



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

**COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE**

YEAR ENDED JUNE 30, 2016



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

We have audited the financial statements of North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center (the "Center") for the year ended June 30, 2016, and have issued our report thereon dated February 5, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Uniform Guidance

As stated in our engagement letter dated June 1, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. In planning and performing our audit, we will consider the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We will also consider internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance. As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we will perform tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a material effect in the determination of financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also in accordance with the Uniform Guidance, we will examine, on a test basis, evidence about the Center's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the Center's compliance with those requirements. While our audit will provide a reasonable basis for our opinion, it will not provide a legal determination on the Center's compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

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

Our audit included obtaining an understanding of the Center and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Center are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements were:

- Management's estimates that all receivables are fully collectible; and therefore, there is no allowance for doubtful accounts.
- The estimates related to the actuarial assumptions associated with the Center's defined benefit plan which include: discount rates, the long-term inflation rate, long-term blended rate of return, payroll growth, and the participants' life expectancies.
- The estimate of the loss due to the misappropriation of client trust funds.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosure affecting the financial statement was:

- The disclosure related to the misappropriation of client trust funds in Note 9 to the financial statements.

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

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Schedule I summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 5, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves the application of an accounting principle to the Center's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Fraud or Violations of Laws and Regulations

There were no violations of laws and regulations that came to our attention during the course of our audit. We are aware of the fraud that has been made known to us and disclosed in the financial statements.

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

Communicating Internal Control Related Matters

Our consideration of internal control was for the limited purpose described above and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 following in the Plan's internal control to be material weaknesses:

The Center's written response to the comment identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Observation

There are no formal written procedures covering personal electronic devices and oversight. We noted that personal electronic devices, such as laptops and cell phones, are not associated to a person and monitored. When devices are replaced, there are no procedures regarding the receipt of store credits or cash.

The Center did not have a written policy and there was not adequate management follow up and monitoring surrounding personal electronic devices.

Recommendation

Lack of oversight exposes the Center to possible fraud, abuse, and misstatements. The personal electronic devices might be lost/stolen or disposed of and the Center will not be able to find out timely and sensitive information in the devices might be compromised.

Personal electronic devices should be more closely monitored and tracked due to sensitive information that might be in the devices and their susceptibility to theft.

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

We recommend that the Center develop written procedures surrounding personal electronic devices to include, but not be limited to:

- Monitor use for personal use and abuse, including use of websites
- Cleaning of data in storage when replaced
- Preapproval of receipt of store credits or cash and the subsequent use

Management's Response

NBRC accepts the recommendations made and has implemented appropriate changes. NBRC has implemented appropriate internal control improvements and has developed written procedures that address Information Technology ("IT"). NBRC's updated procedures include, but are not limited to, addressing sensitive equipment, proper business uses of IT equipment, prohibition of uses, and downloading software. All sensitive equipment is tagged, tracked, and entered into the inventory system by our Accounting Manager. The system ties the sensitive equipment to personnel and their location. The updated procedures are being implemented for the retiring of sensitive equipment as well.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Center's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We also call to the reader's attention material weaknesses and significant deficiencies reported in our reports issued under *Government Auditing Standards* and Uniform Guidance.

Independence

There are no matters that we gave significant consideration to in reaching our conclusion that our independence has not been impaired.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We also call to the reader's attention material weaknesses and significant deficiencies reported in our reports issued under *Government Auditing Standards* and Uniform Guidance.

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

This information is intended solely for the use of the Board of Directors and the management of *North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center* and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank David Johnson, Thomas Maseda, Barrie Gordon, and the staff of North Bay Regional Center for their cooperation during the audit.

