Regional Center of the East Bay

FINANCIAL STATEMENTS AND SUPPLEMENTARY FINANCIAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

REGIONAL CENTER OF THE EAST BAY, INC.

CONTENTS

Independent Auditors' Report.. 1-3

Financial Statements

Statement of Financial Position..4
Statement of Activities and Changes in Net Assets..5
Statement of Functional Expenses..6
Statement of Cash Flows..7

Notes to Financial Statements.. 8-30

Supplementary Financial Information

Schedule of Purchase of Service Expenses..31

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*.............. 32-33

Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by the Uniform Guidance.. 34-35

Schedule of Expenditures of Federal Awards..36
Note to the Schedule of Expenditures of Federal Awards..37
Schedule of Findings and Questioned Costs.. 38-39

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Regional Center of the East Bay, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Regional Center of the East Bay, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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Opinion

In our opinion, the 2017 financial statements referred to above present fairly, in all material respects, the financial position of Regional Center of the East Bay, Inc., as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

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

Report on Summarized Comparative Information

The 2016 financial statements of Regional Center of the East Bay, Inc. were audited by other auditors whose report dated November 28, 2016, expressed an unmodified opinion on those statements. In their opinion, the summarized comparative information presented therein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

As part of our audit of the 2017 financial statements, we also audited the adjustment described in Note 1 that was applied to restate the 2016 financial statements. In our opinion, such an adjustment is appropriate and has been properly applied to the 2016 financial statements presented herein as of and for the year ended June 30, 2016, 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 2016 financial statements of Regional Center of the East Bay, Inc. other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2016 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 January 22, 2018, on our consideration of Regional Center of the East Bay, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Regional Center of the East Bay, Inc.'s internal control over financial reporting and compliance.

Marcum LLP

San Francisco, California
January 22, 2018

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2016)

	Unrestricted	Temporarily Restricted	2017	2016
Assets				
Cash	$ 18,300,718	$ --	$ 18,300,718	$ 27,312,183
Cash held for others	4,040,257	185,076	4,225,333	3,076,321
Cash held for CPPDD (Note 10)	1,799,312	--	1,799,312	1,799,312
Contract reimbursement receivable (Note 2)	109,664,153	--	109,664,153	62,476,427
Claimable costs incurred (Note 3)	16,290,282	--	16,290,282	15,052,018
Note receivable (Note 4)	402,014	--	402,014	500,465
Receivable from Intermediate Care Facilities (Note 5)	3,537,198	--	3,537,198	3,570,898
Prepaid expenses and other assets	1,377,908	40,027	1,417,935	1,317,565
CPPDD vendor advances – lease (Note 10)	172,712	--	172,712	172,712
CPPDD vendor advances – other (Note 10)	78,497	--	78,497	78,497
Total Assets	$ 155,663,051	$ 225,103	$ 155,888,154	$ 115,356,398
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 33,476,276	$ --	$ 33,476,276	$ 30,794,118
Contract advance (Note 7)	101,403,333	--	101,403,333	65,813,542
Payable to Department of Developmental Services (Note 5)	452,862	--	452,862	581,225
Accrued vacation and other leave benefits	1,708,398	--	1,708,398	1,511,031
Deferred rent liability (Note 11)	4,990,445	--	4,990,445	4,321,199
Net assets held for others (Note 8)	4,040,298	--	4,040,298	2,914,639
Unfunded defined benefit plan liability (Note 9)	9,591,439	--	9,591,439	9,219,788
Total Liabilities	155,663,051	--	155,663,051	115,155,542
Net Assets	--	225,103	225,103	200,856
Total Liabilities and Net Assets	$ 155,663,051	$ 225,103	$ 155,888,154	$ 115,356,398

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

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	Unrestricted	Temporarily Restricted	2017	2016
Support and Revenue				
Grants	$ 394,012,411	$ --	$ 394,012,411	$ 345,362,811
Intermediate care facilities (Note 5)	6,637,455	--	6,637,455	6,582,854
Interest	161,807	91	161,898	136,821
Contributions	--	35,341	35,341	4,803
Net assets released from restrictions	11,185	(11,185)	--	--
Total Support and Revenue	400,822,858	24,247	400,847,105	352,087,289
Expenses				
Program services:				
Purchase of services	356,720,123	--	356,720,123	311,621,379
Operating	37,590,632	--	37,590,632	32,446,980
General and administrative	6,140,452	--	6,140,452	5,321,966
Total Expenses	400,451,207	--	400,451,207	349,390,325
Change in net asset from operations	371,651	24,247	395,898	2,696,964
Change in defined benefit plan liability	(371,651)	--	(371,651)	(2,694,334)
Changes in Net Assets	--	24,247	24,247	2,630
Net Assets - Beginning	--	200,856	200,856	198,226
Net Assets - Ending	$ --	$ 225,103	$ 225,103	$ 200,856

