

SAN ANDREAS REGIONAL CENTER

FINANCIAL STATEMENTS

June 30, 2024

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
San Andreas Regional Center:

Opinion

We have audited the accompanying financial statements of San Andreas Regional Center (the Center), a California nonprofit organization, which comprise the statement of financial position as of June 30, 2024, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2024, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' 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 audit. 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 the financial statements in accordance with accounting principles generally accepted in the United States 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 the aggregate, which raise substantial doubt about the Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 generally accepted auditing standards and *Government Auditing Standards* 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, 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.

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* 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 audits 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2025, 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 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 the Center's internal control over financial reporting and compliance.



Long Beach, California
March 11, 2025

SAN ANDREAS REGIONAL CENTER
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2024

ASSETS

ASSETS

Cash and cash equivalents	\$ 76,087,353
Cash held for others	3,336,775
Cash held for CPPDD	2,207,205
Receivable - Intermediate Care Facility providers	387,045
Other receivables	394,889
Due from state - accrued vacation leave benefits	3,019,619
Due from state - unfunded defined benefit plan liability	39,802,777
Due from state - leases	742,719
Prepaid expenses and other assets	12,300,765
Deposits	41,267
CPPDD vendor advances - lease	359,130
CPPDD vendor advances - other	163,235
Operating lease right of use assets	<u>26,092,856</u>
TOTAL ASSETS	\$ <u>164,935,635</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 67,494,474
Advance - State Regional Center contracts	8,715,859
Accrued expense and other liabilities	3,752,754
Accrued vacation leave benefits	3,019,619
Client trust funds liability	3,339,471
Unfunded defined benefit plan liability	51,427,182
Operating lease liabilities - long term portion	<u>26,835,575</u>
Total Liabilities	<u>164,584,934</u>

CONTINGENCIES (Note 11)

NET ASSETS

Without donor restrictions	(21,375)
With donor restrictions	<u>372,076</u>
Total Net Assets	<u>350,701</u>

TOTAL LIABILITIES AND NET ASSETS	\$ <u>164,935,635</u>
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The accompanying notes are an integral part of these financial statements.

SAN ANDREAS REGIONAL CENTER
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
State Regional Center contracts	\$ 742,431,908	\$ -	\$ 742,431,908
Intermediate Care Facility supplemental services income	1,999,243	-	1,999,243
Intermediate Care Facility administrative fee	32,379	-	32,379
Interest	1,423,059	1,667	1,424,726
Donations and other income	799,587	15,989	815,576
Net assets released from restrictions	<u>7,682</u>	<u>(7,682)</u>	<u>-</u>
 Total Support, Revenue, and Net Assets Released From Restrictions	 <u>746,693,858</u>	 <u>9,974</u>	 <u>746,703,832</u>
EXPENSES			
Program services:			
Direct client services	754,181,940	-	754,181,940
Supporting services			
General and administrative	<u>4,136,323</u>	<u>-</u>	<u>4,136,323</u>
Total expenses	<u>758,318,263</u>	<u>-</u>	<u>758,318,263</u>
 CHANGE IN NET ASSETS BEFORE CHANGES IN PENSION BENEFIT OBLIGATION	 (11,624,405)	9,974	(11,614,431)
 CHANGE IN PENSION BENEFIT OBLIGATION OTHER THAN PERIODIC BENEFIT COSTS	 <u>11,624,405</u>	<u>-</u>	<u>11,624,405</u>
 CHANGE IN NET ASSETS	 -	9,974	9,974
 NET ASSETS (DEFICIT), BEGINNING OF YEAR	 <u>(21,375)</u>	<u>362,102</u>	<u>340,727</u>
 NET ASSETS (DEFICIT), END OF YEAR	 <u>\$ (21,375)</u>	<u>\$ 372,076</u>	<u>\$ 350,701</u>

