



**INCORPORATED AS COASTAL DEVELOPMENTAL
SERVICES FOUNDATION dba WESTSIDE REGIONAL CENTER**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY
FINANCIAL INFORMATION**

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

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Coastal Developmental Services Foundation
dba Westside Regional Center

Report on the Financial Statements

We have audited the accompanying financial statements of Coastal Developmental Services Foundation dba Westside Regional Center (the "Foundation"), 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 qualified audit opinion.

Basis for Qualified Opinion

The Foundation provides retirement benefits through its participation in the California Public Employees Retirement System (“CalPERS”). Because most of the member entities in CalPERS are governmental entities, CalPERS calculates the members’ funded or unfunded status using methods and actuarial assumptions promulgated by Government Accounting Standard Board (“GASB”) Statement No. 68. As a nonprofit organization, the Foundation uses a different accounting framework based on standards promulgated by the Financial Accounting Standard Board (“FASB”), and Auditing Standards Update (ASU) 715 requires different methods and actuarial assumptions than GASB. The Foundation reports its unfunded status using the actuarial report provided by CalPERS using GASB No. 68’s methods and actuarial assumptions, which are departures from U.S. GAAP. Management did not prepare an actuarial report in accordance with FASB’s methods and actuarial assumptions. Accordingly, we were unable to obtain sufficient appropriate audit evidence about the Foundation’s unfunded status by other auditing procedures.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation 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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Foundation’s 2017 financial statements, and we expressed a qualified opinion on those audited financial statements, due to the pension issue described in the Basis for Qualified Opinion paragraph above, in our report dated June 19, 2018. The summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019, on our consideration of the Foundation'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 the Foundation'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 the Foundation's internal control over financial reporting and compliance.

Marcum LLP

San Francisco, California
March 28, 2019

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

	2018	2017
Assets		
Cash	\$ 5,278,015	\$ 13,036,808
Cash - client trust funds	1,059,103	980,397
Contract receivable	48,939,035	54,910,551
Receivables from Intermediate Care Facilities	2,075,500	1,925,032
Other receivables	613,976	865,525
Due from state - accrued vacation, other leave, and other employee benefits	39,512,812	34,136,015
Deposits	138,790	138,790
Total Assets	\$ 97,617,231	\$ 105,993,118
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 19,629,665	\$ 18,103,061
Contract advance	33,623,980	49,643,514
Accrued salaries	24,983	393,717
Accrued vacation and other leave benefits	1,078,852	1,072,782
Due to state	1,224,479	1,224,479
Accrued unemployment insurance	225,772	225,523
Unexpended client support	659,373	584,289
Deferred rent liability	336,257	147,307
Post-retirement health care plan obligation	24,842,302	21,438,378
Unfunded defined benefit plan liability	12,031,200	8,983,847
Total Liabilities	93,676,863	101,816,897
 Net Assets - Unrestricted	3,940,368	4,176,221
 Total Liabilities and Net Assets	\$ 97,617,231	\$ 105,993,118

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

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2018

(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2017)

	2018	2017
Support and Revenue		
Grants - State DDS	\$ 226,751,851	\$ 206,197,361
Grants - Federal	1,349,503	1,167,905
Intermediate care facilities	2,848,556	2,792,354
Other income	45,644	111,135
Interest	25,773	12,133
Total Support and Revenue	231,021,327	210,280,888
Expenses		
Program services:		
Direct client services	202,831,675	183,232,401
Operating	16,158,568	15,874,069
General and administrative	8,145,104	8,073,548
Total Expenses	227,135,347	207,180,018
Change in net assets from operations	3,885,980	3,100,870
Health plan-related changes other than net periodic post-retirement benefit cost	(1,074,480)	(350,130)
Change in defined benefit plan liability	(3,047,353)	(3,049,275)
Change in Net Assets	(235,853)	(298,535)
Net Assets - Beginning of year	4,176,221	4,474,756
Net Assets - End of year	\$ 3,940,368	\$ 4,176,221

