Regional Center of the East Bay

FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2018

REGIONAL CENTER OF THE EAST BAY, INC.

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Regional Center of the East Bay, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Regional Center of the East Bay, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

MARCUMGROUP
MEMBER

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Opinion

In our opinion, the 2018 financial statements referred to above present fairly, in all material respects, the financial position of Regional Center of the East Bay, Inc., as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was 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, and Schedule of Purchase of Service Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019, on our consideration of Regional Center of the East Bay, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Regional Center of the East Bay, Inc.'s 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 Regional Center of the East Bay, Inc.'s internal control over financial reporting and compliance.

Marcum LLP

San Francisco, California
March 27, 2019

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

	Unrestricted	Temporarily Restricted	2018
Assets			
Cash	$ 11,811,264	$ --	$ 11,811,264
Cash held for others	4,016,897	980,296	4,997,193
Cash held for CPPDD (Note 10)	1,799,312	--	1,799,312
Contract reimbursement receivable (Note 2)	80,995,495	--	80,995,495
Claimable costs incurred (Note 3)	72,147,210	--	72,147,210
Note receivable (Note 4)	303,556	--	303,556
Receivable from Intermediate Care Facilities (Note 5)	3,221,737	--	3,221,737
Prepaid expenses and other assets	1,344,111	22,393	1,366,504
CPPDD vendor advances – lease (Note 10)	172,712	--	172,712
CPPDD vendor advances – other (Note 10)	78,497	--	78,497
Total Assets	$ 175,890,791	$ 1,002,689	$ 176,893,480
Liabilities and Net Assets			
Liabilities			
Accounts payable	$ 34,839,810	$ --	$ 34,839,810
Contract advance (Note 7)	64,562,272	--	64,562,272
Payable to Department of Developmental Services (Note 5)	313,497	--	313,497
Accrued vacation and other leave benefits	1,798,987	--	1,798,987
Deferred rent liability (Note 11)	5,252,508	--	5,252,508
Net assets held for others (Note 8)	4,028,002	--	4,028,002
Unfunded pension benefit obligations (Note 9)	65,095,715	--	65,095,715
Total Liabilities	175,890,791	--	175,890,791
Net Assets	--	1,002,689	1,002,689
Total Liabilities and Net Assets	$ 175,890,791	$ 1,002,689	$ 176,893,480

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

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	2018
Support and Revenue			
Grants	$ 417,784,956	$ --	$ 417,784,956
Federal Awards	1,821,588	--	1,821,588
Intermediate care facilities (Note 5)	6,522,200	--	6,522,200
Interest	187,737	92	187,829
Contributions	--	20,660	20,660
Pre-development fund contribution	--	779,539	779,539
Net assets released from restrictions	22,705	(22,705)	--
Total Support and Revenue	426,339,186	777,586	427,116,772
Expenses			
Program services:			
Purchase of services	374,633,186	--	374,633,186
Operating	40,873,679	--	40,873,679
General and administrative	5,398,674	--	5,398,674
Total Expenses	420,905,539	--	420,905,539
Change in net asset before changes in pension benefit obligation	5,433,647	777,586	6,211,233
Change in pension benefit other than periodic benefit costs	(5,433,647)	--	(5,433,647)
Changes in Net Assets	--	777,586	777,586
Net Assets - Beginning	--	225,103	225,103
Net Assets - Ending	$ --	$ 1,002,689	$ 1,002,689

