



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

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2017**

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

**CONTENTS**

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**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 the Financial Statements** ..... 8-25

**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*** ..... 26-27

**Federal Single Audit Reporting**

**Independent Auditors' Report on Compliance for Each Major Program and Report on Internal Control Over Compliance Required by The Uniform Guidance**..... 28-30

Schedule of Expenditures of Federal Awards.....31  
Notes to the Schedule of Expenditures of Federal Awards .....32  
Schedule of Findings and Questioned Costs ..... 33-44  
Management's Corrective Action Plan..... 45-47

## 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, 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 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, 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 (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 December 6, 2018 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  
December 6, 2018

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

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2017**

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**Assets**

Cash and cash equivalents	\$ 8,828,906
Cash - client trust funds	1,130
Contract reimbursement receivable	77,378,143
Receivable from Intermediate Care Facilities - Go Forward	2,299,360
Client trust funds receivable	19,775
Other receivables	202
Prepaid expenses	339,375
Deposits	<u>80,000</u>

**Total Assets** \$ 88,946,891

**Liabilities and Net Assets**

**Liabilities**

Accounts payable and accrued expenses	\$ 19,120,171
Contract advance	55,656,738
Payable to Department of Developmental Services	280,254
Accrued vacation and other leave benefits	816,062
Unfunded defined benefit pension plan liability	<u>13,034,701</u>

**Total Liabilities** 88,907,926

**Unrestricted Net Assets** 38,965

**Total Liabilities and Net Assets** \$ 88,946,891

*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, 2017**

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**Revenue and Support**

Grants - State DDS	\$ 212,254,894
Grants - Federal	1,234,033
Intermediate Care Facilities SPA income	5,308,767
Interest	91,212
Other income	<u>201,019</u>

**Total Revenue and Support** 219,089,925

**Expenses**

Program services:	
Direct client services	213,649,191
Supporting services:	
General and administrative	<u>4,570,109</u>

**Total Expenses** 218,219,300

Change in net assets from operations 870,625

**Non-Operating Revenue (Expense)**

Change in defined benefit plan liability (883,540)

**Change in Net Assets** (12,915)

**Unrestricted Net Assets - Beginning** 51,880

**Unrestricted Net Assets - Ending** \$ 38,965

*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, 2017**

	Program Services	Supporting Services	
	Direct Client Services	General and Administrative	Total Expenses
<b>Salaries and Related Expenses</b>			
Salaries	\$ 11,595,289	\$ 2,159,891	\$ 13,755,180
Employee health and other benefits	<u>4,059,634</u>	<u>841,788</u>	<u>4,901,422</u>
<b>Total Salaries and Related Expenses</b>	15,654,923	3,001,679	18,656,602
<b>Purchase of Services</b>			
Other purchased services	122,032,467	--	122,032,467
Day programs	35,111,778	--	35,111,778
Residential care facilities	39,148,898	--	39,148,898
Occupancy	1,391,129	--	1,391,129
General office expenses	--	349,133	349,133
Equipment rental	--	166,979	166,979
Professional fees	--	319,053	319,053
Equipment purchases	--	230,238	230,238
Travel	217,341	47,989	265,330
Communication	--	150,538	150,538
Insurance	92,655	--	92,655
Equipment maintenance	--	41,619	41,619
Bank service fees	--	44,267	44,267
Contract and consultant fees	--	132,583	132,583
Data processing	--	58,949	58,949
Printing	--	3,816	3,816
Security	--	22,407	22,407
Board expenses	--	<u>859</u>	<u>859</u>
<b>Total</b>	<u>\$ 213,649,191</u>	<u>\$ 4,570,109</u>	<u>\$ 218,219,300</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, 2017**

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**Cash Flows From Operating Activities**

Change in net assets	\$ (12,915)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Change in defined benefit plan liability	883,540
Change in operating assets and liabilities:	
Contract reimbursement receivable	(32,761,294)
Receivable from Intermediate Care Facilities - Go Forward	(212,256)
Client trust funds receivable	1,464
Other receivables	7,065
Prepaid expenses	34,364
Deposits	32,000
Accounts payable and accrued expenses	4,485,072
Payable to Department of Developmental Services	280,254
Accrued vacation and other leave benefits	<u>155,439</u>

**Net Cash Used in Operating Activities** (27,107,267)

**Cash Flows From Financing Activities**

Proceeds from contract advance	52,066,738
Payments of contract advance	<u>(33,817,427)</u>

