



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

Years Ended June 30, 2014 and 2013

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of *North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center* (the Center), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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 auditor's 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 consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Supplementary and Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying *Schedule of Expenditures of Federal Awards*, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2015 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* in considering the Center's internal control over financial reporting and compliance.

Lautze & Lautze

San Francisco, California  
April 2, 2015

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**STATEMENTS OF FINANCIAL POSITION**

	June 30,	
	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,113,250	\$ 1,999,358
Cash - client trust funds	1,494,791	1,471,700
Contract receivable	41,265,223	33,434,281
Receivable from Intermediate Care Facilities - Retro	7,693,680	9,648,531
Receivable from Intermediate Care Facilities - Go Forward	2,390,630	1,514,019
Client trust funds receivable	241	256
Prepaid expenses	379,246	302,732
Deferred costs for accrued vacation and other leave benefits	593,084	728,075
Deposits	32,000	32,000
	\$ 57,962,145	\$ 49,130,952
Total assets		
<b>LIABILITIES AND NET ASSETS (ACCUMULATED DEFICIT)</b>		
Liabilities:		
Line of credit	\$ -	\$ 1,000,000
Accounts payable and accrued expenses	13,449,609	14,195,186
Contract advance	35,208,577	22,522,101
Payable to Department of Developmental Services	7,558,685	9,485,793
Accrued vacation and other leave benefits	593,084	728,075
Deferred income fee earned	134,995	162,738
Unexpended client trust funds	1,348,361	1,363,442
	58,293,311	49,457,335
Total liabilities		
Commitments and contingencies		
Unrestricted net assets (accumulated deficit)	(331,166)	(326,383)
	\$ 57,962,145	\$ 49,130,952
Total liabilities and net assets		

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
STATEMENTS OF ACTIVITIES

	Years Ended June 30,	
	<u>2014</u>	<u>2013</u>
Revenue and support:		
Federal awards	\$ 97,334,686	\$ 91,684,123
Grants	54,482,705	52,912,960
Intermediate Care Facilities SPA income	5,207,607	4,638,471
Interest	46,520	53,190
Other income	<u>112,458</u>	<u>130,540</u>
Total revenue and support	<u>157,183,976</u>	<u>149,419,284</u>
Expenses:		
Program services:		
Direct client services	151,974,742	144,719,098
Supporting services		
General and administrative	<u>5,214,017</u>	<u>5,092,863</u>
Total expenses	<u>157,188,759</u>	<u>149,811,961</u>
Change in net assets	(4,783)	(392,677)
Unrestricted net assets (accumulated deficit):		
Beginning of year	<u>(326,383)</u>	<u>66,294</u>
End of year	<u><u>\$ (331,166)</u></u>	<u><u>\$ (326,383)</u></u>

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2014

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Direct Client Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries and related expenses:			
Salaries	\$ 8,778,973	\$ 1,318,518	\$ 10,097,491
Employee health and other benefits	3,362,733	487,338	3,850,071
	<u>12,141,706</u>	<u>1,805,856</u>	<u>13,947,562</u>
Total salaries and related expenses			
Purchase of services:			
Other purchased services	79,291,420	-	79,291,420
Day programs	31,320,729	-	31,320,729
Residential care facilities	29,032,426	-	29,032,426
Occupancy	-	1,592,463	1,592,463
Professional fees	-	265,716	265,716
Equipment purchases	-	265,917	265,917
Equipment rental	-	264,782	264,782
General office expenses	-	240,036	240,036
Communication	-	234,815	234,815
Travel	188,461	41,011	229,472
Contract and consultant fees	-	207,385	207,385
Insurance	-	90,468	90,468
Equipment maintenance	-	75,155	75,155
Bank service fees	-	56,195	56,195
Data processing	-	33,769	33,769
Security	-	23,311	23,311
Printing	-	10,177	10,177
Board expenses	-	5,934	5,934
Interest	-	1,027	1,027
	<u>\$ 151,974,742</u>	<u>\$ 5,214,017</u>	<u>\$ 157,188,759</u>
	<u>97%</u>	<u>3%</u>	<u>100%</u>