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

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Service	General and Administrative	2018
Purchase of Services			
Out of home	$ 121,611,721	$ --	$ 121,611,721
Day programs	84,691,001	--	84,691,001
Other purchased services	168,330,464	--	168,330,464
Total Purchase of Services	374,633,186	--	374,633,186
Operating			
Salaries and related expenses	33,806,712	4,178,358	37,985,070
Office occupancy	3,847,491	475,533	4,323,024
Contract and consultant fees	2,041,055	252,265	2,293,320
General office expenses	58,715	7,257	65,972
Staff travel	355,116	43,891	399,007
General	--	230,929	230,929
Insurance	114,947	14,207	129,154
Legal fees	97,742	12,080	109,822
Communications	192,042	23,736	215,778
Equipment rental	66,997	8,280	75,277
Bank charges	--	23,454	23,454
Data processing	156,444	19,336	175,780
ARCA dues	--	92,527	92,527
Accounting fees	60,137	7,433	67,570
Printing	27,851	3,442	31,293
Restricted development	20,205	2,497	22,702
Board of Directors' expenses	4,697	580	5,277
Conferences and seminars	14,875	1,838	16,713
Other	8,653	1,031	9,684
Total Operating	40,873,679	5,398,674	46,272,353
Total Expenses	$ 415,506,865	$ 5,398,674	$ 420,905,539

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

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	2018
Cash Flows From Operating Activities			
Change in net assets	$ --	$ 777,586	$ 777,586
Adjustments to reconcile changes in net assets to net cash provided by operating activities:			
Changes in defined benefit plan liability	55,504,276	--	55,504,276
Changes in operating assets and liabilities:			
Contract receivable	28,668,658	--	28,668,658
Claimable costs incurred	(55,856,928)	--	(55,856,928)
Receivable from Intermediate Care Facilities	315,461	--	315,461
Prepaid expenses and other assets	132,255	17,634	149,889
Accounts payable	1,363,534	--	1,363,534
Payable to Department of Developmental Services	(139,365)	--	(139,365)
Accrued vacation and other leave benefits	90,589	--	90,589
Deferred rent liability	262,063	--	262,063
Net assets held for others	(12,296)	--	(12,296)
Net Cash Provided by Operating Activities	30,328,247	795,220	31,123,467
Cash Flows From Financing Activities			
Proceeds from contract advance	61,521,345	--	61,521,345
Repayment of contract advance	(98,362,406)	--	(98,362,406)
Net Cash Used in Financing Activities	(36,841,061)	--	(36,841,061)
Net (Decrease) Increase in Cash	(6,512,814)	795,220	(5,717,594)
Cash - Beginning	24,140,287	185,076	24,325,363
Cash - Ending	$ 17,627,473	$ 980,296	$ 18,607,769
Statement of Financial Position Presentation			
Cash	$ 11,811,264	$ --	$ 11,811,264
Cash held for others	4,016,897	980,296	4,997,193
Cash held for CPPDD	1,799,312	--	1,799,312
	$ 17,627,473	$ 980,296	$ 18,607,769

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

Organization

Regional Center of the East Bay, Inc. (the "Center"), a California nonprofit public benefit corporation under contract with the State of California Department of Developmental Services ("DDS"), was formed in 1975 to administer programs for individuals with developmental disabilities and their families, which includes diagnosis, counseling, education services, and dissemination of information on developmental disabilities to the public. The Center is one of 21 regional centers within California and serves Alameda and Contra Costa counties.

Governance

The Center was organized in accordance with the provision of the Lanterman Developmental Disabilities Services Act (the "Lanterman Act") of the Welfare and Institutions Code of the State of California. The Lanterman Act includes governance provisions regarding the composition of the Center's Board of Directors. The Lanterman 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 percent of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25 percent 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 Center purchases client services, shall serve as a member of the Board. To comply with the Lanterman Act, the Board of Directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services through the Center and a client service provider of the Center.

Mission Statement

The Center's mission statement is as follows:

"Regional Center of the East Bay supports persons with developmental disabilities and their families with the tools needed to achieve lives of quality and satisfaction, and builds partnerships that result in inclusive communities."

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STATE OF CALIFORNIA CONTRACT

The Center operates under an annual cost-reimbursement contract with 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.

Under the terms of these DDS contracts, funded expenditures are not to exceed $413,673,427, $408,170,480, and $371,639,655 for the 2017/18, 2016/17, and 2015/16 contract years, respectively. As of June 30, 2018, actual net expenditures under the 2017/18, 2016/17, 2015/16 contracts were $412,824,889, $393,169,808, and $342,237,681, respectively.

