Redwood Coast Developmental Services Corporation

Ukiah, California

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2018

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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, a California nonprofit corporation (the Center), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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.

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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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2019, 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 the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Aiello, Goodrich & Teuscher

March 16, 2019
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Redding, California

FINANCIAL SECTION

Redwood Coast Developmental Services Corporation

STATEMENT OF FINANCIAL POSITION

June 30, 2018	Unrestricted General	Unrestricted State Contracts	Total
ASSETS			
Cash and cash equivalents	$ -	$ 6,153,033	$ 6,153,033
Investments	72,068	-	72,068
Receivable - State Regional Center contracts	-	22,084,410	22,084,410
Receivable - ICF providers	-	75,515	75,515
Due from State - net pension obligation	-	9,078,633	9,078,633
Due from State - accrued vacation and other leave benefits	-	347,515	347,515
Due from State - deferred rent	-	68,605	68,605
Prepaid expenses	-	89,246	89,246
TOTAL ASSETS	$ 72,068	$ 37,896,957	$ 37,969,025
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	$ -	$ 11,372,737	$ 11,372,737
Advances - State Regional Center contracts	-	16,913,059	16,913,059
Net pension obligation	-	9,078,633	9,078,633
Accrued vacation and other leave benefits	-	347,515	347,515
Reserve for unemployment insurance	-	116,408	116,408
Deferred rent	-	68,605	68,605
Total Liabilities	-	37,896,957	37,896,957
Net Assets			
Unrestricted	72,068	-	72,068
TOTAL LIABILITIES AND NET ASSETS	$ 72,068	$ 37,896,957	$ 37,969,025

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

Redwood Coast Developmental Services Corporation

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018		
REVENUE		
State Regional Center contracts	$	114,823,292
Intermediate Care Facility revenue		401,533
Other income		7,116
Interest income		60,129
Unrealized and realized gain (loss) on investments		4,083
TOTAL REVENUE		115,296,153
EXPENSES		
Program Services		
Intake		168,660
Case management		7,253,344
Program development		1,019,218
Other direct services		751,529
Living out of home		8,262,501
Day program		3,803,071
Other purchased services		92,535,666
Total Program Services		113,793,989
Supporting Services		
General and administrative		1,498,354
Total Supporting Services		1,498,354
TOTAL EXPENSES		115,292,343
Change in Net Assets		3,810
Net Assets - Beginning of Year		68,258
Net Assets - End of Year	$	72,068

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

Redwood Coast Developmental Services Corporation
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018	Program Services: Intake	Case Management	Program Development	Other Direct Services	Living Out of Home	Day Program	Other Purchased Services	Total Program Services	Supporting Services: General and Administrative	Total
Purchase of services	$ -	$ -	$ -	$ -	$ 8,262,501	$ 3,803,071	$ 92,535,666	$ 104,601,238	$ -	$ 104,601,238
Salaries	88,124	3,859,104	545,530	494,656	-	-	-	4,987,414	752,727	5,740,141
Employee health and retirement benefits	41,932	1,836,247	259,575	144,920	-	-	-	2,282,674	358,164	2,640,838
Facility rent	13,674	598,788	84,646	-	-	-	-	697,108	116,794	813,902
Communication	3,961	173,457	24,520	-	-	-	-	201,938	33,834	235,772
Staff travel	5,783	120,765	10,944	9,980	-	-	-	147,472	17,966	165,438
General expenses	2,079	91,055	12,872	4,414	-	-	-	110,420	17,760	128,180
Consultant services	2,049	89,708	12,681	91,288	-	-	-	195,726	17,498	213,224
Utilities	1,809	79,216	11,198	-	-	-	-	92,223	15,452	107,675
Insurance	1,321	57,865	8,180	-	-	-	-	67,366	11,287	78,653
Payroll taxes	1,301	56,975	8,054	6,271	-	-	-	72,601	11,113	83,714
Facility maintenance	1,117	48,910	6,914	-	-	-	-	56,941	9,540	66,481
Equipment rental and maintenance	1,332	58,309	8,243	-	-	-	-	67,884	11,372	79,256
General office expenses	1,466	64,188	9,074	-	-	-	-	74,728	12,520	87,248
ARCA dues	-	-	-	-	-	-	-	-	35,505	35,505
Accounting fees	-	-	-	-	-	-	-	-	42,000	42,000
Advertising	246	10,777	1,523	-	-	-	-	12,546	2,102	14,648
Data processing	540	23,648	3,343	-	-	-	-	27,531	4,612	32,143
Legal fees	570	24,981	3,531	-	-	-	-	29,082	4,873	33,955
Bank service charges	14	603	85	-	-	-	-	702	117	819
Equipment purchases	791	34,620	4,894	-	-	-	-	40,305	6,752	47,057
Board expenses	296	12,981	1,835	-	-	-	-	15,112	2,532	17,644
Interest	-	-	-	-	-	-	-	-	11,660	11,660
Printing	255	11,147	1,576	-	-	-	-	12,978	2,174	15,152
Total Expenses	$ 168,660	$ 7,253,344	$ 1,019,218	$ 751,529	$ 8,262,501	$ 3,803,071	$ 92,535,666	$ 113,793,989	$ 1,498,354	$ 115,292,343

