

# **San Andreas Regional Center**

**San Jose, California**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORTS**

**June 30, 2023 and 2022**



# San Andreas Regional Center

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June 30, 2023 and 2022

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
San Andreas Regional Center  
San Jose, California

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the accompanying financial statements of San Andreas Regional Center (the Center), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Center as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

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

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United State of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for one year after the date that the financial statements are issued.

## INDEPENDENT AUDITOR'S REPORT

(Continued)

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## INDEPENDENT AUDITOR'S REPORT

(Continued)

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2023, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

*AGT CPAs & Advisors*

AGT CPAs & Advisors  
Redding, California  
November 9, 2023

## **FINANCIAL SECTION**

**San Andreas Regional Center**  
STATEMENTS OF FINANCIAL POSITION

June 30	2023	2022
<b>ASSETS</b>		
Cash and cash equivalents	\$ 70,302,416	\$ 55,629,055
Cash held for others	2,939,835	3,468,346
Cash held for CPPDD	2,181,540	2,181,540
Receivable - State Regional Center contracts	179,321,518	154,217,578
Receivable - Intermediate Care Facility providers	559,090	415,674
Client trust funds receivable	740,194	1,069
Due from state - accrued vacation leave benefits	2,772,208	2,949,930
Due from state - deferred rent	-	1,910,256
Due from state - unfunded defined benefit plan liability	37,447,654	18,884,236
Due from state - leases	564,257	-
Prepaid expenses	690,312	561,371
Deposits	8,000	8,000
CPPDD vendor advances - lease	359,130	359,130
CPPDD vendor advances - other	163,235	163,235
Operating lease right-of-use assets	44,695,777	-
<b>TOTAL ASSETS</b>	<b>\$ 342,745,166</b>	<b>\$ 240,749,420</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 65,626,850	\$ 53,866,860
Advance - State Regional Center contracts	187,621,155	157,602,487
Accrued and other liabilities	736,703	1,858,875
Accrued vacation leave benefits	2,772,208	2,949,930
Deferred rent	-	1,910,256
Client trust funds liability	2,939,835	3,468,346
Unfunded defined benefit plan liability	37,447,654	18,884,236
Operating lease liability - current portion	1,307,584	-
Operating lease liability - long term portion	43,952,450	-
<b>Total Liabilities</b>	<b>342,404,439</b>	<b>240,540,990</b>
<b>Net Assets</b>		
Without donor restriction	(21,375)	-
With donor restriction	362,102	208,430
<b>Total Net Assets</b>	<b>340,727</b>	<b>208,430</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 342,745,166</b>	<b>\$ 240,749,420</b>

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

**San Andreas Regional Center**  
STATEMENTS OF ACTIVITIES

Year Ended June 30, 2023	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue</b>			
State Regional Center contracts	\$ 639,993,721	\$ -	\$ 639,993,721
Intermediate Care Facility supplemental services income	1,807,827	-	1,807,827
Intermediate Care Facility administrative fee	24,035	-	24,035
Interest	1,142,088	224	1,142,312
Donations and other income	1,095,096	162,602	1,257,698
<b>Total Support and Revenue</b>	644,062,767	162,826	644,225,593
Net assets released from restrictions	9,154	(9,154)	-
<b>Total Support, Revenue, and Net Assets Released From Restrictions</b>	644,071,921	153,672	644,225,593
<b>Expenses</b>			
<b>Program services:</b>			
Purchase of services	590,864,474	-	590,864,474
Other programs	126,092	-	126,092
Operating	48,043,269	-	48,043,269
<b>General and administrative:</b>			
Operating	5,059,461	-	5,059,461
<b>Total Expenses</b>	644,093,296	-	644,093,296
<b>Changes in Net Assets</b>	(21,375)	153,672	132,297
<b>Net Assets - Beginning of Year</b>	-	208,430	208,430
<b>Net Assets - End of Year</b>	\$ (21,375)	\$ 362,102	\$ 340,727

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



# San Andreas Regional Center

## STATEMENTS OF ACTIVITIES

(Continued)

Year Ended June 30, 2022	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue</b>			
State Regional Center contracts	\$ 548,256,087	\$ -	\$ 548,256,087
Intermediate Care Facility supplemental services income	1,240,254	-	1,240,254
Intermediate Care Facility administrative fee	17,823	-	17,823
Interest	18,401	-	18,401
Donations and other income	502,487	13,485	515,972
<b>Total Support and Revenue</b>	<b>550,035,052</b>	<b>13,485</b>	<b>550,048,537</b>
Net assets released from restrictions	2,965	(2,965)	-
<b>Total Support, Revenue, and Net Assets Released From Restrictions</b>	<b>550,038,017</b>	<b>10,520</b>	<b>550,048,537</b>
<b>Expenses</b>			
<b>Program services:</b>			
Purchase of services	503,746,483	-	503,746,483
Other programs	238,364	-	238,364
Operating	41,399,159	-	41,399,159
<b>General and administrative:</b>			
Operating	4,654,011	-	4,654,011
<b>Total Expenses</b>	<b>550,038,017</b>	<b>-</b>	<b>550,038,017</b>
<b>Changes in Net Assets</b>	<b>-</b>	<b>10,520</b>	<b>10,520</b>
<b>Net Assets - Beginning of Year</b>	<b>-</b>	<b>197,910</b>	<b>197,910</b>
<b>Net Assets - End of Year</b>	<b>\$ -</b>	<b>\$ 208,430</b>	<b>\$ 208,430</b>

