



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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2018

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center (the "Center"), which comprise the statement of financial position as of June 30, 2018 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 qualified audit opinion.

Basis for Qualified Opinion

The Center provides retirement benefits through its participation in the California Public Employees Retirement System (“CalPERS”). Because most of the member entities in CalPERS are governmental entities, CalPERS calculates the members’ funded or unfunded status using methods and actuarial assumptions promulgated by Government Accounting Standard Board (“GASB”) No. 68. As a nonprofit organization, the Center uses a different accounting framework based on standards promulgated by the Financial Accounting Standard Board (“FASB”), and ASU 715 requires different methods and actuarial assumptions than GASB. The Center reports its unfunded status using the actuarial report provided by CalPERS using GASB No. 68’s methods and actuarial assumptions, which are departures from U.S. GAAP. Management did not prepare an actuarial report in accordance with FASB’s methods and actuarial assumptions. Accordingly, we were unable to obtain sufficient appropriate audit evidence about the Center’s unfunded status by other auditing procedures.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center as of June 30, 2018, 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 (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2019, 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 the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Marcum LLP

San Francisco, California
March 29, 2019

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

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

Assets

Cash and cash equivalents	\$ 3,836,746
Cash - client trust funds	1,130
Contract reimbursement receivable	87,520,907
Receivable from Intermediate Care Facilities - Go Forward	2,308,127
Client trust funds receivable	13,981
Other receivables	408
Prepaid expenses	562,498
Deposits	<u>80,000</u>

Total Assets \$ 94,323,797

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	\$ 20,266,541
Contract advance	58,054,928
Payable to Department of Developmental Services	281,601
Accrued vacation and other leave benefits	923,640
Deferred rent liability	359,295
Unfunded defined benefit pension plan liability	<u>14,409,518</u>

Total Liabilities 94,295,523

Unrestricted Net Assets 28,274

Total Liabilities and Net Assets \$ 94,323,797

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

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

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2018

Revenue and Support

Grants - State DDS	\$ 226,054,537
Grants - Federal	1,375,085
Intermediate Care Facilities SPA income	5,247,463
Interest	82,874
Other income	<u>83,747</u>

Total Revenue and Support 232,843,706

Expenses

Program services:	
Direct client services	227,472,343
Supporting services:	
General and administrative	<u>4,007,237</u>

Total Expenses 231,479,580

Change in net assets from operations 1,364,126

Non-Operating Revenue (Expense)

Change in defined benefit plan liability (1,374,817)

Change in Net Assets (10,691)

Unrestricted Net Assets - Beginning 38,965

Unrestricted Net Assets - Ending \$ 28,274

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

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

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Services	Supporting Services	
	Direct Client Services	General and Administrative	Total Expenses
Salaries and Related Expenses			
Salaries	\$ 12,386,433	\$ 1,970,075	\$ 14,356,508
Employee health and other benefits	<u>4,134,218</u>	<u>588,516</u>	<u>4,722,734</u>
Total Salaries and Related Expenses	16,520,651	2,558,591	19,079,242
Purchase of Services			
Other purchased services	129,210,539	--	129,210,539
Day programs	35,503,240	--	35,503,240
Residential care facilities	44,229,188	--	44,229,188
Occupancy	1,685,159	--	1,685,159
General office expenses	--	397,857	397,857
Equipment rental	--	106,875	106,875
Professional fees	--	362,038	362,038
Equipment purchases	--	236,344	236,344
Travel	225,982	49,897	275,879
Communication	--	144,261	144,261
Insurance	97,584	--	97,584
Equipment maintenance	--	(1,582)	(1,582)
Contract and consultant fees	--	64,075	64,075
Data processing	--	38,890	38,890
Security	--	16,949	16,949
Board expenses	--	<u>33,042</u>	<u>33,042</u>
Total	<u>\$ 227,472,343</u>	<u>\$ 4,007,237</u>	<u>\$ 231,479,580</u>
	<u>98%</u>	<u>2%</u>	<u>100%</u>

