



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

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

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

**CONTENTS**

---

**Independent Auditors' Report**..... 1-3

**Financial Statements**

Statements of Financial Position.....4  
Statements of Activities and Changes in Net Assets (Accumulated Deficit) .....5  
Statements of Functional Expenses ..... 6-7  
Statements of Cash Flows ..... 8-9

**Notes to the Financial Statements** ..... 10-28

**Supplementary Information**

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards** ..... 29-30

**Federal Single Audit Reporting**

**Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required By The Uniform Guidance**..... 31-33

Schedule of Expenditures of Federal Awards.....34  
Notes to the Schedule of Expenditures of Federal Awards .....35  
Schedule of Findings and Questioned Costs ..... 36-44  
Management's Corrective Action Plan..... 45-47

## INDEPENDENT AUDITORS' REPORT

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

### *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 statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets (accumulated deficit), functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

## ***Opinion***

In our opinion, the 2016 financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for the 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 auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

## ***Report on 2015 Financial Statements***

The 2015 financial statements of North Bay Regional Center, Inc. were audited by Lautze & Lautze, CPA's & Financial Advisors whose practice was combined with Marcum LLP as of June 1, 2016, and whose report dated February 19, 2016, expressed an unmodified opinion on those statements. As part of our audit of the 2016 financial statements, we also audited the adjustment described in Note 1 that was applied to restate the 2015 financial statements. In our opinion, such an adjustment is appropriate and has been properly applied to the 2015 financial statements presented herein as of and for the year ended June 30, 2015, which is otherwise consistent with the audited financial statements from which it has been derived. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of North Bay Regional Center Inc. other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2015 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 February 5, 2018 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.

*Marcum LLP*

San Francisco, California  
February 5, 2018

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

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2016 AND 2015**

	2016	2015 (Restated)
<b>Assets</b>		
Cash and cash equivalents	\$ 17,665,266	\$ 4,985,618
Cash - client trust funds	22,726	550,316
Contract reimbursement receivable	32,465,688	40,303,473
Receivable from Intermediate Care Facilities - Retro	--	6,038,739
Receivable from Intermediate Care Facilities - Go Forward	2,087,104	2,390,630
Client trust funds receivable	21,239	1,001
Other receivables	7,267	--
Prepaid expenses	373,739	378,236
Deposits	112,000	32,000
<b>Total Assets</b>	<b>\$ 52,755,029</b>	<b>\$ 54,680,013</b>
<b>Liabilities and Net Assets (Accumulated Deficit)</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 14,635,099	\$ 13,822,947
Contract advance	37,407,427	33,567,482
Payable to Department of Developmental Services	--	6,165,281
Accrued vacation and other leave benefits	660,623	732,827
Deferred income fee earned	--	88,673
Net assets held for others	--	433,193
<b>Total Liabilities</b>	52,703,149	54,810,403
<b>Unrestricted Net Assets (Accumulated Deficit)</b>	51,880	(130,390)
<b>Total Liabilities and Net Assets (Accumulated Deficit)</b>	<b>\$ 52,755,029</b>	<b>\$ 54,680,013</b>

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

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

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**(ACCUMULATED DEFICIT)**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015 (Restated)
<b>Revenue and Support</b>		
Grants - State DDS	\$ 169,438,517	\$ 156,480,693
Grants - Federal	2,106,298	853,644
Intermediate Care Facilities SPA income	5,227,784	5,384,928
Interest	75,114	53,354
Recovery from insurance company	--	200,000
Other income	<u>225,733</u>	<u>111,665</u>
<b>Total Revenue and Support</b>	<u>177,073,446</u>	<u>163,084,284</u>
<b>Expenses</b>		
Program services:		
Direct client services	172,865,310	159,217,601
Supporting services:		
General and administrative	<u>4,025,866</u>	<u>3,665,907</u>
<b>Total Expenses</b>	<u>176,891,176</u>	<u>162,883,508</u>
<b>Change in Net Assets</b>	182,270	200,776
<b>Unrestricted Accumulated Deficit - Beginning</b>	<u>(130,390)</u>	<u>(331,166)</u>
<b>Unrestricted Net Assets (Accumulated Deficit) - Ending</b>	<u>\$ 51,880</u>	<u>\$ (130,390)</u>