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

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	Program Service	General and Administrative	2017	2016
Purchase of Services				
Out of home	$ 114,295,352	$ --	$ 114,295,352	$ 98,903,312
Day programs	85,459,810	--	85,459,810	77,305,842
Other purchased services	156,964,961	--	156,964,961	135,412,225
Total Purchase of Services	356,720,123	--	356,720,123	311,621,379
Operating				
Salaries and related expenses	30,825,332	4,606,084	35,431,416	29,017,763
Office occupancy	3,751,073	560,505	4,311,578	4,111,831
Contract and consultant fees	1,298,650	194,051	1,492,701	2,366,481
General office expenses	585,205	87,445	672,650	478,279
Staff travel	333,306	49,804	383,110	359,982
General	--	326,596	326,596	286,908
Insurance	192,165	28,714	220,879	212,991
Legal fees	150,520	22,491	173,011	99,160
Communications	139,804	20,890	160,694	265,424
Equipment rental	115,260	17,223	132,483	111,225
Bank charges	--	104,337	104,337	112,824
Data processing	89,111	13,316	102,427	146,920
ARCA dues	--	92,527	92,527	73,832
Accounting fees	50,895	7,605	58,500	62,000
Printing	30,200	4,513	34,713	39,163
Restricted development	9,731	1,454	11,185	2,259
Board of Directors' expenses	5,036	753	5,789	6,135
Conferences and seminars	4,748	710	5,458	9,603
Other	9,596	1,434	11,030	6,166
Total Operating	37,590,632	6,140,452	43,731,084	37,768,946
Total Expenses	$ 394,310,755	$ 6,140,452	$ 400,451,207	$ 349,390,325

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

REGIONAL CENTER OF THE EAST BAY, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2016)

	Unrestricted	Temporarily Restricted	2017	2016
Cash Flows From Operating Activities				
Change in net assets	$ --	$ 24,247	$ 24,247	$ 2,630
Adjustments to reconcile changes in net assets to net cash used in operating activities:				
Changes in defined benefit plan liability	371,651	--	371,651	2,694,334
Changes in operating assets and liabilities:				
Contract receivable	(111,124,242)	--	(111,124,242)	(73,236,282)
Claimable costs incurred	(1,238,264)	--	(1,238,264)	(3,301,892)
Receivable from Intermediate Care Facilities	33,700	--	33,700	(283,508)
Prepaid expenses and other assets	(96,957)	(3,413)	(100,370)	(72,335)
Accounts payable	2,682,158	--	2,682,158	3,513,832
Payable to Department of Developmental Services	(29,912)	--	(29,912)	(2,245,039)
Accrued vacation and other leave benefits	197,367	--	197,367	135,816
Deferred rent liability	669,246	--	669,246	471,742
Net assets held for others	1,125,659	--	1,125,659	(59,223)
Net Cash Used in Operating Activities	(107,409,594)	20,834	(107,388,760)	(72,379,925)
Cash Flows From Financing Activities				
Proceeds from contract advance	99,627,327	--	99,627,327	91,510,306
Repayment of contract advance	(101,020)	--	(101,020)	--
Net Cash Provided by Financing Activities	99,526,307	--	99,526,307	91,510,306
Net (Decrease) Increase in Cash	(7,883,287)	20,834	(7,862,453)	19,130,381
Cash - Beginning	32,023,574	164,242	32,187,816	13,057,435
Cash - Ending	$ 24,140,287	$ 185,076	$ 24,325,363	$ 32,187,816
Statement of Financial Position Presentation:				
Cash	$ 18,300,718	$ --	$ 18,300,718	$ 27,312,183
Cash held for others	4,040,257	185,076	4,225,333	3,076,321
Cash held for CPPDD	1,799,312	--	1,799,312	1,799,312
	$ 24,140,287	$ 185,076	$ 24,325,363	$ 32,187,816

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

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

Organization

Regional Center of the East Bay, Inc. (the "Center"), a California nonprofit public benefit corporation under contract with the State of California Department of Developmental Services ("DDS"), was formed in 1975 to administer programs for individuals with developmental disabilities and their families, which includes diagnosis, counseling, education services, and dissemination of information on developmental disabilities to the public. The Center is one of 21 regional centers within California and serves Alameda and Contra Costa counties.

