



(A California Nonprofit Public Benefit Corporation)

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR THE
YEAR ENDED JUNE 30, 2017**

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
 FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2018
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

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San Andreas Regional Center
San Jose, 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, 2018, 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, 2018, 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 2017 financial statements, and our report dated January 16, 2018, 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, 2017, 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 19, 2018 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.

Lindquist, von Huen and Joyce LLP

November 19, 2018

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

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

WITH COMPARATIVE TOTALS FOR JUNE 30, 2017

	2018			2017
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Total</i>
ASSETS				
Cash	\$ 17,717,854	\$ -	\$ 17,717,854	\$ 23,628,914
Cash held for others	3,485,882	140,258	3,626,140	3,616,093
Cash held for CPPDD (Note 12)	2,181,135	-	2,181,135	2,181,135
Contract receivable (Note 3)	79,182,447	-	79,182,447	110,571,884
Client trust funds receivable	1,788	-	1,788	3,248
Other receivables	35,265	-	35,265	6,381
Receivable from Intermediate Care Facilities (Note 4)	1,279,176	-	1,279,176	1,313,890
Note receivable (Note 5)	1,336,196	-	1,336,196	1,026,375
Prepaid expenses	494,813	-	494,813	538,964
Deferred costs for accrued vacation and other leave benefits	2,009,823	-	2,009,823	1,726,189
Deposits	10,802	-	10,802	46,581
CPPDD vendor advances – lease (Note 12)	359,130	-	359,130	359,130
CPPDD vendor advances – other (Note 12)	163,235	-	163,235	163,235
Total assets	<u>\$ 108,257,546</u>	<u>\$ 140,258</u>	<u>\$ 108,397,804</u>	<u>\$ 145,182,019</u>
LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)				
Liabilities:				
Accounts payable and accrued expenses	\$ 37,832,615	\$ -	\$ 37,832,615	\$ 38,489,170
Contract advance (Note 6)	64,886,081	-	64,886,081	101,347,389
Accrued vacation and other leave benefits	2,009,823	-	2,009,823	1,726,189
Net assets held for others (Note 9)	3,486,714	-	3,486,714	3,474,515
Unfunded defined benefit plan liability (Note 11)	23,055,140	-	23,055,140	20,045,414
Total liabilities	131,270,373	-	131,270,373	165,082,677
Net assets (accumulated deficit)	(23,012,827)	140,258	(22,872,569)	(19,900,658)
Total liabilities and net assets (accumulated deficit)	<u>\$ 108,257,546</u>	<u>\$ 140,258</u>	<u>\$ 108,397,804</u>	<u>\$ 145,182,019</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, 2018

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	2018			2017
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Total</i>
Support and revenue:				
Grants	\$ 412,827,993	\$ -	\$ 412,827,993	\$ 404,538,208
Federal awards	1,535,481	-	1,535,481	1,485,911
Intermediate Care Facilities (Note 4)	1,611,463	-	1,611,463	1,779,486
Interest	243,644	72	243,716	208,287
Donations and other income	50,447	14,373	64,820	85,312
	<u>416,269,028</u>	<u>14,445</u>	<u>416,283,473</u>	<u>408,097,204</u>
Net assets released from restrictions (Note 8)	<u>18,943</u>	<u>(18,943)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>416,287,971</u>	<u>(4,498)</u>	<u>416,283,473</u>	<u>408,097,204</u>
Expenses:				
Program services:				
Purchase of services	377,495,760	-	377,495,760	371,826,973
Other programs	493,023	-	493,023	498,695
Operating	34,820,992	-	34,820,992	32,405,762
General and administrative:				
Operating	<u>3,435,883</u>	<u>-</u>	<u>3,435,883</u>	<u>3,360,968</u>
Total expenses	<u>416,245,658</u>	<u>-</u>	<u>416,245,658</u>	<u>408,092,398</u>
Change in net assets from operations	42,313	(4,498)	37,815	4,806
Change in defined benefit plan liability	<u>(3,009,726)</u>	<u>-</u>	<u>(3,009,726)</u>	<u>(3,946,203)</u>
Change in net assets	(2,967,413)	(4,498)	(2,971,911)	(3,941,397)
Net assets (accumulated deficit):				
Beginning of year	<u>(20,045,414)</u>	<u>144,756</u>	<u>(19,900,658)</u>	<u>(15,959,261)</u>
End of year	<u>\$ (23,012,827)</u>	<u>\$ 140,258</u>	<u>\$ (22,872,569)</u>	<u>\$ (19,900,658)</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, 2018

