NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
dba NORTH BAY REGIONAL CENTER

AUDITED FINANCIAL STATEMENTS, OTHER FINANCIAL INFORMATION AND REPORTS REQUIRED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133

Year Ended June 30, 2012
(With Summarized Comparative Totals for 2011)

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LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
North Bay Developmental Disabilities Services, Inc.
dba North Bay Regional Center
Napa, California

We have audited the accompanying statement of financial position of *North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center* (the Center) as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Center's 2011 financial statements which were audited by other auditors whose report dated October 19, 2011, expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center* as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2013 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Board of Directors
North Bay Developmental Disabilities Services, Inc.
dba North Bay Regional Center

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 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 Unites States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lautze & Lautze

San Francisco, California
February 1, 2013

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
dba NORTH BAY REGIONAL CENTER
STATEMENT OF FINANCIAL POSITION
June 30, 2012
(With Summarized Comparative Totals for 2011)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 847,956	$ 9,052,922
Cash - client trust funds	2,195,900	1,304,651
Contract receivable	37,151,534	24,192,112
Receivable from intermediate care facilities	9,294,360	-
Prepaid expenses	55,144	65,395
Deferred costs for accrued vacation and other leave benefits	682,873	695,000
Deposits	32,000	32,000
Total assets	$ 50,259,767	$ 35,342,080
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 11,780,141	$ 10,971,606
Contract advance	26,308,299	22,362,536
Payable to Department of Developmental Services	9,157,005	-
Accrued vacation and other leave benefits	682,873	695,000
Deferred income fee earned	137,355	-
Unexpended client trust funds	2,127,800	1,255,683
Total liabilities	50,193,473	35,284,825
Commitments and contingencies		
Unrestricted net assets	66,294	57,255
Total liabilities and net assets	$ 50,259,767	$ 35,342,080

See notes to financial statements.

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
dba NORTH BAY REGIONAL CENTER
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012
(With Summarized Comparative Totals for 2011)

	2012	2011
Revenue and support:		
Federal awards	$ 86,428,664	$ 83,475,128
Grants	53,932,321	49,899,405
Interest	63,193	115,107
Contributions	15,085	5,856
Other income	120,139	59,612
Total revenue and support	140,559,402	133,555,108
Expenses:		
Program services:		
Direct client services	136,298,081	129,016,685
Supporting services		
General and administrative	4,252,282	4,536,431
Total expenses	140,550,363	133,553,116
Change in net assets	9,039	1,992
Net assets:		
Beginning of year	57,255	55,263
End of year	$ 66,294	$ 57,255

See notes to financial statements.

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
dba NORTH BAY REGIONAL CENTER
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012
(With Summarized Comparative Totals for 2011)

	2012			2011
	Program Services	Supporting Services		
	Direct Client Services	General and Administrative	Total Expenses	Total Expenses
Salaries and related expenses:				
Salaries	$ 8,354,780	$ 1,249,067	$ 9,603,847	$ 9,636,620
Employee health and other benefits	3,251,610	451,581	3,703,191	3,496,403
Total salaries and related expenses	11,606,390	1,700,648	13,307,038	13,133,023
Purchase of services:				
Other purchased services	63,577,179	-	63,577,179	56,883,555
Day programs	30,618,866	-	30,618,866	29,998,094
Residential care facilities	30,293,150	-	30,293,150	30,373,617
Occupancy	-	1,472,357	1,472,357	1,704,362
Travel	202,496	14,388	216,884	223,095
Equipment rental	-	210,154	210,154	181,954
Communication	-	183,316	183,316	260,733
General office expenses	-	171,796	171,796	182,310
Professional fees	-	147,853	147,853	234,373
Equipment maintenance	-	88,091	88,091	97,761
Insurance	-	83,967	83,967	75,314
Bank service fees	-	58,980	58,980	62,594
Board expenses	-	36,870	36,870	17,341
Equipment purchases	-	35,676	35,676	50,688
Security	-	19,421	19,421	19,020
Data processing	-	19,345	19,345	19,374
Printing	-	7,462	7,462	9,143
Contract and consultant fees	-	1,958	1,958	2,813
Interest	-	-	-	23,952
	$ 136,298,081	$ 4,252,282	$ 140,550,363	$ 133,553,116
	97%	3%	100%	