Governance

The Center was organized in accordance with the provision of the Lanterman Developmental Disabilities Services Act (the "Lanterman Act") of the Welfare and Institutions Code of the State of California. The Lanterman Act includes governance provisions regarding the composition of the Center's Board of Directors. 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 of Directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services through the Center and a client service provider of the Center.

Mission Statement

The Center's mission statement is as follows:

"Regional Center of the East Bay supports persons with developmental disabilities and their families with the tools needed to achieve lives of quality and satisfaction, and builds partnerships that result in inclusive communities."

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

STATE OF CALIFORNIA CONTRACT

The Center operates under an annual cost-reimbursement contract with DDS under the Lanterman Act. The maximum expenditures under the contract are limited to the contract amount plus interest earned. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual, issued by DDS, and is required to have DDS approval for certain expenses. 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 $408,170,480, $371,639,655, and $331,773,656 for the 2016/17, 2015/16, and 2014/15 contract years, respectively. As of June 30, 2017, actual net expenditures under the 2016/17, 2015/16, 2014/15 contracts were $375,550,501, $350,380,127, and $330,506,842, respectively.

BASIS OF ACCOUNTING

The Center prepares its financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which involves the application of accrual accounting; 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.

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

CLASSIFICATION OF NET ASSETS (CONTINUED)

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 and is comprised of the Restricted Trust Fund. Restricted Trust Fund (also known as the Jim Burton Helping Hand Fund) is used to record solicited and unsolicited support received by the Center. These funds are used exclusively to fund emergency grants and loans to clients who have no other resources available to them during times of exceptional need.

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, 2017, and for the year then ended, the Center did not have any permanently restricted net assets or activities.

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 receivable and accounts payable approximate fair value because of the short maturity of these instruments.

ESTIMATES

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

CASH

Cash is defined as cash in demand deposit accounts as well as cash on hand. The Center considers all financial instruments with a maturity of three months or less when purchased to be cash equivalents. As of June 30, 2017, and for the year then ended, the Center did not have any cash equivalents.

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

CONTRACT REIMBURSEMENT RECEIVABLE AND CLAIMABLE COSTS INCURRED

The Center's receivables represent or relate to the cost-reimbursement contract with DDS. Management believes that the receivable is fully collectible and, therefore, has not provided an allowance for doubtful accounts.

NOTE RECEIVABLE

The Center entered into a note receivable agreement with one of its transportation vendors as a result of prior year over-billings to the Center (see Note 4). Because the Center operates under a cost-reimbursement contract, the note is offset against monthly payments to the vendor until the note is repaid in full.

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 tracks items which cost more than $5,000 and have an estimated useful life of more than one year. For the year ended June 30, 2017, equipment purchases totaled $7,277 and there was no disposed equipment. The aggregate equipment costs at June 30, 2017, totaled $199,950.

CLIENT TRUST FUND

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

ACCRUED VACATION AND OTHER LEAVE BENEFITS

The Center has accrued a liability for vacation and sick leave benefits earned which is reimbursable under the DDS contract; however, such benefits are reimbursed under the DDS contract only when actually paid. The Center accrues vacation as earned up to 280 hours. When the employee separates from service, the employee will receive the unused vacation.

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

DEFERRED RENT

The Center leases office facilities under lease agreements that are subject to scheduled acceleration of rental payments. The scheduled rent increases are amortized evenly over the term of the lease in accordance with U.S. GAAP. The deferred rent liability of $4,990,445 at June 30, 2017, represents the difference between the cash payments made and the amount expensed since inception of the lease. The DDS contract reimburses the Center for rent after it is paid and this amount is included in claimable costs incurred on the statement of financial position.