**Net Cash Provided by Financing Activities** 18,249,311

**Net Decrease in Cash and Cash Equivalents** (8,857,956)

**Cash and Cash Equivalents - Beginning** 17,687,992

**Cash and Cash Equivalents - Ending** \$ 8,830,036

**Statement of Financial Position Presentation:**

Cash and cash equivalents	\$ 8,828,906
Cash - client trust funds	<u>1,130</u>

**Total Cash and Cash Equivalents** \$ 8,830,036

*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, 2017**

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**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 contract, 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.  
dba NORTH BAY REGIONAL CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**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 \$218,335,793, \$187,858,495, and \$163,589,017 for the 2016/2017, 2015/16, and 2014/15 contract years, respectively, and are subject to budget amendments. As of June 30, 2017, actual net expenditures under the 2016/2017, 2015/16, and 2014/15 contracts were \$205,361,150, \$172,352,069, and \$163,117,867, 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, 2017 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.  
dba NORTH BAY REGIONAL CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**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.  
dba NORTH BAY REGIONAL CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**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 \$29,824 for the year ended June 30, 2017. Equipment disposals were \$91,896 for the year ended June 30, 2017. The cumulative capitalized equipment cost was \$333,795 at June 30, 2017.

***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.

***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.

***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

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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

***CONTRIBUTIONS***

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

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

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 2013 through 2016 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2012 through 2016 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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

***CONCENTRATIONS OF RISK***

***Credit Risk***

Financial instruments, which potentially subject the Center to a concentration of credit risk, principally consist of cash and cash equivalents, contract receivables, and receivables from vendors. The Center invests cash in 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 83 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.

***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.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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

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

The Center obtained the Governmental Accounting Standards Board Statement 68 (“GASB No. 68”) Accounting Valuation report from CalPERS for the year ended June 30, 2017. 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, 2017 annual funding valuation for the Plan. The June 30, 2016 liabilities, which were rolled forward to June 30, 2017 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 5).

***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 companies by adding lease-related assets and liabilities. This may affect compliance with contractual agreements and loan covenants.

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.



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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

***RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)***

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.

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).

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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

***RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)***

- 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.
- 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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

***RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)***

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.

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 2 - CONTRACT REIMBURSEMENT RECEIVABLE**

Contract reimbursement receivable consists of the following at June 30, 2017:

Claims submitted:	
Current year	\$ 56,905,603
Prior year	6,600,220
Second prior year	<u>21,557</u>
	63,527,380
Reimbursable expenses not yet submitted	<u>13,850,763</u>
<b>Total</b>	<b><u>\$ 77,378,143</u></b>

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**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, 2017.

***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, 2017**

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**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, 2017:

Beginning balance	\$ 2,087,104
Adjustments	452,192
Total billed due from vendors	5,308,767
Amount remitted by vendors	<u>(5,548,703)</u>
<b>Total Receivable From ICFs</b>	<b><u>\$ 2,299,360</u></b>
Beginning balance	\$ --
Adjustments	280,254
Amount remitted by Center to DDS	<u>--</u>
<b>Total Payable to DDS</b>	<b><u>\$ 280,254</u></b>
<b>Deferred Administrative Fee</b>	<b><u>\$ --</u></b>

**NOTE 4 - LINE OF CREDIT**

During the year ended June 30, 2015, the Center had a \$23,100,000 revolving line of credit agreement with Union Bank of California at the bank's reference rate of 3.25%. The line of credit was secured by substantially all assets of the Center. The line of credit expired on September 30, 2015, and was not renewed.

**NOTE 5 - 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, 2017, the Center paid \$1,743,525 to CalPERS.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*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).

