FAR NORTHERN COORDINATING COUNCIL ON DEVELOPMENTAL DISABILITIES

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2022

TENTATIVE & PRELIMINARY
For Discussion Purposes Only

FAR NORTHERN COORDINATING COUNCIL ON DEVELOPMENTAL DISABILITIES

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2022

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

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Far Northern Coordinating Council on Developmental Disabilities, a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Far Northern Coordinating Council on Developmental Disabilities as of June 30, 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Far Northern Coordinating Council on Developmental Disabilities and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Far Northern Coordinating Council on Developmental Disabilities' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Coordinating Council on Developmental Disabilities' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Far Northern Coordinating Council on Developmental Disabilities' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information on pages 20 and 21 is presented for the purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 22, 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 purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated ____________, 2023 on our consideration of Far Northern Coordinating Council on Developmental Disabilities' 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 Coordinating Council on Developmental Disabilities' 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 Coordinating Council on Developmental Disabilities' internal control over financial reporting and compliance.

TENTATIVE & PRELIMINARY
For Discussion Purposes Only

____________, 2023

FAR NORTHERN COORDINATING COUNCIL ON DEVELOPMENTAL DISABILITIES

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022

ASSETS

Cash	$ 19,343,611
Receivables:	
State Regional Center contracts (Note 3)	61,372,488
Intermediate Care Facility	796,351
Due from State – unfunded projected benefit obligation (Note 4)	32,011,060
Due from State – accrued vacation and other leave benefits	1,151,536
Client support receivables	44,315
Other receivables	22,733
Prepaid expenses	617,190
Total assets	$ 115,359,284

LIABILITIES AND NET ASSETS

Accounts payable	$ 20,674,913
Advances – State Regional Center contracts (Note 5)	60,026,008
Accrued expenses	1,728,398
Unfunded projected benefit obligation	32,011,060
Client trust fund payable	793,016
Other payable – Pass Plan	4,625
Total liabilities	115,238,020
Net assets:	
Without donor restrictions	18,246
With donor restrictions (Note 9)	103,018
Total net assets	121,264
Total liabilities and net assets	$ 115,359,284

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

FAR NORTHERN COORDINATING COUNCIL ON DEVELOPMENTAL DISABILITIES

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

	Without Donor Restrictions	*With Donor Restrictions*	*Total*
Support and revenue:			
State Regional Center contracts	$ 209,802,216	$ -	$ 209,802,216
Intermediate Care Facility revenue	2,289,846	-	2,289,846
Contributions	1,002	13,665	14,667
Interest income	21,806	-	21,806
Other income	281	-	281
Net assets released from restrictions	16,647	(16,647)	-
	212,131,798	(2,982)	212,128,816
Expenses:			
Program services:			
Case management	16,718,077	-	16,718,077
Purchased of service	188,308,985	-	188,308,985
Client needs	16,727	-	16,727
Supporting services:			
Management and general	7,087,087	-	7,087,087
Total expenses	212,130,876	-	212,130,876
Change in net assets from operation	922	(2,982)	(2,060)
Change in unfunded projected benefit obligation (Note 4)	19,578,365	-	19,578,365
Change in Due from State – unfunded projected benefit obligation (Note 4)	(19,578,365)	-	(19,578,365)
Change in net assets	922	(2,982)	(2,060)
Net assets, beginning of year	17,324	106,000	123,324
Net assets, end of year	$ 18,246	$ 103,018	$ 121,264