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

**San Andreas Regional Center**  
STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2023	Program Services	General and Administrative	Total
<b>Purchase of Services</b>			
Other purchased services	\$ 279,494,580	\$ -	\$ 279,494,580
Residential care facilities	207,930,070	-	207,930,070
Day programs	103,439,824	-	103,439,824
<b>Total Purchase of Services</b>	<b>590,864,474</b>	<b>-</b>	<b>590,864,474</b>
<b>Other Programs</b>			
Foster grandparent and senior companion	74,241	-	74,241
CPP - Agnews	51,851	-	51,851
<b>Total Other Programs</b>	<b>126,092</b>	<b>-</b>	<b>126,092</b>
<b>Operating</b>			
Salaries	28,722,328	2,639,314	31,361,642
Benefits	10,007,330	919,580	10,926,910
Lease expense - operating	2,964,592	214,063	3,178,655
Equipment and facility maintenance	1,992,872	194,002	2,186,874
General	974,941	534,027	1,508,968
Contract and consultant fees	580,054	59,650	639,704
Communication	451,561	46,576	498,137
Data processing	442,032	45,593	487,625
Payroll taxes	405,017	37,217	442,234
Equipment purchases	383,571	39,563	423,134
Staff travel	280,927	28,976	309,903
Insurance	271,366	27,990	299,356
General office expenses	209,350	21,593	230,943
Legal fees	126,523	13,050	139,573
ARCA dues	-	80,458	80,458
Accounting fees	-	76,700	76,700
Printing	62,632	6,460	69,092
Utilities	64,023	1,655	65,678
Board expenses	-	54,138	54,138
Office occupancy	38,554	3,977	42,531
Lease expense - short-term	33,587	3,464	37,051
Security	22,853	-	22,853
Donations	9,156	-	9,156
Bank charges	-	6,415	6,415
Interest expense and commitment fees	-	5,000	5,000
<b>Total Operating</b>	<b>48,043,269</b>	<b>5,059,461</b>	<b>53,102,730</b>
<b>Total Expenses</b>	<b>\$ 639,033,835</b>	<b>\$ 5,059,461</b>	<b>\$ 644,093,296</b>

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

**San Andreas Regional Center**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
(Continued)

Year Ended June 30, 2022	Program Services	General and Administrative	Total
<b>Purchase of Services</b>			
Other purchased services	\$ 239,027,558	\$ -	\$ 239,027,558
Residential care facilities	179,591,797	-	179,591,797
Day programs	85,127,128	-	85,127,128
<b>Total Purchase of Services</b>	<b>503,746,483</b>	<b>-</b>	<b>503,746,483</b>
<b>Other Programs</b>			
CPP - Agnews	188,664	-	188,664
Foster grandparent and senior companion	49,700	-	49,700
<b>Total Other Programs</b>	<b>238,364</b>	<b>-</b>	<b>238,364</b>
<b>Operating</b>			
Salaries	25,714,156	2,680,843	28,394,999
Benefits	9,268,546	966,297	10,234,843
Office occupancy	2,492,811	4,756	2,497,567
Equipment and facility maintenance	1,269,754	125,504	1,395,258
General	446,464	483,849	930,313
Data processing	416,477	45,147	461,624
Communication	379,899	41,182	421,081
Payroll taxes	364,804	38,033	402,837
Insurance	247,866	26,869	274,735
General office expenses	144,905	15,708	160,613
Legal fees	143,865	15,595	159,460
Contract and consultant fees	119,126	12,725	131,851
Equipment rental	117,304	12,716	130,020
Equipment purchases	101,199	10,970	112,169
Staff travel	82,252	8,916	91,168
ARCA dues	-	80,458	80,458
Utilities	56,723	948	57,671
Accounting fees	-	53,800	53,800
Printing	25,701	2,786	28,487
Interest expense and commitment fees	-	22,750	22,750
Security	4,340	-	4,340
Board expenses	-	4,159	4,159
Donations	2,967	-	2,967
<b>Total Operating</b>	<b>41,399,159</b>	<b>4,654,011</b>	<b>46,053,170</b>
<b>Total Expenses</b>	<b>\$ 545,384,006</b>	<b>\$ 4,654,011</b>	<b>\$ 550,038,017</b>