Marcum LLP

San Francisco, California
February 5, 2018

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

Schedule I

2016 Passed Adjusting Journal Entry

Account	Description	Debit	Credit
Proposed JE #1			
To record deferred rent.			
01-00-00-02010-00	RECEIVABLE - STATE CLAIM - CY	194,500.00	
01-00-00-20010-01	STATE INCOME -FY 15-16 POS	68,397.00	
01-00-00-10150-00	DEFERRED RENT		194,500.00
01-01-00-30030-00	FACILITY RENT-ADM		68,397.00
Total		<u>262,897.00</u>	<u>262,897.00</u>



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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
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, 2016, and the related statements of activities and changes in net assets (accumulated deficit), functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the 2016 financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2016, and the changes in its net 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

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

Report on 2015 Financial Statements

The 2015 financial statements of North Bay Regional Center, Inc. were audited by Lautze & Lautze, CPA's & Financial Advisors whose practice was combined with Marcum LLP as of June 1, 2016, and whose report dated February 19, 2016, expressed an unmodified opinion on those statements. As part of our audit of the 2016 financial statements, we also audited the adjustment described in Note 1 that was applied to restate the 2015 financial statements. In our opinion, such an adjustment is appropriate and has been properly applied to the 2015 financial statements presented herein as of and for the year ended June 30, 2015, which is otherwise consistent with the audited financial statements from which it has been derived. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of North Bay Regional Center Inc. other than with respect to the adjustment and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Marcum LLP

San Francisco, California
February 5, 2018

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

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2016 AND 2015

	2016	2015 (Restated)
Assets		
Cash and cash equivalents	\$ 17,665,266	\$ 4,985,618
Cash - client trust funds	22,726	550,316
Contract reimbursement receivable	32,465,688	40,303,473
Receivable from Intermediate Care Facilities - Retro	--	6,038,739
Receivable from Intermediate Care Facilities - Go Forward	2,087,104	2,390,630
Client trust funds receivable	21,239	1,001
Other receivables	7,267	--
Prepaid expenses	373,739	378,236
Deposits	<u>112,000</u>	<u>32,000</u>
Total Assets	<u><u>\$ 52,755,029</u></u>	<u><u>\$ 54,680,013</u></u>
Liabilities and Net Assets (Accumulated Deficit)		
Liabilities		
Accounts payable and accrued expenses	\$ 14,635,099	\$ 13,822,947
Contract advance	37,407,427	33,567,482
Payable to Department of Developmental Services	--	6,165,281
Accrued vacation and other leave benefits	660,623	732,827
Deferred income fee earned	--	88,673
Net assets held for others	<u>--</u>	<u>433,193</u>
Total Liabilities	52,703,149	54,810,403
Unrestricted Net Assets (Accumulated Deficit)	<u>51,880</u>	<u>(130,390)</u>
Total Liabilities and Net Assets (Accumulated Deficit)	<u><u>\$ 52,755,029</u></u>	<u><u>\$ 54,680,013</u></u>

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

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

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
(ACCUMULATED DEFICIT)

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015 (Restated)
Revenue and Support		
Grants - State DDS	\$ 169,438,517	\$ 156,480,693
Grants - Federal	2,106,298	853,644
Intermediate Care Facilities SPA income	5,227,784	5,384,928
Interest	75,114	53,354
Recovery from insurance company	--	200,000
Other income	<u>225,733</u>	<u>111,665</u>
Total Revenue and Support	<u>177,073,446</u>	<u>163,084,284</u>
Expenses		
Program services:		
Direct client services	172,865,310	159,217,601
Supporting services:		
General and administrative	<u>4,025,866</u>	<u>3,665,907</u>
Total Expenses	<u>176,891,176</u>	<u>162,883,508</u>
Change in Net Assets	182,270	200,776
Unrestricted Accumulated Deficit - Beginning	<u>(130,390)</u>	<u>(331,166)</u>
Unrestricted Net Assets (Accumulated Deficit) - Ending	<u>\$ 51,880</u>	<u>\$ (130,390)</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 FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Supporting Services	
	Direct Client Services	General and Administrative	Total Expenses
Salaries and Related Expenses			
Salaries	\$ 9,481,769	\$ 1,567,510	\$ 11,049,279
Employee health and other benefits	<u>3,555,973</u>	<u>596,206</u>	<u>4,152,179</u>
Total Salaries and Related Expenses	13,037,742	2,163,716	15,201,458
Purchase of Services			
Other purchased services	93,912,157	--	93,912,157
Day programs	32,642,892	--	32,642,892
Residential care facilities	31,242,468	--	31,242,468
Occupancy	1,611,768	266,749	1,878,517
General office expenses	--	448,944	448,944
Equipment rental	--	171,072	171,072
Professional fees	--	212,251	212,251
Equipment purchases	--	428,988	428,988
Travel	217,341	20,646	237,987
Communication	--	104,902	104,902
Insurance	74,802	12,380	87,182
Equipment maintenance	126,140	20,877	147,017
Bank service fees	--	49,099	49,099
Contract and consultant fees	--	45,118	45,118
Data processing	--	38,419	38,419
Printing	--	15,244	15,244
Security	--	22,024	22,024
Board expenses	<u>--</u>	<u>5,437</u>	<u>5,437</u>
Total	<u>\$ 172,865,310</u>	<u>\$ 4,025,866</u>	<u>\$ 176,891,176</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 FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015 (Restated)