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

FAR NORTHERN COORDINATING COUNCIL ON DEVELOPMENTAL DISABILITIES

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022

	Program Service				*Supporting Services*	
	State Regional Center Contracts					
	Case Management	*Purchase of Service*	*Client Needs*	*Program Services Total*	*Management and General*	*Total*
Out-of-home placement	$ -	$ 59,548,474	$ -	$ 59,548,474	$ -	$ 59,548,474
Other services & programs	-	53,778,398	16,727	53,795,125	-	53,795,125
Non-medical services	-	32,340,467	-	32,340,467	-	32,340,467
Purchase of services	-	16,802,947	-	16,802,947	-	16,802,947
Respite services	-	13,835,266	-	13,835,266	-	13,835,266
Transportation	-	6,812,568	-	6,812,568	-	6,812,568
Medical care and equipment	-	2,720,267	-	2,720,267	-	2,720,267
Habilitation services	-	2,470,598	-	2,470,598	-	2,470,598
Salaries	11,470,533	-	-	11,470,533	2,309,498	13,780,031
Payroll taxes and employee benefits	5,122,713	-	-	5,122,713	936,997	6,059,710
Facility rent & maintenance	-	-	-	-	1,786,046	1,786,046
Equipment purchases	-	-	-	-	763,446	763,446
Professional services	-	-	-	-	234,577	234,577
Communication	-	-	-	-	189,614	189,614
Insurance	-	-	-	-	179,399	179,399
Diversity contract	-	-	-	-	139,713	139,713
Staff travel	124,831	-	-	124,831	9,502	134,333
Printing	-	-	-	-	112,383	112,383
Miscellaneous	-	-	-	-	97,375	97,375
Postage	-	-	-	-	91,928	91,928
ARCA dues	-	-	-	-	68,389	68,389
Utilities	-	-	-	-	65,669	65,669
Equipment rental and maintenance	-	-	-	-	36,863	36,863
Training and conferences	-	-	-	-	27,865	27,865
Bank fees	-	-	-	-	20,907	20,907
Board expenses	-	-	-	-	16,916	16,916
Total expenses	$ 16,718,077	$ 188,308,985	$ 16,727	$ 205,043,789	$ 7,087,087	$ 212,130,876

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

FAR NORTHERN COORDINATING COUNCIL ON DEVELOPMENTAL DISABILITIES

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022

Cash flows from operating activities:	
Change in net assets	$ (2,060)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
(Increase) decrease in assets:	
Receivable – State Regional Center contracts	(16,728,383)
Receivable – Intermediate Care Facility	(99,491)
Loans due from client fund	21,212
Due from State – unfunded projected benefit obligation	19,578,365
Due from State – accrued vacation and other leave benefits	(59,972)
Client support receivables	45,322
Prepaid expenses	(210,293)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	3,833,797
Advances – State Regional Center contracts	6,176,510
Unfunded projected benefit obligation	(19,578,365)
Client trust fund payable	(681,153)
Net cash used in operating activities	$ (7,704,511)
Decrease in cash	(7,704,511)
Cash, beginning of year	27,048,122
Cash, end of year	$ 19,343,611

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Far Northern Coordinating Council on Developmental Disabilities (the Center), was incorporated on May 11, 1967, as a California nonprofit public benefit corporation under contract with the State of California Department of Developmental Services (DDS) for the purpose of operating the Center and related activities. The Center was organized in accordance with the provision of the Lanterman Developmental Disabilities Services Act (the Lanterman Act) of the Welfare and Institutions Code of the State of California. In accordance with the Lanterman Act, the Center, doing business as the Far Northern Regional Center, coordinates, through outside providers, diagnostic and assessment of eligible services to persons with developmental disabilities and plans, accesses, coordinates and monitors services to such individuals and their families. The Center is one of 21 regional centers within the State of California system and serves Butte, Glenn, Lassen, Modoc, Plumas, Shasta, Siskiyou, Tehama, and Trinity counties.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The Center uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Center reports information regarding its financial position and activities according to two classes of net assets, as applicable: net assets without donor restrictions and net assets with donor restrictions.

- Net assets without donor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Center.

- Net assets with donor restrictions include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires – that is, when a stipulated time restriction ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as *net assets released from restrictions*. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

Revenue Recognition:

Contributions

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. If donors' restrictions are satisfied in the same period that the contribution is received, the contribution is reported as support without donor restrictions.

Government contracts, which are funded on a reimbursement basis, are shown as revenue without donor restriction. A portion of the Center's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Center has incurred expenditures in compliance with specific contract or grant provisions.

