



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

Years Ended June 30, 2015 and 2014

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## **INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the accompanying financial statements of *North Los Angeles County Regional Center, Inc.* (the Center), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor 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.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *North Los Angeles County Regional Center, Inc.* as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Supplementary and Other Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2016, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Lautze & Lautze

San Francisco, California  
February 10, 2016

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**  
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,118,394	\$ 8,036,801
Cash - client trust funds	3,160,287	2,926,519
Cash - advances for housing project	46,703	62,223
Contract receivable - State of California	88,795,880	87,414,513
Receivable from Intermediate Care		
Facilities - Retro	3,415,760	10,061,111
Receivable from Intermediate Care		
Facilities - Go Forward	1,548,510	2,446,351
Other receivables and prepaid expenses	1,998,161	1,946,961
Deferred costs for accrued vacation		
and other leave benefits	1,528,092	1,444,897
Deferred costs for post-retirement health care plan	16,810,888	8,173,953
Deferred cost for rent liability	1,441,962	1,447,089
	<u>\$ 122,864,637</u>	<u>\$ 123,960,418</u>
<b>Total assets</b>		
<b>LIABILITIES AND NET DEFICIT</b>		
Liabilities:		
Accounts payable	\$ 34,351,779	\$ 29,970,608
Accrued salaries	832,901	788,439
Advances for housing project	46,703	62,223
Contract advance - State of California	60,901,994	69,399,980
Payable to Department of		
Developmental Services	3,809,331	9,912,425
Accrued vacation and other leave benefits	1,528,092	1,444,897
Post-retirement health care plan obligation	28,352,800	22,466,932
Deferred rent	1,441,962	1,447,089
Unexpended client support	3,026,225	2,648,241
	<u>134,291,787</u>	<u>138,140,834</u>
<b>Total liabilities</b>		
Commitments and contingencies		
Unrestricted net deficit	<u>(11,427,150)</u>	<u>(14,180,416)</u>
	<u>\$ 122,864,637</u>	<u>\$ 123,960,418</u>
<b>Total liabilities and net deficit</b>		

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**  
STATEMENTS OF ACTIVITIES

	Years Ended June 30,	
	2015	2014
Revenue and support:		
Federal awards	\$ 199,858,811	\$ 181,765,923
Grants	145,664,744	136,366,047
Interest	16,513	19,489
Donations and other	3,710	3,000
Other income	408,815	358,136
Total revenue and support	345,952,593	318,512,595
Expenses:		
Program services:		
Direct consumer services	340,387,415	313,090,981
Supporting services:		
General and administrative	5,562,979	5,431,154
Total expenses	345,950,394	318,522,135
Change in net deficit before health plan-related changes other than net periodic post-retirement benefit cost	2,199	(9,540)
Health plan-related changes other than net periodic post-retirement benefit cost	2,751,067	(2,281,201)
Change in net deficit	2,753,266	(2,290,741)
Unrestricted net deficit:		
Beginning of year	(14,180,416)	(11,889,675)
End of year	\$ (11,427,150)	\$ (14,180,416)

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2015

	Program Services	Supporting Services		Total
	Direct Consumer Services	General and Administrative		
Salaries and related expenses:				
Salaries	\$ 19,590,183	\$ 2,230,025	\$	21,820,208
Employee health and retirement benefits	8,503,252	967,958		9,471,210
Payroll taxes	267,120	30,407		297,527
	28,360,555	3,228,390		31,588,945
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	2,527,486	196,098		2,723,584
Data processing	-	1,100,453		1,100,453
General expenses	780,975	232,159		1,013,134
Legal fees	481,184	224,158		705,342
Communication	465,822	40,616		506,438
Equipment purchases	376,006	49,052		425,058
Staff travel	288,924	16,384		305,308
Insurance	219,360	58,311		277,671
General office expenses	213,293	17,444		230,737
Facility maintenance	-	128,927		128,927
Equipment rental	106,536	8,713		115,249
Family Resource Center	101,797	-		101,797
Printing	86,104	5,302		91,406
ARCA dues	-	82,530		82,530
Contract and consulting services	27,275	47,668		74,943
Accounting fees	-	65,250		65,250
Board expenses	-	53,266		53,266
Equipment maintenance	-	8,258		8,258
	\$ 340,387,415	\$ 5,562,979	\$	345,950,394