	Program Services	Supporting Services	Total
	Direct Client Services	General and Administrative	Expenses (Restated)
Salaries and Related Expenses			
Salaries	\$ 8,994,915	\$ 1,517,975	\$ 10,512,890
Employee health and other benefits	<u>3,420,265</u>	<u>527,912</u>	<u>3,948,177</u>
Total Salaries and Related Expenses	12,415,180	2,045,887	14,461,067
Purchase of Services			
Other purchased services	83,603,669	--	83,603,669
Day programs	31,572,040	--	31,572,040
Residential care facilities	29,874,046	--	29,874,046
Occupancy	1,404,203	230,492	1,634,695
General office expenses	--	371,229	371,229
Equipment rental	--	276,645	276,645
Professional fees	--	210,138	210,138
Equipment purchases	--	154,899	154,899
Travel	217,341	18,173	235,514
Communication	--	146,179	146,179
Insurance	75,089	12,326	87,415
Equipment maintenance	56,033	9,198	65,231
Bank service fees	--	53,469	53,469
Contract and consultant fees	--	49,648	49,648
Data processing	--	44,263	44,263
Printing	--	20,292	20,292
Security	--	19,015	19,015
Board expenses	--	3,858	3,858
Interest	<u>--</u>	<u>196</u>	<u>196</u>
Total	<u>\$ 159,217,601</u>	<u>\$ 3,665,907</u>	<u>\$ 162,883,508</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

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015 (Restated)
Cash Flows From Operating Activities		
Change in net assets	\$ 182,270	\$ 200,776
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Contract reimbursement receivable	7,837,785	1,834,320
Receivable from Intermediate Care Facilities - Retro	6,038,739	1,782,142
Receivable from Intermediate Care Facilities - Go Forward	303,526	(127,201)
Other receivables	(7,267)	--
Client trust funds receivable	(20,238)	(760)
Prepaid expenses	4,497	1,010
Accounts payable and accrued expenses	812,152	373,338
Payable to Department of Developmental Services	(6,165,281)	(1,393,404)
Accrued vacation and other leave benefits	(72,204)	(139,743)
Deferred income fee earned	(88,673)	(46,322)
Deposits	(80,000)	--
Net assets held for others	(433,193)	(915,168)
Net Cash Provided by Operating Activities	<u>8,312,113</u>	<u>1,568,988</u>
Cash Flows From Financing Activities		
Proceeds from contract advance	41,057,188	40,118,256
Payments of contract advance	(37,217,243)	(41,759,351)
Net Cash Provided (Used) by Financing Activities	<u>3,839,945</u>	<u>(1,641,095)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,152,058	(72,107)
Cash and Cash Equivalents - Beginning of Year	<u>5,535,934</u>	<u>5,608,041</u>
Cash and Cash Equivalents - Ending of Year	<u>\$ 17,687,992</u>	<u>\$ 5,535,934</u>

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

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

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015 (Restated)
Statement of Financial Position Presentation:		
Cash and cash equivalents	\$ 17,665,266	\$ 4,985,618
Cash - client trust funds	<u>22,726</u>	<u>550,316</u>
Total Cash and Cash Equivalents	<u>\$ 17,687,992</u>	<u>\$ 5,535,934</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ --</u>	<u>\$ 196</u>

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 YEARS ENDED JUNE 30, 2016 AND 2015

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 YEARS ENDED JUNE 30, 2016 AND 2015

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 \$187,113,681, \$164,958,568, and \$154,622,315 for the 2015/16, 2014/15, and 2013/14 contract years, respectively, and are subject to budget amendments. As of June 30, 2016, actual net expenditures under the 2015/16, 2014/15, and 2013/14 contracts were \$155,113,275, \$158,297,084, and \$152,808,254, 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.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

CLASSIFICATION OF NET ASSETS (CONTINUED)

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

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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

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.