BASIS OF ACCOUNTING

The Center prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred regardless of the timing of cash flows.

CLASSIFICATION OF NET ASSETS

U.S. GAAP requires that the Center report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the Center are classified and reported as follows:

Unrestricted
Those net assets and activities which represent expendable funds for operations related to the DDS contract, Community Placement Plan ("CPP"), and a federally funded program.

Temporarily Restricted
Those net assets and activities which are donor-restricted for (a) support of specific operating activities; or (b) use in a specified future period and is comprised of the Restricted Trust Fund. Restricted Trust Fund (also known as the Jim Burton Helping Hand Fund) is used to record solicited and unsolicited support received by the Center. These funds are used exclusively to fund emergency grants and loans to clients who have no other resources available to them during times of exceptional need.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CLASSIFICATION OF NET ASSETS (CONTINUED)

Permanently Restricted
Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

As of June 30, 2018, and for the year then ended, the Center did not have any permanently restricted net assets or activities.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of receivable and accounts payable approximate fair value because of the short maturity of these instruments.

ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

CASH

Cash is defined as cash in demand deposit accounts as well as cash on hand. The Center considers all financial instruments with a maturity of three months or less when purchased to be cash equivalents. As of June 30, 2018, and for the year then ended, the Center did not have any cash equivalents.

In September 2017, the Center established a separate bank account to receive a grant of $779,539 from the Bay Area Housing Corporation ("BAHC") Pre-Development Fund for the development of housing for individuals with intellectual and developmental disabilities. These funds are being granted with specific understanding that they will only be used to cover the necessary costs of construction of homes being developed for residents of Sonoma Developmental Center that are not covered by state funds. These funds cannot be co-mingled with other state funds that the Center receives from annual contracts with DDS.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

This pre-development funding can be used specifically for the construction costs of the following homes:

Neroly Road	$	195,913
Terra Verde		654
Bayberry Drive		185,079
Marineview		209,518
Malabar		188,375
Total	$	779,539

CONTRACT REIMBURSEMENT RECEIVABLE AND CLAIMABLE COSTS INCURRED

The Center's receivables represent or relate to the cost-reimbursement contract with DDS. Management believes that the receivable is fully collectible and, therefore, has not provided an allowance for doubtful accounts.

NOTE RECEIVABLE

The Center entered into a note receivable agreement with one of its transportation vendors as a result of prior year over-billings to the Center (see Note 4). Because the Center operates under a cost-reimbursement contract, the note is offset against monthly payments to the vendor until the note is repaid in full.

STATE EQUIPMENT

Pursuant to the terms of the DDS contract, equipment purchases become the property of the State of California and, accordingly, are charged as expenses when incurred. The Center tracks items which cost more than $5,000 and have an estimated useful life of more than one year. For the year ended June 30, 2018, equipment purchases totaled $17,792 and there was no disposed equipment. The aggregate equipment costs at June 30, 2018, totaled $217,742.

CLIENT TRUST FUND

The Center serves as representative payee for a portion of its clients. In this fiduciary capacity, it receives social security benefits and other sources of income and makes payments on behalf of certain developmentally disabled clients who are deemed unable to administer the funds themselves. Client trust transactions are not considered revenue or expenses of the Center. The cash that is received and outstanding receivables, net of interfund liabilities, are reported as a liability, *net assets held for others*, until it is distributed.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED VACATION AND OTHER LEAVE BENEFITS

The Center has accrued a liability for vacation and sick leave benefits earned which is reimbursable under the DDS contract; however, such benefits are reimbursed under the DDS contract only when actually paid. The Center accrues vacation as earned up to 280 hours. When the employee separates from service, the employee will receive their unused vacation.

DEFERRED RENT

The Center leases office facilities under lease agreements that are subject to scheduled acceleration of rental payments. The scheduled rent increases are amortized evenly over the term of the lease in accordance with U.S. GAAP. The deferred rent liability of $5,252,508 at June 30, 2018, represents the difference between the cash payments made and the amount expensed since inception of the lease. The DDS contract reimburses the Center for rent after it is paid and this amount is included in claimable costs incurred on the statement of financial position.