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

SAN ANDREAS REGIONAL CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2024

	Program Services	General and Administrative	Total
PURCHASE OF SERVICES			
Other purchased services	\$ 342,213,335	\$ -	\$ 342,213,335
Residential care facilities	232,614,690	-	232,614,690
Day programs	118,866,883	-	118,866,883
Total Purchase of Services	693,694,908	-	693,694,908
OTHER PROGRAMS			
	76,471	-	76,471
SUPPORTING SERVICES			
Salaries	36,024,526	2,338,130	38,362,656
Benefits	11,964,744	776,558	12,741,302
Office occupancy	2,586,871	167,898	2,754,769
General	2,504,455	162,549	2,667,004
Maintenance expenses	2,414,486	156,709	2,571,195
Equipment purchases	723,468	46,956	770,424
Lease expenses	697,452	45,267	742,719
Contract and consultant fees	637,967	41,407	679,374
Data processing	558,071	36,221	594,292
Payroll taxes	509,117	33,044	542,161
Communication	417,801	27,117	444,918
Staff travel	355,943	23,102	379,045
Insurance	301,011	19,537	320,548
General office expenses	365,749	23,738	389,487
Legal fees	237,800	15,434	253,234
Rental	103,418	6,712	110,130
ARCA dues	-	120,093	120,093
Accounting fees	-	66,900	66,900
Board expenses	-	26,089	26,089
Donations	7,682	-	7,682
Interest expense and bank charges	-	2,862	2,862
Total Operating	60,410,561	4,136,323	64,546,884
TOTAL EXPENSES	\$ 754,181,940	\$ 4,136,323	\$ 758,318,263

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

SAN ANDREAS REGIONAL CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2024

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 9,974
Adjustments to reconcile change in net assets to net cash from operating activities:	
(Increase) decrease in:	
Receivable Intermediate Care Facility providers	172,045
Other receivables	345,305
Prepaid expenses	13,952
Deposits	(33,267)
Increase (decrease) in:	
Accounts payable	1,867,624
Advance State Regional Center contracts	416,222
Accrued and other liabilities	3,016,051
Client trust funds liability	399,636
Net Cash Provided By Operating Activities	<u>6,207,542</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,207,542
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>75,423,791</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 81,631,333</u>
COMPONENTS OF CASH AND CASH EQUIVALENTS	
Cash and cash equivalents	\$ 76,087,353
Cash held for others	3,336,775
Cash held for CPPDD	<u>2,207,205</u>
 Total Cash and Cash Equivalents	 <u>\$ 81,631,333</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION	
Cash paid for interest	<u>\$ 5,000</u>

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

SAN ANDREAS REGIONAL CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2024
(Continued)

SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITY

Due from state accrued vacation leave benefits	\$ (247,411)
Due from state unfunded defined benefit plan liability	23,059,582
Prepaid expenses and other assets	(11,624,405)
Operating lease right of use assets	(12,978)
Due from state leases	(178,462)
Accrued vacation leave benefits	247,411
Unfunded defined benefit plan liability	(11,435,177)
Operating lease liabilities	191,440
	191,440
TOTAL	\$ -

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

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 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 State). The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State. In accordance with the 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 and serves Santa Clara, Santa Cruz, Monterey, and San Benito counties.

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 from contract advances. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual, issued by DDS, and is required to have DDS' approval for certain expenses. In the event of termination or nonrenewal of the contract, the State maintains the right to assume control of the Center's operation and the obligation of its liabilities.

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

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Nature of Activities (Continued)

The Center contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for individuals with developmental disabilities and their families. The Center's contract with the DDS totaled \$848,401,637 for the 2023-2024 contract year, respectively, and are subject to budget amendments. Amounts received from the DDS contracts are recognized as revenue when the Center has incurred qualifying operational expenditures per the DDS contracts. Amounts received prior to incurring qualifying operational expenditures are recorded as contract advances and are netted with contract receivable on the statements of financial position to the extent there are receivables due from DDS. As of June 30, 2024, actual net expenditures were approximately \$668,518,000 for the 2023-2024. The remaining amounts on the 2023-2024 contract year where the Center can be reimbursed for qualifying expenditures are approximately \$179,883,000, subject to any future budget amendments.

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 to the extent that the expenses are not covered by client support funds.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

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:

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

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 statement of activities as net assets released from restrictions.

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 Center’s 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.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Significant Concentrations of Credit Risk

Due to the unique requirements of the State and the large fluctuation 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. While the amount in the banks typically exceeded FDIC coverage during the year, historically the Center has not experienced any losses on such accounts. 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. The Center considers all amounts receivable under grant contracts to be collectible; accordingly, no allowance for credit losses 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 ICFs. 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 ICFs. 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 ICFs and a 1.5% administrative fee for the Center.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Intermediate Care Facilities – State Plan Amendment (Continued)

The Center is directed to pay the ICFs 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 ICFs. The ICFs 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 administrative 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 - Intermediate Care Facility providers with corresponding revenue from ICFs.