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 \$139,413 and \$0 for the years ended June 30, 2016 and 2015, respectively. Equipment disposals were \$42,985 and \$0 for the years ended June 30, 2016 and 2015, respectively. The cumulative capitalized equipment costs are \$395,867 and \$299,439 at June 30, 2016 and 2015, respectively.

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.

DEFERRED RENT

The Center leases office facilities under lease agreements that are subject to scheduled rent increases. The scheduled rent increases are amortized evenly over the term of the lease in accordance with U.S. GAAP. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. According to the DDS contract, the DDS reimburses the Center for rent after it is paid.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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 statements of activities and changes in net assets. These transactions are reported as net assets released from restrictions in the statements of activities and changes in net assets (accumulated deficit) 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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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 2012 through 2015 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2011 through 2015 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 84 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 expired February 2017, and the Center is currently in negotiations with the Union.

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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

RECLASSIFICATIONS

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications have no effect on the previously reported net assets or change in net assets.

DEFINED BENEFIT PENSION PLAN

The Center participates in a defined benefit pension plan covering all employees through the California Public Employees' Retirement System ("CalPERS"). The CalPERS plan has characteristics of a multiemployer plan and the available actuarial information is disclosed in the financial statements.

The Center must have the actuarial report coinciding with the Center's year end, and include certain plan related disclosures in its financial statements.

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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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.

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

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

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

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

On August 18, 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, representing the completion of the first phase of a two-phase project to amend not-for-profit ("NFP") financial reporting requirements as set out in FASB ASC 958, Not-for-Profit Entities.

This standard eliminates:

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

NFPs will reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption. This amendment eliminates the current option that, in the absence of explicit donor stipulations, had allowed 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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

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

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

RESTATEMENT

The 2015 financial statements have been restated to reflect the change in accrued vacation on the statements of activities and changes in net assets and functional expenses. In addition, there is a reclassification of those items on the statement of financial position to contract reimbursement receivable to reflect reimbursable expenses under the DDS grant not yet submitted.

	June 30, 2015 Balance as Originally Stated	Adjustment	July 1, 2015 Balance as Restated
Contract reimbursement receivable	\$ 39,570,646	\$ 732,827	\$ 40,303,473
Deferred costs for accrued vacation and other leave benefits	732,827	(732,827)	--
Grants	156,340,950	139,743	156,480,693
Salaries	10,373,147	139,743	10,512,890

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

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 2 - CONTRACT REIMBURSEMENT RECEIVABLE

Contract reimbursement receivable consists of the following at June 30:

	2016	2015
Claims submitted:		
Current year	\$ 31,585,734	\$ 36,710,683
Prior year	458,944	2,836,259
Second prior year	<u>(239,613)</u>	<u>23,704</u>
	31,805,065	39,570,646
Reimbursable expenses not yet submitted	<u>660,623</u>	<u>732,827</u>
Total	<u><u>\$ 32,465,688</u></u>	<u><u>\$ 40,303,473</u></u>

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.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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

RETROACTIVE ACTIVITIES (CONTINUED)

The Center has received all retroactive funds and have remitted all such funds to DDS as of June 30, 2016.

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.

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

	2016	2015
Beginning balance	\$ 8,429,369	\$ 10,084,310
Adjustments	24,565	(22,794)
Total billed due from vendors	5,227,784	5,059,102
Amount remitted by vendors	<u>(11,594,614)</u>	<u>(6,691,249)</u>
Total Receivable From ICFs	<u>\$ 2,087,104</u>	<u>\$ 8,429,369</u>
Beginning balance	\$ 6,165,281	\$ 7,558,685
Adjustments	25,224	(133,309)
Amount remitted by Center to DDS	<u>(6,190,505)</u>	<u>(1,260,095)</u>
Total payable to DDS	<u>\$ --</u>	<u>\$ 6,165,281</u>
Deferred Administrative Fee	<u>\$ --</u>	<u>\$ 88,673</u>

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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 years ended June 30, 2016 and 2015, the Center paid \$1,270,636 and \$1,184,696 to CalPERS, respectively.