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

**San Andreas Regional Center**  
STATEMENTS OF CASH FLOWS

Years Ended June 30	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 132,297	\$ 10,520
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Increase) decrease in:		
Receivable - State Regional Center contracts	(25,103,940)	(33,598,685)
Receivable - Intermediate Care Facility providers	(143,416)	(123,296)
Client trust funds receivable	(739,125)	(429)
Prepaid expenses	(128,941)	(96,579)
Increase (decrease) in:		
Accounts payable	11,759,990	5,630,034
Advance - State Regional Center contracts	30,018,668	46,783,756
Contract advances	-	(489,505)
Accrued and other liabilities	(1,122,172)	489,638
Client trust funds liability	(528,511)	(461,788)
<b>Net Cash Provided (Used) By Operating Activities</b>	<b>14,144,850</b>	<b>18,143,666</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Note receivable collected	-	247,970
<b>Net Cash Provided (Used) By Investing Activities</b>	<b>-</b>	<b>247,970</b>
<b>Net Increase (Decrease) in Cash</b>	<b>14,144,850</b>	<b>18,391,636</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>61,278,941</b>	<b>42,887,305</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 75,423,791</b>	<b>\$ 61,278,941</b>

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

# San Andreas Regional Center

## STATEMENTS OF CASH FLOWS

(Continued)

Years Ended June 30	2023	2022
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents	\$ 70,302,416	\$ 55,629,055
Cash held for others	2,939,835	3,468,346
Cash held for CPPDD	2,181,540	2,181,540
<b>Total Cash and Cash Equivalents</b>	<b>\$ 75,423,791</b>	<b>\$ 61,278,941</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION</b>		
<b>Cash Paid for Interest</b>	<b>\$ 5,000</b>	<b>\$ 22,750</b>
<b>SCHEDULE OF NONCASH</b>		
(Increase) decrease in due from state - accrued vacation leave benefits	\$ 177,722	\$ (89,699)
(Increase) decrease in due from state - deferred rent	1,910,256	(250,283)
(Increase) decrease in due from state - unfunded defined benefit plan liability	(18,563,418)	12,614,621
(Increase) decrease in operating lease right-of-use assets	(44,695,777)	-
(Increase) decrease in due from state - leases	(564,257)	-
Increase (decrease) in accrued vacation leave benefits	(177,722)	89,699
Increase (decrease) in deferred rent	(1,910,256)	250,283
Increase (decrease) in unfunded defined benefit plan liability	18,563,418	(12,614,621)
Increase (decrease) in operating lease liability	45,260,034	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>

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

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**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.

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.

**Basis of Accounting** The accompanying financial statements have been prepared on the accrual basis of accounting. The Center is reimbursed by the State for expenses incurred in operating the Center.

**Basis of Presentation** The Center's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under FASB ASC Topic 958, the Center is required to report information regarding its financial position and activities according to two classes of net assets based upon the existence or absence of donor-imposed restrictions, as follows:

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

*Net Assets With Donor Restrictions:* Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Center reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**San Andreas Regional Center**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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**Fund Accounting** The accounts of the Center are maintained in accordance with the principles of fund accounting. Under fund accounting, resources are classified for accounting and reporting considerations into funds established according to their nature and purpose.

**Cash and Cash Equivalents** For purposes of the statement of cash flows, the Center considers all highly liquid cash debt instruments with original maturities of three months or less to be cash equivalents. As required by the contract with DDS, funds received from the State are deposited into interest-bearing accounts in a bank legally authorized to do business in California, and which accounts are established solely for the operation of the Center. The accounts are in the name of both the Center and DDS, as required by DDS.

**Significant Concentrations of Credit Risk** Due to the unique requirements of the State and the large fluctuations in account balances the Center can have during the year, it is not feasible for the Center to diversify its cash balances among various financial institutions. Therefore, the Center maintains substantially all of its cash and temporary cash investments at two financial institutions. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2023, cash exceeded federally insured limits by \$79,005,958. At June 30, 2022, cash exceeded federally insured limits by \$62,204,573. While the amount in the banks typically exceeded FDIC coverage during the year, historically the Center has not experienced any losses on such accounts. For these reasons, management believes it is not exposed to any significant credit risk on such accounts.

**State Regional Center Contract Receivables and Advances** Contracts receivable represent amounts due from the State for reimbursement of expenditures made by the Center under the annual regional center contracts. At June 30, 2023, the Center had a balance of \$177,231,744 in Purchase of Service (POS) and operations receivables, and \$2,089,774 in Community Placement Program (CPP) receivables. At June 30, 2022, the Center had a balance of \$151,610,297 in POS and operations receivables, and \$2,607,281 in CPP receivables. The Center considers all amounts receivable under grant contracts to be collectible; accordingly, no allowance for doubtful accounts exists.

**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

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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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 \$559,090 and \$415,674 at June 30, 2023 and 2022, respectively, represent 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 \$1,807,827 and \$1,240,254 as of June 30, 2023 and 2022, respectively.

**Prepaid Expenses** Payments made to vendors for services that will benefit the Center for periods beyond the current fiscal year are recorded as prepaid expenses.