REVENUE RECOGNITION – GRANTS

Revenue and expenses are recognized based upon costs incurred. Depending on the date of the service, claims are classified and charged to the appropriate contract as follows:

- Current year
- Prior year
- Second prior year

CONTRIBUTIONS

The Center recognizes all contributions 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 statement of activities and changes in net assets. These transactions are reported as *net assets released from restrictions* in the statement of activities and changes in net assets and are reported separately from other transactions.

FEDERAL GRANTS

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

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

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

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.

DEFINED BENEFIT PENSION PLAN

The Center records unfunded liability of its defined benefit pension plan with California Public Employees' Retirement System ("CalPERS") on the statement of financial position and recognizes the changes in the funded status on the statement of activities and changes in net assets in the year in which the change occurs.

FUNCTIONAL EXPENSES ALLOCATION

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities and changes in net assets, and functional expenses. Accordingly, certain costs have been allocated among program and supporting services based on an analysis of personnel time.

CONCENTRATIONS OF RISKS

Credit Risk

Financial instruments, which potentially subject the Center to a concentration of credit risk, principally consist of cash, contract receivable, and receivable from vendors. The Center places cash in deposit accounts, which may at times, exceed the federally-insured limit. Through its contract with DDS, the Center is reimbursed for its expenses. The ability of 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 RISKS (CONTINUED)

Labor Force

For the year ended June 30, 2017, the labor force through Local 1021, Service Employees International Union, CtW, CLC (the "Union") comprise 84% of the total number of employees. The Center's collective bargaining agreement is due to expire on November 30, 2019.

RECLASSIFICATIONS

Certain amounts in the summarized comparative totals for 2016 have been reclassified to conform to the 2017 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

SUMMARIZED COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

RECENT ACCOUNTING PRONOUNCEMENTS

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

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 operating leases will be most affected by the new guidance.

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. This may affect compliance with contractual agreements and loan covenants. Current U.S. GAAP requires only capital (finance) leases to be recognized in the statement of financial position and amounts related to operating leases largely are reflected in the financial statement of activities and changes in net assets as rent expense on the statement and in disclosures to the financial statements.

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

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

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

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*.

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

This standard eliminates:

- The distinction between resources with permanent restrictions and those with temporary restrictions from the face of a NFP's financial statements by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions).

- Removes the current requirement to present or disclose the indirect method (reconciliation) when using the direct method of reporting cash flows.

- Requires NFPs to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses.

- Requires NFPs to use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset.

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

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

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

On November 17, 2016, the FASB issued ASU 2016-18, *Restricted Cash*. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

The amendments are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Center has elected to adopt ASU 2016-18 for the year ended June 30, 2017. The adoption of this standard did not have a material impact on the financial statements.

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

RESTATEMENT

The financial statements for the year ended June 30, 2016 have been restated to reflect the unfunded defined benefit plan liability as of June 30, 2016 and the change in unfunded liability on the statement of financial position and statement of activities and changes in net assets, respectively.

In addition, the 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 assets and functional expenses.

	June 30, 2016 Balance as Originally Stated	Adjustment	July 1, 2016 Balance as Restated
Claimable costs incurred	$ --	$ 15,052,018	$ 15,052,018
Deferred costs for accrued vacation and other leave benefits	1,511,031	(1,511,031)	--
Deferred costs for rent liability	4,321,199	(4,321,199)	--
Unfunded defined benefit plan liability	6,525,454	2,694,334	9,219,788
Net Assets	(6,324,598)	6,525,454	200,856
Grants	342,060,919	3,301,892	345,362,811
Program services:			
Operating	31,918,404	528,576	32,446,980
General and administrative	5,242,984	78,982	5,321,966
Change in defined benefit plan liability	(2,989,549)	295,215	(2,694,334)
Salaries and related expenses	28,881,947	135,816	29,017,763
Office occupancy	3,640,089	471,742	4,111,831

NOTE 2 - CONTRACT REIMBURSEMENT RECEIVABLE

Contract reimbursement receivable consists of the following:

Claims submitted:	
Current year	$ 99,693,139
Prior year	9,104,919
Second prior year	866,095
Total	$ 109,664,153

NOTE 3 - CLAIMABLE COSTS INCURRED

Claimable costs incurred consists of the following:

Unfunded defined benefit plan liability	$ 9,591,439
Deferred costs for rent liability	4,990,445
Deferred costs for accrued vacation and other leave benefits	1,708,398
Total	$ 16,290,282

NOTE 4 - NOTE RECEIVABLE

The Center entered into an uncollaterized note receivable agreement, dated July 1, 2011, in the amount of $787,605 with Mobility Plus Transportation, LLC as a result of prior year over-billings to the Center. The note bears simple interest rate of 3.25%; however, interest may be waived by the Center. Monthly offset payments of $8,204 are to be made until the note is repaid in full in June 2021. As of June 30, 2017, the balance of the note (with a corresponding liability included in the payable to Department of Developmental Services) was $402,014. For the year ended June 30, 2017, offset payments were $98,457. The Center waived interest for the year ended June 30, 2017.