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

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

Cash Flows From Operating Activities

Change in net assets	\$ (10,691)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Change in defined benefit plan liability	1,374,817
Change in operating assets and liabilities:	
Contract reimbursement receivable	(10,142,764)
Receivable from Intermediate Care Facilities - Go Forward	(8,767)
Client trust funds receivable	5,794
Other receivables	(206)
Prepaid expenses	(223,123)
Deposits	--
Accounts payable and accrued expenses	1,146,370
Payable to Department of Developmental Services	1,347
Deferred rent liability	359,295
Accrued vacation and other leave benefits	<u>107,578</u>

Net Cash Used in Operating Activities (7,390,350)

Cash Flows From Financing Activities

Proceeds from contract advance	53,466,859
Payments of contract advance	<u>(51,068,669)</u>

Net Cash Provided by Financing Activities 2,398,190

Net Decrease in Cash and Cash Equivalents (4,992,160)

Cash and Cash Equivalents - Beginning 8,830,036

Cash and Cash Equivalents - Ending \$ 3,837,876

Statement of Financial Position Presentation

Cash and cash equivalents	\$ 3,836,746
Cash - client trust funds	<u>1,130</u>

Total Cash and Cash Equivalents \$ 3,837,876

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PURPOSE AND ORGANIZATION

North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center (the "Center"), was incorporated on April 16, 1970, as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the "Act") of the Welfare and Institutions Code of the State of California. In accordance with the Act, the Center provides diagnostic evaluations, client program management, and lifelong planning services for persons with developmental disabilities and their families. The Center is one of 21 regional centers within the State of California system and serves approximately 8,000 people in the counties of Napa, Solano, and Sonoma.

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

The Center's mission statement is as follows:

The purpose of North Bay Regional Center is to assist people with developmental disabilities or at risk for developmental disabilities in the North Bay Area to obtain services and supports they need to live as other people live in the community.

The significant accounting policies which follow are presented to enhance the usefulness of the financial statements to the reader.

STATE OF CALIFORNIA CONTRACT

The Center operates under an annual cost-reimbursement contract with the State of California Department of Developmental Services (the "DDS") pursuant to the provisions of the Act. Maximum expenditures under the contract are limited to the contract allocation plus Intermediate Care Facility State Plan Amendment ("ICF-SPA") income, ICF-SPA administrative fee, and interest income. The Center is required to have the DDS approval for certain expenses. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual issued by the DDS. In the event of termination or nonrenewal of the contact, the State of California maintains the right to assume control of the Center's operation and the obligation of its liabilities.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

STATE OF CALIFORNIA CONTRACT (CONTINUED)

Under the terms of these contracts, funded expenditures are not to exceed \$217,573,844, \$219,148,332, and \$187,858,755 for the 2017/18, 2016/17, and 2015/16 contract years, respectively, and are subject to budget amendments. As of June 30, 2018, actual net expenditures under the 2017/18, 2016/2017, and 2015/16 contracts were \$212,181,397, \$205,361,150, and \$172,352,069, respectively.

BASIS OF ACCOUNTING

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

CLASSIFICATION OF NET ASSETS

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

Unrestricted

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

Temporarily Restricted

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

Permanently Restricted

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

As of June 30, 2018 and for the year then ended, the Center did not have any temporarily or permanently restricted net assets or activities.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

UNRESTRICTED NET ASSETS

The unrestricted net asset group is comprised of the Operating Fund and Donation Fund.

Operating Fund

These accounts are used to record primary activities of the Center which are carried out under the DDS contract. These accounts also record the activities of the Community Placement Plan (“CPP”) and a federally-funded program.