**Leases** The Center accounts for leases in accordance with FASB ASC 842. The Center is a lessee in noncancellable operating leases for office space, as well as several operating leases for equipment. The Center determines if an arrangement is a lease, or contains a lease, at inception of a contract and when terms of an existing contract are changed. The Center determines if an arrangement conveys the right to use an identified asset and whether the Center obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. The Center recognizes a lease liability and right-of-use (ROU) asset at the commencement date of the lease.

*Operating Lease Liabilities:* A lease liability is measured based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable lease payments depend on an index or rate and are measured using the index or rate at the commencement date. Lease payments, including variable payments made based on an index or rate, are remeasured when any of the following occur: (1) the lease is modified (and the modification is not accounted for as a separate contract), (2) certain contingencies related to variable lease payments are resolved, or (3) there is a reassessment of any of the following: the lease term, purchase options, or amounts that are probable of being owed under a residual value guarantee. The discount rate is the rate implicit in the lease if it is readily determinable; otherwise, the Center has elected to use the risk-free borrowing rate per Accounting Standards Update (ASU) No. 2021-09, *Leases (Topic 842): Discount Rate for Lessees That are Not Public Business Entities*. The Center has elected to use this rate for all classes of underlying assets.



**San Andreas Regional Center**  
NOTES TO THE FINANCIAL STATEMENTS  
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*Operating Lease – Right-of-Use (ROU) Asset:* A ROU asset is measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the lease liability (that is the present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

The Center has elected not to recognize the ROU assets and lease liabilities that arise from short-term leases (have a lease term of 12 months or less, but greater than one month at lease commencement, and do not include an option to purchase the underlying assets that the Center is reasonably certain to exercise) for any class of underlying asset and instead recognize the lease payments in the statements of functional expenses.

**Property and Equipment** In accordance with the State Regional Center contracts, all equipment purchased with contract funds is the property of the State. The Center is required to maintain memorandum records of equipment purchases and dispositions. Equipment purchases are recorded as supporting or program service expenses when they are incurred. The cost basis of the property utilized by the Center and owned by the state at June 30, 2023 and 2022, was \$255,272 and \$248,672, respectively. These balances include only the equipment that is sensitive or exceeds \$5,000 as required by the State Administrative Manual (SAM) guidelines.

**Vacation Leave Benefits** Accumulated unpaid employee vacation benefits are recognized as accrued expenses and included in liabilities. Unused benefits are payable to an employee should employment cease. However, while a corresponding receivable for these benefits has been recorded from the State, such benefits are reimbursed under State contracts only when benefits have actually been paid.

Sick leave benefits are accumulated for each employee. Non-union and union employees hired prior to July 1, 2016 and January 1, 2014, respectively, gain a vested right to 50% of their accumulated sick leave. The maximum accrual for non-union and union employees is 680 hours and 360 hours, respectively, for employees hired before the dates mentioned above. Union employees hired as of December 31, 2013, who accrued more than 360 hours before the January 1, 2014 cutoff date may maintain the amount above 360 as the maximum sick accrued before payout if this was achieved. All other employees hired on or after July 1, 2016 and January 1, 2014 do not gain a vested right to their accumulated sick leave. Therefore, accumulated employee sick leave benefits for employees hired before the prescribed dates are recognized as liabilities of the Center and the remaining sick leave benefits for all other employees are recorded as expenses in the period sick leave is taken.

# San Andreas Regional Center

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**Deferred Rent** For the year ended June 30, 2022, the Center leased their office facilities under lease agreements that were subject to scheduled acceleration of rental payments. The scheduled rent increases were amortized evenly over the life of the leases in accordance with U.S. GAAP. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. The Center recorded a receivable from the State equal to the deferred rent liability to reflect the future reimbursement of the additional rent expense. As of July 1, 2022 (as noted above), the Center adopted ASU 2016-02 *Leases* (Topic 842). As a result of this adoption, the Center no longer records deferred rent, rather ROU asset and lease liability. Refer to footnote 4 for more detail on the leases.

**Defined Benefit Pension Plan** The Center records the unfunded liability of its defined benefit pension plan (the Plan) with California Public Employees' Retirement System (CalPERS) on the statement of financial position. CalPERS has characteristics of a multiemployer plan. The Center uses 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, 2023, the difference cannot be reasonably determined. The Center believes the CalPERS actuarial report provides the best estimation of the Plan's unfunded defined benefit plan liability since it is calculated and provided directly by CalPERS.

**Revenue Concentration** State Regional Center contract revenue is revenue received under an annual cost reimbursement contract from the State of California in accordance with the Lanterman Act. Approximately ninety-nine percent of revenue is derived from this source. Each fiscal year, the Center enters into a new contract with the state for a specified funding amount subject to budget amendments. Revenue from the state is recognized monthly when a claim for reimbursement of actual expenses is filed with the state. These reimbursement claims are paid at the state's discretion either through direct payments to the Center or by applying the claims reimbursements against advances already made to the Center. 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.