NOTE 5 - INTERMEDIATE CARE FACILITIES – STATE PLAN AMENDMENT

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 programs 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 ICF's. The legislative changes allow for DDS to bill these services to Medicaid and capture federal funds.

DDS directs the Center to prepare billings for these services on behalf of the ICF's. The billings include a 5.5% Quality Assurance fee for the State of Department of Health Care Services, a 1.5% administrative fee for the ICF's and a 1.5% administration fee for the Center.

Effective July 1, 2012, DDS directed the Center to prepare billings for these services on behalf of the ICF's and submit a separate state claim report for these services in addition to paying the ICF directly for their services. The Center was directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICF's. DDS advances the amount according to the state claim to the ICF's. The ICF's 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 r*eceivable from Intermediate Care Facilities* in the amount of $3,537,198 represents the amount DDS paid or will pay to the ICF's net of ICF's administrative fee and Quality Assurance fee in relation to the billings prepared beginning July 1, 2012, and the *payable to Department of Developmental Services* of $452,862 includes $50,848, which represents the amount expected to be paid net of the Center's fee in relation to the billings prepared on or before June 30, 2012. *Revenue from Intermediate Care Facilities* was $6,637,455.

NOTE 6 - LINE OF CREDIT

In October 2014, the Center obtained a $49,600,000 line of credit with MUFG Union Bank, N.A., secured by substantially all of the Center's assets. Interest under the line of credit was charged at the bank's reference rate of 3.50%. The line of credit expired on September 30, 2016.

In March 2017, the Center obtained a revolving line of credit with the Bank of Tokyo-Mitsubishi UFJ, LTD. whereby it may borrow up to $35,000,000 during the period beginning on March 31, 2017 until the maturity date on September 29, 2017. The line of credit is secured by substantially all of the Center's assets. Interest under the line of credit was charged at the bank's reference rate of 4.25%. As of June 30, 2017, the Center had not drawn on the line of credit.

On July 14, 2017, the Center borrowed $14,000,000 on the line of credit at a rate of 4.25%, which was repaid in full on July 20, 2017.

NOTE 7 - CONTRACT ADVANCE

Contract advance represents advances from DDS to the Center at the beginning of each fiscal year to provide interest-free working capital. DDS uses its discretion in determining the balance on a month-to-month basis. If DDS so chooses, the advance may be paid by off-setting the contract reimbursement receivable partially or in full. As of June 30, 2017, contract advance balance was $101,403,333.

NOTE 8 - NET ASSETS HELD FOR OTHERS

The Center's activities for the year consist of the following:

Beginning Balance	$ 2,914,639
Client support received	26,983,145
Less Purchase of service disbursements	(25,857,486)
Ending Balance	$ 4,040,298

NOTE 9 - DEFINED BENEFIT PENSION PLAN

On October 14, 2002, the Center adopted a defined benefit pension plan covering substantially all employees by becoming a member of CalPERS. All employees are, immediately upon hire, enrolled in the pension plan. Participants are fully vested after five years of full-time service. For the year ended June 30, 2017, the Center contributed 13.52% of the employees' gross salary or $3,695,044 to CalPERS.

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 Q Street, Sacramento, California 95811.