The Center determined that governmental contract revenue represents unconditional contributions to the extent that reimbursable costs have been incurred. The excess unexpended balance of the governmental contracts represents a conditional contribution.

Federal Grants

U.S. Department of Education

The Center is a sub-recipient to DDS with regard to the Special Education Grants for Infants and Families, Part C, which provides funding for early intervention services for infants and toddlers, through age 3, as authorized by Public Law 102-119.

This grant is conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. During the year ended June 30, 2022, the Center recognized grant revenue totaling $779,795 from this award.

Intermediate Care Facility

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

Client Trust Funds

The 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 the Center. These funds are held in a separate bank account and interest earnings are credited to the clients' balances.

Cash

Cash is defined as cash in demand deposit accounts as well as cash on hand. The Center occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance was approximately $19,444,000 as of June 30, 2022. The Center has not experienced any losses in such accounts.

State Regional Center Contract Receivables and Advances

The majority of the Center's receivables represents amount due from the State for reimbursement of expenditures made by the Center under the annual regional center contracts. Advances represent cash advances received by the Center under annual regional center contracts. Amounts receivable from the State are offset against advances payable when the State notifies the Center that a right of offset exists. The Center considers all amounts receivable under grant contracts to be collectible; accordingly, no allowance for doubtful accounts exists.

State Equipment

State Equipment is stated at cost of acquisition. 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 expenses the cost of equipment upon acquisition if purchased with funds from the DDS contract in accordance with the Regional Center Fiscal Manual. The Center capitalizes items which cost more than $5,000 and have an estimated useful life of more than one year.

State Equipment purchases for the year ended June 30, 2022 totaled $124,658. The State Equipment disposals for the year ended June 30, 2022 totaled $62,370. The capitalized equipment and reciprocating offset account at June 30, 2022 totaled $821,153.

Accrued Vacation Benefits

The Center has accrued a liability for leave benefits earned by employees. However, such benefits are reimbursed under the contract with DDS only when actually paid. The Center has recorded a receivable from the DDS for the accrued leave benefits to reflect the future reimbursement of such benefits.

Defined Benefit Pension Plan

The Center records the unfunded projected benefit obligation of its defined benefit pension plan with California Public Employees' Retirement System (CalPERS) on the statement of financial position. CalPERS has the characteristics of a multiemployer plan. The Center uses the actuarial report provided by an outside consultant coinciding with the Organization's fiscal year end. Details on the projected benefit obligation related to this plan are described in Note 4.

Income Taxes

The Center is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections.

The Center believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Center's federal and state information returns for the years 2018 through 2021 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

The costs of providing program and supporting services are summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Expenses directly attributed to a specific functional area of the Center are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by management to be equitable. Shared costs are generally allocated among the program and supporting service benefited based on an analysis of personnel time and square footage occupied by the program and supporting services.

Subsequent Events

Management has evaluated subsequent events through ____________, 2023, the date on which the financial statements were available to be issued.

NOTE 3 – STATE REGIONAL CENTER CONTRACT RECEIVABLE

State Regional Center contract receivable at June 30, 2022 is summarized, as follows:

Claims submitted:	
Current year	$ 60,099,708
Prior year	1,355,072
Second prior year	(82,292)
Total	$ 61,372,488

NOTE 4 – DEFINED BENEFIT PENSION PLAN

Effective November 1, 2002, the Center elected to become a participant in the California Public Employees' Retirement System (CalPERS), an agent multi-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' annual comprehensive financial report (ACFR) 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 multi-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.

FASB Accounting Standards Codification (ASC) 715-30, Defined Benefit Plans – Pension, requires the Center to recognize the funded status of a defined benefit retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in net assets without donor restriction in the year in which the change occurs. The FASB valuation information in this note is based on the ASC 715 actuarial valuation report performed by Milliman, Inc., an actuarial firm, measured as of June 30, 2022.