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

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

STATEMENT OF FUNCTIONAL EXPENSES

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

	Program Services	General and Administrative	Total	2017
Direct Client Services				
Residential care facilities	\$ 32,991,259	\$ --	\$ 32,991,259	\$ 30,731,572
Day programs	24,971,820	--	24,971,820	26,666,022
Other purchased services	144,868,596	--	144,868,596	125,834,807
Total Direct Client Services	<u>202,831,675</u>	<u>--</u>	<u>202,831,675</u>	<u>183,232,401</u>
Operating Expenses				
Salaries	9,819,192	4,511,390	14,330,582	13,795,795
Employee health and retirement benefits	3,785,971	2,454,225	6,240,196	6,325,503
Facility rent	1,010,766	464,393	1,475,159	1,015,442
General expenses	372,438	166,974	539,412	621,490
Consultant fees	230,913	106,092	337,005	383,788
General office expenses	138,711	49,452	188,163	315,037
Equipment purchases	12,325	5,662	17,987	282,703
Equipment and facility maintenance	152,142	69,900	222,042	256,443
Communications	119,048	54,696	173,744	245,192
Payroll taxes	105,835	91,214	197,049	209,864
Insurance	116,818	53,671	170,489	121,114
Staff travel	111,852	14,662	126,514	93,072
Equipment rental	57,190	26,276	83,466	84,051
Dues	46,859	21,530	68,389	68,389
Accounting fees	--	12,300	12,300	61,450
Legal fees	50,538	23,220	73,758	31,230
Board expenses	895	4,411	5,306	21,397
Printing	27,075	12,411	39,486	15,640
Interest expense	--	2,625	2,625	17
Total Operating Expenses	<u>16,158,568</u>	<u>8,145,104</u>	<u>24,303,672</u>	<u>23,947,617</u>
Total Expenses	<u>\$ 218,990,243</u>	<u>\$ 8,145,104</u>	<u>\$ 227,135,347</u>	<u>\$ 207,180,018</u>

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

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

STATEMENT OF CASH FLOWS

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

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ (235,853)	\$ (298,535)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Changes in post-retirement health care plan obligation	3,403,924	2,517,752
Changes in defined benefit plan liability	3,047,353	3,049,275
Changes in operating assets and liabilities:		
Contract receivable	5,971,516	(18,807,903)
Receivable from Intermediate Care Facilities	(150,468)	(618,607)
Other receivables	204,990	532,803
Due from state - accrued vacation, other leave, and other employee benefits	(5,376,797)	(4,153,041)
Accounts payable	1,526,604	1,716,723
Accrued salaries	(368,734)	196,727
Accrued vacation and other leave benefits	6,070	8,926
Accrued unemployment insurance	249	112
Unexpended client support	75,084	122,013
Deferred rent liability	188,950	(400,277)
Net Cash Provided by Operating Activities	8,292,888	2,356,765
Cash Flows From Financing Activities		
Proceeds from contract advance	52,206,784	49,643,514
Payments of contract advance	(68,226,318)	(31,152,717)
Net Cash (Used in) Provided by Investing Activities	(16,019,534)	18,490,797
Cash Flows From Investing Activities		
Affiliate loan repayment	46,559	46,559
Net Cash Provided by Investing Activities	46,559	46,559
Net (Decrease) Increase in Cash	(7,680,087)	20,894,121
Cash - Beginning	14,017,205	11,613,881
Cash - Ending	\$ 6,337,118	\$ 14,017,205
Statement of Financial Position Presentation:		
Cash	\$ 5,278,015	\$ 13,036,808
Cash - client trust funds	1,059,103	980,397
	\$ 6,337,118	\$ 14,017,205

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

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

Organization

Coastal Developmental Services Foundation (the “Foundation”) was incorporated on January 3, 1983 as a California nonprofit public benefit corporation under contract with the State of California Department of Developmental Services (“DDS”). Under the name Westside Regional Center, the Foundation administers 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 Foundation is one of 21 regional centers within the State of California system and serves the two health districts of Inglewood and Santa Monica-West.

Governance

The Foundation 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 Foundation’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 Foundation 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 Foundation and a client service provider of the Foundation.