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, 2017, the most current valuation, was as follows:

<i><b>Unfunded Liability</b></i>	
Benefit obligation	\$ 50,236,887
Market value of assets	<u>(37,202,186)</u>
<b>Unfunded Liability</b>	<u><u>\$ 13,034,701</u></u>

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*ASSET VALUATION METHOD (CONTINUED)*

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

*Reconciliation of the Market Value of Assets*

<b>Balance at June 30, 2016</b>	\$ 33,199,005
Contributions:	
Employer	1,668,506
Employee	864,911
Investment return	3,720,156
Benefit payments to retirees	(2,201,376)
Other transfers and miscellaneous adjustments	<u>(49,016)</u>
<b>Balance at June 30, 2017</b>	<u><u>\$ 37,202,186</u></u>

Net periodic benefit cost consists of the following components for the year ended June 30, 2017:

Service cost	\$ 1,612,723
Interest cost	3,371,892
Recognized change in assumptions	145,788
Expected return on plan assets	(2,379,893)
Recognized change in expense and earnings	32,771
Employee contributions	<u>(864,911)</u>
<b>Net Periodic Benefit Cost</b>	<u><u>\$ 1,918,370</u></u>

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)**

*ASSET VALUATION METHOD (CONTINUED)*

The significant actuarial assumptions are 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 and employee contributions to be paid to CalPERS during the year ending June 30, 2018 are \$797,305 and \$753,127, respectively.

The asset allocation as of June 30, 2017, 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>
<b>Total</b>	<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, 2017**

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**NOTE 5 - 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.

For the year ended June 30, 2017, the actuarial computed employer and employee contribution rates were 7.357% and 6.870%, respectively.

**NOTE 6 - CONTRACT ADVANCE**

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

**NOTE 7 - NET ASSETS HELD FOR OTHERS**

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

<b>Balance - Beginning</b>	\$	--
Client support received		107,071
Less residential care and other disbursements		<u>(126,846)</u>
<b>Balance - Ending</b>	\$	<u>(19,775)</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, 2017 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, 2017**

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**NOTE 8 - OPERATING LEASES**

The Center leases all of its facilities. Rent expense on these leases for the year ended June 30, 2017 was \$1,391,129. The Center also leases office equipment and the equipment rental expense for the year ended June 30, 2017 was \$166,979.

Future obligations on leases in effect at June 30, 2017 are as follows:

For the Years Ending	Amount
June 30,	
2018	\$ 1,554,235
2019	1,595,738
2020	1,638,342
2021	1,486,230
2022	1,133,560
Thereafter	<u>4,718,137</u>
<b>Total</b>	<b><u>\$ 12,126,242</u></b>

**NOTE 9 - 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, 2017**

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**NOTE 9 - COMMITMENTS AND CONTINGENCIES**

*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, 2017 and for the year then ended.

**NOTE 10 - 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 \$202,000, to cover possible exposure of unusual employment claims.

**NOTE 11 - SUBSEQUENT EVENTS**

The Center has evaluated all subsequent events through December 6, 2018, 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, 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 qualified report thereon dated December 6, 2018. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying *schedule of findings and questioned costs*, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying *schedule of findings and question costs* as items 2017-01, 2017-02, and 2017-03 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2017-04 to be a significant deficiency.

### ***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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-004.

### ***The Center's Response to Findings***

The Center's response to the findings identified in our audit is described in the accompanying schedule of findings and questions costs. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***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  
December 6, 2018

**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, 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 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, 2017.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and is described in the accompanying schedule of findings and questioned costs as item 2017-005. Our opinion on the major federal program is not modified with respect to this matter.

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

### ***Report on Internal Control Over Compliance***

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2017-005 that we consider to be a significant deficiency.

The Center's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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  
December 6, 2018



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

**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	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	HD1599 011	\$ --	\$ 1,234,033
<b>Total Expenditures of Federal Awards</b>			<u>\$ --</u>	<u>\$ 1,234,033</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, 2017**

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Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of North Bay Regional Center (the “Center”) under programs of the federal government for the year ended June 30, 2017. 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, 2017**

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**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: Yes
- Significant deficiencies identified: Yes

Noncompliance material to financial statements: Yes

Federal Awards

Internal Control over major federal programs:

- Material weaknesses identified: No
- Significant deficiencies identified: Yes

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, 2017**

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

**MATERIAL WEAKNESS**

***2017-001 – SEGREGATION OF DUTIES, PURCHASING AND DISBURSEMENTS PROCESSING***

***CRITERIA***

Inherent in any system of internal control is the concept of monitoring and segregation of duties, which encompasses such activities as review and approval of financial transactions and internal control monitoring. Monitoring and segregation of duties help to prevent, detect, and correct, misstatements on a timely basis. The responsibility of monitoring usually falls on the Executive Director and Chief Financial Officer, and must be present throughout the organization.