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

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

**STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED JUNE 30, 2016**

	Program Services	Supporting Services	
	Direct Client Services	General and Administrative	Total Expenses
<b>Salaries and Related Expenses</b>			
Salaries	\$ 9,481,769	\$ 1,567,510	\$ 11,049,279
Employee health and other benefits	<u>3,555,973</u>	<u>596,206</u>	<u>4,152,179</u>
<b>Total Salaries and Related Expenses</b>	13,037,742	2,163,716	15,201,458
<b>Purchase of Services</b>			
Other purchased services	93,912,157	--	93,912,157
Day programs	32,642,892	--	32,642,892
Residential care facilities	31,242,468	--	31,242,468
Occupancy	1,611,768	266,749	1,878,517
General office expenses	--	448,944	448,944
Equipment rental	--	171,072	171,072
Professional fees	--	212,251	212,251
Equipment purchases	--	428,988	428,988
Travel	217,341	20,646	237,987
Communication	--	104,902	104,902
Insurance	74,802	12,380	87,182
Equipment maintenance	126,140	20,877	147,017
Bank service fees	--	49,099	49,099
Contract and consultant fees	--	45,118	45,118
Data processing	--	38,419	38,419
Printing	--	15,244	15,244
Security	--	22,024	22,024
Board expenses	<u>--</u>	<u>5,437</u>	<u>5,437</u>
<b>Total</b>	<u>\$ 172,865,310</u>	<u>\$ 4,025,866</u>	<u>\$ 176,891,176</u>
	<u>98%</u>	<u>2%</u>	<u>100%</u>

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



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

**STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED JUNE 30, 2015 (Restated)**

	Program Services	Supporting Services	Total Expenses (Restated)
	Direct Client Services	General and Administrative	
<b>Salaries and Related Expenses</b>			
Salaries	\$ 8,994,915	\$ 1,517,975	\$ 10,512,890
Employee health and other benefits	<u>3,420,265</u>	<u>527,912</u>	<u>3,948,177</u>
<b>Total Salaries and Related Expenses</b>	12,415,180	2,045,887	14,461,067
<b>Purchase of Services</b>			
Other purchased services	83,603,669	--	83,603,669
Day programs	31,572,040	--	31,572,040
Residential care facilities	29,874,046	--	29,874,046
Occupancy	1,404,203	230,492	1,634,695
General office expenses	--	371,229	371,229
Equipment rental	--	276,645	276,645
Professional fees	--	210,138	210,138
Equipment purchases	--	154,899	154,899
Travel	217,341	18,173	235,514
Communication	--	146,179	146,179
Insurance	75,089	12,326	87,415
Equipment maintenance	56,033	9,198	65,231
Bank service fees	--	53,469	53,469
Contract and consultant fees	--	49,648	49,648
Data processing	--	44,263	44,263
Printing	--	20,292	20,292
Security	--	19,015	19,015
Board expenses	--	3,858	3,858
Interest	--	196	196
<b>Total</b>	<u>\$ 159,217,601</u>	<u>\$ 3,665,907</u>	<u>\$ 162,883,508</u>
	<u>98%</u>	<u>2%</u>	<u>100%</u>

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

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

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015 (Restated)
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 182,270	\$ 200,776
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Contract reimbursement receivable	7,837,785	1,834,320
Receivable from Intermediate Care Facilities - Retro	6,038,739	1,782,142
Receivable from Intermediate Care Facilities - Go Forward	303,526	(127,201)
Other receivables	(7,267)	--
Client trust funds receivable	(20,238)	(760)
Prepaid expenses	4,497	1,010
Accounts payable and accrued expenses	812,152	373,338
Payable to Department of Developmental Services	(6,165,281)	(1,393,404)
Accrued vacation and other leave benefits	(72,204)	(139,743)
Deferred income fee earned	(88,673)	(46,322)
Deposits	(80,000)	--
Net assets held for others	(433,193)	(915,168)
<b>Net Cash Provided by Operating Activities</b>	<b>8,312,113</b>	<b>1,568,988</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from contract advance	41,057,188	40,118,256
Payments of contract advance	(37,217,243)	(41,759,351)
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>3,839,945</b>	<b>(1,641,095)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	12,152,058	(72,107)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>5,535,934</b>	<b>5,608,041</b>
<b>Cash and Cash Equivalents - Ending of Year</b>	<b>\$ 17,687,992</b>	<b>\$ 5,535,934</b>

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

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

**STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

	2016	2015 (Restated)
<b>Statement of Financial Position Presentation:</b>		
Cash and cash equivalents	\$ 17,665,266	\$ 4,985,618
Cash - client trust funds	<u>22,726</u>	<u>550,316</u>
<b>Total Cash and Cash Equivalents</b>	<b><u>\$ 17,687,992</u></b>	<b><u>\$ 5,535,934</u></b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	<u>\$ --</u>	<u>\$ 196</u>