Mission Statement

The Foundation’s mission statement is as follows:

It is Westside Regional Center’s mission to empower people with developmental disabilities and their families to choose and access community services that facilitate a quality of life comparable to persons without disabilities.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

STATE OF CALIFORNIA CONTRACT

The Foundation operates under an annual cost-reimbursement contract with DDS under the Lanterman Act. The maximum expenditures under the contract are limited to the contract allocation, plus Intermediate Care Facility-State Plan Amendment (“ICF-SPA”) income, ICF-SPA administrative fee, and interest earned. The Foundation 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 Foundation’s operation and the obligation of its liabilities.

Under the terms of these DDS contracts, funded expenditures are not to exceed \$220,947,749, \$210,508,910, and \$178,738,051 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 \$211,530,685, \$201,792,679, and \$174,933,136, respectively.

BASIS OF ACCOUNTING

The Foundation 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 Foundation 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 Foundation are classified and reported as follows:

Unrestricted

Those net assets and activities which represent expendable funds for operations related to the DDS contract.

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.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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 Foundation did not have any temporarily restricted or permanently 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 receivables 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

CLIENT TRUST FUND

The Foundation 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 Foundation. The cash that is received and outstanding receivables, net of interfund liabilities, are reported as a liability, unexpended client support, until it is distributed.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

CONTRACT RECEIVABLE

The majority of the Foundation'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.

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 is required to track acquisitions of furniture and equipment with a cost of more than \$5,000 and have an estimated useful life of more than one year. For the year ended June 30, 2018, there was no new equipment purchases and there was no disposed equipment. The aggregate equipment costs at June 30, 2018, totaled \$437,976.

DUE FROM STATE – ACCRUED VACATION, OTHER LEAVE, AND OTHER EMPLOYEE BENEFITS

The Foundation has accrued a liability for leave benefits earned and for post-retirement benefits. However, such benefits are reimbursed under the DDS contract only when actually paid. The Foundation accrues vacation as earned up to 240 hours. When the employee separates from service, the employee will receive the unused vacation. The Foundation has also recorded a receivable from DDS for the accrued leave and post-retirement health benefits to reflect the future reimbursement of such benefits.

DEFERRED RENT LIABILITY

The Foundation 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 \$336,257 represents the difference between the cash payments made and the amount expensed since inception of the lease. The DDS contract reimburses the Foundation for rent after it is paid and this amount is included in contract receivable on the statement of financial position.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

REVENUE RECOGNITION - GRANTS

The Foundation recognizes revenue based upon costs incurred. Depending on the date of service, claims related to the DDS grant are classified and charged to the appropriate contract as follows:

- Current year
- Prior year
- Second prior year

FEDERAL GRANTS

The Foundation 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.

CONTRIBUTIONS

The Foundation 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 and are reported separately from other transactions.

INCOME TAXES

The Foundation 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.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

INCOME TAXES (CONTINUED)

Management evaluated the Foundation'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 Foundation 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 Foundation participates in a defined benefit pension plan with California Public Employees' Retirement System ("CalPERS"). The Foundation records the unfunded defined benefits pensions liability 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.

The Foundation obtained the Governmental Accounting Standards Board Statement 68 ("GASB No. 68") Accounting Valuation report from CalPERS for the year ended June 30, 2018. GASB No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statements No. 27 and 50*, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses of pensions that are provided by local government employers through pension plans that are administered through trusts that meet certain conditions. This report relies on liabilities and related validation work performed by the CalPERS' actuarial office as part of the June 30, 2018 annual funding valuation for the Plan. The June 30, 2017 liabilities, which were rolled forward to June 30, 2018 and used for this accounting valuation, are based on actuarial assumptions adopted by the CalPERS Board of Administration and consistent with the requirements of GASB No. 68. This GASB No. 68 actuarial reporting is not in conformity with U.S. GAAP.

POST-RETIREMENT HEALTH CARE PLAN

The Foundation is required to recognize the funded status of a benefit 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 periodic benefit cost will be recognized each year as a separate charge or credit to net assets.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

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 or other allocations based upon the benefits ascribed.