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
dba NORTH BAY REGIONAL CENTER
STATEMENT OF CASH FLOWS
Year Ended June 30, 2012
(With Summarized Comparative Totals for 2011)

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 9,039	$ 1,992
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Increase) decrease in assets:		
Contract receivable	(12,959,422)	10,805,619
Receivable from intermediate care facilities	(9,294,360)	-
Prepaid expenses	10,251	54,044
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	808,535	(20,345)
Payable to Department of Developmental Services	9,157,005	-
Deferred income fee earned	137,355	-
Unexpended client trust funds	872,117	65,266
Total adjustments	(11,268,519)	10,904,584
Net cash provided (used) by operating activities	(11,259,480)	10,906,576
Cash flows from financing activities:		
Payment on line of credit	-	(10,668,000)
Proceeds from contract advance	25,279,890	-
Payment of contract advance	(21,334,127)	(1,579,326)
Net cash provided (used) by financing activities	3,945,763	(12,247,326)
Net decrease in cash and cash equivalents	(7,313,717)	(1,340,750)
Cash and cash equivalents:		
Beginning of year	10,357,573	11,698,323
End of year	$ 3,043,856	$ 10,357,573
Cash and cash equivalents	$ 847,956	$ 9,052,922
Cash - client trust funds	2,195,900	1,304,651
	$ 3,043,856	$ 10,357,573
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ -	$ 50,929

See notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center (the Center), was incorporated on April 16, 1970 as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State of California. In accordance with the Act, the Center provides diagnostic evaluations, client program management and lifelong planning services for persons with developmental disabilities and their families. The Center is one of 21 regional centers within the State of California system and serves the counties of Napa, Solano, and Sonoma.

The Act includes governance provisions regarding the composition of the Center's Board of Directors (the Board). The Act states that the Board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50 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 Center's Board. To comply with the Act, the Center's Board includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the Center and a client service provider of the Center.

The Center's mission statement is as follows:

> The purpose of North Bay Regional Center is to assist people with developmental disabilities or at risk for developmental disabilities in the North Bay Area to obtain services and supports they need to live as other people live in the community.

The significant accounting policies which follow are presented to enhance the usefulness of the financial statements to the reader.

State of California Contract

The Center operates under an annual cost-reimbursement contract with the State of California Department of Developmental Services (the DDS) pursuant to the provisions of the Act. Maximum expenditures under the contract are limited to the contract amount plus interest earned. The Center is required to have the DDS approval for certain expenses. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual issued by the DDS. In the event of termination or nonrenewal of the contact, 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 contracts, funded expenditures are not to exceed $137,315,646, $134,598,385 and $132,606,182 for the 2011/12, 2010/11 and 2009/10 contract years, respectively, and are subject to budget amendments. As of June 30, 2012, actual net expenditures under the 2011/12, 2010/11 and 2009/10 contracts were $129,016,850, $133,411,084 and $131,112,023 respectively.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Basis of Presentation

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 described below:

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.

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, 2012 and for the year then ended, the Center did not have any temporarily or permanently restricted net assets or activities.

Unrestricted Net Assets

The unrestricted net asset group is comprised of the Operating Fund, Client Trust Funds, and Donation Fund.

Operating Fund:

These accounts are used to record primary activities of the Center which are carried out under the DDS contract. These accounts also record the activities of the Community Placement Plan (CPP) and federally-funded programs.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Unrestricted Net Assets (continued)

Client Trust Funds:

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 assets and a liability, *unexpended client trust funds*, until it is distributed.

Donation Fund:

The Donation Fund is used to record solicited and unsolicited support received by the Center for the benefit of its clients.

Use of 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.

Cash and Cash Equivalents

The Center considers all financial instruments with a majority of three months or less when purchased, to be cash equivalents.

Contract and Other Receivables

The majority of the Center's receivables represents or relates to the cost-reimbursement contract with the DDS. Management believes that the receivables are 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. This departure from U.S. GAAP does not have a material impact on the financial statements. The Center is required to track acquisitions of furniture and equipment with a cost or value in excess of $5,000 and with an estimated life beyond one year. For the year ended June 30, 2012, equipment purchases totaled $35,676. The aggregate capitalized equipment costs at June 30, 2012 totaled $408,986.