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

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

**NOTE 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 Board. To comply with the Act, the 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 contract, the State of California maintains the right to assume control of the Center's operation and the obligation of its liabilities.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

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

*STATE OF CALIFORNIA CONTRACT (CONTINUED)*

Under the terms of these contracts, funded expenditures are not to exceed \$187,113,681, \$164,958,568, and \$154,622,315 for the 2015/16, 2014/15, and 2013/14 contract years, respectively, and are subject to budget amendments. As of June 30, 2016, actual net expenditures under the 2015/16, 2014/15, and 2013/14 contracts were \$155,113,275, \$158,297,084, and \$152,808,254, respectively.

*BASIS OF ACCOUNTING*

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

*CLASSIFICATION OF NET ASSETS*

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

*Unrestricted*

Those net assets and activities which represent expendable funds for operations related to the DDS contract. These accounts also record the activities of a federally-funded program.

*Temporarily Restricted*

Those net assets and activities which are donor-restricted for (a) support of specific operating activities; or (b) use in a specified future period.

*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.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

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

*CLASSIFICATION OF NET ASSETS (CONTINUED)*

As of June 30, 2016 and 2015, and for the years 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 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 a federally-funded program.

*Donation Fund*

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

*FAIR VALUE OF FINANCIAL INSTRUMENTS*

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

*ESTIMATES*

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

*CASH AND CASH EQUIVALENTS*

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

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

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

***CONTRACT REIMBURSEMENT 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. 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. Equipment purchases meeting this threshold were \$139,413 and \$0 for the years ended June 30, 2016 and 2015, respectively. Equipment disposals were \$42,985 and \$0 for the years ended June 30, 2016 and 2015, respectively. The cumulative capitalized equipment costs are \$395,867 and \$299,439 at June 30, 2016 and 2015, respectively.

***ACCRUED VACATION AND OTHER LEAVE BENEFITS***

The Center has accrued a liability for leave benefits earned which is reimbursable under the DDS contract; however, such benefits are reimbursed under the DDS contract only when actually paid. When an employee separates from service, the employee will be paid their unused balance.

***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, net assets held for others, until it is distributed.

***DEFERRED RENT***

The Center leases office facilities under lease agreements that are subject to scheduled rent increases. The scheduled rent increases are amortized evenly over the term of the lease in accordance with U.S. GAAP. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. According to the DDS contract, the DDS reimburses the Center for rent after it is paid.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

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

***REVENUE RECOGNITION - GRANTS***

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

- Current year
- Prior year
- Second prior year

***CONTRIBUTIONS***

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

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

***FEDERAL GRANTS***

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

***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, respectively. Accordingly, it is exempt from federal and California income taxes and is not liable for federal unemployment taxes.



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

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

***INCOME TAXES (CONTINUED)***

Management evaluated the Center's tax positions and concluded that they maintained their tax exempt status and had taken no uncertain tax positions that would require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

The 2012 through 2015 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2011 through 2015 tax years remain subject to examination by the California Franchise Tax Board. The Center is subject to routine audits by taxing jurisdictions; however, there are no audits pending or in process.

***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. 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 (the "Union"). 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 bargaining agreement expired February 2017, and the Center is currently in negotiations with the Union.

***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 changes in net assets 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

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

***RECLASSIFICATIONS***

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications have no effect on the previously reported net assets or change in net assets.

***DEFINED BENEFIT PENSION PLAN***

The Center participates in a defined benefit pension plan covering all employees through the California Public Employees' Retirement System ("CalPERS"). The CalPERS plan has characteristics of a multiemployer plan and the available 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.

***RECENT ACCOUNTING PRONOUNCEMENTS***

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

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

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

***RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)***

On February 25, 2016, the FASB issued ASU 2016-02, Leases. The new standard creates Topic 842, Leases, in the FASB Accounting Standards Codification ("FASB ASC") and supersedes FASB ASC 840, Leases. Entities that hold numerous equipment and real estate leases, in particular those with numerous operating leases, will be most affected by the new guidance. The amendments in ASU 2016-02 are expected to impact the statement of financial position at many companies by adding lease-related assets and liabilities. This may affect compliance with contractual agreements and loan covenants.