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	2018			2017
	<i>Program Services</i>	<i>General and Administrative</i>	<i>Total</i>	<i>Total</i>
Purchase of services:				
Other purchased services	\$ 170,360,912	\$ -	\$ 170,360,912	\$ 163,653,127
Residential care facilities	113,403,762	-	113,403,762	111,854,537
Day programs	93,731,086	-	93,731,086	96,319,309
Total purchase of services	<u>377,495,760</u>	<u>-</u>	<u>377,495,760</u>	<u>371,826,973</u>
Other programs:				
CPP – Agnews	364,532	-	364,532	375,509
Foster grandparent and senior companion	128,491	-	128,491	123,186
Total other programs	<u>493,023</u>	<u>-</u>	<u>493,023</u>	<u>498,695</u>
Operating:				
Salaries	21,475,645	2,123,965	23,599,610	20,477,175
Benefits	6,845,793	677,056	7,522,849	7,447,506
Payroll taxes	300,392	29,709	330,101	287,791
Office occupancy	2,401,320	202,728	2,604,048	4,410,567
General	921,274	29,115	950,389	587,635
Communication	343,186	33,941	377,127	383,283
Contract and consultant fees	196,525	19,437	215,962	249,049
Staff travel	410,782	40,627	451,409	348,421
Legal fees	172,116	17,023	189,139	295,155
Equipment and facility maintenance	958,087	88,028	1,046,115	232,089
ARCA dues	-	92,527	92,527	92,527
Equipment rental	122,521	12,118	134,639	103,065
Insurance	134,250	13,277	147,527	103,848
General office expenses	139,902	13,837	153,739	142,692
Data processing	124,034	12,267	136,301	105,996
Printing	37,141	3,673	40,814	34,215
Accounting fees	58,240	5,760	64,000	99,000
Donations	18,943	-	18,943	16,168
Equipment purchases	104,653	10,350	115,003	186,256
Utilities	15,903	-	15,903	26,320
Board expenses	-	7,168	7,168	13,934
Interest expense and commitment fees	30,004	2,967	32,971	1,944
Security	10,281	115	10,396	5,966
Bank charges	-	195	195	116,128
Total operating	<u>34,820,992</u>	<u>3,435,883</u>	<u>38,256,875</u>	<u>35,766,730</u>
Total expenses	<u>\$ 412,809,775</u>	<u>\$ 3,435,883</u>	<u>\$ 416,245,658</u>	<u>\$ 408,092,398</u>

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, 2018

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2017

	2018			2017
	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>	<i>Total</i>
Cash flows from operating activities:				
Change in net assets	\$ (2,967,413)	\$ (4,498)	\$ (2,971,911)	\$ (3,941,397)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Change in defined benefit plan liability	3,009,726	-	3,009,726	3,946,203
(Increase) decrease in assets:				
Contract receivable	31,389,437	-	31,389,437	(47,804,628)
Client trust funds receivable	1,460	-	1,460	2,172
Other receivables	(28,884)	-	(28,884)	(985)
Receivable from Intermediate Care Facilities	34,714	-	34,714	(457,987)
Prepaid expenses	44,151	-	44,151	(306,681)
Deposits	35,779	-	35,779	-
Increase (decrease) in liabilities:				
Accounts payable and accrued expenses	(656,555)	-	(656,555)	7,732,141
Net assets held for others	12,199	-	12,199	941,831
Total adjustments	33,842,027	-	33,842,027	(35,947,934)
Net cash provided by (used in) operating activities	30,874,614	(4,498)	30,870,116	(39,889,331)
Cash flows from investing activities:				
Note receivable disbursed	(1,309,821)	-	(1,309,821)	(1,026,375)
Note receivable collected	1,000,000	-	1,000,000	-
Net cash used in investing activities	(309,821)	-	(309,821)	(1,026,375)
Cash flows from financing activities:				
Advances from line of credit	17,000,000	-	17,000,000	10,000,000
Payments on line of credit	(17,000,000)	-	(17,000,000)	(10,000,000)
Proceeds from contract advance	105,683,051	-	105,683,051	98,931,872
Repayment of contract advance	(142,144,359)	-	(142,144,359)	(60,524,224)
Net cash provided by (used in) financing activities	(36,461,308)	-	(36,461,308)	38,407,648
Net decrease in cash	(5,896,515)	(4,498)	(5,901,013)	(2,508,058)
Cash, beginning of year	29,281,386	144,756	29,426,142	31,934,200
Cash, end of year	\$ 23,384,871	\$ 140,258	\$ 23,525,129	\$ 29,426,142
Cash	\$ 17,717,854	\$ -	\$ 17,717,854	\$ 23,628,914
Cash held for others	3,485,882	140,258	3,626,140	3,616,093
Cash held for CPPDD	2,181,135	-	2,181,135	2,181,135
	\$ 23,384,871	\$ 140,258	\$ 23,525,129	\$ 29,426,142
Supplementary information:				
Cash paid for interest	\$ 18,063	\$ -	\$ 18,063	\$ 1,944

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, 2018

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
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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, 2018.