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

Redwood Coast Developmental Services Corporation

STATEMENT OF CASH FLOWS

Year Ended June 30, 2018		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants, contracts, and clients	$	114,220,433
Cash paid to suppliers and employees		(113,958,930)
Interest received		60,129
Interest paid		(11,660)
Net Cash Provided By Operating Activities		309,972
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments		273
Net Cash Provided By Investing Activities		273
Change in Cash and Cash Equivalents		310,245
Cash and Cash Equivalents - Beginning of Year		5,842,788
Cash and Cash Equivalents - End of Year	$	6,153,033
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$	3,810
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized (gain) loss on investments		(4,083)
Changes in:		
Receivable - State Regional Center contracts		7,895,562
Receivable - ICF providers		72,663
Due from State - net pension obligation		(9,078,633)
Due from State - accrued vacation and other leave benefits		34,162
Due from State - deferred rent		(68,605)
Prepaid expenses		467
Accounts payable		1,311,289
Advances - State Regional Center contracts		(8,979,733)
Net pension obligation		9,078,633
Accrued vacation and other leave benefits		(34,162)
Reserve for unemployment insurance		9,997
Deferred rent		68,605
Net Cash Provided By Operating Activities	$	309,972

The accompanying notes are an integral part of these 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.

Significant Concentrations of Credit Risk At June 30, 2018, 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, 2018, cash exceeded federally insured limits by $5,914,858. 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 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 this Foundation 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.

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.

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. The cost basis of the property utilized by the Center and owned by the State at June 30, 2018, was $174,862. This balance includes only the equipment that is sensitive or exceeds $5,000 as required by SAM guidelines.

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.

Deferred Rent Liability The Center leases their office facilities under lease agreements that are subject to scheduled acceleration of rental payments. The scheduled rent increases are amortized evenly over the life of the leases. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. The Center has recorded a receivable from the State for the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized.

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

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

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.

Advertising Advertising production and communication costs are expenses as they are incurred.

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

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

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

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

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

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

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

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

Income Taxes 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, 2018, and the Center does not expect this to change significantly over the next 12 months.

Subsequent Events Management has evaluated subsequent events through March 16, 2019, 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 the Bank of Tokyo Mitsubishi UFJ, Ltd., secured by substantially all assets of the Center. Interest on the outstanding balance is payable monthly at an interest rate of 5.00% at June 30, 2018, and amounted to $11,660 for the year ended June 30, 2018. The line of credit expired on September 28, 2018. The Center intends to renew the LOC. There was no outstanding balance at June 30, 2018.

3. RETIREMENT PLAN

Defined Benefit Plan

Plan Descriptions The Center participates 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' comprehensive annual financial report (CAFR) may be obtained from CalPERS, 400 Q Street, Sacramento, California 95811 and at www.calpers.ca.gov.

The risks of participating in this plan is that if the Regional Center chooses to stop participating in its 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.

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 6.25% 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 2017-18 fiscal year was 7.637% (for the classic plan) and 6.533% (for the PEPRA plan) of annual covered payroll. The contribution requirements of plan members and the Center are established and may be amended by CalPERS.

Contributions Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, the Center's actuarially determined contribution was $752,968 and the actual contribution was $832,660.

Pension Liability At June 30, 2018, the Center reported a net pension liability of $9,078,633 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The Center's proportion of the net pension liability was based on a projection of the Center's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the State, actuarially determined. At June 30, 2017, the Center's proportion was 0.00169410 for the total pension liability and 0.00149530 for the fiduciary net position.

Actuarial Assumptions The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	7.15% (Net of administrative expenses)
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%
Investment rate of return	7.375%, net of pension plan investment and administrative expenses; includes inflation

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

The actuarial assumptions used in the June 30, 2016 valuation were derived from the June 30, 2016, funding valuation report.

Change in Assumptions

For the year ended June 30, 2017, a discount rate of 7.15% was used for the calculation of the pension liability. The rate that had been used in the previous year was 7.65%

Discount Rate

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

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

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

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

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

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

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Plan's Net Pension Liability - Miscellaneous	$ 12,810,780	$ 9,078,633	$ 5,987,602

Pension Plan Fiduciary Net Position

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

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.

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

Fiscal Year Ended	Contract Amount	Cumulative Expenses	Unexpended Balance
June 30, 2018	$ 116,020,977	$ 114,237,248	$ 1,783,729
June 30, 2017	$ 108,373,467	$ 107,368,069	$ 1,005,398
June 30, 2016	$ 93,185,751	$ 92,625,831	$ 559,920

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 ten years and expire in various years through 2028. 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		
2019	$	790,120
2020		821,329
2021		617,331
2022		523,942
2023		399,439
Thereafter		900,280
Total	$	4,052,441

Total facility rental expense for the year ended June 30, 2018 was $813,902. Equipment rental expense for the year ended June 30, 2018 was $58,344.

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, 2018.

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, 2018, the Center had $116,408 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 amounted to $915,859 at June 30, 2018.

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 $2,481,214 were made for the fiscal year ended June 30, 2018.

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, a California nonprofit corporation (the Center), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated March 16, 2019.

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.

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

Aiello, Goodrich & Teuscher

March 16, 2019
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Redding, California

FINDINGS AND RESPONSES SECTION

None

None