

(A California Nonprofit Public Benefit Corporation)

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

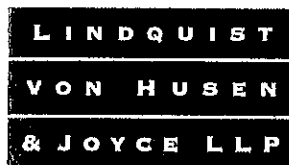
YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED JUNE 30, 2015**

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

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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, 2016, 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, 2016, 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

We have previously audited the San Andreas Regional Center's 2015 financial statements, and our report dated December 15, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 November 23, 2016 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 Hoven and Joyce LLP

November 23, 2016

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
 STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2016
 WITH COMPARATIVE TOTALS FOR JUNE 30, 2015

	2016			2015
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Total</i>
ASSETS				
Cash	\$ 27,084,772	\$ -	\$ 27,084,772	\$ 5,025,469
Cash held for others	2,528,343	139,950	2,668,293	2,593,500
Cash held for CPPDD (Note 11)	2,181,135	-	2,181,135	2,181,135
Contract receivable (Note 3)	62,767,256	-	62,767,256	79,057,216
Client trust funds receivable	5,420	-	5,420	22,091
Other receivables	5,396	-	5,396	13,391
Receivable from Intermediate Care Facilities (Note 4)	855,903	-	855,903	650,675
Prepaid expenses	232,283	-	232,283	168,957
Deferred costs for accrued vacation and other leave benefits	2,396,116	-	2,396,116	2,352,174
Deposits	46,581	-	46,581	43,581
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>\$ 98,625,570</u>	<u>\$ 139,950</u>	<u>\$ 98,765,520</u>	<u>\$ 92,630,554</u>
LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)				
Liabilities:				
Accounts payable	\$ 30,757,029	\$ -	\$ 30,757,029	\$ 29,109,047
Contract advance (Note 5)	62,939,741	-	62,939,741	58,534,001
Payable to Department of Developmental Services (Note 4)	-	-	-	31,736
Accrued vacation and other leave benefits	2,396,116	-	2,396,116	2,352,174
Net assets held for others (Note 8)	2,532,684	-	2,532,684	2,455,604
Unfunded defined benefit plan liability (Note 10)	16,099,211	-	16,099,211	10,806,024
Total liabilities	114,724,781	-	114,724,781	103,288,586
Net assets (accumulated deficit)	<u>(16,099,211)</u>	<u>139,950</u>	<u>(15,959,261)</u>	<u>(10,658,032)</u>
Total liabilities and net assets (accumulated deficit)	<u>\$ 98,625,570</u>	<u>\$ 139,950</u>	<u>\$ 98,765,520</u>	<u>\$ 92,630,554</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, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Total</i>
Support and revenue:				
Grants	\$ 115,547,727	\$ -	\$ 115,547,727	\$ 109,104,053
Federal awards	229,784,504	-	229,784,504	216,972,979
Intermediate Care Facilities (Note 4)	1,644,131	-	1,644,131	1,701,173
Interest	153,184	75	153,259	138,202
Donations and other income	51,692	32,541	84,233	79,251
	<u>347,181,238</u>	<u>32,616</u>	<u>347,213,854</u>	<u>327,995,658</u>
Net assets released from restrictions (Note 7)	<u>40,658</u>	<u>(40,658)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>347,221,896</u>	<u>(8,042)</u>	<u>347,213,854</u>	<u>327,995,658</u>
Expenses:				
Program services:				
Purchase of services	316,191,300	-	316,191,300	299,228,289
Other programs	530,180	-	530,180	452,298
Operating	24,458,168	-	24,458,168	23,835,225
General and administrative:				
Operating	<u>6,042,248</u>	<u>-</u>	<u>6,042,248</u>	<u>4,495,031</u>
Total expenses	<u>347,221,896</u>	<u>-</u>	<u>347,221,896</u>	<u>328,010,843</u>
Change in net assets from operations	-	(8,042)	(8,042)	(15,185)
Change in defined benefit plan liability	<u>(5,293,187)</u>	<u>-</u>	<u>(5,293,187)</u>	<u>2,545,039</u>
Change in net assets	<u>(5,293,187)</u>	<u>(8,042)</u>	<u>(5,301,229)</u>	<u>2,529,854</u>
Net assets (accumulated deficit):				
Beginning of year	<u>(10,806,024)</u>	<u>147,992</u>	<u>(10,658,032)</u>	<u>(13,187,886)</u>
End of year	<u>\$ (16,099,211)</u>	<u>\$ 139,950</u>	<u>\$ (15,959,261)</u>	<u>\$ (10,658,032)</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, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	<i>Program Services</i>	<i>General and Administrative</i>	<i>Total</i>	<i>Total</i>
Purchase of services:				
Other purchased services	\$ 126,376,838	\$ -	\$ 126,376,838	\$ 116,817,677
Residential care facilities	100,336,977	-	100,336,977	96,920,900
Day programs	89,477,485	-	89,477,485	85,489,712
Total purchase of services	316,191,300	-	316,191,300	299,228,289
Other programs:				
CPP – Agnews	402,683	-	402,683	335,070
Foster grandparent and senior companion	127,497	-	127,497	117,228
Total other programs	530,180	-	530,180	452,298
Operating:				
Salaries	15,054,375	2,961,661	18,016,036	17,947,106
Benefits	5,356,560	2,493,518	7,850,078	5,824,697
Payroll taxes	208,503	40,901	249,404	252,426
Office occupancy	1,314,508	97,929	1,412,437	1,376,690
General	465,017	32,762	497,779	325,696
Communication	322,992	35,888	358,880	329,111
Contract and consultant fee	193,488	21,499	214,987	260,496
Staff travel	336,970	37,441	374,411	357,319
Legal fees	165,173	18,353	183,526	68,877
Equipment and facility maintenance	200,451	16,346	216,797	314,318
ARCA dues	-	73,832	73,832	72,907
Equipment rental	95,378	10,598	105,976	112,758
Insurance	90,929	10,103	101,032	94,450
General office expenses	143,003	15,889	158,892	159,154
Data processing	168,879	18,764	187,643	162,293
Printing	30,407	3,379	33,786	32,309
Accounting fees	62,100	6,900	69,000	64,000
Donations	40,658	-	40,658	54,767
Equipment purchases	153,476	17,053	170,529	344,168
Utilities	25,968	-	25,968	22,021
Board expenses	-	17,490	17,490	11,352
Interest expense	8,125	903	9,028	14,806
Security	21,208	154	21,362	13,490
Bank charges	-	110,885	110,885	115,045
Total operating	24,458,168	6,042,248	30,500,416	28,330,256
Total expenses	\$ 341,179,648	\$ 6,042,248	\$ 347,221,896	\$ 328,010,843

