by (used in) operating activities	(20,510,730)	(25,152)	(20,535,882)	4,267,224
Cash flows from financing activities:				
Advances from line of credit	-	-	-	16,000,000
Payments on line of credit	-	-	-	(16,000,000)
Proceeds from contract advance	57,214,823	-	57,214,823	70,050,267
Payment of contract receivable	(35,041,099)	-	(35,041,099)	(70,088,056)
Net cash provided by (used in) financing activities	22,173,724	-	22,173,724	(37,789)
Increase (decrease) in cash and cash equivalents	1,662,994	(25,152)	1,637,842	4,229,435
Cash and cash equivalents, beginning of year	10,225,753	188,329	10,414,082	6,184,647
Cash and cash equivalents, end of year	\$ 11,888,747	\$ 163,177	\$ 12,051,924	\$ 10,414,082
Cash and cash equivalents	\$ 7,293,961	\$ -	\$ 7,293,961	\$ 5,834,330
Cash and cash equivalents held for others	2,413,651	163,177	2,576,828	2,398,617
Cash and cash equivalents held for CPPDD	2,181,135	-	2,181,135	2,181,135
	\$ 11,888,747	\$ 163,177	\$ 12,051,924	\$ 10,414,082

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

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

San Andreas Regional Center (the Center) is a nonprofit public benefit corporation chartered by the State of California. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Lanterman Act) of the Welfare and Institutions Code of the State of California. In accordance with the Lanterman Act, the Center administers programs for persons with developmental disabilities and their families, which include diagnosis, counseling, educational services, and dissemination of information on developmental disabilities to the public. The Center is one of 21 regional centers within the State of California system and serves Santa Clara, Santa Cruz, Monterey, and San Benito Counties.

The Center's mission statement is as follows:

People first through service, advocacy, respect, and choice. A vision for leadership in service and advocacy for individuals with developmental disabilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

State of California Contract

The Center operates under an annual cost-reimbursement contract with the California Department of Developmental Services (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 maintains the right to assume control of the Center's operation and the obligation of its liabilities.

The expenditures for the fiscal years ended June 30, 2014 and 2013 exceed the State contract. The Center has not been notified that it is a deficit center and management believes that this deficit will be funded through additional amendments from funds available within the State of California system.

Accounting Method

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Center is required to report information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets include those net assets and activities which represent expendable funds for operations related to the DDS contract and are comprised of Operating and Client Trust Funds.

The Operating Fund is comprised of the primary activities of the Center which are carried out under the DDS contract, the activities of the Community Placement Plan (CPP), and federally funded programs.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

The Client Trust Fund includes client social security benefits and other sources of income as the Center serves as representative payee for a majority of its clients in residential care. In this fiduciary capacity, the Center makes payments on behalf of certain developmentally disabled clients who are deemed unable to administer the funds themselves. Client trust transactions do not generate revenue or expenses for the Center and are reflected on the statement of financial position as assets (*cash and cash equivalents held for others* and *client trust funds receivable*) and a liability (*net assets held for others*).

- Temporarily restricted net assets include those net assets and activities that are subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Included in temporarily restricted net assets is the Donation Fund which is used to record solicited and unsolicited support received by the Center. These funds are used exclusively to fund emergency grants and loans to clients who have no other resources available to them during times of exceptional need.

- Permanently restricted net assets include those net assets and activities that are subject to non-expiring donor restrictions. The Center had no permanently restricted net assets as of June 30, 2014.

Revenue Recognition

Revenue and expenses are recognized in the year the claim is filed with DDS. Depending on the date of the service, claims are classified and charged to the appropriate contract as follows:

- Current year
- Prior year
- Second prior year

Contributions

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recognized when the donor makes a promise to give; that is, in substance, an unconditional promise. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Contributions are recorded at their fair value as unrestricted, temporarily restricted, or permanently restricted, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), the amount is shown as a reclassification of temporarily restricted net assets to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Government contracts, which are funded on a reimbursement basis, are shown as unrestricted revenue.

Federal Grants

U.S. Department of Health and Human Services:

The Center is a sub-recipient to DDS with regard to the Medicaid Waiver grant. This grant provides funding for a broad range of medical assistance, which includes home and community based services to certain persons of need, as authorized by Title XIX of the Social Security Act of 1965. This grant also funds Targeted Case Management.