The receivable - Intermediate Care Facility providers reduces contract receivable from DDS. DDS has instituted protocols should the ICFs not remit the net amounts due to the Center. The receivable - Intermediate Care Facility providers in the amount of \$387,045 at June 30, 2024, 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, including administrative and Quality Assurance fee was \$2,031,622 as of June 30, 2024.

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.

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, 2024, was \$420,567. This balance includes 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 vacation leave benefits 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.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Vacation Leave Benefits (Continued)

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 hours as the maximum sick hours 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.

Defined Benefit Pension Plan

The Center is required to recognize the funded status of the defined benefit pension plan (the Plan), measured as the difference between plan assets at fair value and the benefit obligation, in the statement of financial position, with an offsetting charge or credit to net assets. Gains or losses and prior service costs or credits that arise during the period, but are not recognized as components of net period benefit cost, will be recognized each year as a separate charge or credit to net assets. The Plan is with the California Public Employees' Retirement System (CalPERS), which is a multiemployer plan.

Leasing Arrangements

In February 2016, the FASB issued new lease accounting guidance in Accounting Standards Update (ASU) 2016-02 *Leases (Topic 842)* (ASU 2016-02), which modifies lease accounting for lessees to increase transparency and comparability by requiring the Center to recognize lease liabilities and related right-of-use assets for all leases (with the exception of short-term leases) at the commencement date of the lease and to disclose key information about leasing arrangements.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Leasing Arrangements (Continued)

Effective July 1, 2022, the Center adopted ASU 2016-02. The Center determines if an arrangement contains a lease at inception based on whether the Center has the right to control the asset during the contract period and other facts and circumstances. The Center elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

The Center's policy for determining its lease discount rate used for measuring lease liabilities is to use the rate implicit in the lease whenever that rate is readily determinable. If the rate implicit in the lease is not readily determinable, then the Center has elected to use the risk-free discount rate, as permitted by U.S. GAAP, determined using a period comparable with that of the lease term.

The Center has elected a policy to account for short-term leases, defined as any lease with a term less than 12 months, by recognizing all components of the lease payment in the statement of activities in the period in which the obligation for the payments is incurred.

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 Affairs. 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.

Contributions

Contributions, including unconditional promises to give, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as contributions with donor restrictions. When a donor's stipulated time restriction ends or purpose restriction is accomplished, the original contributions are released from net assets with donor restrictions to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Restricted contributions and net assets that have restrictions stipulated by the donor that the corpus be invested in perpetuity with only income made available for operations are also reported in net assets with donor restrictions.

Revenue Concentration

State Regional Center contract revenue is revenue received under an annual cost reimbursement contract from the State in accordance with the Lanterman Act. Approximately 99% 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 maintains the right to assume control of the Center's operation and the obligation of its liabilities.

Labor Concentration

As of June 30, 2024, approximately 82% of the employees of the Center are represented by a union for collective bargaining purposes. Periodically, the collective bargaining agreement is subject to renegotiation. The current collective bargaining agreement will expire on June 30, 2026.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Federal Grants

During the fiscal year ended June 30, 2024, the Center received the following 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.

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.

Income Taxes

The Center has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code. Tax-exempt status is generally granted to nonprofit entities organized for charitable or mutual benefit purposes.

The Center recognizes the financial statement benefit of tax positions, such as filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Allocation of Expenses

The statement 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 year ended June 30, 2024, \$865,310 of health insurance premiums were paid on behalf of retired employees. The valuation of these benefits could not be determined and, therefore, is not recorded as a liability for the year ended June 30, 2024.

Recently Adopted Accounting Pronouncement

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 requires the measurement of all expected credit losses for financial assets, including accounts receivable, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU specifically excludes contributions receivable and all investments that are held by the Center. As a result, the Center adopted ASU 2016-13 and there was no material effect on the financial statements.

