FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NORTH LOS ANGELES REGIONAL CENTER, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
North Los Angeles County Regional Center, Inc.
Chatsworth, California

Report on the Financial Statements
We have audited the accompanying financial statements of North Los Angeles County Regional Center, Inc. (the Center), a nonprofit corporation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net deficits, 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.

MARCUMGROUP
MEMBER
Marcum LLP ▪ 101 Montgomery Street ▪ Suite 1900 ▪ San Francisco, California 94104 ▪ Phone 415.432.6200 ▪ Fax 415.432.6201 ▪ marcumllp.com

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 deficits 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 (CFR) 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 information 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 Los Angeles County 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 10, 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 Los Angeles County 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 10, 2017, 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 10, 2017

NORTH LOS ANGELES REGIONAL CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015 (Restated)
Assets		
Current Assets		
Cash and cash equivalents	$ 25,956,470	$ 4,118,394
Cash - client trust funds	3,349,225	3,160,287
Cash - advances for housing project	--	46,703
Contract reimbursement receivable - State of California	103,451,856	91,765,934
Receivable from Intermediate Care Facilities - Retro	--	3,415,760
Receivable from Intermediate Care Facilities - Go Forward	2,522,471	1,548,510
Other receivables and prepaid expenses	2,175,129	1,998,161
Deferred costs for post-retirement health care plan	20,114,452	16,810,888
Total Assets	$ 157,569,603	$ 122,864,637
Liabilities and Net Deficit		
Liabilities		
Accounts payable	$ 39,361,644	$ 34,351,779
Accrued salaries	866,490	832,901
Advances for housing project	--	46,703
Contract advance - State of California	90,115,191	60,901,994
Payable to Department of Developmental Services	--	3,809,331
Accrued vacation and other leave benefits	1,918,690	1,528,092
Post-retirement health care plan obligation	30,074,132	28,352,800
Deferred rent	1,520,959	1,441,962
Unexpended client support	3,560,990	3,026,225
Total Liabilities	167,418,096	134,291,787
Unrestricted Net Deficit	(9,848,493)	(11,427,150)
Total Liabilities and Net Deficit	$ 157,569,603	$ 122,864,637

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

NORTH LOS ANGELES REGIONAL CENTER, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET DEFICIT

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015 (Restated)
Revenue and Support		
Grants	$ 373,873,107	$ 342,811,762
Grants - Federal	1,227,512	2,789,861
Interest	20,330	16,513
Other income	309,678	412,525
Total Revenue and Support	375,430,627	346,030,661
Expenses		
Program services:		
Direct consumer services	369,128,102	340,457,349
Supporting services:		
General and administrative	6,306,097	5,571,113
Total Expenses	375,434,199	346,028,462
Change in net deficit before health plan-related changes other than net periodic post-retirement benefit cost	(3,572)	2,199
Health plan-related changes other than net periodic post-retirement benefit cost	1,582,229	2,751,067
Change in Net Deficit	1,578,657	2,753,266
Unrestricted Net Deficit - Beginning	(11,427,150)	(14,180,416)
Unrestricted Net Deficit - Ending	$ (9,848,493)	$ (11,427,150)

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

NORTH LOS ANGELES REGIONAL CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Supporting Services	
	Direct Consumer Services	General and Administrative	Total
Salaries and Related Expenses			
Salaries	$ 21,190,451	$ 2,170,205	$ 23,360,656
Employee health and retirement benefits	9,170,392	939,179	10,109,571
Payroll taxes	279,689	28,644	308,333
Total Salaries and Related Expenses	30,640,532	3,138,028	33,778,560
Purchase of Services			
Other purchased services	201,853,416	--	201,853,416
Day programs	77,127,109	--	77,127,109
Residential care facilities	50,534,505	--	50,534,505
Facility rent	2,884,660	179,563	3,064,223
Data processing	--	1,293,029	1,293,029
General expenses	4,143,630	973,148	5,116,778
Legal fees	427,061	129,443	556,504
Communication	432,279	30,447	462,726
Equipment purchases	102,961	11,746	114,707
Staff travel	272,720	22,966	295,686
Insurance	249,179	60,822	310,001
Office expenses	157,653	11,195	168,848
Facility maintenance	--	156,204	156,204
Equipment rental	67,998	4,580	72,578
Family Resource Center	113,173	--	113,173
Printing	59,373	3,237	62,610
ARCA dues	--	109,787	109,787
Contract and consulting services	61,853	17,875	79,728
Accounting fees	--	80,150	80,150
Board expenses	--	81,668	81,668
Equipment maintenance	--	2,209	2,209
Total	$ 369,128,102	$ 6,306,097	$ 375,434,199