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

Accrued Vacation and Other Leave Benefits

The Center has accrued a liability for leave benefits earned. However, such benefits are reimbursed under the DDS contract only when actually paid. The Center has also recorded deferred costs for accrued vacation and other leave benefits to reflect the future reimbursement of such benefits.

Revenue Recognition

Revenue and expenses are recognized in the year the claim is filed with the DDS. Depending on the date of 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 in the year of receipt, 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. These transactions are reported as *net assets released from restrictions* and are reported separately from other transactions.

Federal Grants

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

U.S. Department of Health and Human Services

The Medicaid Waiver grant provides funding for a broad range of medical assistance, which includes home and community based services, to certain persons of need as authorized by Title XIX of the Social Security Act of 1965. This grant also funds Targeted Case Management.

U.S. Department of Education

The Special Education Grants for Infants and Families with Disabilities provides funding for early intervention services for infants and toddlers, through age 3, as authorized by Public Law 102-119.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The Center has adopted the accounting standard on accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and requires the affirmative evaluation that is more-likely-than-not, based on the technical merits of a tax position, that an organization is entitled to economic benefits resulting from tax positions taken in income tax returns. For tax-exempt entities, favorable tax status itself is deemed to be an uncertainty, as events could potentially occur to jeopardize their tax-exempt status. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

The Center's evaluation on June 30, 2012 revealed no tax positions that would have a material impact on the financial statements. The 2008 through 2011 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2007 through 2011 tax years remain subject to examination by the California Franchise Tax Board. The Center does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

Concentrations of Risk

Credit Risk

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

Labor Force

The Center retains approximately 76 percent of its labor force through Social Services Union, Local 1021. This labor force is subject to collective bargaining agreements and, as such, renegotiation of such agreements could expose the Foundation to an increase in hourly costs and or work stoppages. The current agreement was effective through September 30, 2012 and is being renegotiated. The Center has not experienced any disruptions in its service due to this concentration.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and functional expenses by major programs. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on an analysis of personnel time and square footage occupied by each program.

Defined Benefit Pension Plan

The Center participates in a defined benefit pension plan covering all employees by becoming a member of California Public Employees' Retirement System (CalPERS). The CalPERS plan has characteristics of a multiemployer plan. Consistent with regional center and nonprofit industry reporting trends, the Center does not account for the funded status of this plan. However, certain actuarial information is disclosed in the financial statements.

The Center must have the actuarial report coinciding with the Center's year end, and include certain plan related disclosures in its financial statements. Currently, the actuarial report is one year in arrears. This lag in reporting is not in conformity with U.S. GAAP; however, this departure and the omitted disclosures are not material to the financial statements. The delay is due to the fact that there is a two year lag between the valuation date and the contribution fiscal year. This lag is necessary due to the amount of time needed to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution rates well in advance of the start of the fiscal year.

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 accounting principles generally accepted in the United State of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Reclassifications

Certain amounts in the summarized comparative totals for 2011 have been reclassified to conform to the 2012 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

2. CONTRACT RECEIVABLE

Contract receivable consists of the following at June 30, 2012:

Current year	$ 37,081,951
Prior year	69,583
	$ 37,151,534

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 treatment and transportation services; and ultimately, making such services eligible for reimbursement under California's Home and Community Based Services (HCBS) Program, which is funded by the Medicaid Waiver grant (Medicaid).

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

During the years ended June 30, 2012 and 2011, the DDS directed the Center to prepare billings for these services on behalf of the ICF's for the period from July 1, 2007 to June 30, 2011. The billings included a 5.5% Quality Assurance fee for the State Department of Health Care Services (the DHCS), a 1.5% administrative fee for the ICF's and a 1.5% administration fee for the Center.

During the years ended June 30, 2012 and 2011, the DDS advanced the amounts billed to the ICF's. The ICF's are directed to remit to the Center the amount billed less its administration fee and the Quality Assurance fee, which it must remit to the DHCS. After the Center receives the net payment from the ICF's, the Center is directed to remit the amount to the DDS, net of its administration fee. The DDS has instituted protocols should the ICF's not remit the net amounts due to the Center.