Subsequent Events

Management has evaluated subsequent events through March 11, 2025 the date on which the financial statements were available to be issued.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 2 – Contracts Receivable/Contract Advances – State of California

The Center’s primary source of revenue is from the State of California (the State). Subject to renewal, the Center enters into a five-year contract with DDS that is subject to annual appropriations by the State. Revenue from the State is recognized monthly when a claim (invoice) for reimbursement of actual expenses is submitted to DDS for payment. These claims are paid at the State’s discretion either through a direct payment to the Center or by offsetting the claim against the cash advances received by the Center from the State.

As of June 30, 2024, DDS had advanced the Center, under the regional center contracts, \$210,871,600. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from DDS as follows:

Contracts receivable	\$ 202,155,741
Contract advances	<u>(210,871,600)</u>
Net contract advances	<u>\$ (8,715,859)</u>

The Center has renewed its contract with the State for the fiscal year ending June 30, 2025. The contract and amendments provide funding of \$665,914,307.

In addition, the Center has accrued receivables from the State for expenses that will be settled in cash in future years. These expenses are required to be recognized as liabilities under U.S. GAAP; however, such benefits are reimbursed by the state contract only when actually paid. These expenses relate to accrued vacation, unfunded defined benefit plan liability, and leases.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 3 – Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of June 30, 2024:

Financial assets at year end:	
Cash and cash equivalents	\$ 76,087,353
Receivable - Intermediate Care Facility providers	<u>387,045</u>
Total financial assets	<u>76,474,398</u>
Less amounts not available to be used	
within one year:	
Donor restricted net assets	<u>(372,076)</u>
	<u>\$ 76,102,322</u>

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 its 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 6) 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.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 4 – Leasing Arrangements

The Center leases its main facilities under operating leases with 10-to-20-year initial terms. The leases include renewal options which can extend the lease term up to 10 years. The exercise of these renewal options is at the sole discretion of the Center, and only lease options that the Center believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities. The Center also has various office equipment leases with five-year initial terms and no options to extend.

The following summarizes the line items in the statement of financial position which include amounts for operating leases as of June 30, 2024:

Operating lease right-of-use assets	<u>\$ 26,092,856</u>
Operating lease liabilities	<u>\$ 26,835,575</u>

The component of operating lease expense that is included in lease expenses in the statement of functional expenses is \$742,719 for the year ended June 30, 2024.

The following summarizes the cash flow information related to leases for the year ended June 30, 2024:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 2,569,915
Noncash investing and financing activity:	
Right-of-use assets obtained in exchange for operating lease liabilities in adopting ASC 842	\$ 12,978

The weighted-average remaining lease term and discount rate as of June 30, 2024 are as follows:

Weighted-average remaining lease term - operating leases	12.12 years
Weighted-average discount rate - operating leases	3.09%

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 4 – Leasing Arrangements (Continued)

The maturities of operating lease liabilities as of June 30, 2024 are as follows:

<u>Year Ending June 30,</u>		
2025	\$	2,628,302
2026		2,659,160
2027		2,665,129
2028		2,705,623
2029		2,489,292
Thereafter		<u>19,338,726</u>
Total minimum lease payments		32,486,232
Less amount representing interest		<u>(5,650,657)</u>
Present value of minimum lease payments	\$	<u>26,835,575</u>

NOTE 5 – Client Trust Funds and Client Trust Fund Liability

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 following is a summary of client support and expenses not reported in the statement of activities for the year ended June 30, 2024:

Support		
Social security and other client support	\$	<u>33,293,855</u>
Disbursements		
Living out of own home	\$	20,233,637
Other disbursements		<u>13,060,218</u>
Total Disbursements	\$	<u>33,293,855</u>

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 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 enrolled in the pension plan immediately upon hire. The Center contributes 8% of the employees' gross salary to CalPERS. Participants are fully vested after five years of full-time service. For the year ended June 30, 2024, \$5,519,333 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.

FASB ASC 715-30, Defined Benefit Plans – Pension, requires the Center to recognize the funded status of a defined benefit retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the change in net assets without donor-imposed restrictions in the year in which the change occurs.