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, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
Cash flows from operating activities:				
Change in net assets	\$ (5,293,187)	\$ (8,042)	\$ (5,301,229)	\$ 2,529,854
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Change in defined benefit plan liability	5,293,187	-	5,293,187	(2,545,039)
(Increase) decrease in assets:				
Contract receivable	16,289,960	-	16,289,960	10,865,169
Client trust funds receivable	16,671	-	16,671	(3,198)
Other receivables	7,995	-	7,995	1,172
Prepaid expenses	(63,326)	-	(63,326)	(9,992)
Deposits	(3,000)	-	(3,000)	1,370
Increase (decrease) in liabilities:				
Accounts payable	1,647,982	-	1,647,982	2,010,446
Payable to Department of Developmental Services	(236,964)	-	(236,964)	(402,567)
Net assets held for others	77,080	-	77,080	31,018
Total adjustments	23,029,585	-	23,029,585	9,948,379
Net cash provided by (used in) operating activities	17,736,398	(8,042)	17,728,356	12,478,233
Cash flows from financing activities:				
Advances from line of credit	25,000,000	-	25,000,000	23,000,000
Payments on line of credit	(25,000,000)	-	(25,000,000)	(23,000,000)
Proceeds from contract advance	87,680,987	-	87,680,987	77,846,812
Repayment of contract advance	(83,275,247)	-	(83,275,247)	(92,576,865)
Net cash provided by (used in) financing activities	4,405,740	-	4,405,740	(14,730,053)
Net increase (decrease) in cash	22,142,138	(8,042)	22,134,096	(2,251,820)
Cash, beginning of year	9,652,112	147,992	9,800,104	12,051,924
Cash, end of year	\$ 31,794,250	\$ 139,950	\$ 31,934,200	\$ 9,800,104
Cash	\$ 27,084,772	\$ -	\$ 27,084,772	\$ 5,025,469
Cash held for others	2,528,343	139,950	2,668,293	2,593,500
Cash held for CPPDD	2,181,135	-	2,181,135	2,181,135
	\$ 31,794,250	\$ 139,950	\$ 31,934,200	\$ 9,800,104