ASSET VALUATION METHOD

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-2016 rates, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. CalPERS will no longer use an actuarial value of assets and will use the market value of assets.

The Public Employees' Retirement Law (Part 3 of the California Government Code, §20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

The funded status as of June 30, 2015, (the most current valuation), and 2014 is as follows:

	2016	2015
Present value of projected benefits	\$ 58,909,638	\$ 54,803,005
Less present value of future:		
Employer normal costs	(6,277,059)	(5,530,689)
Employee contributions	(6,468,373)	(5,798,649)
Entry age normal accrued liability	46,164,206	43,473,667
Actuarial value of assets	(33,124,416)	(32,957,658)
Unfunded Status	\$ 13,039,790	\$ 10,516,009

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

ASSET VALUATION METHOD (CONTINUED)

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

	2016	2015
Beginning actuarial value of assets	\$ 32,957,658	\$ 32,319,435
Receivables for service buybacks	(4,682)	(11,562)
Contributions:		
Employer	1,310,517	1,167,366
Employee	717,327	670,940
Benefit payments to retirees and beneficiaries	(1,933,611)	(1,791,522)
Refunds	(74,305)	(110,187)
Transfers and miscellaneous adjustments	6,679	15,719
Investment return	144,833	697,469
Ending Balance	<u>\$ 33,124,416</u>	<u>\$ 32,957,658</u>

The significant actuarial assumptions are as follows:

	2016	2015
Long-term inflation rate	2.750%	2.750%
Long-term blended rate of return	7.375%	7.500%
Payroll growth	3.000%	3.000%
Discount rate	7.375%	7.500%

The expected employer and employee contributions to be paid to the plan during the years ending June 30, 2019 and 2018 are \$839,193 and \$797,305, respectively, and \$790,658 and \$753,127, respectively.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 5 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

ASSET VALUATION METHOD (CONTINUED)

The asset allocation as of June 30, 2016, is as follows:

Asset Class	Current Allocation	Target Allocation
Global equity	51.9%	51.0%
Global fixed income	20.3%	20.0%
Private equity	9.0%	10.0%
Real assets	10.8%	12.0%
Inflation sensitive asset	6.0%	6.0%
Liquidity	1.5%	1.0%
Other	<u>0.5%</u>	<u>0.0%</u>
Total	<u>100.0%</u>	<u>100.0%</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.

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, 2015. The assets for the Center are part of the PERF and are invested accordingly.

For the years ending June 30, 2017 and 2016, the actuarial computed employer and employee contribution rates will be 7.201% and 6.802%, respectively and 6.802% and 6.728%, respectively.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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:

	2016	2015
Balance - Beginning	\$ 433,193	\$ 1,348,361
Client support received	1,506,326	11,175,527
Restitution received	--	200,000
Receivable from clients	21,239	1,001
Less residential care and other disbursements	<u>(1,960,758)</u>	<u>(12,291,696)</u>
 Balance - Ending	 <u>\$ --</u>	 <u>\$ 433,193</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.

NOTE 8 - OPERATING LEASES

The Center leases all of its facilities. Rent expense on these leases for the years ended June 30, 2016 and 2015, was \$1,878,517 and \$1,634,695, respectively. The Center also leases office equipment and the equipment rental expense for the years ended June 30, 2016 and 2015, was \$171,072 and \$276,645, respectively.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 8 - OPERATING LEASES (CONTINUED)

Future obligations on leases in effect at June 30, 2016 are as follows:

For the Years Ending June 30,	Amount
2017	\$ 1,430,518
2018	1,554,231
2019	1,595,734
2020	1,638,338
2021	1,486,227
Thereafter	<u>5,851,697</u>
Total	<u>\$ 13,556,745</u>

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, a material unfavorable outcome is remote.

MISAPPROPRIATION AND RESTITUTION

During the year ended June 30, 2014, management discovered an embezzlement involving a former case worker which transpired during the time period of 2006 through 2012 that is estimated at \$385,000. The embezzlement involves client trust funds for which the Center has a fiduciary duty to oversee. Accordingly, it is management's intent to financially restore the impacted clients. Once the embezzlement was discovered, management reported this incident to various authorities including, but not limited to, those charged with governance, Adult Protection Services, the DDS, and the Santa Rosa Police Department ("SRPD").