REVENUE RECOGNITION – GRANTS

Revenue and expenses are recognized based upon costs incurred. Depending on the date of the service, claims are classified and charged to the appropriate contract as follows:

- Current year
- Prior year
- Second prior year

CONTRIBUTIONS

The Center recognizes all contributions when they are received or unconditionally promised, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as temporarily restricted or permanently restricted support, depending upon the type of restriction.

The satisfaction of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. This occurs by increasing one class of net assets and decreasing another in the statement of activities and changes in net assets. These transactions are reported as *net assets released from restrictions* in the statement of activities and changes in net assets and are reported separately from other transactions.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FEDERAL GRANTS

The Center is a sub-recipient to DDS with regard to the following grant:

U.S. Department of Education
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.

INCOME TAXES

The Center is a qualified organization exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code ("IRC") and franchise taxes under §23701d of the California Revenue and Taxation Code. Accordingly, it is exempt from federal and California income taxes and is not liable for federal unemployment taxes.

Management evaluated the Center's tax positions and concluded that they maintained their tax exempt status and had taken no uncertain tax positions that would require adjustment to the financial statements.

Therefore, no provision or liability for income taxes has been included in the financial statements. The tax returns of the Center are subject to examination by federal and state taxing authorities. However, there are currently no examinations pending or in progress.

DEFINED BENEFIT PENSION PLAN

The Center records unfunded liability of its defined benefit pension plan with California Public Employees' Retirement System ("CalPERS") on the statement of financial position and recognizes the changes in the funded status on the statement of activities and changes in net assets in the year in which the change occurs.

FUNCTIONAL EXPENSES ALLOCATION

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets, and functional expenses. Accordingly, certain costs have been allocated among program and supporting services based on an analysis of personnel time.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATIONS OF RISKS

Credit Risk

Financial instruments, which potentially subject the Center to a concentration of credit risk, principally consist of cash, contract receivable, and receivable from vendors. The Center places cash in deposit accounts, which may at times, exceed the federally-insured limit. Through its contract with DDS, the Center is reimbursed for its expenses. The ability of DDS to honor its obligations and to continue funding is dependent upon the overall economic well-being of the State of California. The Center has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

Labor Force

For the year ended June 30, 2018, the labor force through Local 1021, Service Employees International Union, CtW, CLC (the "Union") comprise 84% of the total number of employees. The Center's collective bargaining agreement is due to expire on November 30, 2019.

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") issued new guidance, Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, to provide guidance concerning recognition and measurement of revenue. In addition, significant additional disclosures are required about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, and will replace virtually all existing revenue guidance, including most industry-specific guidance. The FASB also issued ASU 2015-14 which deferred the effective date. The guidance is applicable for annual reporting periods beginning after December 15, 2018. Management is evaluating the impact of this new guidance.

On February 25, 2016, the FASB issued ASU 2016-02, *Leases*. The new standard creates Topic 842, Leases, in the FASB *Accounting Standards Codification* (FASB ASC) and supersedes FASB ASC 840, *Leases*. Entities that hold numerous equipment and real estate operating leases will be most affected by the new guidance.

The main difference between the existing guidance on accounting for leases and the new standard is that operating leases will now be recorded in the statement of financial position as assets and liabilities. This may affect compliance with contractual agreements and loan covenants. Current U.S. GAAP requires only capital (finance) leases to be recognized in the statement of financial position and amounts related to operating leases largely are reflected in the financial statement of activities and changes in net assets as rent expense on the statement and in disclosures to the financial statements.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For operating leases, a lessee is required to do the following:

- Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position
- Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis
- Classify all cash payments within operating activities in the statement of cash flows

In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that start before the effective date in accordance with previous U.S. GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous U.S. GAAP. The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019. Early application of the amendments is permitted for all entities. Management is evaluating the impact of this new guidance.