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, 2016

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 of California maintains the right to assume control of the Center's operation and the obligation of its liabilities.

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
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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 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, 2016.

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
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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

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 \$31,815,000 as of June 30, 2016. The Center has not experienced any losses in such accounts.

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, 2016.

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. As such, 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, 2016 were \$79,383. The capitalized furniture and equipment, and reciprocating offset account, at June 30, 2016 totaled \$330,289.

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.

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 2011 through 2014 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

SAN ANDREAS REGIONAL CENTER
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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 should use the actuarial report coinciding with the Center's fiscal year end, however, 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. Because the Center operates on a cost-reimbursement contract, 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, 2016, \$508,140 of health insurance premiums was paid on behalf of the retired employees.

Subsequent Events

Management has evaluated subsequent events through November 23, 2016, the date on which these financial statements were available to be issued.

NOTE 3 – CONTRACT RECEIVABLE

Contract receivable is summarized as follows:

POS and operations	\$ 60,835,989
CPP	<u>1,931,267</u>
	<u><u>\$ 62,767,256</u></u>

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).

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YEAR ENDED JUNE 30, 2016

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 \$855,903 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. The amount *payable to Department of Developmental Services* representing expected payment net of the Center's fee in relation to the billings prepared on or before June 30, 2012 was paid in full in 2016. *Revenue from Intermediate Care Facilities* was \$1,644,131.

NOTE 5 – CONTRACT ADVANCE

The contract advance balance of \$62,939,741 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 \$1,513,041 for the year ended June 30, 2016. The Center is currently negotiating a new lease at a new location for the Campbell office.

Future minimum lease payments are as follows:

2017	\$ 1,446,122
2018	266,023
2019	219,335
2020	154,258
2021	156,246
Thereafter	<u>13,042</u>
	<u>\$ 2,255,026</u>

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 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2016

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows:

	<i>June 30, 2015</i>	<i>Contributions and Interest</i>	<i>Releases from Restrictions</i>	<i>June 30, 2016</i>
Donation Fund	\$ 147,992	\$ 32,616	\$ (40,658)	\$ 139,950
	<u>\$ 147,992</u>	<u>\$ 32,616</u>	<u>\$ (40,658)</u>	<u>\$ 139,950</u>

NOTE 8 – NET ASSETS HELD FOR OTHERS

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

Beginning balance	\$ 2,455,604
Client support received	26,762,862
Less purchase of service disbursements	<u>(26,685,782)</u>
Ending balance	<u>\$ 2,532,684</u>

NOTE 9 – LINE OF CREDIT

On June 1, 2014, the Center obtained a revolving \$50,000,000 line of credit with MUFG Union Bank, N.A., secured by the Center's assets, to fund current operating needs. Interest under the line of credit was charged at the bank's reference rate of 3.5%. The line of credit expired on October 15, 2014 and was renewed. In July 2015, the Center borrowed and repaid \$25,000,000. The line of credit expired on September 30, 2015, but was amended on February 1, 2016 to be extended for an additional six months from April 1, 2016 through September 30, 2016. Additionally, subsequent to year-end, the Center borrowed and repaid \$10,000,000 in July 2016.

