



Financial Statements
June 30, 2020

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Bay Developmental Disabilities Services, Inc., which comprise the statement of financial position as of June 30, 2020 and the related statements of activities, 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 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 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 auditors 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.

Basis for Qualified Opinion

As discussed in Note 5, North Bay Developmental Disabilities Services, Inc. provides retirement benefits through its participation in the California Public Employees Retirement System (“CalPERS”). Because most of the member entities in CalPERS are governmental entities, CalPERS calculates the members’ funded or unfunded status using methods and actuarial assumptions promulgated by Government Accounting Standard Board in GASB Statement No. 68 Accounting and Financial Reporting for Pensions. As a nonprofit organization, North Bay Developmental Disabilities Services, Inc. is required to use the accounting framework based on standards promulgated by the Financial Accounting Standard Board (“FASB”), and Accounting Standards Update 715 (ASU 715) – Compensation: Retirement Benefits – Defined Benefit Pension Plans, which requires different methods and actuarial assumptions than GASB. North Bay Developmental Disabilities Services, Inc. reports its unfunded status using the actuarial report provided by CalPERS using GASB Statement No. 68 methods and actuarial assumptions, which are departures from accounting principles generally accepted in the United States of America. Management did not prepare an actuarial report in accordance with FASB’s methods and actuarial assumptions. Accordingly, we were unable to obtain sufficient appropriate audit evidence about North Bay Developmental Disabilities Services, Inc.’s amounts reported on the financial statements as receivable from state for pension plan liability, pension plan liability, contracts – state of California portion related to pension liability, and changes other than net periodic pension benefit costs by other auditing procedures. The effects on the accompanying financial statements of the failure to record the pension plan liability and related accounts in accordance with FASB have not been determined.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of North Bay Developmental Disabilities Services, Inc. as of June 30, 2020, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, North Bay Developmental Disabilities Services, Inc. adopted Financial Accounting Standards Board’s ASU No. 2014-09, *Revenue from Customers (Topic 606)* and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. The adoptions of the standard requires additional note disclosures and required supplemental information. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2021, on our consideration of the North Bay Developmental Disabilities Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 North Bay Developmental Disabilities Services, Inc.'s internal control over financial reporting and compliance.



Long Beach, California
March 3, 2021

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020**

ASSETS

ASSETS

Cash and cash equivalents	\$ 11,382,658
Contract receivable - State of California	17,268,769
Receivables from Intermediate Care Facility vendors	2,454,429
Prepaid expenses and other assets	887,450
Deposits	80,000
Receivables from state for accrued vacation benefits	1,248,084
Receivables from state for deferred rent	622,336
Receivables from state for pension plan liability	<u>16,198,643</u>

TOTAL ASSETS \$ 50,142,369

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 30,817,918
Accrued salaries and payroll taxes	815,251
Accrued vacation benefits	1,248,084
Due to the state	368,766
Deferred rent liability	622,336
Pension plan liability	<u>16,198,643</u>
	<u>50,070,998</u>

COMMITMENTS AND CONTINGENCIES (Note 6)

NET ASSETS

Without donor restrictions	<u>71,371</u>
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TOTAL LIABILITIES AND NET ASSETS \$ 50,142,369

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

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020**

CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS

SUPPORT AND REVENUE

Contracts - State of California	\$ 308,486,613
Intermediate Care Facility supplemental service income	5,382,127
Contracts - State of California portion related to pension liability	1,055,129
Interest income	145,344
Other income	<u>48,927</u>
Total Revenue and Support	<u>315,118,140</u>

EXPENSES

Program services	
Direct client services	308,448,897
Supporting services	
General and administrative	<u>5,572,488</u>
Total Expenses	<u>314,021,385</u>

**CHANGE IN NET ASSETS BEFORE CHANGES OTHER
THAN NET PERIODIC PENSION BENEFIT COSTS**

1,096,755

**CHANGES OTHER THAN NET PERIODIC PENSION
BENEFIT COSTS**

(1,055,129)