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

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

***RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)***

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

This standard eliminates:

- The distinction between resources with permanent restrictions and those with temporary restrictions from the face of the financial statements by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions).
- Removes the current requirement to present or disclose the indirect method (reconciliation) when using the direct method of reporting cash flows.
- Requires NFPs to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.
- Requires NFPs to use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

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

ASU 2016-14 also requires enhanced disclosures about:

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

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

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

***RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)***

- Qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position.
- Quantitative information and additional qualitative information in the notes as necessary, that communicates the availability of a NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.
- Amounts of expenses by both their natural classification and their functional classification and the methods used to allocate costs among program and support functions.
- Underwater endowment funds.

NFP entities are required to adopt this standard for annual reporting periods beginning after December 15, 2018. Management is evaluating the impact of this new guidance.

***RESTATEMENT***

The 2015 financial statements have been restated to reflect the change in accrued vacation on the statements of activities and changes in net assets and functional expenses. In addition, there is a reclassification of those items on the statement of financial position to contract reimbursement receivable to reflect reimbursable expenses under the DDS grant not yet submitted.

	June 30, 2015		July 1, 2015
	Balance as		Balance as
	Originally		Restated
	Stated	Adjustment	
Contract reimbursement receivable	\$ 39,570,646	\$ 732,827	\$ 40,303,473
Deferred costs for accrued vacation and other leave benefits	732,827	(732,827)	--
Grants	156,340,950	139,743	156,480,693
Salaries	10,373,147	139,743	10,512,890

There was no effect on the total net assets based on this restatement.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

**NOTE 2 - CONTRACT REIMBURSEMENT RECEIVABLE**

Contract reimbursement receivable consists of the following at June 30:

	2016	2015
Claims submitted:		
Current year	\$ 31,585,734	\$ 36,710,683
Prior year	458,944	2,836,259
Second prior year	(239,613)	23,704
	31,805,065	39,570,646
Reimbursable expenses not yet submitted	660,623	732,827
<b>Total</b>	<b>\$ 32,465,688</b>	<b>\$ 40,303,473</b>

**NOTE 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.

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 State Plan Amendment 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

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

***RETROACTIVE ACTIVITIES (CONTINUED)***

The Center has received all retroactive funds and have remitted all such funds to DDS as of June 30, 2016.

***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.

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

	2016	2015
Beginning balance	\$ 8,429,369	\$ 10,084,310
Adjustments	24,565	(22,794)
Total billed due from vendors	5,227,784	5,059,102
Amount remitted by vendors	(11,594,614)	(6,691,249)
<b>Total Receivable From ICFs</b>	<b>\$ 2,087,104</b>	<b>\$ 8,429,369</b>
Beginning balance	\$ 6,165,281	\$ 7,558,685
Adjustments	25,224	(133,309)
Amount remitted by Center to DDS	(6,190,505)	(1,260,095)
Total payable to DDS	\$ --	\$ 6,165,281
<b>Deferred Administrative Fee</b>	<b>\$ --</b>	<b>\$ 88,673</b>

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

**NOTE 4 - LINE OF CREDIT**

During the year ended June 30, 2015, 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 line of credit expired on September 30, 2015, and was not renewed.

**NOTE 5 - DEFINED BENEFIT PENSION PLAN**

The Center has a defined benefit pension plan covering all employees through CalPERS. All employees are, immediately upon hire, enrolled in the pension plan. Participants with at least five years of service credits are fully vested. For the years ended June 30, 2016 and 2015, the Center paid \$1,270,636 and \$1,184,696 to CalPERS, respectively.

**ASSET VALUATION METHOD**

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, 2015, (the most current valuation), and 2014 is as follows:

	2016	2015
Present value of projected benefits	\$ 58,909,638	\$ 54,803,005
Less present value of future:		
Employer normal costs	(6,277,059)	(5,530,689)
Employee contributions	<u>(6,468,373)</u>	<u>(5,798,649)</u>
Entry age normal accrued liability	46,164,206	43,473,667
Actuarial value of assets	<u>(33,124,416)</u>	<u>(32,957,658)</u>
<b>Unfunded Status</b>	<u>\$ 13,039,790</u>	<u>\$ 10,516,009</u>



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

**NOTE 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:

	2016	2015
Beginning actuarial value of assets	\$ 32,957,658	\$ 32,319,435
Receivables for service buybacks	(4,682)	(11,562)
Contributions:		
Employer	1,310,517	1,167,366
Employee	717,327	670,940
Benefit payments to retirees and beneficiaries	(1,933,611)	(1,791,522)
Refunds	(74,305)	(110,187)
Transfers and miscellaneous adjustments	6,679	15,719
Investment return	144,833	697,469
<b>Ending Balance</b>	<b><u>\$ 33,124,416</u></b>	<b><u>\$ 32,957,658</u></b>