**Labor Concentration** At June 30, 2023 and 2022, approximately 82% and 81%, respectively, of the employees of the Center are represented by a union for collective bargaining purposes. The most recent collective bargaining agreement expired on June 30, 2023 and the Center is in the process of renegotiating the agreement.

**Revenue and Revenue Recognition** The Center recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

**San Andreas Regional Center**  
NOTES TO THE FINANCIAL STATEMENTS  
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A significant portion of the Center's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Center has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as advances on the statement of financial position. The Center received cost-reimbursable grants of \$187,621,155 and \$157,602,487 at June 30, 2023 and 2022, respectively, that have not been recognized in revenue at June 30, 2023, because qualifying expenditures have not yet been incurred, with an advance payment of \$187,621,155 and \$157,602,487 at June 30, 2023 and 2022, respectively, recognized in the statement of financial position as advance - State Regional Center contracts.

**Federal Grants** The Center received three federal grants as of June 30, 2023 and 2022, as follows:

*U.S. Department of Education:* The Center is a sub-recipient to State of California 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. Revenue received from this program for the years ended June 30, 2023 and 2022, was \$671,342 and \$726,072, respectively, and is included in State Regional Center contracts on the statement of activities.

*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. Revenue received from this program for the years ended June 30, 2023 and 2022, was \$139,602 and \$90,056, respectively, and is included in State Regional Center contracts on the statement of activities.

*U.S. Department of Health and Human Services:* The Center was a recipient of the CARES Act Provider Relief Fund made available to providers of health care services and supports, including agencies serving people with developmental disabilities. Allowable expenses under the Provider Relief Fund must be used to prevent, prepare for and respond to coronavirus (COVID-19), and for related expenses or lost revenues attributable to COVID-19. Funding cannot be used where another source has reimbursed or is obligated to reimburse these expenses or losses. Revenue received from this program for the years ended June 30, 2023 and 2022, was \$0 and \$489,505, respectively, and is included in Other Income on the statement of activities.

## San Andreas Regional Center

### NOTES TO THE FINANCIAL STATEMENTS

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**Income Taxes** The Center has received tax-exempt status under Section 501(c)(3) of the *Internal Revenue Code*, and Section 23701(d) of the *California Revenue and Taxation Code*, and has been classified as an organization that is not a private foundation under Section 509(a) of the *Internal Revenue Code*. Contributions to the Center qualify for the charitable contribution deduction. Accordingly, no provision for income taxes is included in the financial statements.

The Center accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes and how an uncertain tax position is recognized in financial statements. The Center analyzes tax positions taken in previously filed returns and tax positions expected to be taken in future returns. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. The Center's practice is to recognize interest and penalties, if any, related to uncertain tax positions in the tax expense. There were no uncertain tax positions identified or related interest and penalties recorded as of June 30, 2023 and 2022, and the Center does not expect this to change significantly over the next 12 months.

**Allocation of Expenses** The statements of functional expenses allocates expenses to the program and supporting service categories based on estimates of employees time incurred and on usage of resources.

**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. For the years ended June 30, 2023 and 2022, \$808,706 and \$734,399 of health insurance premiums were paid on behalf of the retired employees, respectively. The valuation of these benefits could not be determined and is therefore not recorded as a liability for the years ended June 30, 2023 and 2022.

**Use of Estimates and Assumptions** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**Change in Accounting Principle** In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard established a ROU model that required lessees to recognize a ROU asset and lease liability on the statement of financial position for most leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of activities. The Center has implemented ASU No. 2016-02 effective July 1, 2022 and has adjusted the presentation in these financial statements accordingly.

**Subsequent Events** Management has evaluated subsequent events through November 9, 2023, the date on which the financial statements were available to be issued.

**San Andreas Regional Center**  
 NOTES TO THE FINANCIAL STATEMENTS  
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**2. LIQUIDITY AND AVAILABILITY**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

June 30	2023	2022
Cash and cash equivalents	\$ 70,302,416	\$ 55,629,055
Receivable - State Regional Center contracts	179,321,518	154,217,578
Less: Advance State Regional Center contracts	(187,621,155)	(157,602,487)
Receivable - Intermediate Care Facility providers	559,090	415,674
Client trust funds receivable	740,194	1,069
<b>Total</b>	<b>\$ 63,302,063</b>	<b>\$ 52,660,889</b>

According to the Center's contract with DDS, the State and the regional centers have agreed to work together to build the budget for the regional center system using the best quality data and information available. This budget provides data to assist in building the Governor's January Budget and the May Revise.