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2014

	Program Services	Supporting Services	
	Direct Consumer Services	General and Administrative	Total
Salaries and related expenses:			
Salaries	\$ 17,832,629	\$ 2,372,027	\$ 20,204,656
Employee health and retirement benefits	7,087,840	942,797	8,030,637
Payroll taxes	243,247	32,356	275,603
Total salaries and related expenses	25,163,716	3,347,180	28,510,896
Purchase of services:			
Other purchased services	173,060,372	-	173,060,372
Day programs	68,512,257	-	68,512,257
Residential care facilities	41,176,453	-	41,176,453
Facility rent	2,425,897	189,061	2,614,958
Data processing	-	938,767	938,767
General expenses	576,641	248,777	825,418
Communication	462,298	37,268	499,566
Equipment purchases	415,334	34,405	449,739
Legal fees	380,937	63,864	444,801
Insurance	211,762	54,941	266,703
Staff travel	246,971	18,118	265,089
Facility maintenance	-	188,571	188,571
General office expenses	165,267	13,053	178,320
Family Resource Center	116,370	-	116,370
Equipment rental	86,384	6,903	93,287
Contract and consulting services	31,050	62,058	93,108
Board expenses	-	88,004	88,004
ARCA dues	-	82,530	82,530
Printing	59,272	4,073	63,345
Accounting fees	-	50,600	50,600
Equipment maintenance	-	2,981	2,981
	<b>\$ 313,090,981</b>	<b>\$ 5,431,154</b>	<b>\$ 318,522,135</b>

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**  
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Change in net deficit	\$ 2,753,266	\$ (2,290,741)
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	(2,751,067)	2,281,201
(Increase) decrease in assets:		
Contract receivable - State of California	(1,381,367)	(18,132,203)
Other receivables and prepaid expenses	(51,200)	(10,540)
Deferred costs for post-retirement health care plan	(8,636,935)	3,560,950
Increase (decrease) in liabilities:		
Accounts payable	4,381,171	2,690,661
Accrued salaries	44,462	66,100
Advances for housing project	(15,520)	62,223
Payable to Department of Developmental Services	1,440,098	(421,378)
Post-retirement health care plan obligation	8,636,935	(3,560,950)
Unexpended client support	377,984	(334,913)
	<u>4,797,827</u>	<u>(16,089,590)</u>
Net cash provided (used) by operating activities		
Cash flows from financing activities:		
Proceeds from contract advance	77,694,094	68,284,458
Payment of contract advance	(86,192,080)	(49,328,978)
	<u>(8,497,986)</u>	<u>18,955,480</u>
Net cash provided (used) by financing activities		
Net increase (decrease) in cash and cash equivalents	(3,700,159)	2,865,890
Cash and cash equivalents:		
Beginning of year	<u>11,025,543</u>	<u>8,159,653</u>
End of year	<u>\$ 7,325,384</u>	<u>\$ 11,025,543</u>
Cash and cash equivalents	\$ 4,118,394	\$ 8,036,801
Cash - client trust funds	3,160,287	2,926,519
Cash - advances for housing project	46,703	62,223
	<u>\$ 7,325,384</u>	<u>\$ 11,025,543</u>

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

**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 (the 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.

Under the terms of these DDS contracts, funded expenditures are not to exceed \$334,972,469, \$310,075,257, and \$289,003,365 for the 2014/15, 2013/14, and 2012/13 contract years, respectively. As of June 30, 2015, actual net expenditures under the 2014/15, 2013/14, and 2012/13 contracts were \$329,611,202, \$307,189,181, and \$288,190,761, respectively.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

**State of California Contract (Continued)**

The net deficit reported as of June 30, 2015 and 2014, 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.

**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.

*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, 2015 and 2014, and for the years then ended, the Center did not have any temporarily or permanently restricted net assets or activities.