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2013

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Direct Client Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries and related expenses:			
Salaries	\$ 8,160,480	\$ 1,254,404	\$ 9,414,884
Employee health and other benefits	3,179,208	475,039	3,654,247
Total salaries and related expenses	11,339,688	1,729,443	13,069,131
Purchase of services:			
Other purchased services	70,840,747	-	70,840,747
Residential care facilities	31,192,974	-	31,192,974
Day programs	31,157,228	-	31,157,228
Occupancy	-	1,539,420	1,539,420
Professional fees	-	410,703	410,703
Misappropriation	-	385,000	385,000
Communication	-	233,506	233,506
Equipment rental	-	217,504	217,504
Travel	188,461	15,806	204,267
General office expenses	-	204,116	204,116
Insurance	-	90,404	90,404
Equipment maintenance	-	90,162	90,162
Bank service fees	-	52,202	52,202
Equipment purchases	-	34,526	34,526
Data processing	-	27,013	27,013
Security	-	19,993	19,993
Contract and consultant fees	-	19,105	19,105
Board expenses	-	14,695	14,695
Printing	-	6,376	6,376
Interest	-	2,889	2,889
	<u>\$ 144,719,098</u>	<u>\$ 5,092,863</u>	<u>\$ 149,811,961</u>
	<u>97%</u>	<u>3%</u>	<u>100%</u>



**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ (4,783)	\$ (392,677)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Misappropriation	-	385,000
(Increase) decrease in assets:		
Contract receivable	(7,830,942)	3,717,253
Receivable from Intermediate Care Facilities - Retro	1,954,851	(1,868,190)
Receivable from intermediate care facilities - Go Forward	(876,611)	-
Client trust funds receivable	15	(256)
Prepaid expenses	(76,514)	(247,588)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(745,577)	2,030,045
Payable to Department of Developmental Services	(1,927,108)	328,788
Deferred income fee earned	(27,743)	25,383
Unexpended client trust funds	(15,081)	(764,358)
Net cash provided (used) by operating activities	(9,549,493)	3,213,400
Cash flows from financing activities:		
Proceeds on line of credit	-	4,500,000
Payment on line of credit	(1,000,000)	(3,500,000)
Proceeds from contract advance	35,156,769	31,809,199
Payment of contract advance	(22,470,293)	(35,595,397)
Net cash provided (used) by financing activities	11,686,476	(2,786,198)
Net increase in cash and cash equivalents	2,136,983	427,202
Cash and cash equivalents:		
Beginning of year	3,471,058	3,043,856
End of year	\$ 5,608,041	\$ 3,471,058
Cash and cash equivalents	\$ 4,113,250	\$ 1,999,358
Cash - client trust funds	1,494,791	1,471,700
	\$ 5,608,041	\$ 3,471,058
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 1,027	\$ 2,889

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**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 approximately 8,000 people in 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 allocation plus Intermediate Care Facility State Plan Amendment (ICF-SPA) income, ICF-SPA administrative fee, and interest income. 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 \$146,082,268, \$144,669,645 and \$140,289,104 for the 2013/14, 2012/13 and 2011/12 contract years, respectively, and are subject to budget amendments. As of June 30, 2014, actual net expenditures under the 2013/14, 2012/13 and 2011/12 contracts were \$137,771,882, \$146,350,023 and \$140,376,931, respectively.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

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

**State of California Contract (Continued)**

The 2012/13 and 2011/12 contracts are over budget by \$1,680,378 and \$87,827, respectively. Management believes that the 2012/13 deficit will be funded through additional amendments from funds available with the State of California system. The 2011/12 has to be repaid to the DDS.

**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.

**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, 2014 and 2013, and for the years then ended, the Center did not have any temporarily or permanently restricted net assets or activities.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

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

**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.

*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.

**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 maturity 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.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

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

**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 or value in excess of \$5,000 and with an estimated life beyond one year. For the years ended June 30, 2014 and 2013, equipment purchases totaled \$0 and \$34,526, respectively. The aggregate capitalized equipment costs at June 30, 2014 and 2013, totaled \$299,439 and \$337,656, respectively.