CHANGE IN NET ASSETS

41,626

**NET ASSETS WITHOUT DONOR RESTRICTIONS
AT BEGINNING OF YEAR**

29,745

**NET ASSETS WITHOUT DONOR RESTRICTIONS
AT END OF YEAR**

\$ 71,371

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

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020**

	Program Services	Supporting Services		General and Administrative	Total
	Direct Client Services			Administrative	Total
Salaries and related expenses					
Salaries	\$ 13,358,349	\$ 2,300,746	\$		15,659,095
Employee health and other benefits	5,186,264	842,703			6,028,967
Total salaries and related expenses	18,544,613	3,143,449			21,688,062
Purchase of services					
Other purchase of services	136,200,116	-			136,200,116
Day programs	60,180,601	-			60,180,601
Residential care facilities	91,745,508	-			91,745,508
Occupancy	1,669,340	282,966			1,952,306
General office expenses	-	930,866			930,866
Equipment rental	-	70,093			70,093
Professional fees	-	115,708			115,708
Equipment purchases	-	372,178			372,178
Travel	-	238,738			238,738
Communication	-	129,520			129,520
Insurance	108,719	-			108,719
Equipment maintenance	-	28,186			28,186
Contract and consulting fees	-	187,759			187,759
Data processing	-	37,839			37,839
Security	-	22,609			22,609
Bank charges	-	12,016			12,016
Board expenses	-	561			561
TOTAL EXPENSES	\$ 308,448,897	\$ 5,572,488	\$	\$	\$ 314,021,385

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

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 41,626
Adjustments to reconcile change in net assets to net cash from operating activities:	
(Increase) decrease in:	
Contract receivable - State of California	4,650,080
Receivables from Intermediate Care Facility vendors	198,120
Prepaid expenses and other assets	(287,687)
Receivables from state for accrued vacation benefits	(444,838)
Receivables from state for deferred rent	(237,267)
Receivables from state for pension plan liability	(1,055,129)
Accounts payable	7,418,772
Accrued salaries and payroll taxes	815,251
Accrued vacation benefits	444,838
Due to the state	87,165
Deferred rent liability	237,267
Pension plan liability	<u>1,055,129</u>
Net Cash Provided By Operating Activities	<u>12,923,327</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Net change in line of credit	<u>(1,750,000)</u>
Net Cash Used In Financing Activities	<u>(1,750,000)</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS 11,173,327

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 209,331

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 11,382,658

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

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation

North Bay Developmental Disabilities Services, Inc. (the Center), doing business as North Bay Regional 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 Lanterman Act) of the Welfare and Institutions Code of the State of California. In accordance with the Lanterman 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 California and serves approximately 8,000 people in the counties of Napa, Solano, and Sonoma.

The Lanterman Act includes governance provisions regarding the composition of the Center's board of directors. 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% of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25% 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 regional center board. To comply with the Act, the Center's board of directors 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.

State of California Contract

The Center contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for individuals with developmental disabilities and their families. The Center's contracts with the DDS totaled \$312,173,629 for the 2019-2020 contract year and are subject to budget amendments. Amounts received from the DDS contracts are recognized as revenue when the Center has incurred qualifying operational expenditures per the DDS contracts. Amounts received prior to incurring qualifying operational expenditures are recorded as contract advances and are included with contract receivable on the statement of financial position. As of June 30, 2020, actual net expenditures were \$303,115,852 under the 2019-2020 contract. The remaining amounts on the 2019-2020 contract year where the Center can be reimbursed for qualifying expenditures are approximately \$9,058,000, subject to any future budget amendments.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements

During the year ended June 30, 2020, the Center adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, and has applied them prospectively. ASU 2014-09 replaces most existing revenue recognition guidance in U.S. GAAP and requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2018-08 provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional and unconditional contributions. No significant adjustments were made in order to adopt the new standards.