SAN ANDREAS REGIONAL CENTER
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

U.S. Department of Education:

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

The Corporation for National and Community Service:

The Center is a sub-recipient to DDS with regard to the Foster Grandparent grant. The grant is provided to qualified agencies and organizations for the dual purpose of engaging persons 55 or older, with limited income, in volunteer services to meet critical community needs. The program strives to provide a high quality volunteer experience that will enrich the lives of the volunteers. The grant funds are used to support Foster Grandparents in providing supportive, person to person service to children with exceptional or special needs or in circumstances identified as limiting their academic, social, or emotional development.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Not included as cash are funds restricted as to their use, regardless of liquidity. The Center occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation coverage limit. The uninsured cash balance, including restricted cash, was approximately \$19,550,000 as of June 30, 2014. The Center has not experienced any losses in such accounts.

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less qualify as cash equivalents.

Contract and Other Receivables

A majority of the Center's receivables represent or relate to the cost-reimbursement contract with DDS. Bad debts are provided on the allowance method based on historical experience and management evaluation of outstanding grants and accounts receivable. It is the Center's policy to charge off uncollectible accounts receivable when management determines that receivables will not be collected. Management has determined that no allowance for uncollectible accounts was deemed necessary at June 30, 2014.

Furniture and Equipment

Furniture and equipment is stated at cost of acquisition. Furniture and equipment belongs to the State of California if purchased with contract funds except for furniture and equipment for use by a consumer. Because the Center is granted a beneficial interest in the furniture and equipment, an offsetting liability is also recorded. The Center is required to track acquisitions of furniture and equipment with an estimated useful life beyond one year.

The Center expenses the cost of furniture and equipment upon acquisition purchased with funds from the DDS contract in accordance with the Regional Center Fiscal Manual. This departure from accounting principles generally accepted in the United States of America does not have a material impact on the financial statements. Equipment purchases for the year ended June 30, 2014 were \$20,198. The capitalized state-owned furniture and equipment, and reciprocating offset account, at June 30, 2014 totaled \$356,778.

Income Taxes

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

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

The Center believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Center's federal and state information returns for the years 2009 through 2012 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

The costs of providing program services and supporting services are summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs are allocated among program services and supporting services based on estimates of employees' time incurred and on usage of resources.

Defined Benefit Pension Plan

The Center records unfunded liability of its defined benefit pension plan with 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 the year in which the change occurs. CalPERS has characteristics of a multiemployer plan. Effective for the year ended June 30, 2010, the Center must have the actuarial report coinciding with the Center's fiscal year end. Currently, the actuarial report is one year in arrears. This lag in reporting is not in conformity with accounting principles generally accepted in the United States of America; however, this departure is not material to the financial statements. The delay is due to the fact that there is a two-year lag between the Valuation Date and the Contribution Fiscal Year. This lag is necessary due to the amount of time needed to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution rates well in advance of the start of the fiscal year.

Health Insurance

Effective January 1, 2006, the Center committed to paying 100% of health insurance payments for employees and annuitants in accordance with the collective bargaining agreement. While an accrual is required during the years that the employee renders the necessary service, at the expected cost of providing those benefits to the employees, the information is not readily available. Had the amounts been accrued, the Center would have recognized a corresponding amount of income resulting in no change to the net asset balance. For the year ended June 30, 2014, \$434,415 of health insurance premiums was paid on behalf of the retired employees.

Subsequent Events

Management has evaluated subsequent events through December 15, 2014, the date on which these financial statements were available to be issued.

Reclassification

Certain amounts previously reported in the 2013 financial statements were reclassified to conform to the 2014 presentation. The reclassification has no effect on net assets.

NOTE 3 – CONTRACT RECEIVABLE

Contract receivable is summarized as follows:

POS and operations	\$ 88,803,959
CPP	<u>1,118,426</u>
	<u>\$ 89,922,385</u>

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

NOTE 4 – 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).

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 Department of Health Care Services (DHCS), a 1.5% administrative fee for the ICF's and a 1.5% administration fee for the Center.

On or before June 30, 2012, DDS advanced the amounts billed to the ICF's. The ICF's were directed to remit to the Center the amount billed less its administration fee and the Quality Assurance fee, which it must remit to DHCS. After the Center received the net payment from the ICF's, the Center was directed to remit the amount to DDS, net of its administration fee. DDS instituted protocols should the ICF's not remit the net amounts due to the Center.