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

The excess of the total actuarial accrued liability over the market value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payoffs. As described in Note 11, the unfunded actuarial accrued liability as of July 1, 2023 was restated to be in accordance with Financial Standards Board (FASB) and Accounting Standards Update 715 (ASU 715) – *Compensation: Retirement Benefits – Defined Benefit Pension Plans*.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 6 – Pension Plan (Continued)

The unfunded actuarial accrued liability as of June 30, 2024 was as follows:

Benefit obligation	\$ 183,794,407
Fair value of plan assets at end of year	<u>(132,367,225)</u>
Unfunded defined benefit plan liability	<u>\$ 51,427,182</u>

Reconciliation of Benefit Obligation

Changes in benefit obligation for the year ended June 30, 2024 were as follows:

Change in benefit obligations	
Obligation at beginning of year	\$ 182,213,350
Service costs	7,221,278
Interest costs	9,355,238
Assumption gain	(8,321,638)
Benefits and expenses paid	<u>(6,673,821)</u>
Obligation at end of year	<u>\$ 183,794,407</u>

Changes in market value of plan assets for the year ended June 30, 2024 were as follows:

Fair value of plan assets at beginning of year	\$ 119,350,991
Contributions:	
Employer	5,519,333
Employee	2,699,555
Actual return on plan assets	11,471,167
Benefits and expenses paid	<u>(6,673,821)</u>
Fair value of plan assets at end of year	<u>\$ 132,367,225</u>

Net liability recognized in the statement of financial position	<u>\$ 51,427,182</u>
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SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 6 – Pension Plan (Continued)

Net Periodic Benefit Costs

Net periodic benefit cost for the year ended June 30, 2024 consists of the following:

Service costs	\$ 7,221,278
Interest costs	9,355,238
Expected return on plan assets	<u>(8,168,400)</u>
Net periodic benefit cost	<u>\$ 8,408,116</u>

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

Pension benefit changes other than net periodic benefit costs during the year ended June 30, 2024, are as follows:

Unrecognized gains at beginning of year	\$ <u> -</u>
Changes during the year	
Unrecognized gain on assets	3,302,767
Unrecognized gain from assumptions	<u>8,321,638</u>
Net change for the year	<u>11,624,405</u>
Unrecognized gain at end of year	<u>\$ 11,624,405</u>

Unrecognized gains will be amortized into the accrued benefit obligation over future service years and annual changes of unrecognized gains are recognized as change in pension benefit obligation other than periodic benefit costs on the statement of activities. The cumulative unrecognized gains as of June 30, 2024 is \$11,624,405 and is included in prepaid expenses and other assets on the statement of financial position.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 6 – Pension Plan (Continued)

Assumptions

The discount rate was derived from the Above Median FTSE Pension Discount Curve as of June 30, 2024, using the expected payouts from the plan. The rate used as of the beginning of the fiscal year (used to calculate the expense for the year) was 5.52%.

The significant actuarial assumptions used in the measurement of the benefit obligations at June 30, 2024, were as follows:

Actuarial cost method	Entry Age Normal Cost Method
Asset valuation method	Market Value
Long-term discount rate, net of investment and administrative expenses	5.52%
Payroll growth	4.00%
Inflation	2.30%
Expected long-term rate of return	6.80%

CalPERS long-term rate of return on plan assets is 6.80% which is determined in consultation with CalPERS investment staff and advisors. The annual pension expense under ASC 715 is based on the expected return on plan assets during the fiscal year.

For the mortality rate, the actuary used the male and female, Pri-2012 Total Dataset Mortality Tables projected forward using Mortality Improvement Scale MP-2020 on a generation basis. This assumption is expected to be a best estimate of future mortality experience, being based on the latest published study by the Society of Actuaries, which was finalized in October 2020.

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

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 6 – Pension Plan (Continued)

The actual allocation for the pension assets as of June 30, 2023, were as follows:

Public equity	33.83%
Private equity	11.60%
Global fixed income	23.50%
Real assets	17.10%
Other	<u>13.97%</u>
 Total	 <u>100.00%</u>

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, 2024. The assets for the Center are part of the PERF and are invested accordingly.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 6 – Pension Plan (Continued)

Cash Flow Estimates for Future Benefit Payments

The following estimated benefit payments are expected to be paid on a fiscal year basis:

For the year Ended June 30,	
2025	\$ 7,091,946
2026	7,585,807
2027	8,068,750
2028	8,535,496
2029	9,041,899
2030-2034	<u>53,822,117</u>
	<u>\$ 94,146,015</u>

NOTE 7 – Line of Credit

The Center has a revolving note with City National Bank whereby it could borrow up to \$65,000,000 until June 30, 2025. Interest under the revolving note is charged at the bank’s daily simple SOFR (secured overnight financing rate). At June 30, 2024, the SOFR rate was 7.12% and no amount was outstanding on the revolving note.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 8 – Net Assets

The following presents net assets as of June 30, 2024:

Net Assets Without Donor Restrictions	
Undesignated	\$ <u>(21,375)</u>
Net Assets With Donor Restrictions	
Subject to Expenditures for Specific Purpose	
Grants and loans to client not covered by POS	351,512
Services and needs of former Agnews residents	<u>20,564</u>
	<u>372,076</u>
Total net assets	\$ <u>350,701</u>

NOTE 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.