Donation Fund

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

CONTRACT REIMBURSEMENT AND OTHER RECEIVABLES

The majority of the Center’s receivables represents or relates to the cost-reimbursement contract with the DDS. Management believes that the receivables are fully collectible and, therefore, has not provided an allowance for doubtful accounts.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 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 or value in excess of \$5,000 and with an estimated life beyond one year. Equipment purchases meeting this threshold were \$137,815 for the year ended June 30, 2018. The cumulative capitalized equipment cost was \$471,610 at June 30, 2018.

ACCRUED VACATION AND OTHER LEAVE BENEFITS

The Center has accrued a liability for leave benefits earned which is reimbursable under the DDS contract; however, such benefits are reimbursed under the DDS contract only when actually paid. When an employee separates from service, the employee will be paid their unused balance. The Center has also recorded a receivable from DDS for the accrued leave and retirement benefits to reflect the future reimbursement of such benefits.

DEFERRED RENT

The 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 \$359,295 at June 30, 2018, 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 contract reimbursement receivable on the statement of financial position.

CLIENT TRUST FUNDS

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

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

REVENUE RECOGNITION - GRANTS

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

- Current year
- Prior year
- Second prior year

CONTRIBUTIONS

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

The satisfaction of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. This occurs by increasing one class of net assets and decreasing another in the 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 the DDS with regard to the following grant:

U.S. Department of Education

The Special Education Grants for Infants and Families with Disabilities provides funding for early intervention services for infants and toddlers, through 36 months of age, as authorized by Public Law 102-119.

INCOME TAXES

The Center is a qualified organization exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code ("IRC") and franchise taxes under §23701d of the California Revenue and Taxation Code, respectively. Accordingly, it is exempt from federal and California income taxes and is not liable for federal unemployment taxes.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

INCOME TAXES (CONTINUED)

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

The 2014 through 2017 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2013 through 2017 tax years remain subject to examination by the California Franchise Tax Board. The Center is subject to routine audits by taxing jurisdictions; however, there are no audits pending or in process.

CONCENTRATIONS OF RISK

Credit Risk

Financial instruments, which potentially subject the Center to a concentration of credit risk, principally consist of cash and cash equivalents, contract receivables, and receivables from vendors. The Center invests cash in bank deposit accounts, which may at times, exceed the federally-insured limit. Through its contract with the DDS, the Center is reimbursed for its expenses. The ability of the DDS to honor its obligations and to continue funding is dependent upon the overall economic well-being of the State of California. The Center has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

Labor Force

The Center retains approximately 80 percent of its labor force through Social Services Union, Local 1021 (the "Union"). This labor force is subject to collective bargaining agreements and, as such, renegotiation of such agreements could expose the Center to an increase in hourly costs and or work stoppages. The current bargaining agreement will expire on December 12, 2020.

FUNCTIONAL ALLOCATION OF EXPENSES

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

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

DEFINED BENEFIT PENSION PLAN

The Center participates in a defined benefit pension plan with California Public Employees' Retirement System ("CalPERS"). The Center records the unfunded defined benefit pension liability 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.

The Center obtained the Governmental Accounting Standards Board Statement 68 ("GASB No. 68") Accounting Valuation report from CalPERS for the year ended June 30, 2018. GASB No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statements No. 27 and 50*, establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses of pensions that are provided by local government employers through pension plans that are administered through trusts that meet certain conditions. This report relies on liabilities and related validation work performed by the CalPERS' actuarial office as part of the June 30, 2018 annual funding valuation for the Plan. The June 30, 2017 liabilities, which were rolled forward to June 30, 2018 and used for this accounting valuation, are based on actuarial assumptions adopted by the CalPERS Board of Administration and consistent with the requirements of GASB No. 68. This GASB No. 68 actuarial reporting is not in conformity with U.S. GAAP (See Note 4).

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 leases, in particular those with numerous operating leases, will be most affected by the new guidance. The amendments in ASU 2016-02 are expected to impact the statement of financial position at many organizations by adding lease-related assets and liabilities. This may affect compliance with contractual agreements and loan covenants.

**NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

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

In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply.