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

NORTH LOS ANGELES REGIONAL CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	Program Services	Supporting Services	
	Direct Consumer Services	General and Administrative	Total (Restated)
Salaries and Related Expenses			
Salaries	$ 19,664,875	$ 2,238,528	$ 21,903,403
Employee health and retirement benefits	8,503,252	967,958	9,471,210
Payroll taxes	267,120	30,407	297,527
Total Salaries and Related Expenses	28,435,247	3,236,893	31,672,140
Purchase of Services			
Other purchased services	186,774,896	--	186,774,896
Day programs	72,137,027	--	72,137,027
Residential care facilities	47,440,175	--	47,440,175
Facility rent	2,522,728	195,729	2,718,457
Data processing	--	1,100,453	1,100,453
General expenses	780,975	232,159	1,013,134
Communication	465,822	40,616	506,438
Equipment purchases	376,006	49,052	425,058
Legal fees	481,184	224,158	705,342
Insurance	219,360	58,311	277,671
Staff travel	288,924	16,384	305,308
Facility maintenance	--	128,927	128,927
Office expenses	213,293	17,444	230,737
Family Resource Center	101,797	--	101,797
Equipment rental	106,536	8,713	115,249
Contract and consulting services	27,275	47,668	74,943
Board expenses	--	53,266	53,266
ARCA dues	--	82,530	82,530
Printing	86,104	5,302	91,406
Accounting fees	--	65,250	65,250
Equipment maintenance	--	8,258	8,258
Total	$ 340,457,349	$ 5,571,113	$ 346,028,462

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

NORTH LOS ANGELES REGIONAL CENTER, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015 (Restated)
Cash Flows From Operating Activities		
Change in net deficits	$ 1,578,657	$ 2,753,266
Adjustments to reconcile change in net deficit to net cash provided (used) by operating activities:		
Health plan-related changes other than net periodic post-retirement benefit cost	(1,582,229)	(2,751,067)
Changes in operating assets and liabilities:		
Contract reimbursement receivable - State of California	(11,685,922)	(1,459,435)
Other receivables and prepaid expenses	(176,968)	(51,200)
Deferred costs for post-retirement health care plan	(3,303,564)	(8,636,935)
Accounts payable	5,009,865	4,381,171
Accrued salaries	33,589	44,462
Advances for housing project	(46,703)	(15,520)
Accrued vacation and other leave benefits	390,598	83,195
Payable to Department of Developmental Services	(1,367,532)	1,440,098
Post-retirement health care plan obligation	3,303,561	8,636,935
Deferred rent	78,997	(5,127)
Unexpended client support	534,765	377,984
Net Cash (Used in) Provided by Operating Activities	(7,232,886)	4,797,827
Cash Flows From Financing Activities		
Proceeds from contract advance	88,989,967	77,694,094
Payment of contract advance	(59,776,770)	(86,192,080)
Net Cash Provided by (Used in) Financing Activities	29,213,197	(8,497,986)
Net Increase (Decrease) in Cash and Cash Equivalents	21,980,311	(3,700,159)
Cash and Cash Equivalents - Beginning	7,325,384	11,025,543
Cash and Cash Equivalents - Ending	$ 29,305,695	$ 7,325,384
Cash and cash equivalents	$ 25,956,470	$ 4,118,394
Cash - client trust funds	3,349,225	3,160,287
Cash - advances for housing project	--	46,703
	$ 29,305,695	$ 7,325,384

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

North Los Angeles County Regional Center, Inc. (the Center), was incorporated on March 13, 1974 as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Development 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 the State of California system and serves the San Fernando, Antelope, and Santa Clarita Valleys.

The Lanterman Act includes governance provisions regarding the composition of the Board of Trustees (the Board). The Lanterman Act states that the Board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50 percent of the governing Board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25 percent of the members of the governing Board shall be persons with developmental disabilities. In addition, a member of a required advisory committee composed of persons representing the various categories of providers from which the Center purchases client services, shall serve as a member of the Board. To comply with the Lanterman 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:

> North Los Angeles County Regional Center, Inc. provides lifelong partnerships and planning to persons with developmental disabilities by promoting their civil and personal rights, providing comprehensive information, advocating in cooperation with consumers, promoting and providing quality services, and supporting full participation of consumers and families in all aspects of community life.