Additionally, each regional center submits a monthly purchase of service expenditure projection to DDS, beginning in December of each fiscal year. By February 1st of each year, DDS allocates, to all regional centers, no less than one hundred percent (100%) of the enacted budget for operations and ninety-nine percent (99%) of the enacted budget for purchase of service. To do this, it may be necessary to amend the Center's contract in order to allocate funds made available from budget augmentations and to move funds among regional centers. In the event that DDS determines that a regional center has insufficient funds to meet its contractual obligations, DDS will make best efforts to secure additional funds and/or provide the regional center with regulatory and statutory relief. The contract with DDS allows for adjustments to the Center's allocations and for the payment of claims up to two years after the close of each fiscal year.

The Center maintains a line of credit (see Note 7) to manage cash flow requirements during the months of May through August as needed to cover any delays in cash advances and reimbursements over the beginning of the fiscal year.

**3. FUNDING LIMITS**

The Center's contract is funded by the State's General Fund and federal reimbursements. Allocated amounts are based primarily on projected client caseloads, and are subject to amendment based upon actual services provided.

**San Andreas Regional Center**  
NOTES TO THE FINANCIAL STATEMENTS  
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Contracts are open for the current and two prior fiscal years as follows:

Fiscal Years Ended	Contract Amount	Cumulative Expenses	Unexpended Balance
June 30, 2023	\$ 774,644,758	\$ 636,781,873	\$ 137,862,885
June 30, 2022	\$ 619,553,894	\$ 544,043,917	\$ 75,509,977
June 30, 2021	\$ 545,844,986	\$ 529,292,665	\$ 16,552,321

Management monitors the unexpended balance annually to avoid overspending the contract limits. A majority of the unexpended balance is related to purchase of service client services and this amount could change due to delinquent billings. Management believes that total expenditures for each open year will not exceed the final approved State contract amount.

**4. COMMITMENTS**

**Lease Commitments**

The Center has obligations as a lessee for office space and office equipment with initial noncancellable terms in excess of one year. The office space leases have initial terms that range from 10 to 20 years with options to extend the lease terms for an additional 5 to 10 years. Because the Center is reasonably certain to exercise these options to extend, the optional periods are included in determining the lease term, and associated payments under these renewal options are included in lease payments used to determine the lease liability balances. The office equipment leases have initial terms of 5 years with no options to extend. The Center classifies these leases as operating leases.

Payments due under lease contracts include fixed payments and variable payments. Some of the Center's office space leases require variable payments of the Center's proportionate share of the buildings' property taxes, insurance, and other common area maintenance charges. These variable lease payments are not included in lease payments used to determine lease liabilities and are recognized as variable lease costs when incurred.

Beginning in 2022, the Center has elected not to separate nonlease components from lease components for all office space and office equipment leases.

Supplemental cash flow information related to leases included in the Statements of Cash Flows, were as follows:

**Year Ended June 30, 2023**

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$	2,614,397
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	\$	-

**San Andreas Regional Center**  
NOTES TO THE FINANCIAL STATEMENTS  
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As of June 30, 2023, maturities of operating lease liabilities were as follows:

Years Ending June 30	<b>Total</b>
2024	\$ 2,680,243
2025	2,741,515
2026	2,752,185
2027	2,782,955
2028	2,821,262
Thereafter	49,727,655
<b>Total Lease Payments</b>	<b>63,505,815</b>
Less: Present value adjustment	18,245,781
<b>Present Value of Lease Liabilities</b>	<b>\$ 45,260,034</b>

The table below presents additional information related to the Center's leases:

June 30, 2023	
Weighted average remaining lease term:	
Operating leases	21.87
Weighted average discount rate:	
Operating leases	3.08%

Upon adoption of ASU No. 2016-02, the risk-free rate used for existing leases was established using the Daily Treasury Par Yield Curve rate as of July 1, 2022.

**Disclosures Related to Periods Prior to the Adoption of ASU No. 2016**

As of June 30, 2022, the Center had eight operating leases for the use of office space and equipment. Rent expense for the year ended June 30, 2022 was \$2,627,587.

The future minimum lease commitments required under the lease as of June 30, 2022 are as follows:

Years Ending June 30	
2023	\$ 2,618,983
2024	2,646,566
2025	2,701,943
2026	2,718,443
2027	2,749,743
Thereafter	23,953,961
<b>Total</b>	<b>\$ 37,389,639</b>

**San Andreas Regional Center**  
 NOTES TO THE FINANCIAL STATEMENTS  
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**Contract Commitments**

The Center pays for services in arrears, and at any given time the amount due to providers for services rendered is estimated. Unpaid commitments at June 30, 2023 and 2022, were approximately \$3.1 million and \$2.7 million, respectively.

**5. CLIENT TRUST FUNDS**

The Center assumes a fiduciary relationship with certain clients who cannot manage their own finances. Client support funds are received from private and governmental sources including the Social Security Administration and Veterans Administration. These funds are used primarily to offset clients' out-of-home placement and living costs, thereby reducing the amount expended by the Center. These funds are held in a separate bank account and interest earnings, if applicable, are credited to the clients' balances.