3. INTERMEDIATE CARE FACILITIES - STATE PLAN AMENDMENT (CONTINUED)

The Center's activity related to the above funding was as follows as of June 30, 2012:

Beginning balance	$	-
Total billed from vendors for years ended June 30, 2008 through 2009		8,843,270
Total billed from vendors for years ended June 30, 2010 and 2011		9,230,814
Amounts remitted by vendors and forwarded to the DDS		(8,779,724)
Total receivable from ICF	$	9,294,360
Payable to the DDS	$	9,157,005
Deferred administrative fee		137,355
	$	9,294,360

4. LINE OF CREDIT

The Center had a $20,900,000 revolving line of credit agreement with Union Bank of California at the bank's reference rate of 3.25%, that expired on September 28, 2012. The Center did not use this line of credit during the year ended June 30, 2012. On October 26, 2012, the line of credit was renewed in the amount of $21,400,000, expiring on October 15, 2013. The line of credit is secured by substantially all assets of the Center.

5. PENSION PLAN

The Center has adopted a defined benefit pension plan covering all employees by becoming a member of CalPERS. All employees are, immediately upon hire, enrolled in the pension plan. The Center and employees combined contribute 18.89% of the employees' gross salary to CalPERS. Participants with at least five years of service credits are fully vested. For the year ended June 30, 2012, $1,122,951 was paid to CalPERS.

The Public Employees' Retirement Law (Part 3 of the California Government Code, §20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

5. PENSION PLAN (CONTINUED)

The unfunded liability as of June 30, 2011, the most current actuarial valuation, is as follows:

Present value of projected benefits	$ 42,545,119
Less present value of future:	
Employer normal costs	(4,627,824)
Employee contributions	(5,086,716)
Entry age normal accrued liability	32,830,579
Actuarial value of assets	(25,275,861)
Unfunded liability	$ 7,554,718

A reconciliation of the actuarial value of assets over the prior year is as follows:

Beginning balance - June 30, 2010	$ 22,971,074
Receivables for service buybacks as of June 30, 2010	(35,542)
Actuarial value of assets as of June 30, 2010	22,935,532
Contributions:	
Employer	1,016,609
Employee	651,198
Benefit payments to retirees and beneficiaries	(877,754)
Refunds	(33,998)
Investment return	1,803,455
Transfers in/out and miscellaneous adjustments	(219,181)
Ending balance - June 30, 2011	$ 25,275,861

The significant actuarial assumptions as of June 30, 2011 are as follows:

Long-term inflation rate	2.75%
Payroll growth	3.00%
Expected long-term rate of return	7.50%

The contributions expected to be paid to the plan during the next fiscal year are $446,644.

5. PENSION PLAN (CONTINUED)

The asset allocation as of June 30, 2011, the most current actuarial valuation, is as follows:

Asset Class	Current Allocation
Short-term investments	3.30%
Domestic equity	23.50%
International equity	25.20%
Domestic debt	20.60%
International debt	1.60%
Inflation linked	3.40%
Real estate	8.00%
Alternative investment	14.40%

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

CalPERS follows a strategic asset allocation policy that identifies the percentage of funds to be invested in each asset class. The asset allocation of assets shown above reflects the values of the Public Employees Retirement Fund (the PERF) in its entirety as of June 30, 2011. The assets for the Center are part of the PERF and are invested accordingly.

For the year ending June 30, 2013, the actuarial computed employer and employee contribution rates will be 11.72% and 7.00%, respectively.

6. CONTRACT ADVANCE

The contract advance balance represents monies the DDS advances to the Center at the beginning of each fiscal year to provide interest-free working capital. The DDS uses its discretion in determining the balance on a month-to-month basis. If the DDS so chooses, the advance can be paid by offsetting claim reimbursements partially or in full.

7. UNEXPENDED CLIENT TRUST FUNDS

Included below is a summary of the activity:

Beginning balance	$ 1,255,683
Client support received	16,026,544
Less purchase of service disbursements	(15,154,427)
Ending balance	$ 2,127,800

8. OPERATING LEASES

The Center leases all of its facilities. Rent expense on these leases for the year ended June 30, 2012 was $1,453,473. The Center also leases office equipment and the equipment rental expense for June 30, 2012, was $210,154.

Future obligations on leases in effect at June 30 are as follows:

2013	$ 1,694,155
2014	1,719,456
2015	1,751,458
2016	1,690,078
2017	511,937
Thereafter	2,010,140
	$ 9,377,224

9. COMMITMENTS AND CONTINGENCIES

Litigation

The Center is currently a defendant in several litigious actions, in addition to threats of litigation arising out of the normal course of operations. The Center'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 Center's attorneys and/or insurance carriers. In management's opinion, a material unfavorable outcome is remote.