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 (DDS) pursuant to the provisions of the Lanterman Act. Maximum expenditures under the contract are limited to the contract amount plus interest earned. The Center is required to have 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.

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

STATE OF CALIFORNIA CONTRACT (CONTINUED)

Under the terms of these DDS contracts, funded expenditures are not to exceed $363,677,079, $336,625,530, and $312,143,457 for the 2015/16, 2014/15, and 2013/14 contract years, respectively. As of June 30, 2016, actual net expenditures under the 2015/16, 2014/15, and 2013/14 contracts were $318,924,410, $332,715,656, and $311,268,844, respectively.

The net deficit reported as of June 30, 2016 and 2015, on the statements of financial position is primarily the result of the implementation of an accounting standard regarding the reporting of the Center’s post-retirement health care plan. As further discussed in Notes 1 and 7, the accounting standard required the Center to recognize as a charge to net assets the actuarial losses and prior service cost which had not yet been recognized as components of periodic plan expenses. For purposes of reporting plan expenses, the unrecognized actuarial losses and prior service costs will continue to be amortized into plan expenses over future years. Plan expenses under the post-retirement health care plan are reimbursed under the DDS contract as the Center funds the plan.

BASIS OF ACCOUNTING

The Center prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred 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, Community Placement Plan (CPP), and a federally funded program. The unrestricted net asset group is comprised of the Operating Fund and Donation Fund.

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

CLASSIFICATION OF NET ASSETS (CONTINUED)

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 federally-funded programs.

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

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

Permanently Restricted
Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

As of June 30, 2016 and 2015, and for the years then ended, the Center did not have any temporarily or permanently restricted net assets or activities.

CLIENT TRUST FUNDS

The Center serves as representative payee for a portion of its clients. In this fiduciary capacity, it receives social security benefits and other sources of income and makes payments on behalf of certain developmentally disabled clients who are deemed unable to administer the funds themselves. Client trust transactions are not considered revenue or expenses of the Center. The cash that is received and outstanding receivables, net of interfund liabilities, are reported as assets and a liability, *unexpended client support*, until it is distributed.

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.

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

ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

CONTRACT REIMBURSEMENT AND OTHER RECEIVABLES

The majority of the Center's receivables represent or relate 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 value in excess of $5,000 and with an estimated useful life beyond one year. For the years ended June 30, 2016 and 2015, equipment purchases in state equipment totaled $699,885 and $298,583, respectively and are included in *equipment purchases*, *data processing*, and *general expenses*. The aggregate tracked state equipment at June 30, 2016 and 2015, totaled $4,532,820 and $3,888,338, respectively.

ADVANCES FOR HOUSING PROJECT

The Center received DDS funding to develop permanent affordable and accessible homes for consumers moving from the Lanterman Development Center to the Center's catchment area. The unexpended funds were held in a separate cash account and were for the sole purpose of acquiring, renovating, and starting up four specialized residential facilities through a contract with both a nonprofit housing development corporation and the operator of the homes. At June 30, 2015, the Center held $46,703 of unexpended funds. During the year ended June 30, 2016, all funds have been expended.

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

ACCRUED VACATION AND OTHER LEAVE BENEFITS

The Center has accrued a liability for leave benefits earned 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.

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. 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.

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 deficit. These transactions are reported as *net assets released from restrictions* and are reported separately from other transactions. There were no net assets released from restrictions for the years ended June 30, 2016 and 2015.

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

FEDERAL GRANTS

The Center is a sub-recipient to the DDS with regards 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 age three, 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. Accordingly, it is exempt from federal and California income taxes and is not liable for federal unemployment taxes.

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 tax returns of the Center are subject to examination by federal and state taxing authorities. However, there are currently no examinations pending or in progress.

POST-RETIREMENT HEALTH CARE PLAN

The Center is required to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in the statements of financial position, with an offsetting charge or credit to net assets. Gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net period benefit cost will be recognized each year as a separate charge of credit to net assets.

During the year ended June 30, 2016, the Center engaged a new actuary. As such, certain assumptions used to calculate the post-retirement health care plan obligation have changed.

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

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. Consistent with regional center and nonprofit industry reporting trends, the Center does not account for the funded status of this Plan. However, the actuarial information is disclosed in the financial statements.