Beginning July 1, 2012, DDS advances the amounts billed to the ICF's. The ICF's are directed to remit to the Center, within 30 days of receipt of funds from the State Controller's Office, the amount billed less its administration fee and the Quality Assurance fee, which it must remit to DHCS. The Center records the entire net amounts due from the ICF's as *receivable from Intermediate Care Facilities* with corresponding *revenue from Intermediate Care Facilities*. The *receivable from Intermediate Care Facilities* reduces contract receivable from DDS. DDS has instituted protocols should the ICF's not remit the net amounts due to the Center.

The *receivable from Intermediate Care Facilities* in the amount of \$2,202,595 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 \$1,594,248 represents the amount expected to be paid net of the Center's fee in relation to the billings prepared on or before June 30, 2012. *Revenue from Intermediate Care Facilities* was \$1,753,596.

NOTE 5 – CONTRACT ADVANCE

The contract advance balance of \$73,264,054 represents fund advances from DDS 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 claim reimbursements partially or in full.

NOTE 6 – LEASE COMMITMENTS

The Center leases office space in Campbell, Salinas, Gilroy, and Watsonville, California, and also leases various equipment. The facility leases include rent escalation clauses for insurance and real estate taxes. All leases are classified as operating leases. Rental expense was \$1,488,914 for the year ended June 30, 2014.

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Future minimum lease payments are as follows:

2015	\$ 1,457,325
2016	1,490,958
2017	1,307,131
2018	106,633
Thereafter	<u>62,700</u>
	<u><u>\$ 4,424,747</u></u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows:

	<i>June 30, 2013</i>	<i>Contributions and Interest</i>	<i>Releases from Restrictions</i>	<i>June 30, 2014</i>
Donation Fund	\$ 188,329	\$ 33,594	\$ (58,746)	\$ 163,177
	<u>\$ 188,329</u>	<u>\$ 33,594</u>	<u>\$ (58,746)</u>	<u>\$ 163,177</u>

NOTE 8 – NET ASSETS HELD FOR OTHERS

The Center's activities for the year consist of the following:

Beginning balance	\$ 2,240,706
Client support received	25,803,276
Less purchase of service disbursements	<u>(25,619,396)</u>
Ending balance	<u><u>\$ 2,424,586</u></u>

NOTE 9 – LINE OF CREDIT

During the year ended June 30, 2013, the Center obtained two lines of credit with Comerica Bank, secured by the Center's assets, to fund current operating needs. Interest under the credit lines was charged at the minimum of the LIBOR rate plus 2.50% or the prime rate plus 2.00% if the LIBOR rate was undeterminable. The first revolving line of credit was for \$13,000,000, with a maturity date of September 30, 2012, in which the Center borrowed and repaid \$6,000,000 in July 2012. In June 2013, the Center obtained the second revolving line of credit for \$25,000,000. The Center borrowed and repaid \$10,000,000 in June 2013. The line of credit expired on September 20, 2013.

On June 1, 2014 the Center obtained a revolving \$50,000,000 line of credit with Union Bank, N.A, secured by substantially all of the Center's assets. Interest under the line of credit was charged at the reference rate plus 5.0%. In July 2014, the Center borrowed \$16,000,000 on the line of credit. The borrowing was paid in full in July 2014. The line of credit expired on October 15, 2014 and was not renewed.

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NOTE 10 – DEFINED BENEFIT PENSION PLAN

On August 1, 1996, the Center adopted a defined benefit pension plan covering substantially all employees by becoming a member of CalPERS. All employees are, immediately upon hire, enrolled in the pension plan. The Center contributes 17.62% of the employees' gross salary to CalPERS. Participants are fully vested after five years of full-time service. For the year ended June 30, 2014, \$2,895,919 was paid to CalPERS.

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

The unfunded liability as of June 30, 2013, the most current actuarial valuation, was as follows:

Present value of projected benefits	\$ 86,751,273
Less present value of future:	
Employer normal costs	(9,646,685)
Employee contributions	<u>(9,366,815)</u>
Entry age normal accrued liability	67,737,773
Actuarial value of assets	<u>(54,386,710)</u>
Unfunded liability	<u><u>\$ 13,351,063</u></u>

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

Beginning balance – June 30, 2012	\$ 55,133,839
Contributions:	
Employer	1,882,886
Employee	1,723,576
Investment return	4,149,503
Benefit payments to retirees	(2,339,081)
Refunds	(66,393)
Other transfers and miscellaneous adjustments	<u>(22,276)</u>
Expected actuarial value of assets	60,462,054
Adjustment to actuarial value of assets	<u>(6,075,344)</u>
Ending balance – June 30, 2013	<u><u>\$ 54,386,710</u></u>

The significant actuarial assumptions as of June 30, 2013, were as follows:

Long-term inflation discount rate	2.75%
Payroll growth	3.00%
Expected long-term rate of return	7.50%

The contributions expected to be paid to the plan during the next fiscal year are \$665,235.