***CONDITION***

We noted the following:

- Not all purchase orders were reviewed or approved.
- Person initiating purchase orders also received items that were purchased.
- Not all items received were compared to the purchase order to verify the quantity and correctness of the received goods.
- Not all payments on invoices were properly approved.
- For credit card payments, not all supporting receipts were included to support the purchases.

***CAUSE***

The person who initiated purchase orders also, at times, received items and processed such invoices for payment without a supervisor's review and approval. Credit card payments were processed despite missing invoices.

***EFFECT***

Not following the Center's existing policies exposes the Center to possible fraud, abuse, and misstatements.

***QUESTIONED COSTS***

There are no questioned costs as a result of this finding.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**MATERIAL WEAKNESS (CONTINUED)**

***2017-001 – SEGREGATION OF DUTIES, PURCHASING AND DISBURSEMENTS PROCESSES  
(CONTINUED)***

***CONTEXT***

There are existing policies in places; however, management was not consistently following their procedures.

***REPEAT OF PRIOR YEAR FINDING***

Yes, reported as 2016-001.

***RECOMMENDATION***

We recommend that the Center segregate the receipt of goods from the person ordering, a supervisor above the person ordering must review and approve the supporting documents before they are paid. All invoices must be supported by appropriate documentation before being processed for payment and must be reviewed and approved by an appropriate supervisor.

***VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION***

See corrective action plan.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**MATERIAL WEAKNESS (CONTINUED)**

**2017-002 – PAYROLL ADMINISTRATION**

***CRITERIA***

Inherent in any system of internal control is the concept of monitoring and segregation of duties, which encompasses such activities as review and approval of financial transactions and internal control monitoring. Monitoring and segregation of duties help to prevent, detect, and correct, misstatements on a timely basis. The responsibility of monitoring usually falls on the Executive Director and Chief Financial Officer, and must be present throughout the organization.

***CONDITION***

We noted the following:

- Not all overtime was reviewed or approved.
- Payroll accountant has the ability to change an employee's pay rates.
- Payroll was not reviewed and approved prior to the payment of payroll.
- Not all employees had their performance review done timely.
- Not all employees had signed conflict of interest forms in their personnel files.
- In addition, management was not following certain existing policies regarding timely performance evaluations and the completion of signed conflict of interest forms.

***CAUSE***

Management was not monitoring human resources/payroll functions and employees for adherence to the Center's existing policies and procedures. Also, the payroll accountant had the ability to change employee pay rates or any other permanent employee information. A supervisor was not approving the overall payroll before the disbursement was made.

***EFFECT***

Lack of oversight and segregation of duties exposes the Center to possible fraud, abuse, and financial statement and compliance misstatements.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**MATERIAL WEAKNESS (CONTINUED)**

***2017-002 – PAYROLL ADMINISTRATION (CONTINUED)***

***QUESTIONED COSTS***

There are no questioned costs as a result of this finding.

***CONTEXT***

There are existing policies in place; however, management was not consistently following their procedures.

***REPEAT OF PRIOR YEAR FINDING***

Yes, reported as #2016-002.

***RECOMMENDATION***

We recommend that the Center adhere to its existing policies and procedures by performing the proper review and monitoring of human resources and payroll. We also recommend that the payroll accountant not have access to change pay rates or permanent employee information. This should be done by someone in human resources only after receiving an approved personnel action form. An appropriate level supervisor must review and approve payroll before it is disbursed.

***VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION***

See corrective action plan.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**MATERIAL WEAKNESS (CONTINUED)**

***2017-003 – VENDOR FISCAL MONITORING***

***CRITERIA***

According to Article III of the Department of Developmental Services (“DDS”) contract, the Center is required to conduct a certain number of vendor audits for specific categories. The Center did not perform the requisite number of audits.

Generally, the audits conducted by the Center will be for vendors receiving under \$100,000, and involve attendance audits. For vendors receiving more than \$100,000, DDS will generally conduct such audits.

***CONDITION***

The Center did not perform the requisite number of audits because the Center has not had an internal auditor since February 2013.

***CAUSE***

The Center has not employed an internal auditor and does not have other staffing to perform the vendor audits.

***EFFECT***

The Center is not in compliance with its DDS contract and the lack of vendor monitoring exposes the Center to possible fraud, abuse, and misstatements.

***QUESTION COSTS***

No questioned costs noted.



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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**MATERIAL WEAKNESS (CONTINUED)**

***2017-003 – VENDOR FISCAL MONITORING (CONTINUED)***

***CONTEXT***

There are existing policies in place to conduct vendor audits but the Center was not able to conduct such audits.