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

Years Ended June 30	2023	2022
<b>Client Trust Fund Liability - Beginning of Year</b>	\$ 3,468,346	\$ 3,930,134
Client support received	30,411,683	29,270,041
Change in receivable from and payable to operating fund	(152,921)	-
<b>Subtotal</b>	<b>33,727,108</b>	<b>33,200,175</b>
Less: Purchase of service disbursements	30,787,273	29,731,829
<b>Client Trust Fund Liability - End of Year</b>	<b>\$ 2,939,835</b>	<b>\$ 3,468,346</b>

**6. 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 17.76% of the employees' gross salary. Participants are fully vested after five years of full-time service. For the years ended June 30, 2023 and 2022, \$4,541,861 and \$4,275,428, respectively, 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.



**San Andreas Regional Center**  
NOTES TO THE FINANCIAL STATEMENTS  
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The unfunded liability measured at June 30, 2022 and 2021, which was the most current actuarial valuation available due to a one year lag in measurement reporting, was as follows:

Years Ended June 30	2022	2021
Present value of projected benefits	\$ 189,501,115	\$ 175,450,369
Less present value of future:		
Future employer normal costs	(20,908,458)	(20,161,268)
Future employee contributions	(19,584,716)	(16,860,270)
<b>Entry Age Normal Accrued Liability</b>	<b>149,007,941</b>	<b>138,428,831</b>
Market value of assets	(111,560,287)	(119,544,595)
<b>Unfunded Defined Benefit Plan Liability</b>	<b>\$ 37,447,654</b>	<b>\$ 18,884,236</b>

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

June 30	2022	2021
<b>Beginning of Year</b>	<b>\$ 119,544,595</b>	<b>\$ 96,153,867</b>
Contributions:		
Employer	4,689,190	4,200,527
Employee	1,951,724	1,840,005
Net investment return - net of investment expenses	(8,968,787)	22,175,968
Benefit payments to retirees and beneficiaries	(5,356,581)	(4,703,061)
Refunds	(213,165)	(12,169)
Other transfers and miscellaneous adjustments	(86,687)	(110,542)
<b>End of Year</b>	<b>\$ 111,560,289</b>	<b>\$ 119,544,595</b>

The significant actuarial assumptions as of June 30, 2022 and 2021, were as follows:

June 30	2022	2021
Actuarial cost method	Entry Age Normal Cost Method	Entry Age Normal Cost Method
Asset valuation method	Market Value	Market Value
Long-term discount rate - net of investment and administrative expenses	6.80%	6.80%
Payroll growth	2.80%	2.80%
Inflation	2.30%	2.30%
Expected long-term rate of return	6.80%	6.80%

**San Andreas Regional Center**  
 NOTES TO THE FINANCIAL STATEMENTS  
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**Sensitivity of the Net Pension Liability to the Changes in the Discount Rate**

The following presents the unfunded liability of the Plan, calculated using the discount rate of 6.8%, as well as what the unfunded liability would be if it were calculated using a discount rate that is one percentage point lower (5.8%) or one percentage point higher (7.8%) than the current rate:

	<b>1% Decrease (5.80%)</b>	<b>Current Discount Rate (6.80%)</b>	<b>1% Increase (7.80%)</b>
Unfunded defined benefit plan liability	\$ 59,049,339	\$ 37,447,654	\$ 19,801,988

The expected payment on the unfunded liability for the year ended June 30, 2024 is \$2,184.280.

The asset allocation of plan assets as of June 30, 2022 and 2021, was as follows:

June 30	<b>2022</b>	<b>2021</b>
<b>Asset Class</b>		
Public equity	46.3%	51.4%
Private equity	11.6%	8.3%
Global fixed income	23.5%	29.8%
Real assets	17.1%	9.6%
Other	1.5%	0.9%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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, 2022 and 2021. The assets for the Center are part of the PERF and are invested accordingly.

For the years ended June 30, 2022 and 2021, the actuarial computed employer contribution rates were 17.95% and 17.48%, respectively.

**San Andreas Regional Center**  
 NOTES TO THE FINANCIAL STATEMENTS  
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**7. LINE OF CREDIT**

The Center obtained a revolving \$45,000,000 line of credit with MUFG Union Bank, N.A., secured by the Center’s assets, to fund current operating needs for the period from May 17, 2022 to August 16, 2022. Interest under the line of credit was charged at the bank’s reference rate of 4.75%. The Center obtained a revolving \$50,000,000 line of credit with City National Bank secured by the Center’s assets from May 23, 2023 to June 30, 2024. Interest under the line of credit was charged at the bank’s daily simple SOFR (secured overnight financing rate). At June 30, 2023 and 2022, the outstanding balance on the line of credit was \$0.