The significant actuarial assumptions are as follows:

	2016	2015
Long-term inflation rate	2.750%	2.750%
Long-term blended rate of return	7.375%	7.500%
Payroll growth	3.000%	3.000%
Discount rate	7.375%	7.500%

The expected employer and employee contributions to be paid to the plan during the years ending June 30, 2019 and 2018 are \$839,193 and \$797,305, respectively, and \$790,658 and \$753,127, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

**NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*ASSET VALUATION METHOD (CONTINUED)*

The asset allocation as of June 30, 2016, is as follows:

Asset Class	Current Allocation	Target Allocation
Global equity	51.9%	51.0%
Global fixed income	20.3%	20.0%
Private equity	9.0%	10.0%
Real assets	10.8%	12.0%
Inflation sensitive asset	6.0%	6.0%
Liquidity	1.5%	1.0%
Other	<u>0.5%</u>	<u>0.0%</u>
<b>Total</b>	<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, 2015. The assets for the Center are part of the PERF and are invested accordingly.

For the years ending June 30, 2017 and 2016, the actuarial computed employer and employee contribution rates will be 7.201% and 6.802%, respectively and 6.802% and 6.728%, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

**NOTE 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 requiring the Center to make a payment.

**NOTE 7 - NET ASSETS HELD FOR OTHERS**

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

	2016	2015
<b>Balance - Beginning</b>	\$ 433,193	\$ 1,348,361
Client support received	1,506,326	11,175,527
Restitution received	--	200,000
Receivable from clients	21,239	1,001
Less residential care and other disbursements	<u>(1,960,758)</u>	<u>(12,291,696)</u>
<b>Balance - Ending</b>	<u>\$ --</u>	<u>\$ 433,193</u>

During the year ended June 30, 2015, the Center outsourced the accounting and administrative functions of the client trust funds to an independent third-party administrator.

**NOTE 8 - OPERATING LEASES**

The Center leases all of its facilities. Rent expense on these leases for the years ended June 30, 2016 and 2015, was \$1,878,517 and \$1,634,695, respectively. The Center also leases office equipment and the equipment rental expense for the years ended June 30, 2016 and 2015, was \$171,072 and \$276,645, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

**NOTE 8 - OPERATING LEASES (CONTINUED)**

Future obligations on leases in effect at June 30, 2016 are as follows:

For the Years Ending	Amount
June 30,	
2017	\$ 1,430,518
2018	1,554,231
2019	1,595,734
2020	1,638,338
2021	1,486,227
Thereafter	<u>5,851,697</u>
<b>Total</b>	<b><u>\$ 13,556,745</u></b>

**NOTE 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.

***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, the 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

**NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

*MISAPPROPRIATION AND RESTITUTION (CONTINUED)*

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.

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. During the year ended June 30, 2015, the Center received \$200,000 from its insurance carrier. As a result, there is an unrestricted accumulated deficit as of June 30, 2015. During the year ended June 30, 2016, the Center filed a claim to the DDS for the remainder of the balance due to the clients. At June 30, 2015, the Operating Fund had a payable to the Client Trust Fund in the amount of \$185,000. During the year ended June 30, 2016, the Operating Fund reimbursed the Client Trust Fund in full.

*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, 2016 and 2015, and for the years then ended.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

---

**NOTE 10 - SELF-INSURED UNEMPLOYMENT INSURANCE**

The Center makes contributions to a Joint Unemployment Compensation Trust (the "Trust"), which provides funding to reimburse the State of California for unemployment benefits it pays to former employees who have terminated their employment. The Trust also carries stop-loss insurance, in the amount of \$175,000, to cover possible exposure of unusual employment claims.

**NOTE 11 - SUBSEQUENT EVENTS**

The Center has evaluated all subsequent events through February 5, 2017, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements have been identified.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center (the "Center"), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 5, 2018.

***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.

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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses as 2016-001 and 2016-002.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

### ***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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as 2016-001, 2016-002, and 2016-003.

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

The Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questions costs. The Center's response was not subject to the auditing procedures applied in the audit of the financial statements and, we express no opinion on it.

### ***Purpose of this Report***

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

*Marcum LLP*

San Francisco, California  
February 5, 2018