**Fair Value of Financial Statements**

The carrying amount of receivables and accounts payable approximate fair value because of the short maturity of these instruments.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

**Classification of Net Assets (Continued)**

**Unrestricted Net Assets**

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

*Operating Fund:*

These accounts are used to record primary activities of the Center which are carried out under the DDS contract. These accounts also record the activities of the federally-funded programs.

*Client Trust Funds:*

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

*Donation Fund:*

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

**Estimates**

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

**Cash and Cash Equivalents**

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

**Contract and Other Receivables**

The majority of the Center's receivables 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.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

**State Equipment**

Pursuant to the terms of the DDS contract, equipment purchases become the property of the State of California and, accordingly, are charged as expenses when incurred. The Center is required to track acquisitions of furniture and equipment with a cost value in excess of \$5,000 and with an estimated useful life beyond one year. For the years ended June 30, 2015 and 2014, equipment purchases in state equipment totaled \$298,583 and \$711,974, respectively. The aggregate tracked state equipment at June 30, 2015 and 2014, totaled \$3,888,338 and \$3,589,755, 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 are held in a separate cash account and will be used 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 home. At June 30, 2015 and June 30, 2014, the Center held \$46,703 and \$62,223 of unexpended funds.

**Accrued Vacation and Other Leave Benefits**

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

**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. The Center has recorded deferred costs for deferred rent to reflect the future reimbursement of the additional rent expense recognized.

**Revenue Recognition**

Revenue is recognized in the year the claim is filed with the DDS. Depending on the date of service, claims are classified and charged to the appropriate contract as follows:

- Current year
- Prior year
- Second prior year

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

**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. These transactions are reported as *net assets released from restrictions* and are reported separately from other transactions.

**Federal Grants**

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

**U.S. Department of Health and Human Services**

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

**U.S. Department of Education**

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

**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 or credit to net assets.

**Income Taxes**

The Center is a qualified organization exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and state 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.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

**Income Taxes (Continued)**

Management evaluated the Center's tax positions and conclude 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 2011 through 2014 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2010 through 2014 tax years remain subject to examination by the California Franchise Tax Board.

**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.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

**Concentrations of Risk**

**Credit Risk**

Financial instruments, which potentially subject the Center to a concentration of credit risk, principally consist of cash and cash equivalents, contract receivables, and receivables from vendors. The Center invests cash in 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. Although the State of California is experiencing budgetary issues, the Center has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

**Labor Force**

For the years ended June 30, 2015, and 2014, the Center retained approximately 69 percent (out of the 84 percent eligible) and 67 percent (out of the 84 percent eligible) of its labor force through Social Services Union, Local 721 Services Employees International Union, CtW, CLC (the Union). This labor force is subject to collective bargaining agreements and, as such, renegotiation of such agreements could expose the Center to an increase in hourly costs and/or work stoppages. The 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.

**Recent Accounting Pronouncements**

The Financial Accounting Standard's Board (the FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* that eliminates the transaction-specific and industry-specific revenue recognition guidance under current U.S. GAAP and replaces it with a principle-based approach for determining revenue recognition. The core principle of this new standard is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB also issued ASU 2015-14 which deferred the effective date of ASU 2014-09. The guidance is applicable for annual reporting periods beginning after December 15, 2018. Management has not evaluated the impact of this new guidance.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

**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:

	<u>2015</u>	<u>2014</u>
Support:		
Social Security and other client support	<u>\$ 18,349,436</u>	<u>\$ 18,770,068</u>
Disbursements:		
Living out of home	\$ 11,829,537	\$ 11,727,725
Other disbursements	<u>6,519,899</u>	<u>7,042,343</u>
	<u>\$ 18,349,436</u>	<u>\$ 18,770,068</u>

**3. CONTRACT RECEIVABLE**

Contract receivable consists of the following at June 30:

	<u>2015</u>	<u>2014</u>
Current year	\$ 81,583,298	\$ 85,387,001
Prior year	5,688,825	1,803,140
Second prior year	<u>1,523,757</u>	<u>224,372</u>
	<u>\$ 88,795,880</u>	<u>\$ 87,414,513</u>