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

FUNCTIONAL ALLOCATION OF EXPENSES

The statements of functional expenses allocate expenses for all funds to the program and supporting service categories based on a direct cost basis for purchase of services, salaries, and related expenses. Operating expenses are allocated based on a percentage of salaries and related expenses per category to total salaries and related expenses, except for certain expenses that are allocated based on percentage of total employees or on a direct cost basis.

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 reimbursement receivables, and receivables from vendors. The Center places cash in money market 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.

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

CONCENTRATIONS OF RISK (CONTINUED)

Labor Force

For the years ended June 30, 2016, and 2015, the labor force through Social Services Union, Local 721 Services Employees International Union, CtW, CLC (the Union) comprise 83% and 84%, respectively of the total number of employees. 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 Center has not experienced any disruptions in its service due to this concentration. The Center's collective bargaining agreement expired on September 30, 2014, and was subsequently renewed as of March 1, 2015. The current agreement is effective through February 28, 2019.

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.

RECENT ACCOUNTING PRONOUNCEMENTS

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

On February 25, 2016, the FASB issued ASU 2016-02, *Leases*. The new standard creates Topic 842, *Leases*, in the FASB *Accounting Standards Codification* (FASB ASC) and supersedes FASB ASC 840, *Leases*. Entities that hold numerous equipment and real estate 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.

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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 deficit 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.

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.

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. Management is evaluating the impact of this new guidance.

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 an 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.

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

ASU 2016-14 also requires enhanced disclosures about:

- Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions as of the end of the period.
- Composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources.
- Qualitative information that communicates how an 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 an 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 deferred rent liability and accrued vacation on the statements of activities and changes in net deficit 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.

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

RESTATEMENT (CONTINUED)

	June 30, 2015 Balance as Originally Stated	Adjustment	July 1, 2015 Balance as Restated
Contract reimbursement receivable - State of California	$ 88,795,880	$ 2,970,054	$ 91,765,934
Expenses for accrued vacation and other leave benefits	1,528,092	(1,528,092)	--
Expenses for rent liability	1,441,962	(1,441,962)	--
Grants	345,523,555	78,068	345,601,623
Program services Direct client services	340,387,415	69,934	340,457,349
Supporting services General and administrative	5,562,979	8,134	5,571,113
Salaries	21,820,208	83,195	21,903,403
Facility rent	2,723,584	(5,127)	2,718,457

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

NOTE 2 - CASH - CLIENT TRUST FUNDS AND UNEXPENDED CLIENT SUPPORT

Client cash balances are segregated from the operating cash accounts of the Center and are restricted for client support. The following is a summary of operating cash activity not reported in the statements of activities and changes in net deficit:

	2016	2015
Support:		
Social Security and other client support	$ 17,791,975	$ 18,349,436
Disbursements:		
Living out of home	$ 11,105,754	$ 11,829,537
Other disbursements	6,686,221	6,519,899
Total	$ 17,791,975	$ 18,349,436

NOTE 3 - CONTRACT REIMBURSEMENT RECEIVABLE - STATE OF CALIFORNIA

Contract reimbursement receivable consists of the following at June 30:

	2016	2015
Claims submitted:		
Current year	$ 97,510,986	$ 81,583,298
Prior year	2,651,831	5,688,825
Second prior year	(150,610)	1,523,757
	100,012,207	88,795,880
Reimbursable expenses not yet submitted	3,439,649	2,970,054
Total	$ 103,451,856	$ 91,765,934

NOTE 4 - 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 reimbursement under California's Home and Community Based Services Program, which is funded by the Medicaid Waiver grant (Medicaid).

Previously, such services provided to the residents were not reimbursable by Medicaid because the funds were not directly billed and received by the 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, 2011. 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 DDS advanced the amounts to the ICFs. The ICFs were directed to remit to the Center the amount billed less its administration fee and the Quality Assurance fee, which it must remit to the DHCS. After the Center receives the net payment from the ICF's, the Center 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.