The unfunded liability as of June 30, 2017, the most current actuarial valuation, was as follows:

Unfunded Liability	
Benefit obligation	$ 87,238,116
Market value of assets	(77,646,677)
Unfunded liability	$ 9,591,439

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

Reconciliation of the Market Value of Assets	
Balance at June 30, 2016	$ 66,462,507
Contributions:	
Employer	4,049,615
Employee	1,814,006
Investment return	7,513,709
Benefit payments to retires	(2,095,033)
Other transfers and miscellaneous adjustments	(98,127)
Balance at June 30, 2017	$ 77,646,677

NOTE 9 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

Net periodic benefit cost consists of the following components as of June 30, 2017:

Service cost	$ 3,464,236
Interest cost	5,775,620
Expected (return) on plan assets	(4,877,704)
Net Periodic Benefit Cost	$ 4,362,152

The significant actuarial assumptions as of June 30, 2017, were as follows:

Significant Actuarial Assumptions	
Long-term discount rate	7.15%
Payroll growth	3.00%
Expected long-term rate of return	7.50%

The expected employer contributions to be paid to the plan during the next fiscal year is $1,708,703.

The asset allocation as of June 30, 2017, is as follows:

Asset allocation

Asset Class	Current Allocation
Public equity	51.9%
Fixed income	20.3%
Real assets	10.8%
Private equity	9.0%
Inflation assets	6.0%
Cash equivalent	1.5%
Absolute Return Strategy	0.5%
	100.0%

NOTE 9 - DEFINED BENEFIT PENSION PLANS (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 and market value of assets shown above reflect the values of the Public Employees' Retirement Fund ("PERF") in its entirety as of June 30, 2017. The assets for the Center are part of the PERF and are invested accordingly.

For the year ended June 30, 2017, the actuarial computed employer and employee contribution rates are 7.767% and 6.820%, respectively.

NOTE 10 - COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES

BACKGROUND

In March 2006, the Bay Area Housing Plan ("BAHP") was developed by the Center, Golden Gate Regional Center, Inc. ("GGRC") and San Andreas Regional Center ("SARC"), working in collaboration under the Bay Area Unified Plan (collectively, the "Regional Centers").

The BAHP was established to provide affordable, community based housing for people with developmental disabilities in the San Francisco Bay Area, through a Housing Development Agreement among the Regional Centers and a master developer (the " Agreement"). The BAHP meets the requirements to provide housing to people with developmental disabilities under California Assembly Bill 2100, as codified in Welfare and Institutions Code §4688.5.

The initial beneficiaries of the BAHP were the residents of the Agnews Developmental Center ("Agnews") in San Jose, California as they were transitioned to community housing from Agnews due to its scheduled closure. The BAHP established the strategy and timeline for the acquisition, construction, and financing for the completion of homes for these residents. All of the residents were successfully transitioned out of Agnews.

NOTE 10 - COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BACKGROUND (CONTINUED)

The Regional Centers determined, in their discretion, the types, amounts, and locations of these residences. A total of 60 properties were purchased and developed by the master developer.

For the purpose of managing the Regional Centers' responsibilities under the Agreement, the Regional Centers formed a Steering Committee, which is comprised of the three Executive Directors of the Regional Centers. The Steering Committee has the authority to administer the Agreement and bind the Regional Centers to the terms and conditions of the Agreement. The Steering Committee makes all decisions by consensus where possible, but may also act by a majority vote. Notwithstanding the foregoing, if the action to be taken by the Steering Committee concerns a specific property located within a Regional Center's catchment area, the Executive Director for that Regional Center must vote in favor of such action for it to be binding on the Steering Committee.

Three non-profit organizations ("NPOs") acquired fee title to the properties from the master developer. The NPOs were:

- Bay Area Housing Corporation ("BAHC"), which acquired 32 residences in SARC's catchment area.
- Housing Consortium of the East Bay ("HCEB"), which acquired 15 residences in the Center's catchment area.
- West Bay Housing Corporation ("WBHC"), which acquired 13 residences in GGRC's catchment area.

Subsequently, the NPOs conveyed their ownership interests in the residencies to three single member limited liability companies (the "LLCs"), each owned by its respective NPO. The LLCs are:

- Casa Milagro LLC, owner of 32 residences (from BAHC)
- Inclusive Communities East Bay, LLC, owner of 15 residencies (from HCEB)
- A Home for Life, LLC, owner of 13 residences (from WBHC)

NOTE 10 - COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BACKGROUND (CONTINUED)

The LLCs lease such properties to the Regional Centers' service providers under 60 long-term operating leases. The service providers operate the properties for the benefit of consumers who receive services from the Regional Centers.

The leases will terminate on the 17th anniversary of their commencement dates or 18 months after the date that the applicable LLC/landlord fully repays the current lender's permanent financing (discussed below).