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The asset allocation as of June 30, 2013, was as follows:

Asset Class	<i>Current Allocation</i>
Public equity	51.2%
Private equity	12.0%
Fixed income	16.8%
Cash equivalent	4.0%
Real assets	9.6%
Inflation assets	3.6%
Absolute Return Strategy	2.8%
	<hr/> 100.0% <hr/>

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

CalPERS follows a strategic asset allocation policy that identifies the percentage of funds to be invested in each asset class.

The asset allocation and market value of assets shown above reflect the values of the Public Employees' Retirement Fund (PERF) in its entirety as of June 30, 2013. The assets for the Center are part of the PERF and are invested accordingly.

For the year ended June 30, 2014, the actuarial computed employer and employee contribution rates are 13.217% and 8.000%, respectively.

NOTE 11 – 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 Regional Center of the East Bay, Inc. (RCEB), working in collaboration under the Bay Area Unified Plan (collectively, the Regional Centers).

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

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

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

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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 (NPO's) acquired fee title to the properties from the master developer. The NPO's were:

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

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

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

The LLC's 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. California Housing Finance Agency (CalHFA) then lent funds to the LLC's to refinance the Bank of America's loans. CalHFA's loans remained in effect until February 18, 2011, when they were paid off through the bond financing discussed below.

Bond Financing

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

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

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NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

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

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

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

CHFFA issued the bonds to investors, and lent the proceeds from the sale of the bonds to the LLC's, 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 LLC's. 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 LLC's all agreed that the LLC's 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 LLC's 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 LLC's 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 LLC's 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 LLC's under the loan documents. Subject to such right, the Regional Centers' use of these funds are unrestricted; however each Regional Center must replenish any withdrawal from its liquidity operating fund necessary to maintain the required initial balance within twelve months from the date of such withdrawal. The Center's share of the liquidity operating fund is \$2,181,135. The remaining share of the fund is funded by GGRC and RCEB.
- 3) Both the Regional Centers and the LLC's agreed to indemnify CHFFA and OSHPD for any post foreclosure transfer environmental losses.

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

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 LLC's, 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, 2014, CPPDD vendor advances – other totaled \$163,235.

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, 2014, CPPDD vendor advances – lease totaled \$359,130.

NOTE 12 – 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 revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies.

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.

Union employees account for 83.58% of the Center's total employee levels. The current collective bargaining agreement expired on December 31, 2013, and a new agreement was voted upon and ratified by the union employees effective January 1, 2014. The new agreement will expire on December 31, 2014.

NOTE 13 – 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.

SUPPLEMENTARY INFORMATION

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2014

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Agency or Pass- Through Number</i>	<i>Federal Expenditures</i>
<u>Centers for Medicare and Medicaid Services of the U.S.</u>			
<u>Department of Health and Human Services:</u>			
Pass-through award from:			
State of California Department of Developmental Services:			
Medical Assistance Program (Medicaid; Title XIX)	93.778	HD099016	\$ 195,813,892
Targeted Case Management	93.778	HD099016	12,078,999
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>207,892,891</u>
<u>Office of Special Education and Rehabilitative Services of the U.S. Department of Education:</u>			
Pass-through award from:			
State of California Department of Developmental Services:			
Special Education – Grants for Infants and Families	84.181	HD099016	1,751,975
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,751,975</u>
<u>Corporation for National and Community Service</u>			
Pass through award from:			
State of California Department of Developmental Services:			
Foster Grandparent Program	94.011	HD099016	98,156
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>98,156</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 209,743,022</u></u>

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of San Andreas Regional Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

SAN ANDREAS REGIONAL CENTER
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 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered
to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered
to be material weakness(es)? _____ Yes X None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of Circular A-133? X Yes _____ No

Identification of major programs: Name of Federal Program or Cluster

CFDA #93.778 Medical Assistance Program
(Medicaid; Title XIX)

CFDA #93.778 Targeted Case Management

Dollar threshold used to distinguish between
Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee? _____ Yes X No

Section II – Financial Statement Findings

None noted.

SAN ANDREAS REGIONAL CENTER
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

Section III – Federal Awards Findings and Questioned Costs

See findings 2014-1, 2014-2, 2014-3, 2013-1, 2013-2, and 2012-1.