**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**

Contributions are recognized as revenue when they are received or unconditionally promised. 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 statements of activities. These transactions are reported as *net assets released from restrictions* and are reported separately from other transactions.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

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

**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 36 months of age, as authorized by Public Law 102-119.

**Income Taxes**

The Center is a qualified organization exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code (IRC) and franchise taxes under §23701d of the California Revenue and Taxation Code.

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, 2014, revealed no tax positions that would have a material impact on the financial statements. The 2010 through 2013 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2009 through 2013 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.

**Fair Value of Financial Statements**

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of these instructions.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

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

**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 84 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 Center to an increase in hourly costs and or work stoppages. The current agreement expired on September 30, 2012 and is being renegotiated currently. The Center has not experienced any disruptions in its service due to this concentration.

**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.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

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

**Recent Accounting Pronouncements**

The Financial Accounting Standards Board has issued the following Accounting Standards Update (ASU) that will be applicable in future years.

ASU 2014-09, Revenue from Contracts with Customers (Topic 66), and its international counterpart, IFRS 15, 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. ASU 2014-09 is applicable for annual reporting periods beginning after December 15, 2017. Management has not evaluated the impact of this new guidance.

**Reclassification**

Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the 2014 presentation. These reclassifications have no effect on the change in net assets.

**2. CONTRACT RECEIVABLE**

Contract receivable consists of the following at June 30:

	2014	2013
Current year	\$ 40,936,885	\$ 33,338,543
Prior year	315,171	-
Second prior year	13,167	95,738
	\$ 41,265,223	\$ 33,434,281

**3. INTERMEDIATE CARE FACILITIES - STATE PLAN AMENDMENT**

**Retroactive Activities**

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 Federal Financial Participation.

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



**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

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

**Retroactive Activities** (Continued)

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

Prior to the year ended June 30, 2012, the regional centers paid the day and transportation providers and billed DDS and were reimbursed by DDS on a monthly basis. For the first five years of the ICF SPA implementation, the DDS paid the applicable amounts to the ICFs in arrears in quarterly batches. The ICFs were directed to remit to the Center the amount received less its administration fee and the Quality Assurance fee, which it must remit to DHCS. After the Center received the net payment from the ICFs, the Center was directed to remit the amount to the DDS, net of its administration fee. The DDS has instituted protocols should the ICFs not remit the net amounts due to the Center but those controls have been only partially successful.

The Center recorded a receivable from the ICFs, a payable to DDS, and the deferred fee income when the Center prepared the billings for the retroactive activities.

**Go - Forward Activities**

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

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

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

**Go - Forward Activities** (Continued)

The Center's activity related to the retroactive and go-forward funding was as follows as of June 30:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 11,162,550	\$ 9,294,360
Total billed due from vendors	5,285,720	9,655,715
Amount remitted by vendors	(6,356,066)	(7,819,591)
Adjustment to prior year administrative fee	(9,498)	-
2012-2013 administrative fee receivable	<u>1,604</u>	<u>32,066</u>
 Total receivable from ICFs	 <u>\$ 10,084,310</u>	 <u>\$ 11,162,550</u>
 Beginning balance	 \$ 9,485,793	 \$ 9,157,005
Total billed due from DDS	-	4,943,097
Amount remitted by Center to DDS	<u>(1,927,108)</u>	<u>(4,614,309)</u>
 Total payable to DDS	 <u>\$ 7,558,685</u>	 <u>\$ 9,485,793</u>
 Deferred administrative fee	 <u>\$ 134,995</u>	 <u>\$ 162,738</u>

**4. LINE OF CREDIT**

During the year ended June 30, 2014, the Center had a \$23,100,000 revolving line of credit agreement with Union Bank of California at the bank's reference rate of 3.25%. The line of credit was secured by substantially all assets of the Center. The Center renewed the revolving line of credit in the amount of \$23,100,000, which expires on September 30, 2015. At June 30, 2014 and 2013, the line of credit balance was \$0 and \$1,000,000, respectively.