CONCENTRATIONS OF RISKS

Credit Risk

Financial instruments, which potentially subject the Foundation to a concentration of credit risk, principally consist of cash and cash equivalents and contract receivable. The Foundation places cash in deposit accounts, which may at times, exceed the federally-insured limit. Through its contract with DDS, the Foundation 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 Foundation has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

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 sweeping new, globally applicable converged 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.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

RECENT ACCOUNTING PRONOUNCEMENTS (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.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- Requires NFPs to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.
- 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.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

SUMMARIZED COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

RECLASSIFICATIONS

Certain amounts on the 2017 financial statements have been reclassified to conform to the current year's presentation. These reclassifications did not change the previously reported change in net assets or net assets.

NOTE 2 - CONTRACT RECEIVABLE

Contract receivable consists of the following at June 30, 2018:

Claims submitted:	
Current year	\$ 46,183,614
Prior year	882,083
Second prior year	<u>653,416</u>
	47,719,113
Claims to be submitted	<u>1,219,922</u>
Total	<u><u>\$ 48,939,035</u></u>

NOTE 3 - 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").

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 3 - 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 Foundation 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 Foundation.

Effective July 1, 2012, DDS directed the Foundation 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 Foundation 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 Foundation's administrative fee to the Foundation within 30 days of receipt of funds from the State Controller's Office.

The receivable from Intermediate Care Facilities in the amount of \$2,075,500 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 due to state of \$1,224,479 includes \$1,123,682, which represents the amount expected to be paid net of the Foundation's fee in relation to the billings prepared on or before June 30, 2012. Revenue from intermediate care facilities was \$2,848,556.

NOTE 4 - LINE OF CREDIT

The Foundation has a revolving line of credit with a bank, whereby it may borrow up to \$24,000,000 until the maturity date of June 30, 2018. This line of credit was extended to June 30, 2019 and the credit limit was increased to \$26,000,000. Borrowings under this line of credit bear interest at an annual rate equal to, at the Foundation's discretion, either (a) LIBOR loan with interest at the greater of 2.25% or 2.50% above LIBOR interest rate, or (b) prime loan with interest at the greater of 2.25% or 1.00% below the bank's prime rate. There was no balance outstanding as of June 30, 2018 or draws made for the year ended June 30, 2018.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 5 - CONTRACT ADVANCE

Contract advance represents advances from DDS to the Foundation 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 \$33,623,980.

NOTE 6 - CLIENT TRUST FUND

The Foundation functions as a custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. These cash balances are segregated from the operating cash accounts of the Foundation and are restricted for client support. Since the Foundation is acting as an agent in processing these transactions, no revenue or expense is reflected on the statement of activities and changes in net assets. The following is a summary of activity:

Beginning Balance	\$ 584,289
Client support received	6,969,680
Less: purchase of service disbursements	<u>(6,894,596)</u>
 Ending Balance	 <u><u>\$ 659,373</u></u>

Included in accounts payable is approximately \$411,000 of other liabilities related to client support.

NOTE 7 - DEFINED BENEFIT PENSION PLAN

The Foundation adopted a defined benefit pension plan (the "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 Foundation contributed \$1,249,366 to CalPERS. The calculation of the pension liability is not in accordance with generally accepted accounting principles as applicable to not for profit organizations.

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.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The unfunded liability as of June 30, 2018, the most current actuarial valuation, was as follows:

Unfunded Defined Benefit Plan Liability	
Benefit obligation	\$ 69,921,434
Market value of assets	<u>(57,890,234)</u>
Unfunded Defined Benefit Plan Liability	<u>\$ 12,031,200</u>

The reconciliation of the market value of assets is as follows:

<i>Reconciliation of the Market Value of Assets</i>	
Balance at June 30, 2017	\$ 53,190,976
Contributions:	
Employer	1,249,366
Employee	993,807
Investment return	4,490,182
Benefit payments to retirees	(1,793,675)
Other transfers and miscellaneous adjustments	<u>(240,422)</u>
Balance at June 30, 2018	<u>\$ 57,890,234</u>