On August 18, 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, representing the completion of the first phase of a two-phase project to amend not-for-profit ("NFP") financial reporting requirements as set out in FASB ASC 958, *Not-for-Profit Entities*.

This standard:

- Eliminates the distinction between resources with permanent restrictions and those with temporary restrictions from the face of a NFP's financial statements by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions).
- Removes the current requirement to present or disclose the indirect method (reconciliation) when using the direct method of reporting cash flows.
- Requires NFPs to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- Requires NFPs to use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

NFPs will reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption. This amendment eliminates the current option that, in the absence of explicit donor stipulations, had allowed a NFP to delay reporting of an expiration of a donor imposed restriction for the acquisition or construction of a long-lived asset by electing to report the expiration over time (as the asset is used or consumed) rather than when placed in service.

ASU 2016-14 also requires enhanced disclosures about:

- Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.

- Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.

- Qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position.

- Quantitative information and additional qualitative information in the notes as necessary, that communicates the availability of a NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.

- Amounts of expenses by both their natural classification and their functional classification and the methods used to allocate costs among program and support functions.

- Underwater endowment funds.

NFP entities are required to adopt this standard for annual reporting periods beginning after December 15, 2017. Management is evaluating the impact of this new guidance.

NOTE 2 - CONTRACT REIMBURSEMENT RECEIVABLE

Contract reimbursement receivable consists of the following:

Claims submitted:	
Current year	$ 75,277,338
Prior year	5,834,439
Second prior year	(116,282)
Total	$ 80,995,495

NOTE 3 - CLAIMABLE COSTS INCURRED

Claimable costs incurred consists of the following:

Unfunded defined benefit plan liability	$ 65,095,715
Deferred costs for rent liability	5,252,508
Deferred costs for accrued vacation and other leave benefits	1,798,987
Total	$ 72,147,210

NOTE 4 - NOTE RECEIVABLE

The Center entered into an uncollaterized note receivable agreement, dated July 1, 2011, in the amount of $787,605 with Mobility Plus Transportation, LLC as a result of prior year over-billings to the Center. The note bears simple interest rate of 3.25%; however, interest may be waived by the Center. Monthly offset payments of $8,204 are to be made until the note is repaid in full in June 2021. As of June 30, 2018, the balance of the note (with a corresponding liability included in the payable to Department of Developmental Services) was $303,556. For the year ended June 30, 2018, offset payments were $98,457. The Center waived interest for the year ended June 30, 2018.

NOTE 5 - 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").

NOTE 5 - INTERMEDIATE CARE FACILITIES – STATE PLAN AMENDMENT (CONTINUED)

Previously, such services provided to the residents were not reimbursable by Medicaid because the funds were not directly billed and received by the ICF's. The legislative changes allow for DDS to bill these services to Medicaid and capture federal funds.

DDS directs the Center to prepare billings for these services on behalf of the ICF's. The billings include a 5.5% Quality Assurance fee for the State of Department of Health Care Services, a 1.5% administrative fee for the ICF's and a 1.5% administration fee for the Center.

Effective July 1, 2012, DDS directed the Center to prepare billings for these services on behalf of the ICF's and submit a separate state claim report for these services in addition to paying the ICF directly for their services. The Center was directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICF's. DDS advances the amount according to the state claim to the ICF's. The ICF's are then required to pass on the payments received, as well as the Center's administrative fee to the Center within 30 days of receipt of funds from the State Controller's Office.

The r*eceivable from Intermediate Care Facilities* in the amount of $3,221,737 represents the amount DDS paid or will pay to the ICF's net of ICF's administrative fee and Quality Assurance fee in relation to the billings prepared beginning July 1, 2012, and the *payable to Department of Developmental Services* of $313,497 includes $9,941, which represents the amount expected to be paid net of the Center's fee in relation to the billings prepared on or before June 30, 2012. *Revenue from Intermediate Care Facilities* was $6,522,200.