The Center's activities related to retro funding were as follows as of June 30:

	2016	2015
Beginning receivable balance	$ 3,415,760	$ 10,061,111
Amount remitted by vendors	(3,171,450)	(4,749,691)
Amount credited by DDS	(244,310)	(1,895,660)
Total receivable from ICFs	$ --	$ 3,415,760
Total payable to the DDS	$ --	$ 3,809,331
Deferred administrative fee	$ --	$ 57,140

NOTE 4 - INTERMEDIATE CARE FACILITIES - STATE PLAN AMENDMENT (CONTINUED)

GO FORWARD ACTIVITIES

Effective July 1, 2012, the 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 the DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICFs. The 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 activities related to go forward funding were as follows as of June 30:

	2016	2015
Beginning receivable balance	$ 1,548,510	$ 2,446,351
Billing processed for year:		
Ended June 30, 2014	--	679,360
Ended June 30, 2015	762,199	7,220,907
Ended June 30, 2016	7,230,206	--
Amount remitted by vendors	(7,018,444)	(8,798,108)
Total receivable from ICFs	$ 2,522,471	$ 1,548,510
Deferred administrative fee	$ 46,538	$ 51,728

NOTE 5 - LINE OF CREDIT

The Center has an unsecured revolving line of credit with City National Bank (the Bank) whereby it may borrow up to $30,000,000 until June 30, 2016, then up to $58,000,000 until the earlier date of October 1, 2016 or the effective date of a State of California budget with respect to the State General Fund for the fiscal year commencing July 1, 2016, then $30,000,000 until the maturity date of June 30, 2017. Interest is payable monthly at (a) the greater of 2.25% or LIBOR plus 2.00%; or (b) the greater of 2.25% or 1.00% below the Bank's prime rate. There was no balance outstanding at June 30, 2016 and 2015, on the line of credit.

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 - POST-RETIREMENT HEALTH CARE PLAN

The Center sponsors a post-retirement health care plan for its qualified employees and uses a June 30 measurement date.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and funded status as of June 30 and for the years then ended:

RECONCILIATION OF BENEFIT OBLIGATION

	2016	2015
Change in benefit obligation:		
Obligation - Beginning	$ 47,370,818	$ 40,265,597
Service cost	3,128,880	3,348,777
Interest cost	1,957,637	1,870,556
Actuarial (gain) loss	(2,178,963)	3,141,027
Benefits paid	(819,285)	(1,255,139)
Obligation - Ending	49,459,087	47,370,818
Change in plan assets:		
Fair value of plan assets - Beginning	19,018,018	17,798,665
Employer contributions	942,412	1,971,139
Benefits paid	(819,285)	(1,255,139)
Actual return on plan assets	243,810	503,353
Fair value of plan assets - Ending	19,384,955	19,018,018
Net Amount Recognized in the Statements of Financial Position	$ (30,074,132)	$ (28,352,800)

NOTE 7 - POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)

RECONCILIATION OF BENEFIT OBLIGATION (CONTINUED)

Net periodic post-retirement benefit cost consists of the following components as of June 30 and for the years then ended:

	2016	2015
Service cost	$ 3,128,880	$ 3,348,777
Interest cost	1,957,637	1,870,556
Expected (return) on plan assets	(1,192,474)	(1,245,907)
Amortization of unrecognized prior service cost	330,093	330,093
Amortization of net loss from earlier periods	21,837	279,285
Net Periodic Post-Retirement Benefit Cost	$ 4,245,973	$ 4,582,804

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

	2016	2015
Actuarial loss	$ 11,541,909	$ 9,891,453
Prior service cost	(1,582,229)	1,650,456
Total	$ 9,959,680	$ 11,541,909

The Center accrued a receivable as of June 30, 2016 and 2015, from the DDS totaling $20,114,452 and $16,810,888, respectively, representing the portion of the post-retirement health care plan obligation which has been recognized as a plan expense. The receivables are included in the statements of financial position.

The accumulated post-retirement benefit obligation as of June 30, 2000, of $6,601,851 is being considered an unrecognized prior service cost and is being amortized on a straight-line basis over twenty years.

NOTE 7 - POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)

ASSUMPTIONS

Cost method (weighted average used in prior year) assumptions used to determine benefit obligations as of June 30, are as follows:

	2016	2015
Long-term rate of return on plan assets	6.25%	7.00%
Discount rate	3.95%	4.45%
General inflation	2.50%	2.45%

Cost method (weighted average used in prior year) assumptions used to determine net periodic benefit cost as of June 30, are as follows:

	2016	2015
Long-term rate of return on plan assets	6.25%	7.00%
Discount rate	4.70%	4.35%
General inflation	2.50%	2.35%

Cost method (weighted average used in prior year) asset allocations at June 30 are as follows:

	2016	2015	Target Allocation
Asset category:			
Equity	55.8%	62.0%	50-70%
Fixed income	35.7%	34.0%	25-45%
Alternatives	4.7%	0.0%	
Cash and cash equivalents	3.8%	4.0%	0-20%
Total	100.0%	100.0%	

The investment objective of the plan is to provide a rate of return commensurate with a moderate degree of risk of loss of principal and return volatility. The Post-Retirement Medical Trust Committee is responsible for the plan which has engaged a trustee to administer the plan and oversee the investments. The assets of the plan are periodically rebalanced to remain within the desired target allocations.