Net periodic benefit cost consists of the following components for the year ended June 30, 2018:

Service cost	\$ 2,166,722
Interest cost	4,653,332
Recognized change in assumptions	1,047,184
Expected return on plan assets	(3,810,630)
Recognized change in expenses and earnings	119,249
Employee contributions	<u>(993,807)</u>
Net Periodic Benefit Cost	<u>\$ 3,182,050</u>

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

The significant actuarial assumptions as of June 30, 2018, were as follows:

Significant Actuarial Assumptions

Long-term discount rate	7.15%
Payroll growth	3.00%
Expected long-term rate of return	7.50%

The expected employer contributions to be paid to the Pension Plan during the next fiscal year is \$1,070,858.

Sensitivity of the Unfunded Liability to Changes in the Discount Rate

Increase of 1%	\$3,566,239
Decrease of 1%	\$22,309,304

The asset allocation as of June 30, 2017, the most current actuarial valuation, is as follows:

Asset Allocation

Asset Class	Current Allocation	Target Allocation
Public equity	48.3%	50.0%
Fixed income	19.4%	28.0%
Real assets	11.2%	13.0%
Private equity	8.0%	8.0%
Inflation assets	7.8%	0.0%
Cash equivalent	4.8%	1.0%
Absolute Return Strategy	0.5%	0.0%
	100.0%	100.0%

The starting point and most important element of CalPERS' return on investment is the asset allocation or diversification among stocks, bonds, cash and other investments. Asset allocation is not an asset-only or liability-only decision. All factors, including liabilities, benefit payments, operating expenses, and employer and member contributions are taken into account in determining the appropriate asset allocation mix. The goal is to maximize returns at a prudent level of risk which presents an ever-changing balancing act between market volatility and long-term goals.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 7 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

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, 2018. The assets for the Foundation are part of the PERF and are invested accordingly.

For the year ended June 30, 2018, the actuarial computed employer and employee contribution rates are 7.904% and 6.951%, respectively.

NOTE 8 - POST-RETIREMENT HEALTH CARE PLAN

The Foundation provides noncontributory post-retirement health care benefits for its employees through the California Public Employees' Retirement System (the "Health Care Plan"). The actuarial cost method used for determining the benefit obligations is the Projected Unit Benefit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current active employees and retirees.

The Accumulated Post-Retirement Benefit Obligation ("APBO") is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. The APBO equals the present value of projected benefits multiplied by a fraction equal to service to date over service at full eligibility age. The Net Periodic Benefit Cost is the cost of a post-retirement benefit plan for a fiscal year. The Foundation uses a June 30 measurement date for its plan.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 8 - POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)

RECONCILIATION OF BENEFIT OBLIGATION

The following tables provide a reconciliation of the changes in the Health Care Plan's benefit obligations and funded status as of June 30, 2018, and for the year then ended:

Change in Benefit Obligation

Balance at June 30, 2017	\$ 23,445,158
Service cost	1,498,163
Interest cost	879,193
Actuarial gain	1,417,578
Benefits paid	<u>(195,215)</u>
Balance at June 30, 2018	<u>27,044,877</u>

Change in Plan Assets

Balance at June 30, 2017	2,006,780
Actual return on plan assets	<u>195,795</u>
Balance at June 30, 2018	<u>2,202,575</u>

Net Post-Retirement Health Care Plan Obligation \$ 24,842,302

Net periodic post-retirement benefit cost consists of the following components for the year ended June 30, 2018:

Service cost	\$ 1,498,163
Interest cost	879,193
Return on assets	(132,532)
Net asset loss	57,278
Amortization of unrecognized past service cost	<u>222,557</u>
Net Periodic Benefit Cost	<u><u>\$ 2,524,659</u></u>

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 8 - POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)

RECONCILIATION OF BENEFIT OBLIGATION (CONTINUED)

All previously unrecognized actuarial gains or losses are reflected in the statement of financial position. The Health Care Plan items not yet recognized as a component of periodic expenses, but included as a separate charge to net assets are as follows:

Prior service cost	\$ 445,116
Actuarial gain	<u>(3,021,162)</u>
Total	<u><u>\$ (2,576,046)</u></u>

The Foundation has accrued a receivable as of June 30, 2018 from DDS totaling \$27,481,612, representing the portion of the Health Care Plan's obligation which has been recognized as a plan expense. The receivables are included in the statement of financial position.