9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Funding

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.

The Center's contract with the DDS provides funding for services under the Act. In the event that the operations of the Center result in a deficit position at the end of the contract year, the DDS may reallocate surplus funds within the State of California system to supplement the Center's funding. Should a system-wide deficit occur, the 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. The 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.

In accordance with the terms of the DDS contract, an audit may be performed by an authorized DDS representative. Should such an audit disclose any unallowable costs, the Center may be liable to the State of California for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements as of June 30, 2012, and for the year then ended.

10. SELF-INSURED UNEMPLOYMENT INSURANCE

The Center makes contributions to a Joint Unemployment Compensation Trust, to provide for funding the cost of reimbursing the State of California for unemployment benefits paid by the State to former employees who have terminated their employment. The Trust also carries stop-loss insurance to cover possible exposure of unusual employment claims.

11. SUBSEQUENT EVENTS

The Center has evaluated all subsequent events through February 1, 2013, the date the financial statements were available to be issued.

NORTH BAY DEVELOPMENTAL
DISABILITIES SERVICES, INC.
dba NORTH BAY REGIONAL CENTER

SUPPLEMENTARY FINANCIAL INFORMATION

Year Ended June 30, 2012

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
dba NORTH BAY REGIONAL CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Disbursements/ Expenditures
Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services passed-through the State of California Department of Developmental Services:			
▪ Medical Assistance Program (Medicaid; Title XIX)	93.778	HD099011	$ 77,126,240 *
▪ Targeted Case Management	93.778	HD099011	8,479,525 *
			85,605,765
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	HD099011	822,899
			$ 86,428,664

* Major program.

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Goverments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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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*

Board of Directors
North Bay Developmental Disabilities Services, Inc.
dba North Bay Regional Center
Napa, California

We have audited the financial statements of *North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center* (the Center) as of and for the year ended June 30, 2012, and have issued our report thereon dated February 1, 2013. 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.

Internal Control Over Financial Reporting

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Board of Directors
North Bay Developmental Disabilities Services, Inc.
dba North Bay Regional Center

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Center in a separate letter dated February 1, 2013.

This report is intended solely for the information and use of the Board of Directors, management, the federal awarding agencies, and pass-through entity and is not intended to be and should not be used by anyone other than these specified parties.

Lautze & Lautze

San Francisco, California
February 1, 2013

LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
North Bay Developmental Disabilities Services, Inc.
dba North Bay Regional Center
Napa, California

Compliance

We have audited *North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center's* (the Center) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2012. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying S*chedule of Findings and Questioned Costs.* Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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 OMB Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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Board of Directors
North Bay Developmental Disabilities Services, Inc.
dba North Bay Regional Center

Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lautze & Lautze

San Francisco, California
February 1, 2013

NORTH BAY DEVELOPMENTAL
DISABILITIES SERVICES, INC.
dba NORTH BAY REGIONAL CENTER

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
dba NORTH BAY REGIONAL CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

SECTION I - SUMMARY OF THE AUDITORS' RESULTS

- Auditors' report on financial statements: Unqualified.
- Internal control over financial reporting:
    - Material weaknesses identified: No.
    - Significant deficiencies identified that are not considered to be material weaknesses: None reported.
    - Noncompliance material to financial statements noted: No.
- Federal awards - internal control over major programs:
    - Auditors' report on compliance for major programs: Unqualified.
    - Material weaknesses identified: No.
    - Significant deficiencies identified that are not considered to be a material weakness: None reported.
    - Any audit findings identified that are required to be reported in accordance with Section 510(a) of Circular A-133: No.
    - Major programs:

CFDA Number	Name of Federal Program
93.778	Medical Assistance Program (Medicaid; Title XIX)
93.778	Targeted Case Management

    - Dollar threshold used to distinguish between Type A and Type B programs: $2,592,860.
    - Auditee qualifies as low-risk: Yes.

SECTION II - FINANCIAL STATEMENT FINDINGS

- None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- None reported.

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
dba NORTH BAY REGIONAL CENTER
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2012

There were no prior year findings or questioned costs.