NOTE 6 - LINE OF CREDIT

In March 2018, the Center obtained a revolving line of credit with the Bank of Tokyo-Mitsubishi UFJ, LTD. whereby it may borrow up to $35,000,000 during the period beginning on April 2, 2018 until the maturity date on September 28, 2018. The line of credit is secured by substantially all of the Center's assets. Interest under the line of credit was charged at the bank's reference rate of 5.00%. As of June 30, 2018, the Center had not drawn on the line of credit.

NOTE 7 - CONTRACT ADVANCE

Contract advance represents advances from DDS to the Center at the beginning of each fiscal year to provide interest-free working capital. DDS uses its discretion in determining the balance on a month-to-month basis. If DDS so chooses, the advance may be paid by off-setting the contract reimbursement receivable partially or in full. As of June 30, 2018, contract advance balance was $64,562,272.

NOTE 8 - NET ASSETS HELD FOR OTHERS

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

Beginning Balance	$ 4,040,298
Client support received	26,249,610
Less: Purchase of service disbursements	(26,261,906)
Ending Balance	$ 4,028,002

NOTE 9 - DEFINED BENEFIT PENSION PLAN

On October 14, 2002, 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. Participants are fully vested after five years of full-time service. For the year ended June 30, 2018, the Center contributed 12.64% of the employees' gross salary or $4,543,442 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 Q Street, Sacramento, California 95811.

The Center contributes to CalPERS for retirement benefits. CalPERS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within California. Substantially all of the Center's employees participate in CalPERS.

FASB Accounting Standards Codification (ASC) 715-30, *Defined Benefit Plans – Pension,* requires the Regional 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 unrestricted net assets in the year in which the change occurs. The FASB valuation information in this note is based on the ASC 715 actuarial valuation report performed by Milliman, Inc., an actuarial firm, measured as of June 30, 2018.

The CalPERS Board of Administration adopted changes to the demographic assumptions based on the most recent experience study. 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.

NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

Net periodic benefit cost for the year ended June 30, 2018 is as follows:

Service cost	$ 9,140,053
Interest cost	5,869,607
Expected return on assets	(5,559,730)
Net Periodic Benefit Cost	**$ 9,449,930**

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

Pension benefit changes other than net periodic benefit costs during the year ended June 30, 2018 are as follows:

Assumption change	$ 7,577,915
Investment experience	1,585
Changes Other Than Net Periodic Benefit Costs	**$ 7,579,500**

NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefit obligation and funded status as of June 30, 2018 are as follows:

Change in Benefit Obligation	
Benefit Obligation - Beginning	$ 148,176,039
Service cost	9,140,053
Interest cost	5,869,607
Assumption change (gain)	(7,577,915)
Difference between Expected and Actual Experience	(1,585)
Benefits and expenses paid	(2,871,742)
Benefit Obligation - Ending	152,734,457
Change in Fair Value of Plan Assets	
Fair Value of Plan Assets - Beginnning	77,646,677
Actual return on plan assets	6,435,997
Employer contributions	4,543,442
Contributions by employees	1,884,368
Benefit payments	(2,871,742)
Fair Value Of Plan Assets - Ending	87,638,742
Unfunded Projected Benefit Obligation	$ (65,095,715)

The assumptions used in the measurement of the benefit obligations at June 30, 2018 are as follows:

Discount rate	4.25%
Expected long-term return on plan assets	7.00%
Rate of compensation increase	4.00%

The discount rate was derived from the Above Median Citigroup Pension Discount Curve as of the end of June 2018 using the expected payouts from the Plan. The curve produced by Citigroup uses bond market data close to the measurement date for durations as of the end of the fiscal year using an interest rate of 4.25%. The rate used as of the beginning of the fiscal year (used to calculate the expense for the year) was 4.00%.

NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The long-term rate of return on plan assets is the expected return used by CalPERS for their pension fund and was derived based on their long term expectation of assets 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 RP-2014 Healthy Mortality Table projected generationally from 2006 using Scale MP-2018. 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 2018.

