

**Redwood Coast Developmental
Services Corporation**

Ukiah, California

FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITORS' REPORTS

June 30, 2016



Redwood Coast Developmental Services Corporation

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June 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Redwood Coast Developmental Services Corporation
Ukiah, California

Report on the Financial Statements

We have audited the accompanying financial statements of Redwood Coast Developmental Services Corporation (the Center), a California nonprofit corporation, which comprise the statement of financial position as of June 30, 2016, 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 the 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 the 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.

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

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2017, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Aiello, Goodrich & Teuscher

March 25, 2017
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Redding, California

FINANCIAL SECTION

Redwood Coast Developmental Services Corporation

STATEMENT OF FINANCIAL POSITION

June 30, 2016	Unrestricted		Total
	General	State Contracts	
ASSETS			
Cash and cash equivalents	\$ -	\$ 5,815,306	\$ 5,815,306
Investments	60,527	-	60,527
Receivable - State Regional Center contracts	-	18,145,831	18,145,831
Receivable - ICF providers	-	140,571	140,571
Prepaid expenses	-	23,225	23,225
Due from State - accrued vacation and other leave benefits	-	429,747	429,747
TOTAL ASSETS	\$ 60,527	\$ 24,554,680	\$ 24,615,207
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ -	\$ 8,948,045	\$ 8,948,045
Advances - State Regional Center contracts	-	15,082,774	15,082,774
Accrued vacation and other leave benefits	-	429,747	429,747
Reserve for unemployment insurance	-	94,114	94,114
Total Liabilities	-	24,554,680	24,554,680
Net Assets			
Unrestricted	60,527	-	60,527
TOTAL LIABILITIES AND NET ASSETS	\$ 60,527	\$ 24,554,680	\$ 24,615,207

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

Redwood Coast Developmental Services Corporation
STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

CHANGE IN UNRESTRICTED NET ASSETS

Revenue

State Regional Center contracts	\$	92,849,679
Intermediate Care Facility revenue		488,244
Other income		16,711
Interest income		35,235
Unrealized and realized gain (loss) on investments		(1,902)

TOTAL REVENUE 93,387,967

EXPENSES

Program Services

Intake		163,360
Case management		6,239,820
Program development		822,408
Other direct services		802,096
Living out of home		9,059,003
Day program		3,547,734
Other purchased services		71,608,489

Total Program Services 92,242,910

Supporting Services

General and administrative		1,147,842
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Total Supporting Services 1,147,842

TOTAL EXPENSES 93,390,752

Change in Net Assets (2,785)

Net Assets - Beginning of Year 63,312

Net Assets - End of Year \$ 60,527

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

Redwood Coast Developmental Services Corporation
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016	Program Services									Supporting Services	
	Intake	Case Management	Program Development	Other Direct Services	Living Out of Home	Day Program	Other Purchased Services	Total Program Services	General and Administrative	Total	
Purchase of services	\$ -	\$ -	\$ -	\$ -	\$ 9,059,003	\$ 3,547,734	\$ 71,608,489	\$ 84,215,226	\$ -	\$ 84,215,226	
Salaries	84,319	3,324,143	441,453	498,172	-	-	-	4,348,087	564,617	4,912,704	
Employee health and retirement benefits	38,018	1,498,789	199,042	205,032	-	-	-	1,940,881	254,574	2,195,455	
Facility rent	14,375	566,733	75,263	-	-	-	-	656,371	96,262	752,633	
Communication	3,746	147,684	19,613	-	-	-	-	171,043	25,085	196,128	
Staff travel	8,346	128,556	10,817	28,419	-	-	-	176,138	15,685	191,823	
General expenses	2,497	98,449	13,074	6,093	-	-	-	120,113	16,723	136,836	
Consultant services	1,203	47,434	6,299	57,587	-	-	-	112,523	8,057	120,580	
Utilities	1,681	66,287	8,803	-	-	-	-	76,771	11,259	88,030	
Insurance	1,375	54,197	7,198	-	-	-	-	62,770	9,205	71,975	
Payroll taxes	1,207	47,577	6,319	6,793	-	-	-	61,896	8,082	69,978	
Facility maintenance	1,318	51,961	6,901	-	-	-	-	60,180	8,825	69,005	
Equipment rental and maintenance	1,120	44,166	5,865	-	-	-	-	51,151	7,503	58,654	
General office expenses	856	33,755	4,483	-	-	-	-	39,094	5,733	44,827	
ARCA dues	-	-	-	-	-	-	-	-	42,922	42,922	
Accounting fees	-	-	-	-	-	-	-	-	41,000	41,000	
Advertising	731	28,836	3,830	-	-	-	-	33,397	4,898	38,295	
Data processing	656	25,848	3,433	-	-	-	-	29,937	4,390	34,327	
Legal fees	601	23,708	3,149	-	-	-	-	27,458	4,027	31,485	
Bank service charges	590	23,276	3,091	-	-	-	-	26,957	3,954	30,911	
Equipment purchases	295	11,646	1,547	-	-	-	-	13,488	1,978	15,466	
Board expenses	248	9,770	1,298	-	-	-	-	11,316	1,659	12,975	
Interest	-	-	-	-	-	-	-	-	10,214	10,214	
Printing	178	7,005	930	-	-	-	-	8,113	1,190	9,303	
Total Expenses	\$ 163,360	\$ 6,239,820	\$ 822,408	\$ 802,096	\$ 9,059,003	\$ 3,547,734	\$ 71,608,489	\$ 92,242,910	\$ 1,147,842	\$ 93,390,752	