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.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9 – Community Program For Persons With Developmental Disabilities (CPPDD) (Continued)

Background (Continued)

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 a 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)

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9 – Community Program For Persons With Developmental Disabilities (CPPDD) (Continued)

Background (Continued)

The LLCs lease 60 properties to the Regional Centers' service providers under 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.

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 Bank of America's loans. CalHFA's loans remained in effect until February 18, 2011, when they were paid off through bond financing.

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.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9 – Community Program For Persons With Developmental Disabilities (CPPDD) (Continued)

Bond Financing (Continued)

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, in February 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
JUNE 30, 2024

**NOTE 9 – Community Program For Persons With Developmental Disabilities
(CPPDD) (Continued)**

Bond Financing (Continued)

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 12 months from the date of such withdrawal. The Center's share of the liquidity operating fund is \$2,207,205 as of June 30, 2024, and is included in cash held for CPPDD on the statement of financial position. 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.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 9 – Community Program For Persons With Developmental Disabilities (CPPDD) (Continued)

Bond Financing (Continued)

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, 2024, CPPDD vendor advances - other totaled \$163,235 and is included in the statement of financial position.

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, 2024, CPPDD vendor advances - lease totaled \$359,130 and is included in the statement of financial position.

NOTE 10 – Other Purchased Services

Other purchased services consisted of the following during the year ended June 30, 2024:

Nonmedical services	\$ 43,085,426
Respite	85,252,485
Other authorized services	143,259,137
Transportation	42,072,864
Prevention services	1,063,078
Medical equipment	794,262
Medical care - professional	11,735,725
Medical care - program	1,429,125
Camps	223,995
Personal and incidental	960,956
Professional	<u>12,336,282</u>
	<u>\$ 342,213,335</u>

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 11 – Contingencies

In accordance with the terms of the DDS contract, an audit may be performed by an authorized state representative. Should such audit disclose any unallowable costs, the Center may be liable to the State for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2024, and for the year then ended.

The Center is dependent on continued funding provided by DDS to operate and provide services for its clients. In the event that the operations of the Center result in a deficit position at the end of any contract year, DDS may reallocate surplus funds within the State's 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's recommendations are subsequently reviewed by the governor and the Legislature, and a decision is made with regard to specific actions.

The Center has elected to self-insure its unemployment insurance. The Center is required to reimburse the State for benefits paid to its former employees. In addition, the Center has elected to self-insure a portion of its employee benefits based on actual costs of services performed.

Legal Proceedings

The Center is subject to various legal proceedings and claims arising in the ordinary course of operations. The Center's management believes it has either adequate defenses and insurance coverage for these actions and, thus, has made no provision in the financial statements for any costs relating to the settlement of such claims.

NOTE 12 – Restatement of Prior Period Pension Obligations

The pension benefit obligation as of July 1, 2023 has been restated to recognize the balance based on the actuarial valuation prepared in accordance with Financial Standards Board (FASB) *Accounting Standards Update 715 (ASU 715)-Compensation: Retirement Benefits-Defined Benefit Pension Plans*.

Prior to July 1, 2023, IRC utilized the CalPERS actuarial valuation, which is prepared in accordance with Government Accounting Standards Board (GASB) in *GASB No. 68 Accounting and Financial Reporting for Pensions*.

SAN ANDREAS REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2024

NOTE 12 – Restatement of Prior Period Pension Obligations (Continued)

The Center is a 501c(3) corporation with operations funded by the State of California’s Department of Developmental Services. The Center is following FASB pronouncements but is allowed to participate CalPERS due to the fact the Center is deemed an instrument of the state and is a public agency as defined in California Government Code Section 22009.