All of the 60 properties are encumbered by Lease Assurance Covenants, Conditions and Restrictions and Memorandum of Agreement and Lease which provides, among other things, that the use of each property shall be solely for the benefit of qualified individuals with developmental disabilities in perpetuity, in compliance with the requirements in Welfare and Institutions Code §4688.5.

The master developer borrowed funds from Bank of America to acquire and develop the 60 properties. California Housing Finance Agency ("CalHFA") then lent funds to the LLCs to refinance the Bank of America's loans. CalHFA's loans remained in effect until February 18, 2011, when they were paid off through the bond financing discussed below.

BOND FINANCING

In December 2010, the California Health and Human Services Agency and DDS provided their approval for the LLCs to obtain bond financing to refinance the CalHFA loans.

In the refinance plan and thereafter, the BAHP is referred to as the Community Placement Plan for Individuals with Developmental Disabilities ("CPPDD").

NOTE 10 - COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BOND FINANCING (CONTINUED)

In the refinance plan dated February 1, 2011, the California Health Facilities Finance Agency ("CHFFA") agreed to loan $76,970,000 to the LLCs through the issuance of insured revenue bonds. The Office of Statewide Health Planning and Development ("OSHPD") provided loan insurance for the bonds. The bonds were issued as:

- $44,725,000 Series 2011A due at various dates, with interest rates ranging from 4.00% up to 6.25%, with the longest term bonds due on February 1, 2026.

- $32,245,000 Taxable Series 2011B due at various dates, with interest rates ranging from 3.30% up to 8.00%, with the longest term bonds due on February 1, 2026.

The Bond trustee was Deutsche Bank National Trust Company ("Bond trustee") until August 23, 2013, on which day the trustee servicing was transferred to U.S. Bank National Association.

CHFFA issued the bonds to investors, and lent the proceeds from the sale of the bonds to the LLCs, on or about February 18, 2011. The loans from CHFFA to each LLC repaid the CalHFA loans in full and also covered one year of required debt reserves and other costs and expenses.

Responsibility for repayment of the loans for these bonds has been divided among the LLCs. The Loan Agreements call for monthly payments by each LLC. Each loan is secured by, among other things, deeds of trust on the residences and a pledge of the LLCs' gross revenues.

CHFFA, DDS, the Regional Centers and the LLCs all agreed that the LLCs would obtain insurance for the payment of the Bonds from the OSHPD's Cal-Mortgage Loan Insurance Division. As partial consideration for the bond insurance the Regional Centers and the LLCs entered into a Regulatory Agreement with CHFFA and OSHPD that contains financial and reporting covenants, payment obligations and use restrictions consistent with the Welfare and Institutions Code §4688.5.

NOTE 10 - COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BOND FINANCING (CONTINUED)

As further consideration for the bond insurance the Regional Centers and the LLCs agreed to the following:

1) The Regional Centers executed a Lender Lease Assurance Agreement, whereby they unconditionally agreed, jointly and severally to pay the rent and other obligations of all service providers under all leases should the service providers fail to meet such obligations. (This is relevant, since the LLCs rely on the receipt of such rent to repay the bond financing.)

2) The Regional Centers agreed to maintain a liquidity operating fund in three separate accounts (one for each Regional Center), in the aggregate sum of $5,000,000. CHFFA and OSHPD have the right to draw on the liquidity operating fund to cure any defaults by the LLCs under the loan documents. Subject to such right, the Regional Centers' use of these funds are unrestricted; however each Regional Center must replenish any withdrawal from its liquidity operating fund necessary to maintain the required initial balance within twelve months from the date of such withdrawal. The Center's share of the liquidity operating fund is $1,799,312. The remaining balance of the liquidity operating fund is funded by GGRC and SARC.

3) Both the Regional Centers and the LLCs agreed to indemnify CHFFA and OSHPD for any post foreclosure transfer environmental losses.

The Regional Centers remit payments to each service provider for the services they provide to the consumers residing in the properties. The service providers then use such funds and other funds available to them to cover their costs, including their rent under the leases. Under each lease the applicable service provider is responsible for paying both the monthly base rent (which is equal to the monthly debt service payable to the Bond trustee) and additional charges as defined in the lease, including property taxes (if applicable), insurance and a replacement reserve (which is a minimum of $2,400 a year for each property). The LLCs, in turn, use the rents they receive under the leases to repay the CHFFA loans.