The accumulated benefit obligation as of June 30, 2001 of \$4,228,585 is being considered an unrecognized prior service cost and is being amortized on a straight-line basis over 19 years at \$222,557 per year.

ASSUMPTIONS

Assumptions used to determine benefit obligations as of June 30, 2018 are as follows:

Discount rate	3.75%
General inflation	2.50%
Long-term rate of return on plan assets	3.75%

The investment objective of the Health Care Plan is to provide a rate of return commensurate with a moderate degree of risk of loss of principal and return volatility. The assets of the Health Care Plan are periodically rebalanced to remain within the desired target allocations.

Historical rates of return for individual asset classes and future estimated returns are used to develop expected rates of return. These rates of return are applied to the Health Care Plan's investment policy to determine a range of expected returns.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 8 - POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)

ASSUMPTIONS (CONTINUED)

Assumed health care cost trends as of June 30, 2018, are as follows:

Net periodic benefit cost:

Health care cost trend rate assumed for next year	7.30%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.50%
Year that the rate reaches the ultimate trend rate	2023

Accumulated post-retirement benefit obligation:

Health care cost trend rate assumed for next year	7.30%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.50%
Year that the rate reaches the ultimate trend rate	2023

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one percent change in assumed health care cost trend rates for June 30, 2018 would result in an increase of approximately \$3,669,711 or a decrease of approximately \$3,056,732 on the accumulated post-retirement benefit obligation.

PLAN ASSETS

The Health Care Plan's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's classification is based on the lowest level input that is significant to its measurement. The levels of the fair value hierarchy are as follows:

Level 1

Inputs are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2

Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 8 - POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)

PLAN ASSETS (CONTINUED)

Level 3

Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Foundation's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following tables set forth the level, within the fair hierarchy, of the health care plan's assets at fair value:

	Total Assets at Fair Value at June 30, 2018	Level 1	Level 2	Level 3
Mutual funds:				
Equity	\$ 1,480,616	\$ 1,480,616	\$ --	\$ --
Fixed income	720,630	720,630	--	--
Money market	<u>1,328</u>	<u>1,328</u>	<u>--</u>	<u>--</u>
Total	<u>\$ 2,202,574</u>	<u>\$ 2,202,574</u>	<u>\$ --</u>	<u>\$ --</u>

CASH FLOWS – ESTIMATED FUTURE BENEFIT PAYMENTS

The following estimated benefit payments, which reflect expected future services, as appropriate, are expected to be paid during the years ending June 30:

For the Years Ending June 30,	Amount
2019	\$ 266,000
2020	429,000
2021	565,000
2022	621,000
2023	732,000
Years 2024 - 2028	<u>4,657,000</u>
Total	<u>\$7,270,000</u>

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 9 - TRANSACTIONS WITH AFFILIATES

The Achievable Foundation is a California nonprofit corporation organized to support activities that enhance the lives of people with developmental disabilities and their families in the Foundation's geographic service area. During the year ended June 30, 2013, The Achievable Foundation entered into an agreement to lease office space from the Foundation through 2029. The Foundation received rental income from The Achievable Foundation for the year ended June 30, 2018 totaling \$87,578.

During the year ended June 30, 2014, The Achievable Foundation entered into a loan agreement with the Foundation in which The Achievable Foundation can borrow up to \$150,000. As of June 30, 2018, the balance was paid in full.

NOTE 10 - LEASE COMMITMENTS

The Foundation leases office facilities and various equipment under operating leases expiring through April 2026. The facility leases require payment of minimum annual rentals, with adjustment for a pro rata share of the lessor's increase in operating costs. Rental expense was \$1,558,625 for the year ended June 30, 2018.