An entity that elects to apply practical expedients will use the effective date of the new lease standard as the date of initial application and will not have to adjust their comparative period financial statements for the effects of the new lease standard, or make the new required lease disclosures for periods before the effective date. The new transition method changes when an entity initially applies the transition requirements of ASC 842; however, it does not change how those requirements are applied. Entities that elect this transition option will include the disclosures that were required under ASC 840 for each comparative period presented in the financial statements prepared post-adoption, as well as the prior year annual balance sheet disclosures (e.g. operating and/or capital lease maturity tables). The amendments in ASU 2016-02 are effective for fiscal years beginning after December 15, 2019. Early application is permitted. 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.

NORTH BAY DEVELOPMENTAL DISABILITIES SERVICES, INC.
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

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

ASU 2016-14 also requires enhanced disclosures about:

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

- 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, 2017. Management is evaluating the impact of this new guidance.

NOTE 2 - CONTRACT REIMBURSEMENT RECEIVABLE

Contract reimbursement receivable consists of the following at June 30, 2018:

Claims submitted:	
Current year	\$ 65,424,500
Prior year	6,491,054
Second prior year	<u>(87,100)</u>
	71,828,454
Reimbursable expenses not yet submitted	<u>15,692,453</u>
Total	<u><u>\$ 87,520,907</u></u>

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 3 - INTERMEDIATE CARE FACILITIES – STATE PLAN AMENDMENT

RETROACTIVE ACTIVITIES

During the year ended June 30, 2011, various legislative changes were made to the California Welfare and Institutions Code retroactive to July 1, 2007, making Intermediate Care Facility (“ICF”) providers responsible for providing day treatment and transportation services; and ultimately, making such services eligible for Federal Financial Participation.

Previously, such services provided to the residents were not reimbursable by Medicaid because the funds were not directly billed and received by the ICFs. The legislative changes allow for the DDS to bill these services to Medicaid and capture federal funds.

Prior to the year ended June 30, 2012, the DDS directed the Center to prepare billings for these services on behalf of the ICFs for the period from July 1, 2007 to June 30, 2012. The billings included a 5.5% Quality Assurance fee for the State Department of Health Care Services (“DHCS”), a 1.5% administrative fee for the ICFs, and a 1.5% administration fee for the Center.

Prior to the year ended June 30, 2012, the regional centers paid the day and transportation providers and billed DDS and were reimbursed by DDS on a monthly basis. For the first five years of the ICF State Plan Amendment implementation, the DDS paid the applicable amounts to the ICFs in arrears in quarterly batches. The ICFs were directed to remit to the Center the amount received less its administration fee and the Quality Assurance fee, which it must remit to DHCS. After the Center received the net payment from the ICFs, the Center was directed to remit the amount to the DDS, net of its administration fee. The DDS has instituted protocols should the ICFs not remit the net amounts due to the Center but those controls have been only partially successful.

The Center has received all retroactive funds and owes DDS approximately \$280,000 as of June 30, 2018.

GO - FORWARD ACTIVITIES

Effective July 1, 2012, DDS directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services in addition to paying the ICF directly for their services. The Center was directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICFs. DDS advances the amount according to the state claim to the ICFs. The ICFs are then required to pass on the payments received, as well as the Center’s administrative fee to the Center within 30 days of receipt of funds from the State Controller’s Office.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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

GO - FORWARD ACTIVITIES (CONTINUED)

The Center's activity related to the retroactive and go-forward funding was as follows as of June 30, 2018:

Beginning balance	\$ 2,299,360
Adjustments	(19,242)
Total billed due from vendors	5,247,463
Amount remitted by vendors	<u>(5,219,454)</u>
Total Receivable From ICFs	<u>\$ 2,308,127</u>
Beginning balance	\$ 280,254
Adjustments	1,347
Amount remitted by Center to DDS	<u>--</u>
Total payable to DDS	<u>\$ 281,601</u>
Deferred Administrative Fee	<u>\$ --</u>

NOTE 4 - DEFINED BENEFIT PENSION PLAN

The Center has a defined benefit pension plan covering all employees through CalPERS. All employees are, immediately upon hire, enrolled in the pension plan. Participants with at least five years of service credits are fully vested. For the year ended June 30, 2018, the Center contributed \$1,606,431 to CalPERS.