Finding No. 2014-1 – Targeted Case Management Allowable Costs

Federal Award Program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Targeted Case Management

Criteria or Specific Requirement:

Allowable Targeted Case Management (TCM) units are based on services which assist consumers to gain access

- Assessment and periodic reassessment to determine service needs.
- Development and periodic revision of an Individual Program Plan (IPP) based on the information collected through assessment or reassessment.
- Monitoring and follow-up activities, including activities and contacts that are necessary to ensure that the IPP is effectively implement and adequately addresses the needs of the consumer.
- Referral and related activities to help the consumer obtain needed services.

Statement of Condition:

Two TCM units were for services previously billed.

Context:

Based on our testing of 2,863 TCM units, based on our random selection of 40 consumers, it came to our attention that two TCM units were for services previously billed.

Effect:

Two TCM units were overcharged to the Department of Health and Human Services through the State of California's Department of Developmental Services.

Cause:

Many new and some existing Service Coordinators require refresher trainings in order to properly document Title 19 activity.

Recommendation:

The Center has a system in place to perform quality control checks of TCM billable units by a service coordinator on a monthly basis. We recommend that management continue to monitor the TCM billable units and take corrective action on errors or discrepancies noted through its review.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

View of Responsible Officials and Planned Corrective Actions:

The Center will conduct regular trainings for new and existing employees on TCM. These topics will include proper documentation, appropriate identification of different types of TCM, definition of allowable units, and strategies to effectively and accurately document. Managers will present trainings in each individual unit as well as group trainings open to all units.

SAN ANDREAS REGIONAL CENTER
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

Finding No. 2014-2 – Documentation for Medicaid Waiver Eligibility

Federal Award Program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Medical Assistance Program (Medicaid; Title XIX)

Criteria or Specific Requirement:

There are a number of requirements for a Medicaid waiver consumer file. Some of which are:

- An IPP signed by the consumer or parent or guardian or conservator and a representative of the Center.
- If the IPP covers more than one year, an annual review completed and signed by the consumer or parent or guardian or conservator and a representative of the Center.
- A consumer choice of services/living arrangement statement on file signed by the consumer or parent or guardian or conservator.

Statement of Condition:

During the June 30, 2014 audit, there were a total of 11 exceptions:

- Ten consumers had IPPs which were not performed within the required time limit.
- One consumer's CDER was missing the Center representative's signature.
- Three consumers' IPP was missing the consumer or parent or guardian or conservator's signature.
- One consumer's Medicaid waiver form was missing the Center representative's signature.
- One consumer's Medicaid waiver form was not completed within the required time limit.

The five exceptions noted above as not having the proper signatures at the time of preparation/occurrence were subsequently corrected.

Context:

Based on our testing of 40 randomly selected consumer files from a population of 6,685, it came to our attention that some files were missing proper documentation that is required to determine consumer eligibility.

Effect:

Improper documentation of consumer eligibility for Medicaid Waiver.

Cause:

New and existing staff sometimes need additional training on Waiver eligibility requirements.

Recommendation:

The Center has a system in place to ensure that all of the required documents are prepared, signed and filed in a timely manner. Accordingly, we recommend that management continue training on file requirements and promote unity of procedures between all the locations. Also, there needs to be continued monitoring and follow up on documentation missing in files.

SAN ANDREAS REGIONAL CENTER
(*A California Nonprofit Public Benefit Corporation*)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

View of Responsible Officials and Planned Corrective Actions:

The Center will conduct regular trainings for new and existing employees regarding Waiver eligibility. This will include information on qualifying deficits, billable services, measurable objectives, and adherence to timelines. The Medicaid Wavier specialist will regularly attend manager meetings and all staff meetings, and will present new and relevant information to all employees.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

Finding No. 2014-3 – Targeted Case Management Allowable Costs

Federal Award Program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Targeted Case Management

Criteria or Specific Requirement:

Allowable TCM units are based on services which assist consumers to gain access

- Assessment and periodic reassessment to determine service needs.
- Development and periodic revision of an IPP based on the information collected through assessment or reassessment.
- Monitoring and follow-up activities, including activities and contacts that are necessary to ensure that the IPP is effectively implement and adequately addresses the needs of the consumer.
- Referral and related activities to help the consumer obtain needed services.

Statement of Condition:

During the June 30, 2014 audit, one TCM unit tested was of an administrative nature, which is an unallowable service.

Context:

Based on our testing of 2,863 TCM units, based on our random selection of 40 consumers, it came to our attention that one TCM unit billed was of an administrative nature, which is an unallowable service.