Basis of Accounting

The financial statements of the Center have been prepared on the accrual basis of accounting and, accordingly, revenue is recognized when earned and expenses are recognized when the obligation is incurred. Reimbursements from the State are considered earned when a qualifying expense is incurred.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

The Center is required to report information regarding its financial position and activities according to two classes of net assets based on the existence or absence of donor-imposed restrictions: without donor restrictions and with donor restrictions.

Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. The following funds are used by the Center to account for net assets without donor restrictions.

Operating Fund

Accounts in this fund are used to record the 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 the Early Intervention Program, a federally funded program.

Donation Fund

Accounts in this fund are used record solicited and unsolicited support received by the Center for the benefit of its clients.

With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of the Center or the passage of time. As the restrictions are satisfied, net assets are reclassified as Without Donor Restrictions and reported in the accompanying statements of activities as net assets released from restrictions. Also included in this category are net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

As of June 30, 2020, the Center had no net assets with donor restrictions.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Contributions

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and nature of any donor-imposed restrictions.

Contributions, including pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

All contributions are considered to be available for unrestricted use unless specially restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net assets with donor restrictions. When a donor's stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Permanently restricted contributions have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Principal areas requiring the use of estimates are assumptions utilized for the pension plan and the functional allocation of expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the statement of cash flows, the Center considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. At June 30, 2020 and at various times during the year, the Center has maintained cash balances in its bank in excess of federally insured limits. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Contracts Receivable - State of California

Contracts receivable and contract support are recorded on the accrual method as related expenses are incurred.

Receivables from Intermediate Care Facility Vendors

The Centers for Medicare and Medicaid Services (CMS) approved federal financial participation in the funding of day and related transportation services purchased by the Center for consumers who reside in Intermediate Care Facilities (ICFs). CMS agreed that the day and related transportation services are part of the ICF service; however, the federal rules allow for only one provider of the ICF service. Accordingly, all the Medicaid funding for the ICF residents must go through the applicable ICF provider. The Center receives a 1.5% administrative fee based on the invoice submitted to DDS for the administrative work to implement the state plan amendment (SPA 07-004).

The DDS has directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these 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.

State Equipment

Pursuant to the terms of the State of California contract, equipment purchases become the property of the State and, accordingly, are charged as expenses when incurred. For the year ended June 30, 2020, equipment purchases totaled approximately \$372,000.

Accrued Vacation

The Center has accrued a liability and receivable for vacation leave benefits earned. However, such benefits are reimbursed under the state contract only when actually paid. However, such benefits are reimbursed under the DDS contract only when actually paid.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Deferred Rent

The Center leases office facilities under a lease agreement that is subject to scheduled acceleration of rental payments and rent abatements. The scheduled rent increases are amortized evenly over the life of the lease. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. The Center has recorded a receivable from the State for the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized.

Allocation of Expenses

The statement of functional expenses allocate expenses to the program and supporting service categories based on a direct-cost basis for purchase of services and salaries and related expenses. Operating expenses are allocated to program and supporting services based on management's estimates of the benefits the expenses covered.

Income Taxes

The Center has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code. Tax-exempt status is generally granted to nonprofit entities organized for charitable or mutual benefit purposes.

The Center recognizes the financial statement benefit of tax positions, such as filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Center’s fiscal years beginning after December 15, 2022 (fiscal year ending June 30, 2023 for the Center), with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

Subsequent Events

Subsequent to the year ending June 30, 2020, the Center received approximately \$300,000 as part of the Provider Relief Fund Program (PRF Program). The PFR program was part of the Coronavirus Aid, Relief, and Economic Security Act (CARES), the Paycheck Protection Program (PPP), and the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act to assist healthcare providers for healthcare related expenses or lost revenue attributable to the coronavirus.