The Foundation subleases office facilities to various tenants under non-cancelable operating leases that expire at various dates through April 2026. The lease agreements require specific monthly payments plus reimbursement of a percentage share of common operating expenses.

Future minimum rental payments to be received are as follows:

For the Years Ending June 30,	Minimum Lease Payments	Minimum Sublease Income	Net
2019	\$ 1,681,554	\$ (164,947)	\$ 1,516,607
2020	1,732,000	(130,361)	1,601,639
2021	1,783,961	(95,699)	1,688,262
2022	1,837,479	(98,570)	1,738,909
2023	1,892,604	(188,238)	1,704,366
Thereafter	<u>4,633,095</u>	<u>(304,275)</u>	<u>4,328,820</u>
Total	<u>\$ 13,560,693</u>	<u>\$ (982,090)</u>	<u>\$ 12,578,603</u>

Total facility and rental equipment expense for the year ended June 30 2018 was \$1,475,159 and \$83,466, respectively.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 11 - CONTINGENCIES

The majority of the Foundation'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 Foundation's programs and activities. The Foundation's revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies.

The Foundation's contract with DDS provides funding for services under the Lanterman Act. In the event that the operations of the Foundation 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 Foundation'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.

The Foundation has elected to finance its unemployment insurance using the prorated cost of benefits method. Under this method, the Foundation is required to directly reimburse the State of California for benefits paid to its former employees. At June 30, 2018, the Foundation had \$225,772 in a reserve savings account to pay for any potential unemployment claims.

NOTE 12 - LEGAL MATTERS

The Foundation is currently a defendant in several litigious actions, in addition to threats of litigation arising out of the normal course of operations. The Foundation's management believes it has 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. These matters have been referred to the Foundation's attorneys and/or insurance carriers. In management's opinion, material unfavorable outcomes are remote.

NOTE 13 - SUBSEQUENT EVENTS

The Foundation has evaluated all subsequent events through March 28, 2019, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements have been identified.

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

To the Board of Directors of
Coastal Developmental Services Foundation
dba Westside Regional Center

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 Coastal Developmental Services Foundation dba Westside Regional Center (the "Foundation"), 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 qualified report thereon dated March 28, 2019. Our report was qualified due to the computation of the Foundation's accrued pension benefit liability and related expense not being in accordance with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

San Francisco, California
March 28, 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
Coastal Developmental Services Foundation
dba Westside Regional Center

Report on Compliance for Each Major Federal Program

We have audited Coastal Developmental Services Foundation's dba Westside Regional Center (the "Foundation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2018. The Foundation'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 statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Foundation'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 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 Foundation'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 Foundation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Foundation 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 Foundation 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 Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs 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 Foundation'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 28, 2019

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

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	Total 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	HD181A160037	\$ --	<u>\$ 1,349,503</u>
Total Expenditures of Federal Awards			<u>\$ --</u>	<u>\$ 1,349,503</u>

See independent auditors' report and notes to the schedule of expenditures of federal awards.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
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NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activities of Coastal Developmental Services Foundation dba Westside Regional Center (“the Foundation”) and under programs of the federal government for the year ended June 30, 2018. 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 Foundation, it is not intended to, and does not present the financial position, changes in net assets, or cash flows of the Foundation.

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 Foundation did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Qualified

Internal control over financial reporting:

Material weaknesses identified: No

Significant deficiencies identified: None reported

Noncompliance material to financial statements: No

Federal Awards

Internal control over major federal programs:

Material weaknesses identified: No

Significant deficiencies 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:

<u>CFDA Number</u>	<u>Name of Federal Program/Cluster</u>
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: No

**COASTAL DEVELOPMENTAL SERVICES FOUNDATION
dba WESTSIDE REGIONAL CENTER**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2018

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

2017-001 – DELINQUENT AUDIT

CONDITION

For the year ended June 30, 2017, the Foundation did not complete and submit its audit report and Data Collection Form by March 31, 2018, the earlier of nine months after the end of its year or 30 days after the audit report has been issued.

STATUS

Corrected when the 2018 report is submitted.