**8. NET ASSETS**

June 30	2023	2022
<b>NET ASSETS WITHOUT DONOR RESTRICTION</b>		
Undesignated	\$ (21,375)	\$ -
<b>Total Net Assets Without Donor Restriction</b>	<b>(21,375)</b>	<b>-</b>
<b>NET ASSETS WITH DONOR RESTRICTION</b>		
<b>Subject to Expenditures for Specified Purpose</b>		
Grants and loans to clients not covered by POS	341,538	187,866
Services and needs of former Agnews residents	20,564	20,564
<b>Total Net Assets With Donor Restriction</b>	<b>362,102</b>	<b>208,430</b>
<b>Total Net Assets</b>	<b>\$ 340,727</b>	<b>\$ 208,430</b>

**9. COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CPPDD)**

**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.

## San Andreas Regional Center

### NOTES TO THE FINANCIAL STATEMENTS

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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.

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 individuals 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).

**San Andreas Regional Center**  
NOTES TO THE FINANCIAL STATEMENTS  
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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 BAHP 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 until August 23, 2013, on which day the trustee servicing was transferred to U.S. Bank National Association (bond trustee).

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.

**San Andreas Regional Center**  
NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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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 is 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 \$2,181,540 for June 30, 2023 and 2022, and included in cash on the balance sheet. 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, 2023 and 2022, 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, 2023 and 2022, CPPDD vendor advances - lease totaled \$359,130.

**San Andreas Regional Center**  
 NOTES TO THE FINANCIAL STATEMENTS  
 (Continued)

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**10. OTHER PURCHASED SERVICES**

Other purchased services consisted of the following:

Year Ended June 30	2023	2022
Nonmedical services	\$ 33,439,129	\$ 34,727,240
Respite	69,183,405	66,144,037
Other authorized services	120,942,218	96,510,068
Transportation	27,399,628	21,330,946
Prevention services	329,695	115,750
Medical equipment	1,035,445	616,621
Medical care - professional	10,363,039	9,898,288
Medical care - program	1,114,488	581,711
Home care services	3,423,807	161,417
Camps	44,255	9,965
Personal and incidental	675,514	476,642
Professional	11,543,957	8,454,873
<b>Total Other Purchased Services</b>	<b>\$ 279,494,580</b>	<b>\$ 239,027,558</b>

**11. 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 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.

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.

**12. 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.

**13. RELATED-PARTY TRANSACTIONS**

*California Welfare and Institutions Code, Section 4622, requires that a minimum of 50% of the Center's governing board be comprised of persons with developmental disabilities or their parents or legal guardians in addition of having one client service provider. Program service payments were made in the normal course of business on behalf of persons with developmental disabilities that were governing board members or were related to governing board members.*



**REQUIRED SUPPLEMENTARY INFORMATION SECTION**

# San Andreas Regional Center

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Contract Year(s)	Pass-Through Grant Number	Assistance Listing Number	Disbursements/ Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed Through State of California				
Department of Developmental Services -				
Special Education - Grants for Infants and Families with Disabilities (Part C)	22/23	H181A220037	84.181A	\$ 671,342
<b>Total U.S. Department of Education</b>				671,342
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</b>				
Passed Through State of California				
Department of Developmental Services -				
Foster Grandparent Program	22/23	19SFPCA002	94.011	139,602
<b>Total Corporation for National and Community Services</b>				139,602
<b>Total Expenditures of Federal Awards</b>				\$ 810,944

### Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Center under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of the Center, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Center.

### Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Part C expenditures are based on state contract budget allocations.

### Indirect Cost Rate

The Center did not elect to use the 10% de minimis method for indirect cost rate allowed under the Uniform Guidance.

## **OTHER REPORTS SECTION**

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

To the Board of Directors  
San Andreas Regional Center  
San Jose, California

We have audited 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, the financial statements of San Andreas Regional Center (the Center), which comprise the statement of financial position as of June 30, 2023, 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 9, 2023.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center'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.

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

(Continued)

**Compliance and Other Matters**

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

**Purpose of This Report**

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

*AGT CPAs & Advisors*

AGT CPAs & Advisors  
Redding, California  
November 9, 2023

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Directors  
San Andreas Regional Center  
San Jose, California

**Report on Compliance for Each Major Federal Program**

We have audited San Andreas Regional Center's (the Center), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Center's major federal programs for the year ended June 30, 2023. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the 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 the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE UNIFORM GUIDANCE**

(Continued)

***Opinion on Each Major Federal Program***

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

**Report on Internal Control Over Compliance**

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

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

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE UNIFORM GUIDANCE**

(Continued)

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.

*AGT CPAs & Advisors*

AGT CPAs & Advisors  
Redding, California  
November 9, 2023



## **FINDINGS AND QUESTIONED COSTS SECTION**

**San Andreas Regional Center**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2023

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**SECTION I**  
**SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Is any noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No
Identification of major programs:	
Assistance Listing Number      84.181A      Special Education - Grants for Infants and Families With Disabilities (Part C)	
Threshold for distinguishing types A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

**SECTION II FINDINGS**  
**FINANCIAL STATEMENTS AUDIT**

None

**SECTION III FINDINGS**  
**FEDERAL AWARDS AUDIT**

None

**San Andreas Regional Center**  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2023

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None