**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.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

Prior to the year ended June 30, 2012, the DDS directed the Center to prepare billings for these services on behalf of the ICFs for the period from July 1, 2007 to June 30, 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:

	<u>2015</u>	<u>2014</u>
Beginning receivable balance	\$ 10,061,111	\$ 7,009,468
Billing processed for year:		
Ended June 30, 2012	-	7,371,485
Amount remitted by vendors	(4,749,691)	(4,319,842)
Amount credited by DDS	<u>(1,895,660)</u>	<u>-</u>
Total receivable from ICFs	<u>\$ 3,415,760</u>	<u>\$ 10,061,111</u>
Total payable to the DDS	<u>\$ 3,809,331</u>	<u>\$ 9,912,425</u>
Deferred administrative fee	<u>\$ 57,140</u>	<u>\$ 148,686</u>

**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.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

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

	<u>2015</u>	<u>2014</u>
Beginning receivable balance	\$ 2,446,351	\$ 2,800,018
Billing processed for year:		
Ended June 30, 2013	-	709,592
Ended June 30, 2014	679,360	7,375,375
Ended June 30, 2015	7,220,907	-
Amount remitted by vendors	<u>(8,798,108)</u>	<u>(8,438,634)</u>
Total receivable from ICFs	<u>\$ 1,548,510</u>	<u>\$ 2,446,351</u>
Deferred administrative fee	<u>\$ 51,728</u>	<u>\$ 32,520</u>

**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 \$25,000,000 until June 30, 2015, then up to \$58,000,000 until the earlier date of October 1, 2015 or the effective date of a State of California budget with respect to the State General Fund for the fiscal year commencing July 1, 2015, then \$30,000,000 until the maturity date of June 30, 2016. 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, 2015 and 2014, on the line of credit.

**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.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

**7. POST-RETIREMENT HEALTH CARE PLAN**

The Center sponsors a post-retirement health care plan for its 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**

	<u>2015</u>	<u>2014</u>
Change in benefit obligation:		
Obligation at beginning of year	\$ 40,265,597	\$ 36,533,551
Service cost	3,348,777	2,041,534
Interest cost	1,870,556	1,615,204
Actuarial loss	3,141,027	1,152,610
Benefits paid	<u>(1,255,139)</u>	<u>(1,077,302)</u>
 Obligation at end of year	 <u>47,370,818</u>	 <u>40,265,597</u>
 Change in plan assets:		
Fair value of plan assets at beginning of year	17,798,665	12,786,870
Employer contributions	716,000	3,015,900
Actual return on plan assets	<u>503,353</u>	<u>1,995,895</u>
 Fair value of plan assets at end of year	 <u>19,018,018</u>	 <u>17,798,665</u>
 Net amount recognized in the statements of financial position	 <u><u>\$ (28,352,800)</u></u>	 <u><u>\$ (22,466,932)</u></u>

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

**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:

	2015	2014
Service cost	\$ 3,348,777	\$ 2,041,534
Interest cost	1,870,556	1,615,204
Net asset gain (loss)	(742,554)	1,100,814
Amortization of unrecognized prior service cost	330,093	330,093
Amortization of net loss from earlier periods	279,285	-
Return on assets	(503,353)	(1,995,895)
Net periodic post-retirement benefit cost	\$ 4,582,804	\$ 3,091,750

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:

	2015	2014
Actuarial loss	\$ 9,891,453	\$ 6,287,157
Prior service cost	1,650,456	1,980,549
	\$ 11,541,909	\$ 8,267,706

The Center accrued a receivable as of June 30, 2015 and 2014, from the DDS totaling \$16,810,888 and \$8,173,953, 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.