**5. DEFINED BENEFIT 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 17.47% of the employees' gross salary to CalPERS. Participants with at least five years of service credits are fully vested. For the years ended June 30, 2014 and 2013, \$1,057,693 and \$1,065,574 were paid to CalPERS, respectively.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

**5. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Asset Valuation Method (Continued)**

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-2016 rates, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. CalPERS will no longer use an actuarial value of assets and will use the market value of assets.

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.

The funded status as of June 30, 2013, the most current valuation, is as follows:

Present value of projected benefits	\$ 46,294,047
Less present value of future:	
Employer normal costs	(4,490,902)
Employee contributions	<u>(4,899,565)</u>
Entry age normal accrued liability	36,903,580
Actuarial value of assets	<u>(27,257,996)</u>
Unfunded status	<u><u>\$ 9,645,584</u></u>

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

**5. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Asset Valuation Method (Continued)**

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

Beginning actuarial value of assets - June 30, 2012	\$ 27,671,030
Adjustment to market value of assets	<u>(4,174,070)</u>
Beginning market value of assets - June 30, 2012	23,496,960
Receivables for service buybacks as of June 30, 2012	<u>(7,462)</u>
Market value of assets as of June 30, 2012	23,489,498
Contributions:	
Employer	1,050,525
Employee	717,204
Benefit payments to retirees and beneficiaries	(1,060,208)
Refunds	(97,062)
Investment return	3,051,017
Receivables for service buybacks as of June 30, 2013	<u>107,022</u>
Ending balance - June 30, 2013	<u><u>\$ 27,257,996</u></u>

The significant actuarial assumptions as of June 30, 2013, are as follows:

Long-term inflation rate	2.75%
Payroll growth	3.00%
Discount rate	7.50%

The expected employer and employee contributions to be paid to the plan during the next fiscal year are \$744,983 and \$707,872, respectively.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

**5. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**Asset Valuation Method (Continued)**

The asset allocation as of June 30, 2013, is as follows:

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target Allocation</u>
Global equity	51.1%	47.0%
Global fixed income	16.8%	19.0%
Private equity	12.0%	12.0%
Real assets	9.7%	14.0%
Liquidity	4.0%	2.0%
Inflation sensitive asset	3.6%	6.0%
Absolute Return Strategy	2.8%	0.0%
	<u>100.0%</u>	<u>100.0%</u>

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

CalPERS follows a strategic asset allocation policy that identifies the percentage of funds to be invested in each asset class. The asset allocation of assets shown above reflects the values of the Public Employees Retirement Fund (the PERF) in its entirety as of June 30, 2013. The assets for the Center are part of the PERF and are invested accordingly.

For the year ending June 30, 2015, the actuarial computed employer and employee contribution rates will be 7.367% 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, or require the Center to make a payment.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

**7. UNEXPENDED CLIENT TRUST FUNDS**

Included below is a summary of the activity as of June 30:

	2014	2013
Beginning balance	\$ 1,363,442	\$ 2,127,500
Client support received	15,298,998	15,000,223
Less residential care and other disbursements	(15,314,079)	(15,764,281)
Ending balance	\$ 1,348,361	\$ 1,363,442

**8. OPERATING LEASES**

The Center leases all of its facilities. Rent expense on these leases for the years ended June 30, 2014 and 2013, was \$1,592,463 and \$1,539,420, respectively. The Center also leases office equipment and the equipment rental expense for the years ended June 30, 2014 and 2013, was \$264,782 and \$217,504, respectively.

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

2015	\$ 1,751,458
2016	1,690,078
2017	511,937
2018	527,295
2019	543,114
Thereafter	939,731
	\$ 5,963,613

**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.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**9. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Misappropriation and Restitution**

During the year ended June 30, 2014, management discovered an embezzlement involving a former case worker which transpired during the time period of 2006 through 2012 that is estimated at \$385,000. The embezzlement involves client trust funds for which the Center has a fiduciary duty to oversee. Accordingly, it is management's intent to financially restore the impacted clients. Once the embezzlement was discovered, management reported this incident to various authorities including, but not limited to, those charged with governance, Adult Protection Services, DDS, and the Santa Rosa Police Department (SRPD).