The Center’s management has evaluated subsequent events from the statement of position date through March 3, 2021, the date the financial statements were available to be issued for the year ended June 30, 2020, and determined that there were no other items to disclose.

NOTE 2 – Cash - Client Funds and Unexpended Client Support

The Center functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center consumers. These cash balances are segregated from the operating cash accounts of the Center and are restricted for consumer support. Since the Center is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying statement of activities.

The following is a summary of operating activity not reported in the statement of activities for the year ended June 30, 2020:

Support:	
Social Security and other client support	<u>\$ 9,541</u>
Disbursements:	
Other disbursements	<u>\$ 9,541</u>

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 3 – Contract Receivable/Contract Advances - State of California

The Center’s primary source of revenue is from the State of California. Subject to renewal, the Center enters into a five-year contract with the State of California’s Department of Developmental Services that is subject to annual appropriations by the State. Revenue from the state is recognized monthly when a claim (invoice) for reimbursement of actual expenses is submitted to DDS for payment. These claims are paid at the State’s discretion either through a direct payment to the Center or by offsetting the claim against the cash advances received by the Center from the State.

As of June 30, 2020, DDS had advanced the Center, under the regional center contracts, \$66,539,080. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from DDS as follows:

Contract receivable	\$ 83,807,954
Contract advances	<u>(66,539,080)</u>
Net contract receivable	<u>\$ 17,268,769</u>

The Center has renewed its contract with the State for the fiscal year ending June 30, 2021. The contract provides for an initial funding of \$337,464,786.

In addition, the Center has accrued receivables from the State for expenses that will be settled in cash in future years. These expenses are required to be recognized as liabilities under generally accepted accounting principles; however, such benefits are reimbursed by the state contract only when actually paid. These expenses relate to accrued vacation, deferred rent liability, and pension plan liability.

NOTE 4 – Line of Credit

The Center has a revolving line of credit with a bank, expiring March 4, 2021, for a maximum borrowing amount of \$22,000,000, with a temporary maximum borrowing amount of \$35,000,000 for the period from July 1, 2020 through October 31, 2020. The line of credit is unsecured. At June 30, 2020, the interest rate was 1.94%. As of June 30, 2020, there was no outstanding balance on the line of credit.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5 – Pension Plan (Unaudited)

The Center has a defined benefit pension plan covering all employees through the California Public Employees’ Retirement System (“CalPERS”). All employees are, immediately upon hire, enrolled in the pension plan. Participants with at least five years of service credits are fully vested.

The Center obtained an accounting valuation report from CalPERS for the year ended June 30, 2020. This report relies on liabilities and related validation work performed by the CalPERS’ actuarial office as part of the June 30, 2020 funding valuation for the Plan. The June 30, 2019 liabilities, which were rolled forward to June 30, 2020, and used for this accounting valuation, are based on actuarial assumptions adopted by the CalPERS Board of Administration which are consistent with methods and actuarial assumptions promulgated by the Government Accounting Standards Board (“GASB”).

As a nonprofit organization, the Center is required to follow the accounting framework based on standards promulgated by the Financial Accounting Standards Board (“FASB”), and Accounting Standards Update 715 (ASU 715) – *Compensation: Retirement Benefits – Defined Benefit Pension Plans*. FASB and the ASU requires different methods and actuarial assumptions than GASB when preparing the valuation report.

The Center has opted to utilize the valuation report from CalPERS to record the unfunded defined benefit pension liability on the statement of financial position and recognize the changes in the funded status on the statement of activities and changes in net assets based on this valuation report, which is not in conformity with U.S. GAAP. The auditors’ opinion on the financial statements has been modified due to this departure from U.S. GAAP.