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. (See Note 1).

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 4 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

ASSET VALUATION METHOD (CONTINUED)

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 unfunded liability as of June 30, 2018, the most current valuation, was as follows:

Unfunded Liability	
Benefit obligation	\$ 54,731,412
Market value of assets	<u>(40,321,894)</u>
Unfunded Liability	<u>\$ 14,409,518</u>

A 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, 2017	\$ 37,202,186
Contributions:	
Employer	1,582,856
Employee	893,127
Investment return	3,164,552
Benefit payments to retirees	(2,352,768)
Other transfers and miscellaneous adjustments	<u>(168,059)</u>
Balance at June 30, 2018	<u>\$ 40,321,894</u>

Net periodic benefit cost consists of the following components for the year ended June 30, 2018:

Service cost	\$ 1,901,351
Interest cost	3,667,227
Recognized change in assumptions	382,680
Expected return on plan assets	(2,654,648)
Recognized change in expense and earnings	49,816
Employee contributions	<u>(893,127)</u>
Net Periodic Benefit Cost	<u>\$ 2,453,299</u>

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 4 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

ASSET VALUATION METHOD (CONTINUED)

The significant actuarial assumptions are as follows:

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

The expected employer and employee contributions to be paid to CalPERS during the year ending June 30, 2018 are \$1,582,856 and \$893,127, respectively.

The asset allocation as of June 30, 2018, is as follows:

Asset Class	Current Allocation	Target Allocation
Public equity	48.30%	50.00%
Global fixed income	19.40%	28.00%
Real assets	11.20%	13.00%
Private equity	8.00%	8.00%
Inflation sensitive asset	7.80%	0.00%
Liquidity	4.80%	1.00%
Other	<u>0.50%</u>	<u>0.00%</u>
Total	<u>100.00%</u>	<u>100.00%</u>

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

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 4 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

CalPERS follows a strategic asset allocation policy that identifies the percentage of funds to be invested in each asset class. The asset allocation of assets shown above reflects the values of the Public Employees Retirement Fund (the "PERF") in its entirety as of June 30, 2017. The assets for the Center are part of the PERF and are invested accordingly.

Sensitivity of the Unfunded Liability to Changes in the Discount Rate

Increase of 1%	\$ 8,407,183
Decrease of 1%	\$ 21,660,793

For the year ended June 30, 2018, the actuarial computed employer contribution rates was 11.72%.

NOTE 5 - CONTRACT ADVANCE

The contract advance balance represents monies the DDS advances to the Center at the beginning of each fiscal year to provide interest-free working capital. The DDS uses its discretion in determining the balance on a month-to-month basis. If the DDS so chooses, the advance can be paid by offsetting claim reimbursements partially or in full, or requiring the Center to make a payment.

NOTE 6 - NET ASSETS HELD FOR OTHERS

Included below is a summary of the activity as of June 30, 2018:

Balance - Beginning	\$ --
Client support received	1,130
Less residential care and other disbursements	<u>(15,111)</u>
Balance - Ending	<u>\$ (13,981)</u>

During the year ended June 30, 2015, the Center outsourced the accounting and administrative functions of the client trust funds to an independent third-party administrator. At June 30, 2018 and during the year then ended, there remains minimal client trust activity.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 7 - OPERATING LEASES

The Center leases all of its facilities. Rent expense on these leases for the year ended June 30, 2018 was \$1,685,159. The Center also leases office equipment and the equipment rental expense for the year ended June 30, 2018 was \$106,875.