Funding Policy

Participants employed on or before January 1, 2013 (classic plan), are required to contribute 7% of their annual covered salary. Participants employed after January 1, 2013 (PEPRA plan), are required to contribute 8% of their annual covered salary. The 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 2021-2022 fiscal year was 8.92% of annual covered payroll. The contribution requirements of plan members and the Center are established and may be amended by CalPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Measurement date	June 30, 2022
Discount rate	4.67%
Long-term rate of return	6.80%
Salary scale	4.00% annual increase
Maximum benefit and annual compensation limit increases	2.50% annual increase (CPI)
Administrative expenses	$53,000 per year
Mortality	Pri-2012 mortality table projected forward generationally using the MP-2021 projection scale
Terminated members	Members with < 5 years of service, will receive a full refund of their employee contribution Members with >= 5 years of service, are assumed to retirement applied to benefit formula
Probability of marriage	70% of the members are married, and male spouses are 3 years older than female spouses
Employee contribution rate	7% for all employees and 8% effective July 1, 2023 for PEPRA employees
Asset valuation method	Market value of assets

Rationale For Assumptions

With any valuation of future benefits, assumptions of anticipated future events are required. If actual events differ from the assumptions made, the actual cost of the plan will vary as well.

Discount Rate

For the disclosure of the obligations as of the end of the fiscal year, future benefit payments were discounted back to the present using an interest rate of 4.67%. This rate was derived from the Above Median FTSE Pension Discount Curve as of the end of June 2022 using the expected payouts from the Plan. The rate used as of the beginning of the fiscal year (used to calculate the expense for the year) was 2.89%.

Mortality

For the disclosure of the obligations as of the end of the fiscal year, future benefit payments were discounted back to the present using an interest rate of 4.67%. This rate was derived from the Above Median FTSE Pension Discount Curve as of the end of June 2022 using the expected payouts from the Plan. The rate used as of the beginning of the fiscal year (used to calculate the expense for the year) was 2.89%.

Retirement and Withdrawal Rates

The retirement and withdrawal rates are based on the December 2017 CalPERS Experience Study and Review of Actuarial Assumptions report. In November 2021, CalPERS published an update to their 2017 Experience Study and compared the plan's actual number of retirements and terminations over the prior four years to the expected number of retirements and terminations assumed by both the 2017 and 2021 CalPERS Experience Study reports. For the withdrawal rates, they found that continued use of the current rates based on the 2017 CalPERS Experience Study report remains a reasonable assumption, and the November 2021 Experience Study update produced a worse fit compared to the plan's actual experience. Therefore, no change was made to the assumed withdrawal rates. For the retirement rates, they found updating the assumed rates to be based on the November 2021 Experience Study produced a better fit compared to actual experience. Therefore, the assumed retirement rates are based on the November 2021 Experience Study report.

Long-Term Rate of Return

Net Periodic Benefit Cost (NPBC) for the fiscal year ending June 30, 2022, used 7.00% as the expected return on plan assets. CalPERS recommend updating the long-term rate of return on plan assets to 6.80%, for purposes of determining the expected return on plan assets for the fiscal year ending June 30, 2023. In November 2021, CalPERS adopted a new asset portfolio which, based on their long-term expectation of asset returns in consultation with CalPERS investment staff and advisors, supports an assumption of 6.80%.

Results of the Valuation

ASC 715 defines the Projected Benefit Obligation (PBO) as the present value of accrued benefits based on service as of the valuation date and reflecting a participant's projected final pay. The PBO and plan assets are as follows, as of June 30, 2022:

	June 30, 2022
PBO	$ 95,345,210
Plan Assets	(63,334,150)
Unfunded PBO	$ 32,011,060

Net Periodic Benefit Cost

The annual expense under ASC 715 is called the Net Periodic Benefit Cost (NPBC). The NPBC consists of (1) a service cost, (2) an interest cost on the PBO, (3) an offset equal to the expected return on plan assets, and (4) amortizations. Amortizations may include any prior service costs and any gains or losses. The NPBC for the fiscal year ending June 30, 2022 was $4,622,453.