The following summarizes the GASB valuation report from CalPERS:

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.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5 – Pension Plan (Unaudited) (Continued)

The unfunded liability as of June 30, 2020 was as follows:

Benefit obligation	\$ 61,461,657
Market value of assets	<u>(45,263,014)</u>
Unfunded Liability	<u>\$ 16,198,643</u>

The changes in benefit obligation for the year ended June 30, 2020, were as follows:

Benefit Obligation – Beginning of year	\$ 58,216,925
Service cost	1,959,819
Interest cost	4,129,307
Assumption gain	(44,191)
Benefits payments to retirees	<u>(2,800,203)</u>
Benefit Obligation - Ending	<u>\$ 61,461,657</u>

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

Fair Value of Plan Assets - Beginning of year	\$ 43,073,411
Contributions:	
Employer	1,954,990
Employee	943,806
Investment return	2,151,733
Benefit payments to retirees	(2,800,203)
Administrative expenses	<u>(60,723)</u>
Fair Value of Plan Assets - Ending of year	<u>\$ 45,263,014</u>

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5 – Pension Plan (Unaudited) (Continued)

Net change in pension benefit unfunded liability for the year ended June 30, 2020 consists of the following components:

Service cost	\$ 1,959,819
Interest cost	4,129,307
Expected return on plan assets	(3,078,148)
Changes of assumptions	(445,735)
Differences between expected and actual experience	<u>(1,510,114)</u>
Net Change in Pension Benefit Unfunded Liability	<u>\$ 1,055,129</u>

The significant actuarial assumptions are as follows:

Long-term discount rate	7.15 %
Payroll growth	2.87 %
Expected long-term rate of return	7.25 %

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, 2020. The assets for the Center are part of the PERF and are invested accordingly.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5 – Pension Plan (Unaudited) (Continued)

Sensitivity of the Unfunded Liability to Changes in the Discount Rate

Increase of 1% (8.15%)	\$ 9,470,123
Currently 7.15%	\$ 16,198,643
Decrease of 1% (6.15%)	\$ 24,346,716

For the year ended June 30, 2020, the computed employer contribution rate was 13.90%. The employer and employee contribution paid to CalPERS during the year ended June 30, 2020 was \$2,898,796.

NOTE 6 – Commitments and Contingencies

The Center is obligated under certain operating leases for its office facilities and office equipment. The lease terms expire in various years through May 2026. The Center is required to pay for taxes, utilities, maintenance, and insurance on the facilities. Future minimum rental commitments for noncancelable operating leases are as follows:

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

<u>Year Ending June 30,</u>	
2021	\$ 1,486,232
2022	1,133,557
2023	1,161,896
2024	1,190,943
2025	1,220,717
Thereafter	<u>1,144,580</u>
	<u>\$ 7,337,925</u>

Rent expense for the year ended June 30, 2020 was \$1,952,306.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 – Commitments and Contingencies (Continued)

Contingencies

The Center is dependent on continued funding provided by the DDS to operate and provide services for its clients. The Center's contract with the DDS provides funding for services under the Lanterman Act. In the event that the operations of the Center result in a deficit position at the end of any 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's recommendations are subsequently reviewed by the governor and the Legislature and a decision is made with regard to specific actions.

In accordance with the terms of the DDS contract, an audit may be performed by an authorized state representative. Should such an audit disclose any unallowable costs, the Center may be liable to the State 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 at June 30, 2020.

Risks Associated with the Impact of COVID-19 on Operations

In March 2020, the World Health Organization declared the coronavirus (COVID-19), a global pandemic and public health emergency. The Center continues to monitor developments, including government requirements and recommendations at the national, state, and local level to evaluate possible extensions to all or part of such closures. Because of the severity and global nature of the COVID-19 pandemic, it is reasonably possible that the estimates in the financial statements will change in the near term and the effect of such change could be material. The impact on the Center's operations could be significant and have a material impact on its financial position and operating results. There is significant uncertainty and management is in the process of evaluating the potential future impact on its programs and financial statements.

Legal Proceedings

The Center is subject to various legal proceedings and claims arising in the ordinary course of its operations. The Center's management believes that the ultimate resolution of these matters will not have a material adverse effect on the Center's financial position or activities.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 6 – Commitments and Contingencies (Continued)

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, with accumulated reserve in the amount of \$208,539 to cover possible exposure of unusual employment claims.