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 to CalPERS 22.71% of the employees' gross salary. Participants are fully vested after five years of full-time service. For the year ended June 30, 2016, \$3,977,634 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.

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The unfunded liability as of June 30, 2015, the most current actuarial valuation, was as follows:

Present value of projected benefits	\$ 104,125,327
Less present value of future:	
Employer normal costs	(10,747,329)
Employee contributions	<u>(10,506,798)</u>
Entry age normal accrued liability	82,871,200
Market value of assets	<u>(66,771,989)</u>
Unfunded liability	<u><u>\$ 16,099,211</u></u>

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

Beginning balance – June 30, 2014	\$ 64,607,974
Contributions:	
Employer	2,223,099
Employee	1,297,964
Investment return	1,393,307
Benefit payments to retirees	(2,733,077)
Refunds	(37,743)
Other transfers and miscellaneous adjustments	<u>20,465</u>
Ending balance – June 30, 2015	<u><u>\$ 66,771,989</u></u>

The significant actuarial assumptions as of June 30, 2015, were as follows:

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

The expected payment on the unfunded liability for the year ended June 30, 2016 is \$1,998,466.

The asset allocation as of June 30, 2015, was as follows:

<i>Asset Class</i>	<i>Current Allocation</i>
Public equity	53.8%
Private equity	9.6%
Fixed income	17.6%
Cash equivalent	2.5%
Real assets	10.5%
Inflation assets	5.2%
Absolute Return Strategy	<u>0.8%</u>
	<u><u>100.0%</u></u>

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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, 2015. The assets for the Center are part of the PERF and are invested accordingly.

For the year ended June 30, 2016, the actuarial computed employer and employee contribution rates are 14.141% and 7.945%, 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.

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 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.

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

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

The LLCs lease such properties to the Regional Centers' service providers under 60 long-term operating leases. The service providers operate the properties for the benefit of 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 LLCs to refinance the Bank of America's loans. CalHFA's loans remained in effect until February 18, 2011, when they were paid off through the bond financing discussed below.

Bond Financing

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

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

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

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

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

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

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YEAR ENDED JUNE 30, 2016

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

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

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

- 1) The Regional Centers executed a Lender Lease Assurance Agreement, whereby they unconditionally agreed, jointly and severally to pay the rent and other obligations of all service providers under all leases should the service providers fail to meet such obligations. (This is relevant, since the LLCs rely on the receipt of such rent to repay the bond financing.)
- 2) The Regional Centers agreed to maintain a liquidity operating fund in three separate accounts (one for each Regional Center), in the aggregate sum of \$5,000,000. CHFFA and OSHPD have the right to draw on the liquidity operating fund to cure any defaults by the LLCs under the loan documents. Subject to such right, the Regional Centers' use of these funds are unrestricted; however each Regional Center must replenish any withdrawal from its liquidity operating fund necessary to maintain the required initial balance within twelve months from the date of such withdrawal. The Center's share of the liquidity operating fund is \$2,181,135. The remaining share of the fund is funded by GGRC and RCEB.
- 3) Both the Regional Centers and the LLCs agreed to indemnify CHFFA and OSHPD for any post foreclosure transfer environmental losses.

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

In order to make all of the debt service payments equal, one additional "smooth out" payment was required to be made to the Bond trustee. The Center (and the other Regional Centers) made this payment via advances to its service providers, which were then forwarded to the Bond trustee. The service providers will repay these receivables to the Center at the end of the bond financing term, via applicable offsets that the Center will apply against funds it owes to the service providers under the Service Provider Agreements. At June 30, 2016, 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, 2016, CPPDD vendor advances – lease totaled \$359,130.