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 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.

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

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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 \$24,215,000 as of June 30, 2018. 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, 2018.

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, 2018 were \$12,360. The capitalized furniture and equipment, and reciprocating offset account, at June 30, 2018 totaled \$358,639.

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 2014 through 2017 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.

SAN ANDREAS REGIONAL CENTER
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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. 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. Accordingly, the actual unfunded liability may differ from the recorded amount. As of June 30, 2018, the difference cannot be reasonably determined.

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, 2018, \$529,417 of health insurance premiums was paid on behalf of the retired employees.

Subsequent Events

Management has evaluated subsequent events through November 19, 2018, 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	\$ 74,054,602
CPP	<u>5,127,845</u>
	<u>\$ 79,182,447</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).

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 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.

SAN ANDREAS REGIONAL CENTER
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

The Center is directed to pay the ICF's directly for their services and to reduce the amount of the Center's regular state claim to DDS by the dollar amount of these services. 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 \$1,279,176 represents the amount DDS paid or will pay to the ICF's net of ICF's administrative fee and Quality Assurance fee. *Revenue from Intermediate Care Facilities* was \$1,611,463.

NOTE 5 – NOTE RECEIVABLE

Commencing on March 24, 2017, the Center agreed to loan money to Tupaz Homes LLC, a Medi-Cal service provider that provides nine homes for consumers of the Center. Loan disbursements are made weekly through October 20, 2017 on a per diem basis to the service provider for consumers served, with accrued interest at 6% deducted from the loan disbursement amount in the subsequent week. The entire balance is due when the service provider receives reimbursement payments from Medi-Cal upon the service provider's reactivation of license. In January 2018, the payment terms of the loan were updated to provide for payment every month starting in February 2018 of \$100,000, or more if the borrower is able. The note receivable balance as of June 30, 2018 was \$1,336,196. Interest earned for the year ended June 30, 2018 was \$42,313.

The Center evaluates the note receivable based on the following credit quality indicators: collateral and related versus non-related borrowers. These credit quality indicators are updated at least annually. Details about the note receivable are as follows:

	<i>Collateralized</i>	<i>Uncollateralized</i>	<i>Past Due</i>	<i>Allowance</i>	<i>Net</i>
Non-related party	\$ -	\$ 1,236,196	\$ 100,000	\$ -	\$ 1,336,196
Total	\$ -	\$ 1,236,196	\$ 100,000	\$ -	\$ 1,336,196

NOTE 6 – CONTRACT ADVANCE

The contract advance balance of \$64,886,081 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 7 – LEASE COMMITMENTS

The Center leases office space in San Jose, Salinas, and Watsonville, California, and also leases various equipment. In September 2017, the Center relocated from its Campbell and Gilroy offices to a new location in San Jose. Leases for Campbell and Gilroy offices were not renewed. The facility leases include rent escalation clauses for insurance and real estate taxes. All leases are classified as operating leases. Rental expense was \$1,794,968 for the year ended June 30, 2018.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

Future minimum lease payments are as follows:

	<i>Fiscal Year Ended June 30,</i>
2019	\$ 1,755,619
2020	1,869,483
2021	1,912,601
2022	1,811,554
2023	1,841,725
Thereafter	<u>30,417,098</u>
	<u><u>\$ 39,608,080</u></u>

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows:

	<i>June 30, 2017</i>	<i>Contributions and Interest</i>	<i>Releases from Restrictions</i>	<i>June 30, 2018</i>
Donation Fund	\$ 144,756	\$ 14,445	\$ (18,943)	\$ 140,258
	<u>\$ 144,756</u>	<u>\$ 14,445</u>	<u>\$ (18,943)</u>	<u>\$ 140,258</u>

NOTE 9 – NET ASSETS HELD FOR OTHERS

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

Beginning balance	\$ 3,474,515
Client support received	26,930,250
Less purchase of service disbursements	<u>(26,918,051)</u>
Ending balance	<u><u>\$ 3,486,714</u></u>

NOTE 10 – LINE OF CREDIT

The Center obtained a revolving \$30,000,000 line of credit with The Bank of Tokyo-Mitsubishi UFJ, Ltd, secured by the Center's assets, to fund current operating needs for the period from May 1, 2017 to October 31, 2017. Interest under the line of credit was charged at the bank's reference rate of 4.25%. In July 2017, the Center borrowed and repaid \$17,000,000.