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

NOTE 7 - POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)

ASSUMPTIONS (CONTINUED)

Assumed health care cost trends as of June 30, 2015, are as follows:

Net periodic benefit cost:	
Health care cost trend rate assumed for next year	6.80%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%
Year that the rate reaches the ultimate trend rate	2019
Accumulated post-retirement benefit obligation:	
Health care cost trend rate assumed for next year	7.40%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%
Year that the rate reaches the ultimate trend rate	2020

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one percent change in assumed health care cost trend rates for June 30, 2015 would result in an increase of approximately $10,500,000 on the accumulated post-retirement benefit obligation.

As the Center engaged with a new actuary for the year ended June 30, 2016, medical inflation assumptions have changed for the year then ended. Medical inflation was based on the “Getzen” model published by the Society of Actuaries for purposes of evaluating long term medical trend. Under the Patient Protection and Affordable Care Act of 2010, a federal excise tax will apply for high cost health plans beginning in 2020. A margin to reflect the impact of the excise tax in future years is reflected in the assumed trend.

NOTE 7 - POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)

ASSUMPTIONS (CONTINUED)

The following tables show the trend rates used in this valuation:

For the Years Ending June 30,	Pre-65 % Inflation	Post-65 % Inflation
2017	8.25%	5.50%
2018	6.50%	6.50%
2019	5.50%	5.50%
2020	5.25%	5.25%
2021	5.25%	5.25%

PLAN ASSETS

The Plan's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1
Inputs are unadjusted quoted prices for identical assets in active markets accessible at the measurement date.

Level 2
Inputs include quoted prices for similar assets in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

NOTE 7 - POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)

PLAN ASSETS (CONTINUED)

Level 3

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

	Total Assets at Fair Value at June 30, 2016	Level 1	Level 2	Level 3
Asset Category:				
Equity:				
Large cap	$ 5,456,950	$ 5,456,950	$ --	$ --
International equity	1,793,369	1,793,369	--	--
Small cap	1,339,494	1,339,494	--	--
Equity fund	1,327,764	--	1,327,764	--
Mid cap	1,165,242	1,165,242	--	--
REIT	432,800	432,800	--	--
Commodities	213,025	213,025	--	--
Fixed income:				
Fixed income funds - taxable	6,096,561	4,759,217	1,337,344	--
High yield fixed income	616,540	--	616,540	--
International	209,307	--	209,307	--
Cash and cash equivalents	733,903	--	733,903	--
Total	$ 19,384,955	$ 15,160,097	$ 4,224,858	$ --

NOTE 7 - POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)

PLAN ASSETS (CONTINUED)

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

	Total Assets at Fair Value at June 30, 2015	Level 1	Level 2	Level 3
Asset Category:				
Equity:				
Large cap	$ 5,371,923	$ 5,371,923	$ --	$ --
International equity	1,985,454	1,985,454	--	--
Small cap	1,455,704	1,455,704	--	--
Equity fund	1,319,372	--	1,319,372	--
Mid cap	1,169,844	1,169,844	--	--
REIT	358,440	358,440	--	--
Commodities	214,080	214,080	--	--
Fixed income:				
Fixed income funds - taxable	5,573,148	4,258,980	1,314,168	--
High yield fixed income	604,955	--	604,955	--
International	200,586	--	200,586	--
Cash and cash equivalents	648,667	--	648,667	--
Balanced funds	115,845	--	115,845	--
Total	$ 19,018,018	$ 14,814,425	$ 4,203,593	$ --

CASH FLOWS – ESTIMATED FUTURE BENEFIT PAYMENTS

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

For the Years Ending June 30,	Amount
2017	$ 898,656
2018	999,714
2019	1,053,227
2020	1,191,953
2021	1,294,007
Years 2022 - 2026	8,241,560
Total	$ 13,679,117