The Center is one of very few participants in CalPERS that is required to report their financial statements under FASB pronouncements but is required to follow CalPERS’ methodology of funding, contribution, and settlement based on GASB pronouncements.

To account for the differences between FASB and GASB pronouncements, management has elected to restate the following balances:

<u>June 30, 2023</u>	<u>As Restated</u>	<u>As Previously Stated</u>	<u>Adjustment</u>
Statement of Financial Position			
Due from state - unfunded defined benefit plan liability obligation	\$ 62,862,359	\$ 37,447,654	\$ 25,414,705
Unfunded defined benefit plan liability	\$ 62,862,359	\$ 37,447,654	\$ 25,414,705

SUPPLEMENTARY INFORMATION

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, 2024, the related statement 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 March 11, 2025.

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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we considered to material weaknesses. However, we did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-001 that we consider to be a significant deficiency.

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.

A handwritten signature in cursive script that reads "Windes, Inc.".

Long Beach, California
March 11, 2025

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY 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, 2024. 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.

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, 2024.

Report on Internal Control Over Compliance

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

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

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

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

Winder, Inc.

Long Beach, California
March 11, 2025

SAN ANDREAS REGIONAL CENTER

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2024**

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Grant Identification Number	Federal Expenditures
U.S. Department of Education Passed through State Department of Developmental Services			
Special Education - Grants for Infants and Families - Part C	84.181A	H181A220037	\$ 942,713
American Rescue Plan Act Early Start - Part C	84.027A		<u>69,825</u>
			<u>1,012,538</u>
Corporation for National Community Service Passed through State Department of Developmental Services			
Foster Grandparents	94.011	22SFICA001	<u>117,709</u>
			<u>117,709</u>
Total Expenditures of Federal Awards			<u>\$ 1,130,247</u>

SAN ANDREAS REGIONAL CENTER

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2024**

NOTE 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of San Andreas Regional Center (the Center) under programs of the federal government for the year ended June 30, 2024. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Center.

NOTE 2 – Summary of Significant Accounting Policies

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

NOTE 3 – Indirect Cost Rate

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

SAN ANDREAS REGIONAL CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2024

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

The independent auditors’ report expresses an unmodified opinion on whether the financial statements of the Center were prepared in accordance with generally accepted accounting principles.

Internal control over financial reporting:

Material weakness(es) identified? – No

Significant deficiencies identified? – Yes

Noncompliance material to financial statements noted? – No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Type of auditors’ report issued on compliance for major programs? – Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? – No

Identification of major programs:

Special Education – Grants for Infants and Families, Federal Assistance Listing #84.181A

Dollar threshold used to distinguish between Type A and Type B programs was \$750,000.

Auditee qualified as low-risk auditee? – Yes

SAN ANDREAS REGIONAL CENTER

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2024**

SECTION II – FINDINGS – FINANCIAL STATEMENT AUDIT

2024-001 – Financial Statement Restatement

Condition: San Andreas Regional Center (the Center) reported the CalPERS unfunded actuarial accrued liability for fiscal year ended June 30, 2023 in accordance with Government Accounting Standard Board (GASB) in GASB Statement No. 68 Accounting and Financial Reporting for Pensions. As a nonprofit organization, the Center is required to use the accounting estimates and framework based on standards promulgated by the Financial Accounting Standard Board (FASB), and Accounting Standards Update 715 (ASU 715)- Compensation: Retirement Benefits – Defined Benefit Pension Plans, which requires different methods and actuarial assumptions than GASB.

Criteria: Management is responsible for establishing and maintaining an effective system of internal control over financial statement reporting, including the review of applicable accounting estimates and framework for the CalPERS unfunded actuarial accrued liability in accordance with FASB ASC 715.

Cause: Management received the June 30, 2023 CalPERS actuary report and took the position the unfunded liabilities calculated under GASB approximated the unfunded liabilities calculated under FASB.

Effect: As of June 30, 2023, the Center’s unfunded actuarial accrued liability for its pension plan was understated by \$25,414,705.

Recommendation: We recommend the Center implement procedures to ensure the unfunded actuarial accrued liability is reported in accordance with FASB.

The Center’s Response: The Center has added a procedure to obtain independent actuarial valuations annually as calculated based on FASB pronouncements to ensure the Center is reporting the liability appropriately per FASB ASC 715.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None