	June 30, 2022
Service cost	$ 5,614,555
Interest cost	3,470,353
Expected (return) on plan assets	(4,748,549)
Recognized net actuarial (gains) and losses	286,094
Net Periodic Benefit Cost	$ 4,622,453

Projected Benefit Obligation and Funded Status are as follow:	*June 30, 2022*
Projected Benefit Obligation – Beginning of Year	$118,808,623
Service cost	5,614,555
Interest cost	3,470,353
Assumption change (gain) or loss	(32,296,133)
Experience (gain) or loss	2,770,748
Benefits and expenses paid	(3,022,936)
	95,345,210
Less Fair Value of Plan Assets	
Fair Value of Plan Assets – Beginning of Year	(67,219,198)
Actual return on plan assets	5,119,493
Total contributions	(4,257,381)
Benefits and expenses paid	3,022,936
Unfunded Projected Benefit Obligation	$ 32,011,060

The Plan is reported as a pension trust fund and is accounted for using the accrual basis of accounting. Contributions to the Plan are recognized in the period in which the contributions are due pursuant to legal requirements. Member contribution rates are defined by law and depend on the respective employer's benefit formulas. Member and employer contribution rates are determined by periodic actuarial valuations. Actuarial valuations are based on the benefit provisions and employee groups of each employer. Benefits and refunds are recognized when currently due and payable in accordance with the terms of each rate plan.

The actual allocations for the pension assets and target allocations by asset class as of June 30, 2022, are as follows:

	Releases from Restrictions	*Target Allocation*
Asset Class		
Public equity	51.4%	50.0%
Private equity	8.3%	8.0%
Global fixed income	29.8%	28.0%
Real assets	9.6%	13.0%
Liquidity	1.0%	1.0%
Total fund level portfolios	2.5%	0.0%
Trust level financing	(2.6%)	0.0%
Total Fund	100.0%	100.0%

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. Accounting principles generally accepted in the United States of America establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement in its entirety. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Plan assets of $63,334,150 are held in a pooled investment account managed by CalPERS and are considered level three investments.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the following ten fiscal years ending June 30:

Years Ending June 30,	
2023	$ 3,343,326
2024	3,559,513
2025	3,792,977
2026	3,995,027
2027	4,262,659
2028-2032	25,197,109
Total	$ 44,150,611

NOTE 5 – CONTRACT ADVANCES

Contract advances represents funds DDS advances to the Center at the beginning of each fiscal year to provide interest-free working capital. DDS uses its discretion in determining the balance on a month-to-month basis. If DDS so chooses, the advances can be paid by off-setting claim reimbursements partially or in full or require the Center to make a payment. As of June 30, 2022, the contract advances balance totaled $60,026,008.

NOTE 6 – LINE OF CREDIT

The Center has an $18,000,000 line of credit with MUFG Union Bank, N.A., secured by an interest in all personal property and assets managed by the Center. Interest on the outstanding balance is payable monthly at the bank's reference rate, which was equivalent to the U.S. prime rate, which was 4.75% at June 30, 2022. The line of credit was obtained on a committed basis from June 1, 2022 through August 31, 2022, and on an uncommitted basis from September 1, 2022 through May 31, 2023. There was no outstanding balance at June 30, 2022.

NOTE 7 – OPERATING LEASES

The Center has entered into operating lease agreements for office space located in Redding, Chico, Mt. Shasta, Yreka, Red Bluff and Lake Almanor, California. Under the terms of the agreements, rental payments are contingent upon continued State funding. The lease terms range from two to ten years and expire in various years through 2030. The terms of the leases provide for payment of minimum annual rentals and liability insurance.

Future minimum payments under these leases are as follows:

Years Ending June 30,	
2023	$ 1,394,872
2024	1,390,405
2025	1,396,250
2026	427,433
2027	420,833
Thereafter	1,227,387
Total	$ 6,257,180

Total facility rental expense for the year ended June 30, 2022 was $1,300,214.

