Redwood Coast Developmental Services Corporation

Ukiah, California

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2015

K·COE ISOM

Redwood Coast Developmental Services Corporation

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K·COE ISOM

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, 2015; 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

The Center's 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, 2015, 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 February 26, 2016, on our consideration of the Center's internal control over financial reporting and 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 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.

KCoe Isom, LLP

February 26, 2016
Redding, California

FINANCIAL SECTION

Redwood Coast Developmental Services Corporation

STATEMENT OF FINANCIAL POSITION

June 30, 2015	Unrestricted General	Unrestricted State Contracts	Total
ASSETS			
Cash and cash equivalents	$ -	$ 3,616,021	$ 3,616,021
Investments	63,312	-	63,312
Contracts receivable - State Regional Center contracts	-	20,777,477	20,777,477
Receivable - ICF providers	-	111,255	111,255
Prepaid expenses	-	25,092	25,092
Due from State - accrued vacation and other leave benefits	-	422,395	422,395
TOTAL ASSETS	$ 63,312	$ 24,952,240	$ 25,015,552
LIABILITIES AND NET ASSETS			
Liabilities			
Line of credit	$ -	$ 1,000,000	$ 1,000,000
Accounts payable	-	7,822,337	7,822,337
Advances - State Regional Center contracts	-	15,610,327	15,610,327
Accrued vacation and other leave benefits	-	422,395	422,395
Reserve for unemployment insurance	-	97,181	97,181
Total Liabilities	-	24,952,240	24,952,240
Net Assets			
Unrestricted	63,312	-	63,312
TOTAL LIABILITIES AND NET ASSETS	$ 63,312	$ 24,952,240	$ 25,015,552

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

Redwood Coast Developmental Services Corporation

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

CHANGE IN UNRESTRICTED NET ASSETS		
Revenue		
State Regional Center contracts	$	85,602,862
Intermediate Care Facility revenue		720,719
Other income		22,486
Interest income		30,440
Unrealized and realized gain (loss) on investments		467
TOTAL REVENUE		86,376,974
EXPENSES		
Program Services		
Intake		139,800
Case management		6,201,124
Program development		620,613
Other direct services		630,892
Living out of home		8,083,587
Day program		3,481,117
Other purchased services		66,109,171
Total Program Services		85,266,304
Supporting Services		
General and administrative		1,110,916
Total Supporting Services		1,110,916
TOTAL EXPENSES		86,377,220
Change in Net Assets		(246)
Net Assets - Beginning of Year		63,558
Net Assets - End of Year	$	63,312

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

Redwood Coast Developmental Services Corporation

STATEMENT OF FUNCTIONAL EXPENSES

	Program Services								Supporting Services	
Year Ended June 30, 2015	Intake	Case Management	Program Development	Other Direct Services	Living Out of Home	Day Program	Other Purchased Services	Total Program Services	General and Administrative	Total
Salaries	$ 69,724	$ 3,218,899	$ 325,791	$ 403,797	$ -	$ -	$ -	$ 4,018,211	$ 535,791	$ 4,554,002
Employee health and retirement benefits	29,825	1,376,885	139,357	145,800	-	-	-	1,691,867	229,185	1,921,052
Payroll taxes	1,028	47,439	4,801	5,679	-	-	-	58,947	7,896	66,843
Purchase of services	-	-	-	-	8,083,587	3,481,117	66,109,171	77,673,875	-	77,673,875
Facility rent	12,378	571,451	57,838	-	-	-	-	641,667	95,119	736,786
Communication	4,266	196,947	19,933	925	-	-	-	222,071	32,782	254,853
Equipment purchases	4,266	196,954	19,934	-	-	-	-	221,154	32,784	253,938
Staff travel	8,239	127,446	5,885	22,908	-	-	-	164,478	17,337	181,815
Consultant services	1,088	50,238	5,085	49,497	-	-	-	105,908	8,362	114,270
Equipment rental and maintenance	1,502	69,361	7,020	-	-	-	-	77,883	11,546	89,429
General expenses	1,262	58,243	5,895	2,141	-	-	-	67,541	9,694	77,235
Utilities	1,291	59,607	6,033	-	-	-	-	66,931	9,167	76,098
Insurance	1,181	54,539	5,520	-	-	-	-	61,240	9,078	70,318
Facility maintenance	887	40,970	4,147	-	-	-	-	46,004	6,819	52,823
General office expenses	787	36,314	3,675	145	-	-	-	40,921	6,044	46,965
Accounting fees	-	-	-	-	-	-	-	-	41,000	41,000
ARCA dues	-	-	-	-	-	-	-	-	37,305	37,305
Bank service charges	512	23,653	2,394	-	-	-	-	26,559	3,937	30,496
Advertising	466	21,530	2,179	-	-	-	-	24,175	3,584	27,759
Legal fees	338	15,593	1,578	-	-	-	-	17,509	2,596	20,105
Data processing	336	15,491	1,568	-	-	-	-	17,395	2,578	19,973
Board expenses	280	12,926	1,308	-	-	-	-	14,514	2,152	16,666
Printing	144	6,638	672	-	-	-	-	7,454	1,104	8,558
Interest	-	-	-	-	-	-	-	-	5,056	5,056
Total Expenses	$ 139,800	$ 6,201,124	$ 620,613	$ 630,892	$ 8,083,587	$ 3,481,117	$ 66,109,171	$ 85,266,304	$ 1,110,916	$ 86,377,220