**Assumptions**

Weighted-average assumptions used to determine benefit obligations as of June 30 are as follows:

	2015	2014
Long-term rate of return on plan assets	7.00%	7.00%
Discount rate	4.45%	4.35%
General inflation	2.45%	2.35%

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

**7. POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)**

**Assumptions** (Continued)

Weighted-average assumptions used to determine net periodic benefit cost as of June 30 are as follows:

	2015	2014
Long-term rate of return on plan assets	7.00%	7.00%
Discount rate	4.35%	4.80%
General inflation	2.35%	2.80%

Weighted-average asset allocations at June 30 are as follows:

	2015	2014	Target Allocation
Asset category:			
Equity	62%	64%	50-70%
Fixed income	34%	33%	25-45%
Cash	4%	3%	0-20%
	100%	100%	

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. A trustee administers the plan assets and investment responsibility for the assets is assigned to outside investment managers. 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.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

**7. POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)**

**Assumptions (Continued)**

Assumed health care costs trend as of June 30 are as follows:

	2015	2014
Net periodic benefit cost:		
Health care cost trend rate assumed for next year	6.80%	6.80%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2019	2018
Accumulated post-retirement benefit obligation:		
Health care cost trend rate assumed for next year	7.40%	7.40%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2020	2019

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 would have the following effects:

	1% Increase	1% Decrease
Effect on the accumulated post-retirement benefit obligation	\$ 10,505,911	\$ (8,074,384)

**Plan Assets**

The plan's assets are reported at fair value. 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 plan's financial assets and liabilities 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 and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability'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* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

**7. POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)**

**Plan Assets (Continued)**

*Level 2* – Inputs include quoted prices for similar assets or liabilities 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.

*Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the plan’s best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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	-
	<u>\$ 19,018,018</u>	<u>\$ 14,814,425</u>	<u>\$ 4,203,593</u>	<u>\$ -</u>

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

**7. POST-RETIREMENT HEALTH CARE PLAN (CONTINUED)**

**Plan Assets (Continued)**

	Total assets at fair value at June 30, 2014	Level 1	Level 2	Level 3
Asset category:				
Equity:				
Large cap	\$ 5,071,824	\$ 5,071,824	\$ -	\$ -
International equity	1,926,694	1,926,694	-	-
Small cap	1,439,310	1,439,310	-	-
Equity fund	1,151,665	-	1,151,665	-
Mid cap	1,116,024	1,116,024	-	-
REIT	305,655	305,655	-	-
Commodities	266,080	266,080	-	-
Fixed income:				
Fixed income funds - taxable	4,912,229	3,783,085	1,129,144	-
High yield fixed income	599,466	-	599,466	-
International	231,597	-	231,597	-
Cash and cash equivalents	651,328	-	651,328	-
Balanced funds	126,793	-	126,793	-
	<u>\$ 17,798,665</u>	<u>\$ 13,908,672</u>	<u>\$ 3,889,993</u>	<u>\$ -</u>

**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:

2016	\$ 1,365,000
2017	1,468,000
2018	1,652,000
2019	1,713,000
2020	1,855,000
Years 2021 - 2025	<u>10,936,000</u>
	<u>\$ 18,989,000</u>

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

**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 6.041% and 6.367% of the employees' gross salary to CalPERS during the years ended June 30, 2015 and 2014, 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, 2015, 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, 2015, 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, 2015 and 2014, \$2,008,310 and \$2,148,512 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.

The funded status as of June 30, 2014, the most current valuation, is as follows:

Present value of projected benefits	\$104,341,157
Less present value of future:	
Employer normal costs	(12,433,446)
Employee contributions	<u>(11,798,658)</u>
Entry age normal accrued liability	80,109,053
Market value of assets	<u>(82,288,582)</u>
Over-funded status	<u>\$ (2,179,529)</u>

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

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

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

Beginning market value of assets - June 30, 2013	\$ 69,592,705
Receivables for service buybacks as of June 30, 2013	<u>(56,017)</u>
Market value of assets as of June 30, 2013	69,536,688
Contributions:	
Employer	1,492,040
Employee	1,284,123
Benefit payments to retirees and beneficiaries	(2,300,041)
Refunds	(133,977)
Investment return	12,290,211
Receivables for service buybacks as of June 30, 2014	<u>119,538</u>
Ending balance - June 30, 2014	<u><u>\$ 82,288,582</u></u>

The significant actuarial assumptions as of June 30, 2014, 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 \$1,525,897 and \$1,383,466, respectively.