***REPEAT OF PRIOR YEAR FINDING***

Yes, reported as #2016-003.

***RECOMMENDATION***

We recommend that the Center perform these required audits as mandated by the contract with DDS.

***VIEWS OF RESPONSIBLE OFFICIALS***

See corrective action plan.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**SIGNIFICANT DEFICIENCY**

***2017-004 – BOARD APPROVAL FOR CONTRACTS OVER \$250,000***

***CRITERIA***

Per California Welfare and Institutions Code Section 4625.5, the Center is required to adopt and maintain a written policy requiring the board to review and approve any regional center contract of \$250,000 or more, before entering into the contract.

***CONDITION***

For the year ended June 30, 2017, the Center does not have a written policy in place to be in compliance with code section 4625.5. There is not sufficient documentation to determine whether all contracts over \$250,000 were reviewed by the board.

***CAUSE***

The board meeting minutes did not dutifully describe the contract in sufficient detail to establish whether a particular contract was approved, although some contracts were reportedly presented to the board.

***EFFECT***

The Center will not be able to have low-risk status for federal single audit purposes for the next two years.

***QUESTION COSTS***

No questioned costs noted.

***CONTEXT***

Although many contracts were approved by the Center's Board of Directors, not all contracts over \$250,000 were approved as required.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)**

**SIGNIFICANT DEFICIENCY (CONTINUED)**

***2017-004 – BOARD APPROVAL FOR CONTRACTS OVER \$250,000 (CONTINUED)***

***REPEAT OF PRIOR YEAR FINDING***

No

***RECOMMENDATION***

We recommend that the Center develop a written policy to establish a procedure to approve contracts over \$250,000. We recommend all contracts over \$250,000 be reviewed and approved by the governing board before entering into the contract and that such approval is documented in the board minutes listing the vendor name, contract amount, and expiration date.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2017**

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

**SIGNIFICANT DEFICIENCY**

***2017-005 – UNTIMELY FILING OF DATA COLLECTION FORM***

***CRITERIA***

The Center is required to complete and submit its audit report and Data Collection Form with the Federal Audit Clearinghouse by the earlier of nine months after the end of its year or 30 days after the audit report has been issued.

***CONDITION***

For the year ended June 30, 2017, the Center did not complete and submit its audit report and Data Collection Form by March 31, 2018, the earlier of nine months after the end of its year or 30 days after the audit report has been issued.

***CAUSE***

There were findings that took time for management to resolve and complete the corrective action plan.

***EFFECT***

The Center will not be able to have low-risk status for federal single audit purposes for the next two years.

***QUESTION COSTS***

No questioned costs noted.

***CONTEXT***

The Center was not able to submit audit reports and data collection forms timely.

***REPEAT OF PRIOR YEAR FINDING***

Yes, reported as #2016-004.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**SIGNIFICANT DEFICIENCY (CONTINUED)**

***2017-005 – UNTIMELY FILING OF DATA COLLECTION FORM (CONTINUED)***

***RECOMMENDATION***

We recommend that the Center start the audit earlier with a goal of completing and submitting the final audit well before March 31<sup>st</sup> of the subsequent year.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**SECTION IV – STATUS OF PRIOR YEAR AUDIT FINDINGS**

***2016-001 – PURCHASING AND DISBURSEMENTS***

*Not remediated. Refer to 2017-001.*

***2016-002 – PAYROLL ADMINISTRATION***

*Not remediated. Refer to 2017-002.*

***2016-003 – VENDOR FISCAL MONITORING***

*Not remediated. Refer to 2017-003.*

***2016-004 – DELINQUENT AUDIT***

*Not remediated. Refer to 2017-005.*



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October 23, 2018

Mr. Roger Bulosan, CPA, CFE  
Partner  
Marcum L.L.P  
1 Montgomery Street, Suite 1700  
San Francisco, CA 94104

Dear Mr. Bulosan,

North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center ("NBRC") respectfully submits the following corrective action plan for the ended June 30, 2017. NBRC made significant progress towards meeting compliance in these areas prior to the issuance of the Fiscal Year 2016-17 audit report. Unfortunately, due to the timing of when the Fiscal Year 2015-16 audit report was issued and the start of field work for the Fiscal Year 2016-17, there was not enough time to fully implement all of the Fiscal Year 2015-16 recommendations by June 30, 2017.