NOTE 8 – FUNDING LIMITS

<u>*State of California Contract*</u>

The Center operates under an annual cost-reimbursement contract with DDS under the Lanterman Act. The maximum expenditures under the contract are limited to the contract amount plus interest earned. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual, issued by DDS, and is required to have DDS approval for certain expenses. In the event of termination or nonrenewal of the contract, the State of California maintains the right to assume control of the Center's operation and the obligation of its liabilities.

Under the terms of these contracts, funded expenditures are not to exceed the contract amount and are subject to budget amendments. The unexpended balance under these contracts represents a conditional contribution that will be used to fund expenditures in the next fiscal years until the contract amounts are fully expended or expire. The Center can bill DDS in the future for expenses relating to previous fiscal years if the expenses billed relate to the previous fiscal year. As a result, the Center internally tracks revenue by current year, previous year and second previous year.

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

Fiscal Year Ended	*Contract Amount*	*Cumulative Expenses*	*Unexpended Balance*
June 30, 2022	$ 236,301,252	$ 206,165,627	$ 30,135,625
June 30, 2021	$ 216,007,328	$ 196,323,168	$ 19,684,160
June 30, 2020	$ 200,475,996	$ 183,254,275	$ 17,221,721

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

NOTE 9 – NET ASSETS

Net assets with donor restrictions are for the following purpose:

	June 30, 2021	*Contributions*	*Releases from Restrictions*	*June 30, 2022*
Client needs	$ 35,730	$ 587	$ (1,044)	$ 35,273
Holidays are for Caring	33,294	13,078	(15,103)	31,269
Camp Fire	2,909	-	(500)	2,409
Listos grant	21	-	-	21
Power shut off grant	33,056	-	-	33,056
Summers are for Camping	990	-	-	990
	$ 106,000	$ 13,665	$ (16,647)	$ 103,018

NOTE 10 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restriction limiting their use, within one year of the statement of financial position, comprise the following:

Financial assets at end of year available within one year:	
Cash and cash equivalents	$ 19,343,611
Receivable – State Regional Center Contracts	61,372,488
Receivable – Intermediate Care Facility	796,351
	81,512,450
Less financial assets not available for general expenditures:	
Cash subject to donor restrictions	(103,018)
Cash reserved for client trust	(793,020)
Advance State Regional Center Contracts	(60,026,008)
Financial assets available for general expenditures within one year	$ 20,590,404

Financial assets include amounts that will be used to pay accounts payable, accrued expenses and other distributions from operating cash flow, if any, in the subsequent year.

According to the Center's contract with DDS, the State and the regional centers collaborate to build the budget for the regional center system using the best quality data and information available. This budget provides data to assist in building the Governor's January Budget and the May Revise.

Additionally, each regional center submits a monthly purchase of service expenditure projection to DDS, beginning in December of each fiscal year. By February 1st of each year, DDS allocates, to all regional centers, approximately ninety-nine percent (99%) of the enacted budget for operations and purchase of service. To do this, it may be necessary to amend the Center's contract in order to allocate funds made available from budget augmentations to allocate funds among regional centers. In the event that DDS determines that a regional center has insufficient funds to meet its contractual obligations, DDS shall utilize proper legislative measures to secure additional funds and provide the regional center with regulatory and statutory relief.

The Center maintains a line of credit to manage cash flow requirements as needed to cover any delays in cash advances and reimbursements over the beginning of the fiscal year.

NOTE 11 – RELATED-PARTY TRANSACTIONS

California Welfare and Institutions Code, Section 4622, require that a minimum of 50% of the Center's governing board be comprised of persons with developmental disabilities or their parents or legal guardians and at least one member who represents the vendor community. Program service payments were made on behalf of persons with developmental disabilities that were governing board members or were related to governing board members. Related party payments of $11,365,822, including payments to the vendor member's company, were made for the fiscal year ended June 30, 2022.