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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 81.23% of the Center's total employee levels. The current collective bargaining agreement will expire on December 31, 2016.

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.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent to year-end, DDS approved the purchase of property in an effort to expand the services provided under CPPDD.

SUPPLEMENTARY INFORMATION

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

<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>	<i>Expenditures to Subrecipients</i>
<u>Centers for Medicare and Medicaid Services of the U.S. 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	\$ 213,106,131	\$ -
Targeted Case Management	93.778	HD099016	15,248,383	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>228,354,514</u>	<u>-</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	1,326,313	-
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,326,313</u>	<u>-</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	103,677	-
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>103,677</u>	<u>-</u>
TOTAL FEDERAL AWARDS			<u>\$ 229,784,504</u>	<u>\$ -</u>

SAN ANDREAS REGIONAL CENTER

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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The purpose of the Schedule is to present a summary of those activities of San Andreas Regional Center for the year ended June 30, 2016, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly and indirectly between San Andreas Regional Center and the federal government. San Andreas Regional Center did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

SAN ANDREAS REGIONAL CENTER
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

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 200.516 of the Uniform Guidance?

 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.

Section III – Federal Awards Findings and Questioned Costs

See findings 2016-001, 2016-002, 2015-001, 2015-002, 2014-002,
2014-003, 2013-001, 2013-002, and 2012-001.

SAN ANDREAS REGIONAL CENTER
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Finding No. 2016-001 -- Targeted Case Management Allowable Costs

Federal Award Grantor: Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, pass-through from the State of California Department of Developmental Services

<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 provided to consumers, such as:

- 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 implemented 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, 2016 audit, we noted 56 TCM units tested, involving 15 consumers, were of an administrative nature, which is an unallowable service.

Context:

Based on our testing of 1,877 TCM units, based on our random selection of 40 consumers, it came to our attention that 56 TCM units billed were of an administrative nature, which is an unallowable service.

Effect:

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 may lack the knowledge and understanding of Title 19 activity. This appears to be a systematic problem, however, it requires judgment and adequate recordkeeping by service coordinators.

Recommendation:

This is a repeat finding from prior years (2015-001, 2014-003, and 2013-002). 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 and how to accurately document their performed tasks to illustrate which tasks were considered allowable.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

View of Responsible Officials and Planned Corrective Actions:

The Center holds quarterly orientation for new employees which includes a section on Title 19 (TCM). The Center continues to encourage service coordinators to attend these orientations as a refresher if they feel it is necessary. Management will also identify service coordinators that need to improve their TCM procedures and make attendance at the next available training mandatory. The Center will continue to develop tools to assist the service coordinators to improve their knowledge.

The Center created a TCM guide to help service coordinators appropriately apply TCM activity. All service coordinators will be given this booklet and be required to attend another mandatory training.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Finding No. 2016-002 – Documentation for Medicaid Waiver Eligibility

Federal Award Grantor: Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, pass-through from the State of California Department of Developmental Services

<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, 2016 audit, there was one exception:

- A consumer's Client Development Evaluation Report was missing from the consumer file.

Context:

Based on our testing of 40 randomly selected consumer files from a population of 7,299, it came to our attention that a file was missing proper documentation that is required as evidence of consumer eligibility.

Effect:

Improper documentation of consumer eligibility for Medicaid Waiver.

Cause:

New and existing staff sometimes need additional training on Waiver eligibility requirements. This appears to be a systematic problem requiring staff to set aside time to scan and upload appropriate documents to consumer files.

Recommendation:

This is a repeat finding from prior years (2015-002, 2014-002, 2013-001, and 2012-001). 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 amongst 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, 2016

View of Responsible Officials and Planned Corrective Actions:

The Center will continue to train new employees during the new hire orientation, while encouraging existing service coordinators to attend these orientations as a refresher.