On the advice from the SRPD, management undertook an internal investigation to produce evidence and to quantify the loss by reviewing all available supporting documents. Because of the unavailability of certain records, losses prior to 2006 may exist but are not quantifiable. In management's opinion, the estimated loss is reasonable and the embezzlement is an isolated case.

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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 9 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

MISAPPROPRIATION AND RESTITUTION (CONTINUED)

The former employee suspected of the embezzlement was arrested and has pleaded no contest. The Center will seek restitution through a combination of actions including, but not limited to, restitution from the former employee and claims against financial institutions and the Center's insurance carrier covering employee dishonesty coverage.

When the Center receives restitution, it will recognize income and will then use the proceeds to reimburse the impacted clients by transferring the funds to the Client Trust Fund. Because of the limitations on recognizing gain contingencies, the Operating Fund will recognize restitution as it is received. During the year ended June 30, 2015, the Center received \$200,000 from its insurance carrier. As a result, there is an unrestricted accumulated deficit as of June 30, 2015. During the year ended June 30, 2016, the Center filed a claim to the DDS for the remainder of the balance due to the clients. At June 30, 2015, the Operating Fund had a payable to the Client Trust Fund in the amount of \$185,000. During the year ended June 30, 2016, the Operating Fund reimbursed the Client Trust Fund in full.

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. 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, 2016 and 2015, and for the years then ended.

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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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 \$175,000, to cover possible exposure of unusual employment claims.

NOTE 11 - SUBSEQUENT EVENTS

The Center has evaluated all subsequent events through February 5, 2017, 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
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, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 5, 2018.

Internal Control Over Financial Reporting

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

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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified 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 questioned costs to be material weaknesses as 2016-001 and 2016-002.

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 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2016-001, 2016-002, and 2016-003.

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 subject to the auditing procedures applied in the audit of the financial statements and, 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
February 5, 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
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, 2016. The Center's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

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 questions costs as item 2016-004. Our opinion on the major federal program is not modified with respect to this matter.

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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding 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 were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-004 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
February 5, 2018

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/ Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Passed Through to Subrecipients	Federal Disbursements/ Expenditures
Office of Special Education and Rehabilitative Services of the U.S. Department of Education passed-through the State of California Department of Developmental Services:				
Early Intervention Services:				
Special Education - Grants for Infants and Families	84.181	HD099011	\$ --	\$ 2,106,298
Total Expenditures of Federal Awards			\$ --	\$ 2,106,298

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, 2016

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, 2016. 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, 2016

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:

Unmodified.

Internal control over financial reporting:

- Material weaknesses identified: Yes
- Significant deficiencies identified: Yes
- Noncompliance material to financial statements: No

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, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

**Finding #2016-001 – PURCHASING AND DISBURSEMENTS
Material Weakness**

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.

QUESTIONED COSTS

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

CONTEXT

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

EFFECT

Not following the Center's existing policies exposes the Center to possible fraud, abuse, and 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, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding #2016-001 – PURCHASING AND DISBURSEMENTS (CONTINUED)

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.

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

We agree with the reported finding, see corrective action plan included in this reporting package.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**Finding #2016-002 – PAYROLL ADMINISTRATION
Material Weakness**

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.

In addition, management was not following certain existing policies regarding timely performance evaluations and the completion of signed conflict of interest forms.

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.

QUESTIONED COSTS

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

CONTEXT

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

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, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding #2016-002 – PAYROLL ADMINISTRATION (CONTINUED)

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.

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.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTION

We agree with the reported finding, see corrective action plan included in this reporting package.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

**Finding #2016-003 – VENDOR FISCAL MONITORING
SIGNIFICANT DEFICIENCY**

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.

QUESTION COSTS

No questioned costs noted.

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.

RECOMMENDATION

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding #2016-003 – VENDOR FISCAL MONITORING (CONTINUED)

VIEWS OF RESPONSIBLE OFFICIALS

We agree with the reported finding, see corrective action plan included in this reporting package.

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

**Finding #2016-004 – DELINQUENT AUDIT
SIGNIFICANT DEFICIENCY**

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, 2016, the Center did not complete and submit its audit report and Data Collection Form by March 31, 2017, 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.