NOTE 12 – COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

In accordance with the terms of the State of California contract, an audit may be performed by an authorized state representative. Should such audit disclose any unallowable costs, the Center may be liable to the State 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, 2022.

The Center is dependent on continued funding provided by the DDS to operate and provide services for its clients. The Center's contract with DDS provides funding for services under the Lanterman Act. In the event that the operations of the Center result in a deficit position at the end of any contract year, DDS may reallocate surplus funds within the State of California system to supplement the Center's funding. Should a system-wide deficit occur, DDS is required to report to the Governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. DDS's 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 contracts with various providers of services for the developmentally disabled. Significant unpaid commitments under these contracts amounted to $478,652 at June 30, 2022.

COVID-19 Pandemic

The emergence and spread of the coronavirus (COVID-19) has affected businesses and economic activities in the U.S. and beyond. The extent of the impact of COVID-19 on the Center's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, the effects on supply chains, service providers, and business partners, and changes in business practices, all of which are uncertain and cannot be determined at this time.

NOTE 13 – LEGAL MATTERS

The Center is involved in various claims and lawsuits arising in the normal conduct of its business. The Center 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.

SUPPLEMENTARY INFORMATION

FAR NORTHERN COORDINATING COUNCIL ON DEVELOPMENTAL DISABILITIES

(A California Nonprofit Public Benefit Corporation)

COMBINING FUNDS STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022

	General	*State Contracts*	*Client Trust*	*Donation Account*	*Total*
ASSETS					
Cash	$ 18,246	$ 17,723,393	$ 1,498,954	$ 103,018	$ 19,343,611
Receivables:					
State Regional Center contracts	-	61,372,488	-	-	61,372,488
Intermediate Care Facility	-	796,351	-	-	796,351
Due from State – unfunded projected benefit obligation	-	32,011,060	-	-	32,011,060
Due from State – accrued vacation and other leave benefits	-	1,151,536	-	-	1,151,536
Client support receivables	-	-	44,315	-	44,315
Other receivables	-	22,733	-	-	22,733
Interfund receivable (payable)	-	750,253	(750,253)	-	-
Prepaid expenses	-	617,190	-	-	617,190
Total Assets	$ 18,246	$ 114,445,004	$ 793,016	$ 103,018	$ 115,359,284
LIABILITIES AND NET ASSETS					
Accounts payable	$ -	$ 20,674,913	$ -	$ -	$ 20,674,913
Advances – State Regional Center contracts	-	60,026,008	-	-	60,026,008
Accrued expenses	-	1,728,398	-	-	1,728,398
Unfunded projected benefit obligation	-	32,011,060	-	-	32,011,060
Client trust fund payable	-	-	793,016	-	793,016
Other payable – Pass Plan	-	4,625	-	-	4,625
Total liabilities	-	114,445,004	793,016	-	115,238,020
Net assets:					
Without donor restrictions	18,246	-	-	-	18,246
With donor restrictions	-	-	-	103,018	103,018
Total net assets	18,246	-	-	103,018	121,264
Total liabilities and net assets	$ 18,246	$ 114,445,004	$ 793,016	$ 103,018	$ 115,359,284

FAR NORTHERN COORDINATING COUNCIL ON DEVELOPMENTAL DISABILITIES

(A California Nonprofit Public Benefit Corporation)

COMBINING FUNDS STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2022

	General	*State Contracts*	*Client Trust*	*Donation Account*	*Total*
Support and revenue:					
State Regional Center contracts	$ -	$ 209,802,216	$ -	$ -	$ 209,802,216
Intermediate Care Facility revenue	-	2,289,846	-	-	2,289,846
Contributions	1,002	-	-	13,665	14,667
Interest income	-	21,806	-	-	21,806
Other income	-	281	-	-	281
Net assets released from restrictions	16,647	-	-	(16,647)	-
Total support and revenue	17,649	212,114,149	-	(2,982)	212,128,816
Expenses:					
Program services:					
Case management	-	16,718,077	-	-	16,718,077
Purchased of service	-	188,308,985	-	-	188,308,985
Client needs	16,727	-	-	-	16,727
Supporting services:					
Management and general	-	7,087,087	-	-	7,087,087
Total expenses	16,727	212,114,149	-	-	212,130,876
Change in net assets from operations	922	-	-	(2,982)	(2,060)
Change in unfunded projected benefit obligation (Note 4)	-	19,578,365	-	-	19,578,365
Change in Due from State – unfunded projected benefit obligation (Note 4)	-	(19,578,365)	-	-	(19,578,365)
Change in net assets	922	-	-	(2,982)	(2,060)
Net assets, beginning of year	17,324	-	-	106,000	123,324
Net assets, end of year	$ 18,246	$ -	$ -	$ 103,018	$ 121,264