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

Redwood Coast Developmental Services Corporation

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from grants, contracts, and clients	\$ 95,429,411
Cash paid to suppliers and employees	(92,256,030)
Interest received	35,235
Interest paid	(10,214)

Net Cash Provided By Operating Activities	3,198,402
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CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of investments	883
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Net Cash Provided By Investing Activities	883
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CASH FLOWS FROM FINANCING ACTIVITIES

Net change in short-term borrowings	(1,000,000)
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Net Cash Used By Financing Activities	(1,000,000)
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Change in Cash and Cash Equivalents	2,199,285
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Cash and Cash Equivalents - Beginning of Year	3,616,021
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Cash and Cash Equivalents - End of Year	\$ 5,815,306
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RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Change in net assets	\$ (2,785)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized and realized (gain) loss on investments	1,902
Changes in:	
Receivable - State Regional Center contracts	2,631,646
Receivable - ICF providers	(29,316)
Prepaid expenses	1,867
Due from State - accrued vacation and other leave benefits	(7,352)
Accounts payable	1,125,708
Advances - State Regional Center contracts	(527,553)
Accrued vacation and other leave benefits	7,352
Reserve for unemployment insurance	(3,067)

Net Cash Provided By Operating Activities	\$ 3,198,402
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The accompanying notes are an integral part of these financial statements.

Redwood Coast Developmental Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities Redwood Coast Developmental Services Corporation (the Center) was incorporated on June 7, 1983, as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the *Welfare and Institutions Code* of the State of California. In accordance with the Act, the Center, doing business as the Redwood Coast Regional Center, provides diagnostic evaluations, client program management, and lifelong planning services for persons with developmental disabilities and their families. The geographical areas served include Del Norte, Humboldt, Mendocino, and Lake Counties.

Basis of Accounting The accompanying financial statements have been prepared on the accrual basis of accounting.

Financial Statement Presentation The 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, the 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 the Center is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the 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. The Center has no temporarily restricted net assets.

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

Fund Accounting The accounts of the 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.

Cash and Cash Equivalents For purposes of the statement of cash flows, the 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 the State of California Department of Developmental Services (DDS) and the Center.

Redwood Coast Developmental Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Significant Concentrations of Credit Risk At June 30, 2016, and throughout the year, the Center had maintained cash balances with a bank in excess of federally insured limits. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2016, cash exceeded federally insured limits by \$5,544,989. The Center has not experienced any loss and management believes it is not exposed to any significant credit risk on such accounts.

Investments Investments are recorded at fair value based on quoted market prices (level 1) and consist of funds managed by the Community Foundation of Mendocino County and the Humboldt Area Foundation in pooled accounts consisting of mutual funds and equity securities. Detail information on the makeup of these investments was not available. The Center considers investments in these Foundations as being available for sale. Unrealized gains and losses are included in the change in net assets on the Statement of Activities.

State Regional Center Contract Receivables and Advances Contracts receivable 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.

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. Billings prior to June 30, 2012, are billed retroactively and billings after this date are billed prospectively.

Retroactive Billings: The Center was directed by DDS to prepare retroactive billings to DDS on behalf of ICF providers for the cost of day treatment and transportation services beginning with the fiscal year ending June 30, 2008. The billings included a 5.5% quality assurance fee for the State Department of Health Care Services (DHCS), a 1.5% administrative fee for the ICFs, and a 1.5% administration fee for the Center. The ICFs were directed to remit to the Center the amounts billed on their behalf less their administrative fee and the quality assurance fee, which they were required to remit to DHCS. Management of the Center has decided only to record the ICF revenue receivable from ICF providers under the retroactive billing as the revenue is received from the providers as these amounts can vary based on a multitude of factors. Therefore, no amounts receivable from ICF providers or payables to DDS for retroactive billings have been recorded in these financials. During the year ended June 30, 2016, \$288,151 of retroactive billings were received from ICF providers and \$288,151 of these funds were repaid to DDS.

Redwood Coast Developmental Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Prospective Billings: Effective July 1, 2012, the Center also 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. Therefore, no amounts are payable to DDS.

The Receivable – ICF providers balance consisted of the following:

Year Ended	Receivable - ICF Providers
June 30, 2016	\$ 140,571

Management considers all receivables to be fully collectible.

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

Equipment Purchase In accordance with the State regional center contracts, all equipment purchased with contract funds is the property of the State. The 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.

Accrued Vacation and Other Leave Benefits The Center has accrued a liability for leave benefits. However, such benefits are reimbursed under the DDS contract only when actually paid. The Center has also recorded a receivable from the DDS for the accrued leave benefits to reflect the future reimbursement of such benefits.