Labor Force

The Center retains approximately 80 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, renegotiations of such agreements could expose the Center to an increase in hourly costs or work stoppages. The current bargaining agreement will expire December 11, 2021.

NOTE 7 – Financial Assets and Liquidity Resources

As of June 30, 2020, financial assets and liquidity resources available within one year of the statement of financial position for general expenditure, such as operating expenses, were as follows:

Financial Assets:	
Cash and cash equivalents	\$ 11,382,658
Contracts receivable - state of California	17,268,769
Receivable from	
Intermediate Care Facility vendors	<u>2,454,429</u>
 Total financial assets available within one year	 <u>\$ 31,105,856</u>

Each regional center submits a monthly purchase of service expenditure projection to DDS, beginning in December of each fiscal year. By February 1st of each year, DDS shall allocate to all regional centers no less than one hundred percent (100%) of the enacted budget for Operations and ninety-nine percent (99%) of the enacted budget for Purchase of Service. To do this, it may be necessary to amend the Center’s contract in order to allocate funds made available from budget augmentations and to move funds among regional centers. In the event that DDS determines that a regional center has insufficient funds to meet its contractual obligations, DDS shall make best efforts to secure additional funds and/or provide the regional center with regulatory and statutory relief. The contract with DDS allows for adjustments to the Center’s allocations and for the payment of claims up to two years after the close of each fiscal year.

In addition, the Center maintains a line of credit (see Note 4) to manage cash flow requirements as needed should there be delays in reimbursement for expenditures from DDS.

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U.S. Department of Education Passed through State of California Department of Developmental Services			
Special Education – Grants for Infants and Families	84.181A	H181A190037	\$ 1,189,220
Corporation for National and Community Service Passed through State of California Department of Developmental Services			
Foster Grandparent Program	94.011	19SFPCA002	<u>339,909</u>
Total federal expenditures			<u>\$ 1,529,129</u>

NORTH BAY DEVELOPMENTAL DISABILITY SERVICES, INC.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of North Bay Developmental Disabilities Services, Inc. under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of North Bay Developmental Disabilities Services, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of North Bay Developmental Disabilities Services, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting and based on state contract budget allocations. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

North Bay Developmental Disabilities Services, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Bay Developmental Disabilities Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, 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 March 3, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Bay Developmental Disabilities Services, Inc.'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 North Bay Developmental Disabilities Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of North Bay Developmental Disabilities Services, Inc.'s internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 North Bay Developmental Disabilities Services, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Long Beach, California
March 3, 2021

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

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

Report on Compliance for Each Major Federal Program

We have audited North Bay Developmental Disabilities Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on North Bay Developmental Disabilities Services, Inc.'s major federal program for the year ended June 30, 2020. North Bay Developmental Disabilities Services, Inc.'s major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of North Bay Developmental Disabilities Services, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S., *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about North Bay Developmental Disabilities Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of North Bay Developmental Disabilities Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, North Bay Developmental Disabilities Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of North Bay Developmental Disabilities Services, Inc. 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 North Bay Developmental Disabilities Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Long Beach, California
March 3, 2021

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

The auditors’ report expresses a qualified opinion on whether the financial statements of North Bay Developmental Disabilities Services, Inc. were prepared in accordance with generally accepted accounting principles.

Internal control over financial reporting:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Noncompliance material to financial statements noted? – No

Federal awards

Internal control over major programs

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Type of auditors’ report issued on compliance for major programs? – Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? – No

Identification of major program:

Special Education – Grants for Infants and Families, CFDA #84.181A

Dollar threshold used to distinguish between type A and type B programs was \$750,000.

Auditee qualified as low-risk auditee? – No

SECTION II – FINDINGS - FINANCIAL STATEMENTS AUDIT

None

SECTION III – FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None