

**Far Northern Coordinating Council
on Developmental Disabilities**

Redding, California

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS**

June 30, 2018



Far Northern Coordinating Council on Developmental Disabilities

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Far Northern Coordinating Council on
Developmental Disabilities
Redding, California

Report on the Financial Statements

We have audited the accompanying financial statements of Far Northern Coordinating Council on Developmental Disabilities (Far Northern Regional Center), a California nonprofit corporation, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, 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 Far Northern Regional Center'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 Far Northern Regional Center'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.

INDEPENDENT AUDITORS' REPORT

(Continued)

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 financial statements referred to above present fairly, in all material respects, the financial position of Far Northern Regional Center as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2019, on our consideration of Far Northern Regional 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Far Northern Regional Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Far Northern Regional Center's internal control over financial reporting and compliance.

Aiello, Goodrich & Teuscher

February 20, 2019

Aiello, Goodrich & Teuscher

An Accountancy Corporation

Redding, California

FINANCIAL SECTION

**Far Northern Coordinating Council
on Developmental Disabilities**
STATEMENT OF FINANCIAL POSITION

June 30, 2018	Unrestricted				Total
	General	State Contracts	Client Trust	Temporarily Restricted	
ASSETS					
Cash	\$ 9,705	\$ 7,766,611	\$ 1,783,024	\$ 20,224	\$ 9,579,564
Receivable - State Regional Center contracts	-	29,768,461	-	-	29,768,461
Receivable - ICF providers	-	922,171	-	-	922,171
Client support receivable	-	-	105,135	-	105,135
Due from State - net pension liability	-	10,427,676	-	-	10,427,676
Due from State - accrued vacation benefits	-	826,375	-	-	826,375
Prepaid expenses	-	323,260	-	-	323,260
Interfund receivable (payable)	-	778,734	(778,734)	-	-
TOTAL ASSETS	\$ 9,705	\$ 50,813,288	\$ 1,109,425	\$ 20,224	\$ 51,952,642
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable	\$ -	\$ 13,685,011	\$ -	\$ -	\$ 13,685,011
Advance - State Regional Center contracts	-	25,190,153	-	-	25,190,153
Accrued expenses	-	1,501,619	-	-	1,501,619
Net pension liability	-	10,427,676	-	-	10,427,676
Other payable - Pass Plan	-	8,829	-	-	8,829
Client trust fund liability	-	-	1,109,425	-	1,109,425
Total Liabilities	-	50,813,288	1,109,425	-	51,922,713
Net Assets	9,705	-	-	20,224	29,929
TOTAL LIABILITIES AND NET ASSETS	\$ 9,705	\$ 50,813,288	\$ 1,109,425	\$ 20,224	\$ 51,952,642

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

**Far Northern Coordinating Council
on Developmental Disabilities**
STATEMENT OF ACTIVITIES

Year Ended June 30, 2018	Unrestricted	Temporarily Restricted	Total
REVENUE			
State Regional Center contracts	\$ 164,018,107	\$ -	\$ 164,018,107
ICF supplemental services	3,028,728	-	3,028,728
ICF administrative fees	45,432	-	45,432
Interest	83,794	-	83,794
Contributions and other	8,107	19,306	27,413
Subtotal	167,184,168	19,306	167,203,474
Net assets released from restrictions:			
Satisfaction of program requirements	19,486	(19,486)	-
TOTAL REVENUE	167,203,654	(180)	167,203,474
EXPENSES			
Program Services			
State Regional Center contracts	161,669,763	-	161,669,763
Other	19,486	-	19,486
Total Program Services	161,689,249	-	161,689,249
Supporting Services			
Management and general	5,511,606	-	5,511,606
Total Supporting Services	5,511,606	-	5,511,606
TOTAL EXPENSES	167,200,855	-	167,200,855
Changes in Net Assets	2,799	(180)	2,619
Net Assets - Beginning of Year	6,906	20,404	27,310
Net Assets - End of Year	\$ 9,705	\$ 20,224	\$ 29,929