Our responses to the findings are as follows.

*Finding 2017-001- Segregation of Duties, Purchasing and Disbursements Processing*

NBRC revised its procedures on purchasing and disbursements in Fiscal Year 2016-17 and NBRC has been consistently in compliance with these procedures. As noted in Fiscal Year 2015-16's Corrective Action Plan dated December 14, 2017, the recommendations were accepted in Fiscal Year 2016-17. Changes in procedures were already being made, or were made immediately thereafter.

New staff were hired and staff reassignments were made during Fiscal Year 2016-17 to ensure compliance to internal control procedures. Revised procedures were established to warrant clearer segregation of duties. On October 1, 2016, the Fiscal Supervisor took over the purchasing responsibility for NBRC. Purchase Orders were promptly reviewed and approved by the CFO. In Fiscal Year 2016-17, the Vendor Fiscal Auditor was given the assignment of receiving orders and verifying the quantity and accuracy of the orders. When required, the Vendor Fiscal Auditor promptly recorded supplies, equipment or orders requiring State of California approval (State Tag). Effective January 2017, the Controller and her staff took over the responsibility of maintaining and

tracking all fixed assets on a master inventory list. The Controller and her staff also monitored all invoices for accuracy, ensured supporting documentations were attached, and proper approval was provided. This included all of NBRC's credit card statements. All invoices for NBRC require the signature of the CFO.

These revised processes and procedures, as well as new staff assignments, were established in Fiscal Year 2016-17 and are currently in use. This reflects NBRC's commitment to meet compliance with internal controls processes going forward.

*Finding 2017-002- Payroll Administration*

NBRC addressed this finding in the Corrective Action Plan dated December 14, 2017. A new Payroll Specialist was hired in August 2016. When this position was created, new procedures were put into place to ensure the Payroll Specialist did not have access to pay rates and/or the ability to change employee information. Only the HR Generalist and the Director of Administrative Services had this access. The Director of Administrative Services had the responsibility to review and has final approval prior to sending payroll for processing. The Controller received the payroll total for entry into the General Ledger. These procedures were in place in Fiscal Year 2016-17. As an additional oversight, the Controller now receives the full payroll register for review and substantiation of payroll data.

NBRC's written performance reviews in Fiscal Year 2016-17 were not current; however, each merit increase was signed and acknowledged by the approving supervisor. The merit increase was contingent upon the supervisor's confirmation of satisfactory work performance. We continued to make continuous improvement to ensure that written performance evaluations are completed in a timely manner.

New overtime procedures were established in Fiscal Year 2016-17. Overtime work now requires prior approval and is being monitored. Additionally, overtime pay is not being processed without approval of the CFO. The process to obtain signed Conflict of Interests statements for employees and Board members was modified in Fiscal Year 2016-17. NBRC now ensures the Conflict of Interest statements are done on an annual basis.

*Finding 2017—003 - Vendor Fiscal Monitoring*

NBRC accepts this finding for Fiscal Year 2016-17. NBRC will ensure compliance with this matter going forward. NBRC currently has one full time Vendor Auditor and one part time (80% FTE) Vendor Auditor. NBRC will provide additional oversight to ensure that this matter is addressed.



Finding 2017-004 Board Approval of Contracts over \$250,000

NBRC did not fully meet compliance with this requirement in Fiscal Year 2016-17. Although many contracts were approved by NBRC'S Board of Directors, not all were presented as required.

A new procedure has been established. Contracts executed in Fiscal Year 2016-17 exceeding \$250,000 shall be retroactively approved by the NBRC Board of Directors no later than December 31, 2018.

Finding 2017-005- Untimely Filing of Data Collection Form

NBRC accepts this finding for Fiscal Year 2016-17. NBRC will ensure that all subsequent independent CPA audits are scheduled and completed timely.

In summary, NBRC is strongly committed to addressing the recommendations of the audit report and meeting statutory, contractual and financial obligations. In the past six months, NBRC has taken significant and continuous actions to address previous findings and ensure excellence in leadership and governance. A new senior management team, and new Board leadership are actively making changes and providing proper oversight to ensure NBRC addresses all recommendations in the Fiscal Year 2016-17 audit.

NBRC appreciates the opportunity to provide this update.

Sincerely,

Nancy Kubota  
Interim CFO  
North Bay Regional Center