NOTE 8 - DEFINED BENEFIT PENSION PLAN

The Center has a defined benefit pension plan covering all employees by becoming a member of CalPERS. All employees are, immediately upon hire, enrolled in the pension plan. The Center contributed 8.581% and 6.041% of the employees' gross salary to CalPERS during the years ended June 30, 2016 and 2015, respectively. For the employee contribution, employees are separated into two categories: classic members and new members. New members are new hires brought into CalPERS retirement membership for the first time on or after January 1, 2013 (no prior membership in CalPERS). Classic members are employees who were hired or have prior CalPERS retirement membership prior to January 1, 2013. For the year ended June 30, 2016, the employee contribution rate for classic members was 7.0%, of which the employee paid 3.5% and the Center paid 3.5% on behalf of the employee. The Center is prohibited from contributing any portion of the employee contribution rate for new members (Public Employee's Pension Reform Act of 2013). For the year ended June 30, 2016, the employee contribution rate for new members was 6.25%, paid entirely by the employee. Participants with at least five years of service credits are fully vested. For the years ended June 30, 2016 and 2015, $2,194,017 and $2,008,310 were paid 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.

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

ASSET VALUATION METHOD (CONTINUED)

The funded status as of June 30, 2015, the most current valuation, is as follows:

Present value of projected benefits	$111,108,969
Less present value of future:	
Employer normal costs	(13,202,912)
Employee contributions	(12,575,807)
Entry age normal accrued liability	85,330,250
Market value of assets	(84,115,361)
Unfunded status	$ 1,214,889

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

Beginning market value of assets - June 30, 2014	$ 82,288,582
Receivables for service buybacks as of June 30, 2014	(24,401)
Market value of assets as of June 30, 2014	82,264,181
Contributions:	
Employer	1,403,736
Employee	1,383,215
Benefit payments to retirees and beneficiaries	(2,476,253)
Refunds	(274,500)
Investment return	1,778,791
Receivables for service buybacks as of June 30, 2015	36,191
Ending balance - June 30, 2015	$ 84,115,361

The significant actuarial assumptions as of June 30, 2015, are as follows:

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

The expected employer and employee contributions to be paid to the plan during the next fiscal year are $1,667,272 and $1,525,897, respectively.

NOTE 8 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

ASSET VALUATION METHOD (CONTINUED)

The asset allocation as of June 30, 2015, is as follows:

	Current Allocation	Target
Global equity	53.8%	51.0%
Fixed income	17.6%	20.0%
Private equity	9.6%	10.0%
Real assets	10.5%	12.0%
Liquidity	2.5%	1.0%
Inflation linked	5.2%	6.0%
Other	0.8%	0.0%
Total	100.0%	100.0%

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

CalPERS follows a strategic asset allocation policy that identifies the percentage of funds to be invested in each asset class. The asset allocation shown above reflects the values of the Public Employees Retirement Fund (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 year ending June 30, 2016, the actuarial computed employer contribution rate will be 7.713% and the employee rate will be 6.865%.

NOTE 9 – OPERATING LEASES

The Center is obligated under certain non-cancelable operating leases for office equipment and field and main office facilities. The lease terms expire in various years through 2021. The terms of the leases provide for payment of minimum annual rentals and liability insurance.

NOTE 9 – OPERATING LEASES (CONTINUED)

On December 28, 2015, the Center exercised its early termination option for a majority of the Van Nuys, California office location. Except for the leased space that was not terminated early, the lease term shall now expire on October 31, 2016, with the same force and effect as if the lease was amended to provide for the term to expire on such date.

On December 22, 2015, the Center entered into a new lease for office space in Chatsworth, California. The lease will commence on November 1, 2016 and will expire on March 31, 2027, and may be extended with two five-year options. The monthly rent will range from $195,962 to $263,356.

The following schedule includes the majority of the Van Nuys, California office to October 31, 2016, the Van Nuys, California leased space that was not terminated early, and the Chatsworth, California office:

For the Years Ending June 30,	Amount
2017	$ 3,060,704
2018	3,150,239
2019	3,223,838
2020	3,229,879
2021	3,105,536
Thereafter	16,672,118
Total	$ 32,442,314

NOTE 10 - 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. 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.

NOTE 10 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Funding

The majority of the Center’s funding is provided under annual grants and contracts with federal and California agencies. If a significant reduction in the level of funding provided by these governmental agencies were to occur, it may have an effect on the Center’s programs and activities.

The Center’s 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 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 the DDS. 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 potential disallowed costs would be immaterial to the financial statements as of June 30, 2016 and 2015, and for the years then ended.

Insurance

The Center has elected to self-insure its unemployment insurance through a third party. Management has acquired adequate stop loss insurance to minimize its risk. The third party is required to reimburse the State of California for benefits paid to the Center’s former employees.