On the advice from the SRPD, management undertook an internal investigation to produce evidence and to quantify the loss by reviewing all available supporting documents. Because of the unavailability of certain records, losses prior to 2006 may exist but are not quantifiable. In management's opinion, the estimated loss is reasonable and the embezzlement is an isolated case.

The former employee suspected of the embezzlement was arrested and has pleaded no contest. The Center will seek restitution through a combination of actions including, but not limited to, restitution from the former employee and claims against financial institutions and the Center's insurance carrier covering employee dishonesty coverage.

At June 30, 2014 and 2013, the Operating Fund includes the accrual for the loss of \$385,000 and a payable to the Client Trust Fund. When the Center receives restitution, it will recognize income and will then use the proceeds to reimburse the impacted clients by transferring the funds to the Client Trust Fund. Because of the limitations on recognizing gain contingencies, the Operating Fund will recognize restitution as it is received. As a result, there is an unrestricted accumulated deficit as of June 30, 2014 and 2013.

Subsequent to June 30, 2014, the Center has received \$200,000 from its insurance carrier.

**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 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.

The Center's revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies. In accordance with the terms of the DDS contract, an audit may be performed by an authorized DDS representative. Should such an audit disclose any unallowable costs, the Center may be liable to the State of California for reimbursement of such costs. 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, 2014 and 2013, and for the years then ended.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014 and 2013

**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 April 2, 2015, the date the financial statements were available to be issued.

Subsequent to June 30, 2014, the Center approved the transfer of the administration of client trust accounts to a third-party administrator.



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

**SUPPLEMENTARY FINANCIAL INFORMATION**

Year Ended June 30, 2014

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2014

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	\$ 91,871,998 *
■ Targeted Case Management	93.778	HD099011	<u>4,625,686 *</u>
			96,497,684
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	<u>837,002</u>
			<u>\$ 97,334,686</u>

\* 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 Governments, 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.



LAUTZE & LAUTZE  
CPAs & FINANCIAL ADVISORS

**INDEPENDENT AUDITOR'S 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  
North Bay Developmental Disabilities Services, Inc.  
dba North Bay Regional Center  
Napa, California

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 *North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center* (the Center), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 2, 2015.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified. We consider the deficiency described in the accompanying *Schedule of Findings and Questioned Costs* as 2014-1 to be a significant deficiency.

To the 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings and Questioned Costs* as item 2014-1.

### **The Center's Response to Findings**

The Center's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the Center in a separate letter dated April 2, 2015.

### **Purpose of this Report**

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

Lautze & Lautze

San Francisco, California  
April 2, 2015



LAUTZE & LAUTZE  
CPAs & FINANCIAL ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

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

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 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, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

**Management's Responsibility**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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

### **Report on Internal Control Over Compliance**

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Lautze & Lautze*

San Francisco, California  
April 2, 2015

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2014

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2014

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

- Auditor's report on financial statements: Unmodified.
- Internal control over financial reporting:
  - Material weaknesses identified: No.
  - One significant deficiency disclosed during the audit of the financial statements is reported in Financial Statement Findings.
  - Noncompliance material to financial statements noted: No.
- Federal awards - internal control over major programs:
  - Auditor's report on compliance for major programs: Unmodified.
  - Material weaknesses identified: No.
  - Significant deficiencies identified that are not considered to be a material weakness: No.
  - Audit findings identified that are required to be reported in accordance with Section 510(a) of Circular A-133: No.
  - Major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
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: \$2,920,041.
- Auditee qualifies as low-risk: No.

**SECTION II - FINANCIAL STATEMENT FINDINGS**

- See 2014-1.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

- There were no current year findings or questioned costs.



**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
Year Ended June 30, 2014

**FINANCIAL STATEMENT FINDINGS**

***SIGNIFICANT DEFICIENCY***

**2014-1 CHANGE IN NET ASSETS AT THE END OF THE YEAR**

**CRITERIA**

As part of the quality control function, the financial statements should be reviewed monthly for reasonableness.

**CONDITION**

The Center had net income of over \$500,000 at the end of the year. Generally, the Center should not have any significant net income or loss because of the cost reimbursement contract with the DDS.