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

Redwood Coast Developmental Services Corporation

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants, contracts, and clients	$	84,648,197
Cash paid to suppliers and employees		(85,336,527)
Investment income		30,440
Interest paid		(5,056)
Net Cash Used By Operating Activities		(662,946)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments		713
Net Cash Provided By Investing Activities		713
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in short-term borrowings		1,000,000
Net Cash Provided By Financing Activities		1,000,000
Change in Cash and Cash Equivalents		337,767
Cash and Cash Equivalents - Beginning of Year		3,278,254
Cash and Cash Equivalents - End of Year	$	3,616,021
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES		
Change in net assets	$	(246)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Unrealized and realized (gain) loss on investments		(467)
Changes in:		
Contracts receivable - State Regional Center contracts		1,674,208
Receivable - ICF providers		148,653
Prepaid expenses		(506)
Due from State - accrued vacation and other leave benefits		(15,520)
Accounts payable		1,042,223
Advances - State Regional Center contracts		(3,520,731)
Accrued vacation and other leave benefits		15,520
Reserve for unemployment insurance		(6,080)
Net Cash Used By Operating Activities	$	(662,946)

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, 2015, 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, 2015, cash exceeded federally insured limits by $3,627,118. 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 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. The Center considers investments in these Foundations as being available for sale. Unrealized gains and losses are included in the change in net assets.

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, 2015, $122,561 of retroactive billings were received from ICF providers and $122,561 of these funds were repaid to DDS.

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, 2015	$	111,255

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.

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 files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2011 and beyond, and the California returns for tax years 2010 and beyond, remain subject to examination by the taxing authorities.

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, 2015, and the Center does not expect this to change significantly over the next 12 months.

Subsequent Events Management has evaluated subsequent events through February 26, 2016, 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 3.25% at June 30, 2015, and amounted to $5,056 for the year ended June 30, 2015. The line of credit expired on September 30, 2015. The line of credit was renewed for $12,500,000 and will expire September 30, 2016. The outstanding balance was $1,000,000 at June 30, 2015.

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.

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 2014-15 fiscal year was 14.538% 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 multiemployer plan are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer 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, 2014, the agent multiemployer defined benefit plan in total reported total pension liability of $13,110,948,452, fiduciary net position of $10,639,461,174, employer contributions of $316,207,965, employee contributions of $159,834,203 and benefit payments of $523,586,912. The plan was 81.15% funded as of this date. The calculation of total pension liability included the following actuarial assumptions: 7.50% discount rate, 2.75% inflation rate, salary increases that vary by entry age and service, and an 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 $7,051,807. 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, 2015 recognized was $598,106.

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.

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

Fiscal Year Ended	Contract Amount	Cumulative Expenses	Unexpended Balance
June 30, 2015	$ 84,924,752	$ 84,690,609	$ 234,143
June 30, 2014	$ 80,774,327	$ 80,610,971	$ 163,356
June 30, 2013	$ 77,776,507	$ 77,055,320	$ 721,187

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 three 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	
2016	$ 731,356
2017	770,480
2018	723,162
2019	341,031
2020	626,360
Thereafter	853,018
Total	$ 4,045,407

Total facility rental expense for the year ended June 30, 2015, was $736,786. Equipment rental expense for the year ended June 30, 2015, was $52,508.

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, if any, would be immaterial to the financial statements as of June 30, 2015.

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, 2015, the Center had $97,181 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:

Administrative services	$	34,210
Client services		670,000
Total	$	704,210

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. Program service payments were made on behalf of persons with developmental disabilities that were governing board members or were related to governing board members. Payments of $512,108 were made for the fiscal year ended June 30, 2015.

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, 2015; and the related statements of activities, functional expenses, and cash flows for the year then ended; and the related notes to the financial statements, and have issued our report thereon dated February 26, 2016.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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.

KCoe Isom, LLP

February 26, 2016
Redding, California

FINDINGS AND RESPONSES SECTION

None.

None.