QUESTION COSTS

No questioned costs noted.

EFFECT

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

RECOMMENDATION

We recommend that the Center start the audit earlier with a goal of completing and submitting the final audit well before March 31st 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, 2016

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

Finding #2016-004 – DELINQUENT AUDIT (CONTINUED)

VIEWS OF RESPONSIBLE OFFICIALS

We agree with the reported finding, see corrective action plan included in this reporting package.

SECTION IV – STATUS OF PRIOR YEAR AUDIT FINDINGS

There were no prior
year findings for
federal award
programs



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Corrective Action Plan

December 14, 2017

North Bay Developmental Disabilities Services, Inc. dba North Bay Regional Center (“NBRC”) respectfully submits the following corrective action plan for the year ended June 30, 2016.

Independent Public Accounting Firm:
Marcum LLP
1 Montgomery St. Suite 1700
San Francisco, CA 94104

Audit Period: Year Ending June 30th 2016

The findings from the June 30, 2016 schedule of findings and questioned costs are discussed below. NBRC’s management has the following response and corrective action plan to these findings. The findings are numbered consistently with the finding numbers assigned in the schedule of findings and questioned costs.

Finding #2016-001 – PURCHASING AND DISBURSEMENTS Material weakness

NBRC has accepted the recommendations made and has implemented the appropriate changes. NBRC revised its purchasing and disbursement system and hired additional staff to ensure that all appropriate internal controls are in place including separation of duties. The Chief Financial Officer (“CFO”) is now responsible for monitoring and controlling the improved system of internal controls. The CFO is now responsible for approval of all purchases. Purchasing has been separated from the Accounts Payable (“AP”) department and performed by the Fiscal Supervisor. Receiving is also separate from the AP department and is performed by the Receptionist. The Vendor Auditor oversees the receipts and manages the equipment storeroom of goods, providing the necessary separation of duties.

Approved purchase orders and signed receipts of goods are sent independently to the AP department. The AP Accountant compares purchases and receipts and compares them to the invoices where they are being charged. AP is required to double-check approvals on all purchases. All new vendors must be approved by the CFO.

Finding #2016-002 – Payroll Administration
Material weakness

NBRC accepts the recommendations made and has implemented appropriate changes. NBRC has hired a new Payroll Specialist and implemented a new updated Payroll/HR system. This new system provides greater controls and data insights for the Agency. NBRC has ensured that the new Payroll Specialist does not have access to change pay rates in the new Payroll/HR system. The HR Generalist only changes pay rates and information after receiving the signed authorization form from the supervisor level employee along with the approved personnel action form. NBRC has instituted controls to ensure that all overtime has been approved in advance whenever possible by the CFO and monitored/reviewed by the Payroll Specialist and the Director of Administrative Services. The Director of Administrative Services is responsible for reviewing, approving, and processing payroll.

NBRC has been substantially compliant with our performance review policy per your audit recommendations. In the spirit of continuous improvement, NBRC is reviewing and modifying current practice. NBRC has improved its process to ensure that conflicts of interest (“COI”) statements are signed annually by all employees and the Board of Directors. The HR Department is responsible for sending the COI statements annually via email and collecting the signed statements.

Finding #2016-003 VENDOR FISCAL MONITORING
Significant deficiency

NBRC accepts the recommendations made and has implemented appropriate changes. We have hired a second vendor auditor and have been auditing vendors as prescribed in the California Department of Developmental Services (“DDS”) contract. CFO seeks DDS’ approval to audit larger vendors when management believes it is warranted.

Finding #2016-004 DELINQUENT AUDIT
Significant deficiency

NBRC accepts the recommendations made and has implemented appropriate changes. We have worked on closing the general ledger earlier, preparing the necessary schedules and reconciliations, and are ready to start the 2017 audit as of the date of this letter. Our goal is to complete the 2017 audit by March 31, 2018.

In summary NBRC believes that the implementation of the Auditor’s recommendations in our Purchasing and Disbursement, Payroll, Human Resources, vendor audits and financial reporting procedures have strengthened our internal controls and improved our operations.

We appreciate the opportunity to provide this response and look forward to working with Marcum LLP in future audits.

Yours Truly,

Dave Johnson, CFO
North Bay Regional Center