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

**Far Northern Coordinating Council
on Developmental Disabilities**
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018	State Regional Center Contracts		Client Needs	Program Services	Supporting Services
	Case Management	Purchase of Service		Total Program	Management and General
Out-of-home placement	\$ -	\$ 41,108,095	\$ -	\$ 41,108,095	\$ -
Other services and programs	-	34,045,362	19,486	34,064,848	184
Non-medical services	-	26,028,716	-	26,028,716	-
Day programs	-	20,015,040	-	20,015,040	-
Transportation	-	7,849,131	-	7,849,131	-
Respite services	-	6,001,654	-	6,001,654	-
Prevention	-	5,098,472	-	5,098,472	-
Habilitation services	-	4,556,656	-	4,556,656	-
Medical care and equipment	-	3,511,327	-	3,511,327	-
Salaries	9,592,027	-	-	9,592,027	2,049,916
Payroll taxes and employee benefits	3,513,411	-	-	3,513,411	707,248
Facility rental and maintenance	-	-	-	-	1,264,807
Hardware and software	-	-	-	-	395,173
Diversity contract	-	-	-	-	239,248
Insurance	-	-	-	-	170,289
Communications	-	-	-	-	108,958
Printing and supplies	-	-	-	-	94,790
Miscellaneous	-	-	-	-	85,589
Professional services	-	-	-	-	73,056
Dues	-	-	-	-	68,388
Postage	-	-	-	-	59,971
Utilities	-	-	-	-	58,482
Travel	349,872	-	-	349,872	41,274
Equipment rental and maintenance	-	-	-	-	40,865
Bank fees	-	-	-	-	20,114
Board of Directors	-	-	-	-	18,502
Employee education	-	-	-	-	14,752
Total	\$ 13,455,310	\$ 148,214,453	\$ 19,486	\$ 161,689,249	\$ 5,511,606

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

**Far Northern Coordinating Council
on Developmental Disabilities**

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from grants, contracts, and clients	\$ 165,812,913
Cash paid to suppliers and employees	(166,689,780)
Interest received	83,794

Net Cash Used By Operating Activities (793,073)

Net Decrease in Cash (793,073)

Cash - Beginning of Year 10,372,637

Cash - End of Year \$ 9,579,564

RECONCILIATION OF CHANGE IN NET ASSETS TO NET

CASH USED BY OPERATING ACTIVITIES

Changes in net assets \$ 2,619

Adjustments to reconcile changes in net assets to
net cash used by operating activities:

Changes in:

Receivable - State Regional Center contracts	12,554,149
Receivable - ICF providers	400,496
Due from State - net pension liability	(2,604,254)
Due from State - accrued vacation benefits	(41,753)
Client support receivable	(15,160)
Prepaid expenses	13,750
Accounts payable	513,791
Advance - State Regional Center contracts	(14,229,102)
Other payable - Pass Plan	(8,389)
Accrued expenses	(16,466)
Net pension liability	2,604,254
Client trust fund liability	32,992

Net Cash Used By Operating Activities \$ (793,073)

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

Far Northern Coordinating Council on Developmental Disabilities

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities Far Northern Coordinating Council on Developmental Disabilities (Far Northern Regional Center), formerly Far Northern Coordinating Council on Mental Retardation & Developmental Disabilities, was incorporated as a not-for-profit corporation on May 11, 1967. Far Northern Regional Center was also organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (The Lanterman Act) of the *Welfare and Institutions Code* of the State of California (the State). The Lanterman Act requires the State to contract with a private not-for-profit corporation to coordinate the provision of services to developmentally disabled individuals in a geographic area. Far Northern Regional Center contracts with the State of California Department of Developmental Services (DDS) to perform this function in Butte, Glenn, Lassen, Modoc, Plumas, Shasta, Siskiyou, Tehama, and Trinity counties.

Basis of Accounting The accompanying financial statements have been prepared on the accrual basis of accounting. Far Northern Regional Center is reimbursed by the State for expenses incurred in operating Far Northern Regional Center to the extent that the expenses are not covered by client support funds.

Financial Statement Presentation Far Northern Regional Center's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under FASB ASC Topic 958, Far Northern Regional Center is required to report information regarding its financial position and activities according to three classes of net assets based upon the existence or absence of donor-imposed restrictions, as follows:

Unrestricted Net Assets: Represents resources over which the Board of Directors has discretionary control and that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets: Represents resources whose use by Far Northern Regional Center is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Far Northern Regional Center pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently Restricted Net Assets: Represents resources whose use by Far Northern Regional Center is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Far Northern Regional Center. Far Northern Regional Center has no permanently restricted net assets.

Fund Accounting The accounts of Far Northern Regional Center are maintained in accordance with the principles of fund accounting. Under fund accounting, resources are classified for accounting and reporting considerations into funds established according to their nature and purpose.

Far Northern Coordinating Council on Developmental Disabilities

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Cash For purposes of the statement of cash flows, Far Northern Regional Center considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. In accordance with the State Regional Center contracts, bank accounts are in the name of both DDS and Far Northern Regional Center.