FAR NORTHERN COORDINATING COUNCIL ON DEVELOPMENTAL DISABILITIES

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2022

Federal Grantor/Pass-Through Grantor/ Program Title	*Assistance Listing Number*	*Agency or Pass-Through Number*	*Federal Expenditures*	*Expenditures to Subrecipients*
U.S. Department of Education:				
Special Education – Grants for Infants and Families				
Passed through State of California				
Department of Developmental Services				
Early Intervention Services	84.181	H181A190037	$ 779,795	$ -
U.S. Department of Health and Human Services				
Health Resources and Services Administration:				
Provider Relief Fund (PRF)				
COVID-19 direct award	93.498	N/A	248,126	-
TOTAL FEDERAL AWARDS			$ 1,027,921	$ -

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant and loan activities of Far Northern Coordinating Council on Developmental Disabilities and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The purpose of the Schedule is to present a summary of those activities of Far Northern Coordinating Council on Developmental Disabilities for the year ended June 30, 2022, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly and indirectly between Far Northern Coordinating Council on Developmental Disabilities and the federal government. Far Northern Coordinating Council on Developmental Disabilities did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2022

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes	X None reported
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes	X None reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance?	____ Yes	X No
Identification of major programs:	*Name of Federal Program or Cluster*	
ALN 84.181	Special Education – Grants for Infants and Families	
ALN 93.948	Provider Relief Fund	
Dollar threshold used to distinguish between Type A and Type B programs:	$750,000	
Auditee qualified as low-risk auditee?	X Yes	____ No

Section II – Financial Statement Findings

None noted.

Section III – Federal Awards Findings and Questioned Costs

None noted.

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

INDEPENDENT AUDITOR'S 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*

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, which comprise the statement of financial position as of June 30, 2022, 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 ____________, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Far Northern Coordinating Council on Developmental Disabilities' internal control over financial reporting (internal control) as a basis for designing 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 Coordinating Council on Developmental Disabilities' internal control. Accordingly, we do not express an opinion on the effectiveness of Far Northern Coordinating Council on Developmental Disabilities' internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Far Northern Coordinating Council on Developmental Disabilities' 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 financial statements. 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 Coordinating Council on Developmental Disabilities' 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 Coordinating Council on Developmental Disabilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

TENTATIVE & PRELIMINARY
For Discussion Purposes Only

____________, 2023

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Far Northern Coordinating Council on Developmental Disabilities' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Far Northern Coordinating Council on Developmental Disabilities' major federal programs for the year ended June 30, 2022. Far Northern Coordinating Council on Developmental Disabilities' major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, Far Northern Coordinating Council on Developmental Disabilities 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 programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Far Northern Coordinating Council on Developmental Disabilities and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Far Northern Coordinating Council on Developmental Disabilities' compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provision of contracts or grant agreements applicable to Far Northern Coordinating Council on Developmental Disabilities' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Far Northern Coordinating Council on Developmental Disabilities' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Far Northern Coordinating Council on Developmental Disabilities' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Far Northern Coordinating Council on Developmental Disabilities' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Far Northern Coordinating Council on Developmental Disabilities' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Far Northern Coordinating Council on Developmental Disabilities' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

TENTATIVE & PRELIMINARY
For Discussion Purposes Only

____________, 2023