In April 2018, the Center obtained a new revolving \$35,000,000 line of credit to fund current operating cash needs for the period from May 1, 2018 to October 31, 2018. Interest under the line of credit was charged at the bank's reference rate of 4.75%. Subsequent to year end, the Center borrowed and repaid \$25,000,000 in July 2018.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 11 – 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 15.37% of the employees' gross salary. Participants are fully vested after five years of full-time service. For the year ended June 30, 2018, \$3,552,134 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, 2017, the most current actuarial valuation, was as follows:

Present value of projected benefits	\$ 127,859,799
Less present value of future:	
Employer normal costs	(14,742,691)
Employee contributions	<u>(12,927,994)</u>
Entry age normal accrued liability	100,189,114
Market value of assets	<u>(77,133,974)</u>
Unfunded liability	<u><u>\$ 23,055,140</u></u>

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

Beginning balance – June 30, 2016	\$ 68,512,595
Contributions:	
Employer	2,853,730
Employee	1,466,432
Investment return	7,602,847
Benefit payments to retirees	(3,289,833)
Refunds	(80,036)
Other transfers and miscellaneous adjustments	<u>68,239</u>
Ending balance – June 30, 2017	<u><u>\$ 77,133,974</u></u>

The significant actuarial assumptions as of June 30, 2017, were as follows:

Long-term discount rate	7.25%
Payroll growth	2.88%
Expected long-term rate of return	7.25%

The expected payment on the unfunded liability for the year ended June 30, 2018 is \$894,847.

SAN ANDREAS REGIONAL CENTER
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 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2018

The asset allocation as of June 30, 2017, was as follows:

<i>Asset Class</i>	<i>Current Allocation</i>
Public equity	48.3%
Private equity	8.0%
Fixed income	19.4%
Cash equivalent	4.8%
Real assets	11.2%
Inflation assets	7.8%
Other	0.5%
	100.0%

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, 2017. The assets for the Center are part of the PERF and are invested accordingly.

For the year ended June 30, 2018, the actuarial computed employer and employee contribution rates are 14.386% and 7.610%, respectively.

NOTE 12 – COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES

Background

In March 2006, the Bay Area Housing Plan (BAHP) was developed by the Center, Golden Gate Regional Center, Inc. (GGRC), and 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.

SAN ANDREAS REGIONAL CENTER
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YEAR ENDED JUNE 30, 2018

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.

Subsequently, the NPOs conveyed their ownership interests in the residences 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.

As of June 30, 2018, the Center has entered into seven CPP Start-Up Development Agreements, the earliest agreement commencing on June 20, 2016, with various service providers to provide start-up costs ranging from \$200,000 to \$325,000 to make properties available for occupancy by the Center's consumers. Start-up costs include the drafting and approval of a program to serve the consumers, obtaining licensure of the property, and equipping the property with furnishings, supplies, and programming materials. Payments are made upon completion of certain milestones in accordance with the agreements.

As of June 30, 2018, the Center has entered into nine CPP Housing Agreements, the earliest agreement commencing on March 31, 2016, with various NPOs ranging from \$465,000 to \$1,000,000 to purchase and renovate nine homes that will be used by a vendor of the Center to provide services to the Center's consumers. Payments are made upon completion of certain milestones in accordance with the agreements.

SAN ANDREAS REGIONAL CENTER
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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.

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.

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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, 2018, 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, 2018, CPPDD vendor advances – lease totaled \$359,130.

NOTE 13 – 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. In accordance with the terms of the DDS contract, an audit may be performed by an authorized DDS representative. Should such an audit disclose any unallowable costs, the Center may be liable to the State of California for reimbursement of such costs. As of June 30, 2018, the amount could not be reasonably determined.

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 79.68% of the Center’s total employee levels. The collective bargaining agreement will expire on June 30, 2020.

NOTE 14 – 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, 2018

<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>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	\$ 1,357,296	\$ -
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,357,296</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	<u>178,185</u>	<u>-</u>
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>178,185</u>	<u>-</u>
TOTAL FEDERAL AWARDS			<u>\$ 1,535,481</u>	<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, 2018

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) 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, 2018, 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

SAN ANDREAS REGIONAL CENTER
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

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	_____ <u>X</u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> None reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> 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? _____ Yes _____ X No

Identification of major programs: Name of Federal Program or Cluster

CFDA #84.181	Special Education – Grants for Infants and Families
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Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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

Section II – Financial Statement Findings

None noted.

Section III – Federal Awards Findings and Questioned Costs

None noted.



Board of Directors
San Andreas Regional Center
San Jose, 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
CRISANTO S. FRANCISCO
JOE F. HUIE

**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, 2018, 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 19, 2018.

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 19, 2018.

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

November 19, 2018



Board of Directors
San Andreas Regional Center
San Jose, California

JAMES M. KRAFT
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**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, 2018. 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, 2018.

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 Husen and Joyce LLP

November 19, 2018