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 employer's 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.

The actual allocations for the pension assets and target allocations by asset class as of June 30, 2018 are as follows:

Current Asset Class	Percentage of Plan Assets	Target Allocation
Global equity	48.3%	50.0%
Private equity	8.0%	8.0%
Global fixed income	19.4%	28.0%
Liquidity	4.8%	1.0%
Real assets	11.2%	13.0%
Inflation sensitive assets	7.8%	0.0%
Other	0.5%	0.0%
	100%	100%

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting principles generally accepted in the United States of America establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1
Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

Level 2
Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3
Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement in its entirety. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Plan assets of $87,638,742 are held in a pooled investment account managed by CalPERS and are considered level three investments.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the fiscal years ending June 30:

Expected Future Service

2019	$ 3,028,894
2020	3,449,062
2021	3,832,080
2022	4,188,572
2023	4,513,760
2024-2028	27,766,642

For the year ended June 30, 2018, the actuarial computed employer and employee contribution rates are 7.967% and 6.760%, respectively.

NOTE 10 - COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES

BACKGROUND

In March 2006, the Bay Area Housing Plan ("BAHP") was developed by the Center, Golden Gate Regional Center, Inc. ("GGRC") and San Andreas Regional Center ("SARC"), (collectively, the "Regional Centers") working in collaboration under the Bay Area Unified Plan.

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 California Assembly Bill 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, California 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 SARC's catchment area.
- Housing Consortium of the East Bay ("HCEB"), which acquired 15 residences in the Center's catchment area.

NOTE 10 - COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BACKGROUND (CONTINUED)

- West Bay Housing Corporation ("WBHC"), which acquired 13 residences in GGRC's catchment area.

Subsequently, the NPOs conveyed their ownership interests in the residencies to three single member limited liability companies (the "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 residencies (from HCEB)
- A Home for Life, LLC, owner of 13 residences (from WBHC)

The LLCs lease such properties to the Regional Centers' service providers under 60 long-term operating leases. The service providers operate the properties for the benefit of consumers who receive services from the Regional Centers.

The leases will terminate on the 17th anniversary of their commencement dates or 18 months after the date that the applicable LLC/landlord fully repays the current lender's permanent financing (discussed below).

All of the 60 properties are encumbered by Lease Assurance Covenants, Conditions and Restrictions and Memorandum of Agreement and Lease which provides, among other things, that the use of each property shall be solely for the benefit of qualified individuals with developmental disabilities in perpetuity, in compliance with the requirements in Welfare and Institutions Code §4688.5.

The master developer borrowed funds from Bank of America to acquire and develop the 60 properties. California Housing Finance Agency ("CalHFA") then lent funds to the LLCs to refinance the Bank of America's loans. CalHFA's loans remained in effect until February 18, 2011, when they were paid off through the bond financing discussed below.

BOND FINANCING

In December 2010, the California Health and Human Services Agency 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 Development Disabilities ("CPPDD").

NOTE 10 - COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BOND FINANCING (CONTINUED)

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

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

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

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

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

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

NOTE 10 - COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (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 are unrestricted; however each Regional Center must replenish any withdrawal from its liquidity operating fund necessary to maintain the required initial balance within twelve months from the date of such withdrawal. The Center's share of the liquidity operating fund is $1,799,312. The remaining balance of the liquidity operating fund is funded by GGRC and SARC.

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, 2018, CPPDD vendor advances – other totaled $78,497.

NOTE 10 - COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BOND FINANCING (CONTINUED)

Due to the timing of the bond financing, one additional debt service payment was required to be made to the Bond trustee. The Center made this payment via advances to its service providers, which was then forwarded to the Bond trustee. The service providers will repay these receivables to the Center at the end of the bond financing term, via applicable offsets that the Center will apply against funds it owes to the service providers under the Service Provider Agreements. At June 30, 2018, CPPDD vendor advances – lease totaled $172,712.