Future obligations on leases in effect at June 30, 2018 are as follows:

For the Years Ending	Amount
June 30,	
2019	\$ 1,595,738
2020	1,638,342
2021	1,486,230
2022	1,133,560
2023	1,161,892
Thereafter	<u>3,556,245</u>
Total	<u><u>\$ 10,572,007</u></u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

LITIGATION

The Center is currently a defendant in several litigious actions, in addition to threats of litigation arising out of the normal course of operations. The Center's management believes it has adequate defenses and insurance coverage for these actions and, thus, has made no provision in the financial statements for any costs relating to the settlement of such claims. These matters have been referred to the Center's attorneys and/or insurance carriers. In management's opinion, material unfavorable outcomes are 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 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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 8 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

FUNDING (CONTINUED)

The DDS' recommendations are subsequently reviewed by the Governor and the Legislature and a decision is made with regard to specific actions, including the possible suspension of the entitlement.

The Center's revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies. In accordance with the terms of the DDS contract, an audit may be performed by an authorized DDS representative. Should such an audit disclose any unallowable costs, the Center may be liable to the State of California for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements as of June 30, 2018 and for the year then ended.

NOTE 9 - SELF-INSURED UNEMPLOYMENT INSURANCE

The Center makes contributions to a Joint Unemployment Compensation Trust (the "Trust"), which provides funding to reimburse the State of California for unemployment benefits it pays to former employees who have terminated their employment. The Trust also carries stop-loss insurance, in the amount of \$224,000, to cover possible exposure of unusual employment claims.

NOTE 10 - SUBSEQUENT EVENTS

The Center has evaluated all subsequent events through March 29, 2019, the date the financial statements were available to be issued. No events requiring recognition or disclosure in the financial statements have been identified.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center (the "Center"), which comprise the statement of financial position as of June 30, 2018, 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 qualified report thereon dated March 29, 2019. Our report was qualified due to the Center's unfunded pension liability not being presented in accordance with accounting principles generally accepted in the United States of America.

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
March 29, 2019

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

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

Report on Compliance for Each Major Federal Program

We have audited North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center'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, 2018. The Center's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal 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 Awards* (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.

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, 2018.

Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal programs 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
March 29, 2019

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/ Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Passed Through to Subrecipients	Total 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	HD149011	\$ --	\$ 1,375,085
Total Expenditures of Federal Awards			<u>\$ --</u>	<u>\$ 1,375,085</u>

See independent auditors' report and notes to the schedule of expenditures of federal awards.

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

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2018

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center (the “Center”) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements 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 a reimbursement.

NOTE 3 - INDIRECT COST RATE

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2018

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 U.S. GAAP:	Qualified
Internal control over financial reporting:	
▫ Material weaknesses identified:	No
▫ Significant deficiencies identified:	None reported
Noncompliance material to financial statements:	No

Federal Awards

Internal Control over major federal programs:	
▫ Material weaknesses identified:	No
▫ Significant deficiencies identified:	None reported
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings identified that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program / Cluster</u>
84.181	Special Education – Grants for Infants and Families

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee:	No

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2018

SECTION II - FINANCIAL STATEMENT FINDINGS

No matter reported.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matter reported.

SECTION IV – STATUS OF PRIOR YEAR AUDIT FINDINGS

2017-001 – Segregation of Duties, Purchasing and Disbursements Processing Remediated. The Center improved the cash disbursement system instituting adequate segregation of duties and required documentation of approval.

2017-002 – Payroll Administration Remediated. The Center implemented a new payroll system to allow electronic review and approval.

2017-003 – Vendor Fiscal Monitoring Remediated. The Center performed 13 audits during the 2017/18 fiscal year, starting from September 5, 2017 to February 6, 2018.

2017-004 – Board Approval for Contracts Over \$250,000 Remediated. The Center implemented a new policy for the Board to review all contracts over \$250,000. The approval is documented in the Board minutes.

2017-005 – Untimely Filing of Data Collection Form Remediated. The Center will submit the data collection form in a timely manner.