Effect:

One TCM unit was overcharged to the Department of Health and Human Services through the State of California's Department of Developmental Services.

Cause:

Many new and some existing Service Coordinators require refresher trainings in order to properly document Title 19 activity.

Recommendation:

The Center has a system in place to perform quality control checks of TCM billable units by a service coordinator on a monthly basis. Accordingly, we recommend that management continue training staff on the allowable and unallowable billable TCM services.

View of Responsible Officials and Planned Corrective Actions:

The Center will incorporate training on billable costs when training new and existing employees on TCM.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

Finding No. 2013-1 – Documentation for Medicaid Waiver Eligibility

Federal Award Program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Medical Assistance Program (Medicaid; Title XIX)

Criteria or Specific Requirement:

There are a number of requirements for a Medicaid waiver consumer file. Some of which are:

- An IPP signed by the consumer or parent or guardian or conservator and a representative of the Center.
- If the IPP covers more than one year, an annual review completed and signed by the consumer or parent or guardian or conservator and a representative of the Center.
- A consumer choice of services/living arrangement statement on file signed by the consumer or parent or guardian or conservator.

Statement of Condition and Context:

Based on testing performed on forty randomly selected consumers from a population of 6,554, there were a total of eight exceptions noted by the predecessor auditor during the June 30, 2013 audit.

Current Status:

Current year testing indicated similar issues. See 2014-2 for current year condition and recommendation.

SAN ANDREAS REGIONAL CENTER
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

Finding No. 2013-2 – Targeted Case Management Allowable Costs

Federal Award Program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Targeted Case Management

Criteria or Specific Requirement:

Allowable TCM units are based on services which assist consumers to gain access

- Assessment and periodic reassessment to determine service needs.
- Development and periodic revision of an IPP based on the information collected through assessment or reassessment.
- Monitoring and follow-up activities, including activities and contacts that are necessary to ensure that the IPP is effectively implement and adequately addresses the needs of the consumer.
- Referral and related activities to help the consumer obtain needed services.

Statement of Condition and Context:

Based on testing performed on 137 randomly selected TCM units from a population of 70,908 TCM units, there were a total of two exceptions noted during the June 30, 2013 audit performed by the predecessor auditor.

Current Status:

Current year testing indicated similar issues. See 2014-3 for current year condition and recommendation.

SAN ANDREAS REGIONAL CENTER
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

Finding No. 2012-1 – Documentation for Medicaid Waiver Eligibility

Federal Award Program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Medical Assistance Program (Medicaid; Title XIX)

Criteria or Specific Requirement:

There are a number of requirements for a Medicaid waiver consumer file. Some of which are:

- An IPP signed by the consumer or parent or guardian or conservator and a representative of the Center.
- If the IPP covers more than one year, an annual review completed and signed by the consumer or parent or guardian or conservator and a representative of the Center.
- A consumer choice of services/living arrangement statement on file signed by the consumer or parent or guardian or conservator.

Statement of Condition and Context:

Per the predecessor auditor, based on tests of 40 randomly selected consumer files, it was noted that 15 files were missing proper documentation that is required to determine consumer eligibility.

Current Status:

Current year testing indicated similar issues. See 2014-2 for current year condition and recommendation.



Board of Directors
San Andreas Regional Center
Campbell, California

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
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CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of San Andreas Regional Center, which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Andreas Regional Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Andreas Regional Center's internal control. Accordingly, we do not express an opinion on the effectiveness of San Andreas Regional 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 San Andreas Regional Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of San Andreas Regional Center in a separate letter dated December 15, 2014.

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 San Andreas Regional 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 San Andreas Regional Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindquist, von Husen and Joyce LLP

December 15, 2014



Board of Directors
San Andreas Regional Center
Campbell, California

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited San Andreas Regional Center's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of San Andreas Regional Center's major federal programs for the year ended June 30, 2014. San Andreas Regional Center's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of San Andreas Regional Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 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 San Andreas Regional 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 each major federal program. However, our audit does not provide a legal determination on San Andreas Regional Center's compliance.

Opinion on Each Major Federal Program

In our opinion, San Andreas Regional Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2014-1, 2014-2, 2014-3, 2013-1, 2013-2, and 2012-1. Our opinion on each major federal program is not modified with respect to these matters.

The Center's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of San Andreas Regional 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 San Andreas Regional Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 San Andreas Regional 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sindquist, von Husen and Joyce LLP

December 15, 2014