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

Contributions Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Allocation of Expenses The statement of functional expenses allocates expenses to the program and supporting service categories based on a direct-cost basis for purchase of services and salaries and related expenses. In addition, expenses are allocated based on a percentage of salaries and related expenses per category to total salaries and related expenses for operating expenses, except for travel and certain administrative costs, which are allocated on a direct-cost basis.

Use of Estimates 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.

Redwood Coast Developmental Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Income Taxes The 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.

The 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. The 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. The 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, 2016, and the Center does not expect this to change significantly over the next 12 months.

Subsequent Events Management has evaluated subsequent events through March 25, 2017, the date on which the financial statements were available to be issued.

2. LINE OF CREDIT

The Center has a \$12,500,000 revolving line of credit with Union Bank, secured by substantially all assets of the Center. Interest on the outstanding balance is payable monthly at an interest rate of 3.50% at June 30, 2016, and amounted to \$10,214 for the year ended June 30, 2016. The line of credit expired on September 30, 2016. The Center intends to renew the LOC. There was no outstanding balance at June 30, 2016.

3. RETIREMENT PLAN

Defined Benefit Plan

Plan Descriptions The Center contributes to the California Public Employees' Retirement System (CalPERS), an agent multiemployer 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 the CalPERS comprehensive annual financial report (CAFR) may be obtained from CalPERS, 400 Q Street, Sacramento, California 95811 and at www.calpers.ca.gov.

Redwood Coast Developmental Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Funding Policy Participants are required to contribute 7% of their annual covered salary. The Center is required to contribute at an actuarially determined rate for its participants; the rate for the 2015-16 fiscal year was 14.866% of annual covered payroll. The contribution requirements of plan members and the Center are established and may be amended by CalPERS.

The risks of participating in this multi-employer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employers of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Regional Center chooses to stop participating in its multiemployer plan, it may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

According to the information available as of the most recent measurement date, June 30, 2015, the agent multi-employer defined benefit plan in total reported total pension liability of \$13,639,503,084, fiduciary net position of \$10,896,036,068, employer contributions of \$376,902,997, employee contributions of \$154,112,658 and benefit payments of \$568,251,183. The plan was 78.40% funded as of this date. The calculation of total pension liability included the following actuarial assumptions: 7.65% discount rate, 2.75% inflation rate, salary increases that vary by entry age and service, and a 7.5% investment rate of return (net of pension plan investment and administrative expenses). In addition, the calculation of the total pension liability used the entry age normal actuarial cost method. Details about the plan's fiduciary net position are available in the separately issued CalPERS financial report.

The Center's proportionate share of the net pension liability as of the measurement date was \$6,694,617. This liability is not included in the Statement of Financial Position as such benefits are reimbursed under the DDS contract only when actually paid. The annual pension cost for the Center for the year ended June 30, 2016 recognized was \$681,220.

Information about the contributions and benefits expected to be paid in each of the next five fiscal years was not available and therefore has not been presented in these financial statements.

4. FUNDING LIMITS

The 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.

Redwood Coast Developmental Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

Fiscal Year Ended	Contract Amount	Cumulative Expenses	Unexpended Balance
June 30, 2016	\$ 92,900,993	\$ 92,124,816	\$ 776,177
June 30, 2015	\$ 85,773,804	\$ 85,402,482	\$ 371,322
June 30, 2014	\$ 80,979,327	\$ 80,623,961	\$ 355,366

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.

5. LEASE COMMITMENTS

The Center is obligated under lease agreements for office facilities and equipment. The lease terms range from two to 15 years and expire in various years through 2023. 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	
2017	\$ 744,399
2018	721,219
2019	619,845
2020	619,845
2021	397,021
Thereafter	452,216
Total	\$ 3,554,545

Total facility rental expense for the year ended June 30, 2016, was \$752,633. Equipment rental expense for the year ended June 30, 2016, was \$48,721.

6. LITIGATION CLAIMS AND CONTINGENCIES

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, 2016.

Redwood Coast Developmental Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 has elected to finance its unemployment insurance using the prorated cost-of-benefits method. Under this method, the Center is required to reimburse the State of California for benefits paid to its former employees. At June 30, 2016, the Center had \$94,114 in a reserve trust account to pay for any potential unemployment claims.

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.

7. CONTRACT COMMITMENTS

The Center contracts with various vendors for administrative functions and client services. Significant unpaid commitments under these contracts consisted of the following:

Client services	\$ 161,483
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8. 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 \$2,549,271 were made for the fiscal year ended June 30, 2016.

OTHER REPORT 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
Redwood Coast Developmental Services Corporation
Ukiah, California

We have audited, 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, the financial statements of Redwood Coast Developmental Services Corporation (the Center), a California nonprofit corporation, which comprise the statement of financial position as of June 30, 2016, 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 March 25, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Aiello, Goodrich & Teuscher

March 25, 2017
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Redding, California

FINDINGS AND RESPONSES SECTION

Redwood Coast Developmental Services Corporation

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2016

None

Redwood Coast Developmental Services Corporation

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2016

None