Significant Concentrations of Credit Risk Far Northern Regional Center maintains substantially all of its cash and temporary cash investments at one financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2018, cash exceeded federally insured limits by \$9,673,777. Far Northern Regional Center has not experienced any loss and management believes it is not exposed to any significant credit risk on such accounts.

State Regional Center Contract Receivables and Advances Contracts receivable represent amounts due from the State for reimbursement of expenditures made by Far Northern Regional Center under the annual Regional Center contracts. Advances represent cash advances received by Far Northern Regional Center under the annual Regional Center contracts. Amounts receivable from the State are offset against advances payable when the State notifies Far Northern Regional Center that a right of offset exists.

Far Northern Regional Center considers all amounts receivable under grant contracts to be collectible; accordingly, no allowance for doubtful accounts exists.

Client Trust Funds Far Northern Regional Center assumes a fiduciary relationship with certain clients who cannot manage their own finances. Client support funds are received from private and governmental sources, including the Social Security Administration and Veterans Administration. These funds are used primarily to offset clients' out-of-home placement and living costs, thereby reducing the amount expended by Far Northern Regional Center. These funds are held in a separate bank account and interest earnings are credited to the clients' balances.

Receivable, ICF Providers During the year ended June 30, 2011, various legislative changes were made to the *California Welfare and Institutions Code* retroactively to July 1, 2007, making Intermediate Care Facility (ICF) providers responsible for providing consumer day treatment and transportation services, and ultimately, making such services eligible for reimbursement under California's Home and Community Based Services (HCBS) Program, which is funded by the Medicaid Waiver grant (Medicaid). Previously, such services were not reimbursable by Medicaid because the funds were not directly billed and received by the ICFs. The legislative changes allow for DDS to bill these services to Medicaid and capture federal dollars.

Effective July 1, 2012, Far Northern Regional Center began billing the ICFs directly for monthly consumer day treatment and transportation services. The State does not reimburse Far Northern Regional Center for these costs and they are billed direct to and are collected from the ICFs. Far Northern Regional Center receives a 1.5% administrative fee based on the funds received to cover the additional workload.

Prepaid Expenses Payments made to vendors for services that will benefit Far Northern Regional Center for periods beyond the current fiscal year are recorded as prepaid expenses.

Far Northern Coordinating Council on Developmental Disabilities

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Interfund Receivables and Payables These amounts result from funds due from clients that are owed to Far Northern Regional Center's contract vendors.

Equipment Purchases In accordance with the State Regional Center contracts, all equipment purchased with contract funds is the property of the State. Far Northern Regional Center is required to maintain memorandum records of equipment purchases and dispositions. Equipment purchases are recorded as supporting or program service expenses when they are incurred. The cost basis of the property utilized by Far Northern Regional Center and owned by the State at June 30, 2018, was \$827,265. This balance includes only the equipment that is sensitive or exceeds \$5,000 as required by System Award Management (SAM) guidelines.

Contributions Far Northern Regional Center reports contributions as revenue when they are unconditionally pledged or when they are received. Far Northern Regional Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to the statement of activities as net assets released from restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

Revenue Concentration State Regional Center contract revenue is revenue received from the State in accordance with the Lanterman Act. Ninety-eight percent of revenue is derived from this source.

Use of Estimates and Assumptions The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Income Taxes Far Northern Regional Center has received tax-exempt status under Section 501(c)(3) of the *Internal Revenue Code*, and Section 23701(d) of the *California Revenue and Taxation Code*, and has been classified as an organization that is not a private foundation under Section 509(a) of the *Internal Revenue Code*. Accordingly, no provision for income taxes is included in the financial statements.

Far Northern Regional Center accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes and how an uncertain tax position is recognized in financial statements. Far Northern Regional Center analyzes tax positions taken in previously filed returns and tax positions expected to be taken in future returns. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. Far Northern Regional Center's practice is to recognize interest and penalties, if any, related to uncertain tax positions in the tax expense. There were no uncertain tax positions identified or related interest and penalties recorded as of June 30, 2018, and Far Northern Regional Center does not expect this to change significantly over the next 12 months.

Far Northern Coordinating Council on Developmental Disabilities

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Allocation of Expenses The statement of functional expenses allocates expenses directly associated with programs to those programs. The remaining expenses are allocated to supporting services.

Concentration of Labor Approximately 80% of the employees of the Organization are represented by a union for collective bargaining purposes. Periodically the collective bargaining agreement is subject to renegotiation.