The Center will:

1. Retrain all staff on using the "welcome screen" and other SANDIS related tools.
2. Update the filing protocol to include the filing of all CDERs.
3. Standardized the manager tracking of employee work.
4. Have managers be responsible for submitting monthly compliance reports to the directors.

SAN ANDREAS REGIONAL CENTER
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

Finding No. 2015-001 – Targeted Case Management Allowable Costs

Federal Award Grantor: Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, pass-through from the State of California Department of Developmental Services

<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 provided to consumers, such as:

- 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 implemented 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 our testing of 2,697 TCM units, based on our random selection of 40 consumers, it came to our attention that 12 TCM units billed were of an administrative nature, which is an unallowable service.

These 12 TCM units noted as exceptions were subsequently corrected.

Current Status:

Current year testing indicated similar issues. See 2016-001 for current year condition and recommendation.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

Finding No. 2015-002 – Documentation for Medicaid Waiver Eligibility

Federal Award Grantor: Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, pass-through from the State of California Department of Developmental Services

<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 our testing of 40 randomly selected consumer files from a population of 7,000, it came to our attention that some files were missing proper documentation that is required to determine consumer eligibility.

During the June 30, 2015 audit, there were a total of 5 exceptions:

- Four consumers had IPPs which were not performed within the required time limit.
- One consumer's Client Development Evaluation Report (CDER) was missing from the consumer file.

Current Status:

Current year testing indicated similar issues. See 2016-002 for current year condition and recommendation.

SAN ANDREAS REGIONAL CENTER
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

Finding No. 2014-002 – Documentation for Medicaid Waiver Eligibility

Federal Award Grantor: Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, pass-through from the State of California Department of Developmental Services

<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 our testing of 40 randomly selected consumer files from a population of 6,685, there were a total of 11 exceptions noted where some files were missing proper documentation that is required to determine consumer eligibility.

Current Status:

Current year testing indicated similar issues. See 2016-002 for current year condition and recommendation.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

Finding No. 2014-003 – Targeted Case Management Allowable Costs

Federal Award Grantor: Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, pass-through from the State of California Department of Developmental Services

<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 provided to consumers, such as:

- 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 implemented 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 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.

Current Status:

Current year testing indicated similar issues. See 2016-001 for current year condition and recommendation.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

Finding No. 2013-001 – Documentation for Medicaid Waiver Eligibility

Federal Award Grantor: Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, pass-through from the State of California Department of Developmental Services

<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 40 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 2016-002 for current year condition and recommendation.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

Finding No. 2013-002 – Targeted Case Management Allowable Costs

Federal Award Grantor: Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, pass-through from the State of California Department of Developmental Services

<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 provided to consumers, such as:

- 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 implemented 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 2016-001 for current year condition and recommendation.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016

Finding No. 2012-001 – Documentation for Medicaid Waiver Eligibility

Federal Award Grantor: Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services, pass-through from the State of California Department of Developmental Services

<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 2016-002 for current year condition and recommendation.



Board of Directors
San Andreas Regional Center
Campbell, California

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO
SCOTT K. SMITH

**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, 2016, 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 November 23, 2016.

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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

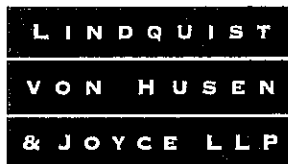
We noted certain matters that we reported to management of San Andreas Regional Center in a separate letter dated November 23, 2016.

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 Huen and Joyce LLP

November 23, 2016



Board of Directors
San Andreas Regional Center
Campbell, California

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
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SCOTT K. SMITH

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

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001, 2016-002, 2015-001, 2015-002, 2014-002, 2014-003, 2013-001, 2013-002, and 2012-001. Our opinion on each major federal program is not modified with respect to these matters.

San Andreas Regional Center's response to the noncompliance findings identified in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs. San Andreas Regional 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 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 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Sindquist, von Hoven and Joyce LLP

November 23, 2016