NOTE 11 - LEASE COMMITMENTS

The Center leases office space in San Leandro and Concord, California, and also leases various equipment. The facility leases include rent escalation clauses and a recovery for insurance and real estate taxes. All leases are classified as operating leases. Rental expense was $4,398,301 for the year ended June 30, 2018.

Future minimum lease payments are as follows:

For the Years Ended June 30,	Amount
2019	$ 4,248,155
2020	4,440,287
2021	4,473,391
2022	4,560,192
2023	4,451,139
Thereafter	28,999,252
Total	$ 51,172,416

NOTE 12 - CONTINGENCIES

The majority of the Center's funding is provided under annual grants and contracts with federal and California agencies. If a significant reduction in the level of funding provided by these governmental agencies were to occur, it may have an effect on the Center's programs and activities. The Center's revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies.

NOTE 12 - CONTINGENCIES (CONTINUED)

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.

NOTE 13 - LEGAL MATTERS

The Center is named in various claims and legal actions in the normal course of its activities. Based upon counsel and management's opinion, the outcomes of such matters are not expected to have a material adverse effect on the financial position or changes in net assets of the Center.

NOTE 14 - SUBSEQUENT EVENTS

The Center has evaluated all subsequent events through March 27, 2019, the date the financial statements were available to be issued. The Center has entered into a new office space sublease agreement starting January 1, 2019 to June 30, 2022. No other events requiring recognition or disclosure in the financial statements have been identified.

REGIONAL CENTER OF THE EAST BAY, INC.

SCHEDULE OF PURCHASE OF SERVICE EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

Out of home:	
Community care facility	$ 119,281,232
ICF/skilled nursing facility	2,330,489
	$ 121,611,721
Day programs:	
Training	$ 83,101,632
Day care	1,589,369
	$ 84,691,001
Other purchased services:	
Medical care:	
Professional	$ 6,134,219
Programs	74,313
Medical equipment	1,791,160
Nonmedical:	
Professional	4,246,746
Programs	22,720,407
Other authorized services	79,658,303
Personal and incidental	91,111
Prevention services	12,787,078
Respite	23,782,650
Transportation	17,044,477
	$ 168,330,464

See independent auditors' report.

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 of
Regional Center of the East Bay, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Regional Center of the East Bay, Inc. (the "Center"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, 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 27, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

MARCUMGROUP
MEMBER

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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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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.

Marcum LLP

San Francisco, California
March 27, 2019

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Regional Center of the East Bay, Inc.

Report on Compliance for Each Major Federal Program

We have audited Regional Center of the East Bay, Inc.'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 program for the year ended June 30, 2018. The Center's major federal program is 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 federal statues, regulations, and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Center's major federal program 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 Award* ("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.

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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 its major federal program for the year ended June 30, 2018.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Marcum LLP

San Francisco, California
March 27, 2019

REGIONAL CENTER OF THE EAST BAY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
Office of Special Education and Rehabilitative Services of the U.S. Department of Education passed-through the State of California Department of Developmental services:				
Early Intervention Services:				
Special Education - Grants for Infants and Families	84.181	HD149015	$ --	$ 1,821,588
Total Expenditures of Federal Awards			$ --	$ 1,821,588

See independent auditors' report and notes to the Schedule of Expenditures of Federal Awards.

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activities of Regional Center of the East Bay, Inc. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). 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. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 - INDIRECT COST RATE

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

REGIONAL CENTER OF THE EAST BAY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

SECTION I – SUMMARY OF THE AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified:	No
Significant deficiency(ies) identified:	None reported
Noncompliance material to financial statements:	No

Federal Awards

Internal control over major federal programs:	
Material weakness(es) identified:	No
Significant deficiency(ies) identified:	None reported
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

CFDA Number	Name of Federal Program/Cluster
84.181	Special Education - Grants for Infants and Families

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Audit qualified as low-risk auditee:	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported.

SECTION IV – STATUS OF PRIOR YEAR AUDIT FINDINGS

There were no prior year findings.