Recently Issued Accounting Pronouncements In May 2014 the FASB issued a new standard on revenue recognition, ASU 2014-09, *Revenue from Contracts with Customers*, with the intent of creating a new, principle-based revenue recognition framework. The ASU creates a new topic in the FASB Accounting Standards Codification, Topic 606, in addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance. The main provisions of the ASU are:

1. Establish a new control-based revenue recognition model.
2. Changes the basis for deciding when revenue is recognized over time or at a point in time.
3. Provides new and more detailed guidance on specific topics.
4. Expands and improves disclosures about revenue.

The ASU is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of this ASU on its financial statements.

In February 2016 the FASB issued ASU 2016-02, *Leases* (Topic 842). The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

In August 2016 the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, with the stated purpose of improving financial reporting by not-for-profit (NFP) entities. The main provisions of this ASU, require an NFP to: (1) present two classes of net assets on the statement financial position entitled “net assets with donor restrictions” and “net assets without donor restrictions,” (2) present changes in each of the two classes of net assets on the statement of activities, (3) disclose quantitative and qualitative information surrounding liquidity and availability of resources, (4) disclose the amount and purpose of governing board designations, appropriates, and other self-imposed limits on the use of resources, (5) present expenses by both their natural classification and functional classification, (6) disclose methods used to allocate costs among program and support functions, (7) report investment return net of external and direct internal investment expenses, and 8) use the placed in service approach for reporting expirations of restrictions on gifts used to acquire or construct long-lived assets in the absence of explicit donor stipulations.

Far Northern Coordinating Council on Developmental Disabilities

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments in this update should be applied on a retrospective basis in the year that the update is first applied. Management is currently evaluating the impact of this ASU on their financial statements.

In June 2018 the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, with the intent of clarifying the definition of an exchange transaction. As a result, NFPs will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). The new guidance requires modified prospective transition. In the period of adoption, the changes will apply to new agreements entered into after the effective date, as well as the remaining portions of any agreements from prior years that have not been completed as of the effective date. However, full retrospective application can be elected, if desired. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of this ASU on their financial statements.

Subsequent Events Management has evaluated subsequent events through February 20, 2019, the date on which the financial statements were available to be issued.

2. ACCRUED EXPENSES

Accrued expenses are as follows:

June 30, 2018

Accrued vacation benefits	\$	826,375
Accrued payroll and related liabilities		675,244
Total	\$	1,501,619

Accumulated unpaid employee vacation benefits are recognized as accrued expenses and included in liabilities. Unused benefits are payable to an employee should employment cease. However, such benefits are reimbursed under State Regional Center contracts only when benefits have actually been paid. Far Northern Regional Center has also recorded a receivable from DDS for the accrued vacation benefits to reflect the future reimbursement of such benefits.

Sick leave benefits are accumulated for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of Far Northern Regional Center since payment of such benefits is not probable or estimable. Therefore, sick leave benefits are recorded as expenses in the period sick leave is taken.

Far Northern Coordinating Council on Developmental Disabilities

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. LINE OF CREDIT

Far Northern Regional Center has a \$14,500,000 line of credit with The Bank of Tokyo, secured by an interest in all personal property and assets managed by Far Northern Regional Center. Interest on the outstanding balance is payable monthly at the bank's reference rate, 5.0% at June 30, 2018, and amounted to \$0 for the year ended June 30, 2018. The line of credit expired on September 28, 2018. The outstanding balance at June 30, 2018 was \$0.

4. FUNDING LIMITS

Far Northern Regional Center's contract is funded by the State's General Fund and federal reimbursements. The contracts specify the level and nature of the services to be provided to developmentally disabled persons. Allocated amounts are based primarily on projected client caseloads, and are subject to amendment based upon actual services provided.

Contracts are open for the current and two prior years as follows:

Years Ended June 30	Contract Amount	Cumulative Expenses	Unexpended Balance
2018	\$ 165,918,949	\$ 160,281,616	\$ 5,637,333
2017	\$ 156,831,163	\$ 154,361,063	\$ 2,470,100
2016	\$ 136,744,349	\$ 133,324,217	\$ 3,420,132

Management monitors the unexpended balance annually to avoid overspending the contract limits. Management believes that total expenditures for each open year will not exceed the final approved contract amount.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

June 30, 2018	
Client needs	\$ 18,745
Focus Film Festival	1,479
Total	\$ 20,224

**Far Northern Coordinating Council
on Developmental Disabilities**

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. CONTRACT COMMITMENTS

Far Northern Regional Center contracts with various providers of services for the developmentally disabled. Significant unpaid commitments under these contracts consisted of the following:

June 30, 2018

Brilliant Corners	\$	900,000
Liberty Healthcare Corporation		600,000
Northern Valley Catholic Social Services		323,452
California Mentor		250,000
IPS Services		250,000
CBEM, LLC		250,000
Shasta County OC		150,927
Native American Mental Health		102,964
Total	\$	2,827,343

7. LEASE COMMITMENTS

Far Northern Regional Center has entered into operating lease agreements for office space located in Redding, Chico, Alturas, Mt. Shasta, Yreka, and Lake Almanor, California. Under the terms of the agreements, rental payments are contingent upon continued State funding.

Future minimum payments under these leases are as follows:

Years Ending June 30

2019	\$	1,142,799
2020		1,040,455
2021		25,925
2022		17,730
2023		7,775
Thereafter		-
Total	\$	2,234,684

For the year ended June 30, 2018, total rent expense was \$1,132,660.

Far Northern Coordinating Council on Developmental Disabilities

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8. RETIREMENT PLANS

Defined Benefit Plan

Plan Description Effective November 1, 2002, Far Northern Regional Center elected to become a participant in the California Public Employees' Retirement System (CalPERS) and began contributions into the agent, multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating entities within the State of California. Benefit provisions and all other requirements are established by state statute and Center resolutions. Copies of CalPERS' comprehensive annual financial report (CAFR) may be obtained from CalPERS, 400 Q Street, Sacramento, California 95811 and at www.calpers.ca.gov.

The risks of participating in this plan is that if the Regional Center chooses to stop participating in its multiple-employer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a termination liability. The amount of this liability could be substantial and more information on it can be obtained in the Regional Center's annual CalPERS actuarial valuation report.

Funding Policy Participants employed on or before January 1, 2013, are required to contribute 7% of their annual covered salary. Participants employed after January 1, 2013, are required to contribute 6.25% of their annual covered salary. Far Northern Regional Center is required to contribute at an actuarially determined rate for their participants. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The employer rate for the 2017-18 fiscal year was 7.957% (for participants employed on or before January 1, 2013) and 7.957% (for participants employed after January 1, 2013) of annual covered payroll. The contribution requirements of plan members and Far Northern Regional Center are established and may be amended by CalPERS.

Contributions Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, Far Northern Regional Center's actuarially required contribution was \$1,229,232 and actual contribution was \$1,531,732.

Pension Liability The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018, using standard update procedures. The plan reported total pension liability of \$57,233,605 and fiduciary net position of \$46,805,929 resulting in a net pension liability of \$10,427,676. The plan was 81.78% funded as of this date. This liability, as well as a receivable, is included in the statement of financial position as such benefits are reimbursed under the DDS contract only when actually paid.

Far Northern Coordinating Council on Developmental Disabilities

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Actuarial Assumptions The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2017
Measurement date	June 30, 2018
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	7.15% (Net of administrative expenses)
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses; includes inflation

CalPERS uses custom mortality tables to best fit the patterns of mortality among its members. The mortality table used was developed based on CalPERS specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

The actuarial assumptions used in the June 30, 2017 valuation were derived from the June 30, 2017, funding valuation report.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The amortization and smoothing periods recently adopted by the Board were utilized to determine whether the municipal bond rate should be used in the calculation of a discount rate. A projection of expected benefit payments and contributions was performed to determine if the assets would run out. The test revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The stress test results are presented in a detailed report entitled, "GASB Crossover Testing Report" that can be obtained on the CalPERS' website.

According to Paragraph 30 of GASB Statement No. 68, the long-term discount rate should be determined with reduction for pension plan administrative expense. The 7.50% investment return assumption used in the accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return, excluding administrative expenses, would have been 7.65%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. CalPERS checked the materiality threshold for the difference in the calculation and did not find it to be a material difference.

Far Northern Coordinating Council on Developmental Disabilities

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle. Any changes to the discount rate will require Board action and proper stake holder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB Statement No. 67 and GASB Statement No. 68 calculations. CalPERS will continue to check the materiality of the difference in the calculation until the methodology is changed.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all of the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11 to 60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for the fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Sensitivity of the Net Pension Liability to the Changes in the Discount Rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.15%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Plan's Net Pension Liability - Miscellaneous	\$ 18,109,057	\$ 10,427,676	\$ 4,036,942

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial report.