The asset allocation as of June 30, 2014, is as follows:

	<u>Current</u> <u>Allocation</u>	<u>Target</u>
Public equity	52.5%	50.0%
Fixed income	19.5%	17.0%
Private equity	10.4%	14.0%
Real assets	9.8%	11.0%
Cash equivalents	3.0%	4.0%
Inflation linked	3.3%	4.0%
Absolute Return Strategy	<u>1.5%</u>	<u>0.0%</u>
	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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

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 (PERF) in its entirety as of June 30, 2014. 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 7.660% and the employee rate will be 6.945%.

**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.

On December 28, 2015, the Center exercised its early termination option for the Van Nuys, California office location. 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.

The following is a schedule of minimum lease commitments for the years ending June 30:

2016	\$ 2,855,431
2017	1,339,640
2018	515,317
2019	509,932
2020	519,276
Thereafter	<u>484,555</u>
	<u>\$ 6,224,151</u>

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2015 and 2014

**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.

**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 disallowed costs would be immaterial to the financial statements as of June 30, 2015 and 2014, and for the years then ended.

**Insurance**

The Center has elected to self-insure its unemployment insurance through a third party. The third party is required to reimburse the State of California for benefits paid to the Center's former employees.

In addition, the Center has elected to self-insure its dental PPO plan.

**11. SUBSEQUENT EVENTS**

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.

On December 28, 2015, the Center terminated its current office lease for its Van Nuys, California location, to be effective as of October 31, 2016 and the Center will be relocating its offices by November 2016.

The Center has evaluated all subsequent events through February 10, 2016, the date the financial statements were available to be issued.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**SUPPLEMENTARY FINANCIAL INFORMATION**

Year Ended June 30, 2015

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2015

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Disbursements/ Expenditures
Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services passed-through the State of California Department of Developmental Services:			
■ Medical Assistance Program (Medicaid; Title XIX)	93.778	HD149012	\$ 185,953,365 *
■ Targeted Case Management	93.778	HD149012	<u>11,077,463 *</u>
			197,030,828
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	H181A140037	<u>2,827,983</u>
			<u>\$ 199,858,811</u>
Amounts provided to subrecipients			<u>\$ -</u>

\* Major program

**Basis of Accounting and Presentation**

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



LAUTZE & LAUTZE  
CPAs & FINANCIAL ADVISORS

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

To the Board of Trustees  
North Los Angeles County Regional Center, Inc.  
Van Nuys, 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, 2015, 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 February 10, 2016.

***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.

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

Lautze & Lautze

San Francisco, California  
February 10, 2016



LAUTZE & LAUTZE  
CPAs & FINANCIAL ADVISORS

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

To the Board of Trustees  
North Los Angeles County Regional Center, Inc.  
Van Nuys, 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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2015. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

### ***Opinion on Each Major Federal Program***

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### ***Report on Internal Control over Compliance***

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Lautze & Lautze*

San Francisco, California  
February 10, 2016

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2015

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended June 30, 2015

**SECTION I - SUMMARY OF THE AUDITOR'S RESULTS**

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

CFDA Number

Name of Federal Program

93.778

Medical Assistance Program (Medicaid; Title XIX)

93.778

Targeted Case Management

- Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000.
- Auditee qualifies as low-risk: Yes.

**SECTION II - FINANCIAL STATEMENT FINDINGS**

- None reported.

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

- None reported.

**NORTH LOS ANGELES COUNTY REGIONAL CENTER, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended June 30, 2015

**FINDING 2014-1 TARGETED CASE MANAGEMENT ALLOWABLE COSTS**

**FEDERAL AWARD PROGRAM**

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Targeted Case Management

**CONDITION**

Three TCM units tested were of an administrative nature, which are unallowable services.

**RECOMMENDATION**

The Center has a system in place to perform quality control checks of TCM billable units by service coordinator on a monthly basis. Accordingly, we recommend that management continue training staff on the allowable and unallowable billable TCM services.

**CURRENT STATUS**

Management has implemented the recommendation. This comment is closed.