**QUESTIONED COSTS**

There are no questioned costs.

**CAUSE AND EFFECT**

The condition is a result of an accounting software issue that was corrected in the third month of the fiscal year but the general ledger was not reviewed to detect this overbilling error. The grants receivable and income were overstated for most of the year.

**PERSPECTIVE INFORMATION**

Management is aware of the control point to review the financial statements, and specifically, billing; however, this error was not detected.

**RECOMMENDATION**

We recommend that management review the monthly financial statements for reasonableness for such anomalies.

**VIEW OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS**

First the error has been reversed and paid. As well as a two prong defense that has been put in place to deal with this kind of error in the future, a review protocol of the output of the software is now in place. We have also added the development of a zero net spreadsheet that is designed to tract all expenses and income per each state claim and ties to the year-to-date trial balance that will insure that this type of error does not happen going forward.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year Ended June 30, 2014

**2013-1 RECONCILIATION OF BANK BALANCE TO THE GENERAL LEDGER**

**CONDITION**

In reviewing the June 30, 2013 bank reconciliations, we noted that the book balance according to the bank reconciliation did not agree to the cash balance reported in the general ledger. In addition, the prepaid expenses and the line of credit were also misstated.

**RECOMMENDATION**

The Center has a system in place to ensure that bank reconciliations and other significant accounts are properly reconciled to the general ledger. Accordingly, we recommend that management review bank reconciliations and other schedules on a regular basis and ensure that their balances agree to the general ledger amounts.

**CURRENT STATUS**

The finding was resolved during the year ended June 30, 2014.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**  
Year Ended June 30, 2014

**2013-2 CLIENT TRUST FUNDS**

**CONDITION**

Check requests for client disbursement funds lacked internal controls necessary to prevent fraud.

**RECOMMENDATION**

We recognize the Center is actively engaged in reforming policies and procedures. Those revisions include withholding funds for reimbursement until the proper documentation and receipts for purchases are obtained by the Center. We recommend the Center implement the revised policies and procedures. In addition to the changes of policies and that will be established, it is recommended that periodic internal audit investigations of client funds be incorporated into regular practice on a rotation basis.

**CURRENT STATUS**

The finding was resolved during the year ended June 30, 2014. In addition, subsequent to June 30, 2014, the Center agreed to outsource client trust functions to a third-party administrator.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**  
Year Ended June 30, 2014

**2013-3 VENDOR PAYMENTS**

**CONDITION**

Payments made to vendors for supported living services are determined based on rates and schedules determined according to client needs. The rates and schedules outline specific requirements for hours serviced based on the service tier applicable to the client. Oversight regarding whether those hours are met is not conducted.

Internal controls should be in place that provide reasonable assurance that client needs are met based on the hours determined necessary and oversight that vendors are supplying those hours.

Because of the failure to provide oversight, vendors may be charging for services not performed.

**RECOMMENDATION**

We recommend that the Center institute timesheets for supervision and support provided to the clients by the vendors. The timesheets should list hours incurred by person to support the request for payment submitted to the Center.

**CURRENT STATUS**

The finding was resolved during the year ended June 30, 2014.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.**  
**dba NORTH BAY REGIONAL CENTER**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)**  
Year Ended June 30, 2014

**2013-4 DOCUMENTATION FOR MEDICAID WAIVER ELIGIBILITY**

**FEDERAL AWARD PROGRAM**

Department of Health and Human Services

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Medical Assistance Program (Medicaid; Title XIX)

**CONDITION**

In reviewing consumer files, we noted the following:

- Three consumers did not have an annual review completed for their Individual Program Plans.
- One consumer's annual review was performed 18 months from the previous review.
- One consumer's Medicaid Waiver Eligibility form (DS 3770) was not signed by the Qualified Mental Retardation Professional.

**RECOMMENDATION**

The Center has a system in place to ensure that all of the required documents are prepared, signed and filed in a timely manner. Accordingly, we recommend that management continue training on file requirements and promote unity of procedures between all the locations. Also, there needs to be continued monitoring and follow up on documentation missing in files.

**CURRENT STATUS**

The finding was resolved during the year ended June 30, 2014.