Far Northern Coordinating Council on Developmental Disabilities

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Defined Contribution Plan

Far Northern Regional Center has a defined contribution plan. Prior to November 1, 2002, all eligible employees were covered by the plan. A small number of employees chose not to join CalPERS and remained in the plan. Under the provisions of the plan, Far Northern Regional Center is required to contribute annually to a trust an amount equal to 8.5% of the compensation paid to each participant during the plan year. During the year ended June 30, 2018, Far Northern Regional Center contributed \$8,632 to the plan. This plan is closed to new employees and will be phased out through attrition.

9. LITIGATION CLAIMS AND CONTINGENCIES

In accordance with the terms of the State contract, an audit may be performed by an authorized state representative. Should such audit disclose any unallowable costs, Far Northern Regional Center may be liable to the State for reimbursement of such costs. In the opinion of Far Northern Regional Center's management, the effect of any disallowed costs, if any, would be immaterial to the financial statements as of June 30, 2018.

Far Northern Regional Center is dependent on continued funding provided by the Department of Developmental Services of the State of California to operate and provide services for its clients.

Far Northern Regional Center is involved in various claims and lawsuits arising in the normal conduct of its business. Far Northern Regional Center believes it has adequate defenses and insurance coverage for these actions and, thus, has made no provision in the financial statements for any material costs relating to the settlement of such claims.

10. RELATED-PARTY TRANSACTIONS

California Welfare and Institutions Code, Section 4622, requires that a minimum of 50% of Far Northern Regional Center's governing board be comprised of persons with developmental disabilities or their parents or legal guardians. Program service payments were made on behalf of persons with developmental disabilities that were governing board members or were related to governing board members. Payments of \$383,514 were made for the year ended June 30, 2018.

SUPPLEMENTARY INFORMATION SECTION

**Far Northern Coordinating Council
on Developmental Disabilities**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Contract Year	Federal CFDA Number	Pass-Through Number	Disbursements/ Expenditures
FEDERAL				
U.S. DEPARTMENT OF EDUCATION				
Passed Through State of California				
Department of Developmental Services -				
Special Education - Grants for Infants and				
Families with Disabilities (Part C)				
	17/18	84.181A	H181A170037	\$ 1,121,145
Total U.S. Department of Education				1,121,145
Total Expenditures of Federal Awards				\$ 1,121,145

Purpose of Schedules

Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with the Uniform Guidance and state requirements.

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grants activity of Far Northern Regional Center and is presented on the accrual basis of accounting as provided by the California Department of Developmental Services. The information in this schedule is presented in accordance with the requirements the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*.

Indirect Cost Rate

Far Northern Regional Center did not elect to use the 10% de minimis method for indirect costs.

OTHER REPORTS SECTION



**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
Far Northern Coordinating Council on
Developmental Disabilities
Redding, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Far Northern Coordinating Council on Developmental Disabilities (Far Northern Regional Center), a California nonprofit corporation, which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Far Northern Regional 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 Far Northern Regional Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Far Northern Regional Center's internal control.

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

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

**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***

(Continued)

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Far Northern Regional 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 Far Northern Regional Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Aiello, Goodrich & Teuscher

February 20, 2019
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Redding, California



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Directors
Far Northern Coordinating Council on
Developmental Disabilities
Redding, California

Report on Compliance for Each Major Federal Program

We have audited Far Northern Coordinating Council on Developmental Disabilities' (Far Northern Regional Center) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on Far Northern Regional Center's major federal program for the year ended June 30, 2018. Far Northern Regional 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 the requirements of federal statutes, regulations, and the terms and conditions applicable to its federal award program.

Auditors' Responsibility

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

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

(Continued)

Opinion on Each Major Federal Program

In our opinion, Far Northern Regional Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Far Northern Regional 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 Far Northern Regional Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Far Northern Regional Center's internal control over compliance.

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

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

(Continued)

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Aiello, Goodrich & Teuscher

February 20, 2019
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Redding, California

FINDINGS AND RECOMMENDATIONS SECTION

**Far Northern Coordinating Council
on Developmental Disabilities**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2018

**SECTION I
SUMMARY OF AUDITORS' RESULTS**

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Is any noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No
Identification of major programs:	
CFDA No. 84.181A Special Education – Grants for Infants and Families with Disabilities (Part C)	
Threshold for distinguishing types A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

**SECTION II FINDINGS
FINANCIAL STATEMENTS AUDIT**

None

**SECTION III FINDINGS
FEDERAL AWARDS AUDIT**

None

**Far Northern Coordinating Council
on Developmental Disabilities**
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2018

None