NOTE 11 - SUBSEQUENT EVENTS

The Center has evaluated all subsequent events through February 10, 2017, the date the financial statements were available to be issued.

MARCUM
ACCOUNTANTS ▲ ADVISORS

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 Trustees
North Los Angeles County Regional Center, Inc.
Chatsworth, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Los Angeles County Regional Center, Inc. (the Center), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net deficit, 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 10, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the 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.

MARCUMGROUP
MEMBER

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center'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 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 10, 2017

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

To the Board of Trustees
North Los Angeles County Regional Center, Inc.
Chatsworth, California

Report on Compliance for Each Major Federal Program

We have audited North Los Angeles County Regional Center, Inc.'s (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2016. The Center's major federal program is identified in the summary of auditors' results section of the accompanying *Schedule of Findings and Questioned Costs.*

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

MARCUMGROUP
MEMBER
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Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying *Schedule of Findings and Questioned Costs* as item 2016-001. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on the 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.

Marcum LLP

San Francisco, California
February 10, 2017

NORTH LOS ANGELES REGIONAL CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Disbursements/ Expenditures
Office of Special Education and Rehabilitative Services of the U.S. Department of Education passed-through the State of California Department of Developmental Services:				
Early Intervention Services:				
Special Education - Grants for Infants and Families	84.181	HD149012	$ --	$ 1,227,512
Total Expenditures of Federal Awards			$ --	$ 1,227,512

See independent auditors' report and notes to the Schedule of Expenditures of Federal Awards.

NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of North Los Angeles County Regional Center, Inc. (the Center) under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (*"Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Center.

Note 2: Summary of Significant Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as a reimbursement.

Note 3: Indirect Cost Rate

The Center has elected not to use the 10% de minimis indirect cost rate.

NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

SECTION I – SUMMARY OF THE AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified:	No
Significant deficiency(ies) identified that are not considered material weaknesses:	None reported
Noncompliance material to financial statements:	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified:	No
Significant deficiency(ies) identified that are not considered material weaknesses:	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 200.516(a)?	Yes, see 2016-001 on pages 45-46

NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016

SECTION I – SUMMARY OF THE AUDITORS' RESULTS

Identification of major programs:

CFDA Number	Name of Federal Program/Cluster
84.181	Special Education - Grants for Infants and Families

Dollar threshold to distinguish between type A and type B programs:	$750,000.
Audit qualified as low-risk auditee:	No
SECTION II – FINANCIAL STATEMENT FINDINGS	No matters reported
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	See 2016-001 on pages 45-46
SECTION IV – STATUS OF PRIOR YEAR AUDIT FINDINGS	There were no prior year findings for federal award programs

2016-001 PART C SIX MONTH REVIEW

FEDERAL AWARD PROGRAM

CFDA Number	Name of Federal Program
84.181	Special Education – Grants for Infants and Families (Part C)

CRITERIA

A periodic review of the Individual Family Service Plan for an infant or toddler and the infant's or toddler's family shall be conducted every six months, or more frequently if service needs change, or if the parent requests such a review.

CONDITION

Two consumers tested did not have a six month review performed timely.

QUESTIONED COSTS

The monetary effect of this finding is undeterminable.

CONTEXT

Based on our testing of 40 haphazardly selected Part C consumers, it came to our attention that two consumers did not have a six month review performed timely.

EFFECT

The Center was not in compliance with the six month review requirement as is applicable under the Early Start Program for two consumers.

CAUSE

The conditions are a result of a service coordinator's oversight in monitoring the date of the review and failure to conduct a review.

2016-001 PART C SIX MONTH REVIEW (CONTINUED)

RECOMMENDATION

We recommend the Center have a system in place to monitor service coordinators performance of timely six month reviews.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

NLACRC has developed and will be implementing new performance standards for all service coordinators effective February 21, 2017. The performance standards provide timelines for when certain activities are required, such as IFSP's or semi-annual reviews of the IFSP, to meet both statutory and regulatory requirements. Supervisors of CSC's will use the performance standards to monitor the work of CSC's to ensure that statutory and regulatory requirements are met. Additionally all Early Start employees were provided training during the first two weeks of January 2017 regarding the statutory and regulatory timelines for IFSPs. Additionally, Early Start supervisors are tracking semi-annual reviews in the SANDIS system to monitor the completion of reviews by statutory and regulatory timelines.