NOTE 10 - COMMUNITY PROGRAM FOR PERSONS WITH DEVELOPMENTAL DISABILITIES (CONTINUED)

BOND FINANCING (CONTINUED)

In order to make all of the debt service payments equal, one additional “smooth out” payment was required to be made to the Bond trustee. The Center (and the other Regional Centers) made this payment via advances to its service providers, which were then forwarded to the Bond trustee. The service providers will repay these receivables to the Center at the end of the bond financing term, via applicable offsets that the Center will apply against funds it owes to the service providers under the Service Provider Agreements. At June 30, 2017, CPPDD vendor advances – other totaled $78,497.

Due to the timing of the bond financing, one additional debt service payment was required to be made to the Bond trustee. The Center made this payment via advances to its service providers, which was then forwarded to the Bond trustee. The service providers will repay these receivables to the Center at the end of the bond financing term, via applicable offsets that the Center will apply against funds it owes to the service providers under the Service Provider Agreements. At June 30, 2017, CPPDD vendor advances – lease totaled $172,712.

NOTE 11 - LEASE COMMITMENTS

The Center leases office space in San Leandro and Concord, California, and also leases various equipment. The facility leases include rent escalation clauses and a recovery for insurance and real estate taxes. All leases are classified as operating leases. Rental expense was $4,444,061 for the year ended June 30, 2017.

Future minimum lease payments are as follows:

For the Years Ended June 30,	Amount
2018	$ 4,027,552
2019	4,137,606
2020	4,219,596
2021	4,245,162
2022	4,325,385
Thereafter	33,331,063
Total	$ 54,286,364

NOTE 12 - CONTINGENCIES

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 revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies.

The Center's contract with 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, DDS may reallocate surplus funds within the State of California system to supplement the Center's funding. Should a system-wide deficit occur, 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. 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.

NOTE 13 - LEGAL MATTERS

The Center is named in various claims and legal actions in the normal course of its activities. Based upon counsel and management's opinion, the outcomes of such matters are not expected to have a material adverse effect on the financial position or changes in net assets of the Center.

NOTE 14 - SUBSEQUENT EVENTS

The Center has evaluated all subsequent events through January 22, 2018, the date the financial statements were available to be issued. Except as detailed in Note 6, no other events requiring recognition or disclosure in the financial statements have been identified.

REGIONAL CENTER OF THE EAST BAY, INC.

SCHEDULE OF PURCHASE OF SERVICE EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

Out of home:	
Community care facility	$ 112,301,007
ICF/skilled nursing facility	1,994,345
	$ 114,295,352
Day programs:	
Training	$ 83,218,313
Day care	2,241,497
	$ 85,459,810
Other purchased services:	
Medical care:	
Professional	$ 4,171,039
Programs	47,004
Medical equipment	1,761,737
Nonmedical:	
Professional	3,736,376
Programs	22,275,197
Other authorized services	73,315,848
Personal and incidental	90,776
Prevention services	11,818,367
Respite	22,197,226
Transportation	17,551,391
	$ 156,964,961

See independent auditors' report.

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

To the Board of Directors of
Regional Center of the East Bay, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Regional Center of the East Bay, Inc. (the "Center"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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
January 22, 2018

MARCUM
ACCOUNTANTS ▲ ADVISORS

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 Directors of
Regional Center of the East Bay, Inc.

Report on Compliance for Each Major Federal Program

We have audited Regional Center of the East Bay, 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, 2017. 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 statues, regulations, and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Center's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S., *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2017.

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 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
January 22, 2018

REGIONAL CENTER OF THE EAST BAY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal 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	HD149015	$ --	$ 2,326,844
Total Expenditures of Federal Awards			$ --	$ 2,326,844

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

NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activities of Regional Center of the East Bay, Inc. and is presented on the accrual basis of accounting. 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 POLICIES

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

NOTE 3 - INDIRECT COST RATE

The Center has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

SECTION I – SUMMARY OF THE AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified:	No
Significant deficiency(ies) identified:	None reported
Noncompliance material to financial statements:	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified:	No
Significant deficiency(ies) identified:	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

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

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Audit qualified as low-risk auditee:	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters reported.

SECTION IV – STATUS OF PRIOR YEAR AUDIT FINDINGS

There were no prior year findings.