

**Redwood Coast Developmental
Services Corporation**

Ukiah, California

FINANCIAL STATEMENTS WITH INDEPENDENT
AUDITORS' REPORTS

June 30, 2017



Redwood Coast Developmental Services Corporation

TABLE OF CONTENTS

June 30, 2017

	<u>Page Number</u>
Independent Auditors' Report	1
 FINANCIAL SECTION	
Statement of Financial Position	4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to the Financial Statements	8
 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 <i>Government Auditing Standards</i>	16
 FINDINGS AND RESPONSES SECTION	
Schedule of Findings and Responses	19
Summary Schedule of Prior Audit Findings	20



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, 2017, 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, 2017, 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 17, 2018, 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.



March 17, 2018

Aiello, Goodrich & Teuscher
An Accountancy Corporation
Redding, California

FINANCIAL SECTION

Redwood Coast Developmental Services Corporation

STATEMENT OF FINANCIAL POSITION

June 30, 2017	Unrestricted		Total
	General	State Contracts	
ASSETS			
Cash and cash equivalents	\$ -	\$ 5,842,788	\$ 5,842,788
Investments	68,258	-	68,258
Receivable - State Regional Center contracts	-	29,979,972	29,979,972
Receivable - ICF providers	-	148,178	148,178
Prepaid expenses	-	89,713	89,713
Due from State - accrued vacation and other leave benefits	-	381,677	381,677
TOTAL ASSETS	\$ 68,258	\$ 36,442,328	\$ 36,510,586
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ -	\$ 10,061,448	\$ 10,061,448
Advances - State Regional Center contracts	-	25,892,792	25,892,792
Accrued vacation and other leave benefits	-	381,677	381,677
Reserve for unemployment insurance	-	106,411	106,411
Total Liabilities	-	36,442,328	36,442,328
Net Assets			
Unrestricted	68,258	-	68,258
TOTAL LIABILITIES AND NET ASSETS	\$ 68,258	\$ 36,442,328	\$ 36,510,586

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

Redwood Coast Developmental Services Corporation
STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

CHANGE IN UNRESTRICTED NET ASSETS

Revenue

State Regional Center contracts	\$ 107,392,414
Intermediate Care Facility revenue	388,279
Other income	28,695
Interest income	41,520
Unrealized and realized gain (loss) on investments	6,948

TOTAL REVENUE 107,857,856

EXPENSES

Program Services

Intake	217,097
Case management	6,989,298
Program development	1,124,163
Other direct services	793,193
Living out of home	8,637,059
Day program	4,090,297
Other purchased services	84,638,823

Total Program Services 106,489,930

Supporting Services

General and administrative	1,360,195
----------------------------	-----------

Total Supporting Services 1,360,195

TOTAL EXPENSES 107,850,125

Change in Net Assets 7,731

Net Assets - Beginning of Year 60,527

Net Assets - End of Year \$ 68,258

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

Redwood Coast Developmental Services Corporation
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017	Program Services								Supporting Services		Total
	Intake	Case Management	Program Development	Other Direct Services	Living Out of Home	Day Program	Other Purchased Services	Total Program Services	General and Administrative		
Purchase of services	\$ -	\$ -	\$ -	\$ -	\$ 8,637,059	\$ 4,090,297	\$ 84,638,823	\$ 97,366,179	\$ -	\$ 97,366,179	
Salaries	113,786	3,788,698	609,455	485,569	-	-	-	4,997,508	683,753	5,681,261	
Employee health and retirement benefits	50,268	1,673,729	269,238	199,897	-	-	-	2,193,132	302,060	2,495,192	
Facility rent	17,161	571,419	91,919	-	-	-	-	680,499	103,125	783,624	
Communication	4,896	163,032	26,226	-	-	-	-	194,154	29,423	223,577	
Staff travel	10,836	121,483	19,398	19,888	-	-	-	171,605	22,280	193,885	
General expenses	2,805	93,389	15,023	5,192	-	-	-	116,409	16,854	133,263	
Consultant services	1,871	62,298	10,021	75,776	-	-	-	149,966	11,243	161,209	
Utilities	1,924	64,057	10,304	-	-	-	-	76,285	11,561	87,846	
Insurance	1,665	55,456	8,921	-	-	-	-	66,042	10,008	76,050	
Payroll taxes	1,644	54,757	8,808	6,871	-	-	-	72,080	9,882	81,962	
Facility maintenance	1,577	52,516	8,448	-	-	-	-	62,541	9,477	72,018	
Equipment rental and maintenance	1,579	52,581	8,458	-	-	-	-	62,618	9,490	72,108	
General office expenses	1,124	37,425	6,020	-	-	-	-	44,569	6,754	51,323	
ARCA dues	-	-	-	-	-	-	-	-	32,880	32,880	
Accounting fees	-	-	-	-	-	-	-	-	42,500	42,500	
Advertising	1,285	42,772	6,880	-	-	-	-	50,937	7,719	58,656	
Data processing	1,016	33,818	5,440	-	-	-	-	40,274	6,103	46,377	
Legal fees	647	21,543	3,465	-	-	-	-	25,655	3,888	29,543	
Bank service charges	610	20,320	3,269	-	-	-	-	24,199	3,667	27,866	
Equipment purchases	1,586	52,805	8,494	-	-	-	-	62,885	9,530	72,415	
Board expenses	320	10,648	1,713	-	-	-	-	12,681	1,921	14,602	
Interest	-	-	-	-	-	-	-	-	23,090	23,090	
Printing	497	16,552	2,663	-	-	-	-	19,712	2,987	22,699	
Total Expenses	\$ 217,097	\$ 6,989,298	\$ 1,124,163	\$ 793,193	\$ 8,637,059	\$ 4,090,297	\$ 84,638,823	\$ 106,489,930	\$ 1,360,195	\$ 107,850,125	

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

Redwood Coast Developmental Services Corporation
STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from grants, contracts, and clients	\$ 106,777,658
Cash paid to suppliers and employees	(106,767,823)
Interest received	41,520
Interest paid	(23,090)
Net Cash Provided By Operating Activities	28,265

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(783)
Net Cash Used By Investing Activities	(783)

Change in Cash and Cash Equivalents	27,482
Cash and Cash Equivalents - Beginning of Year	5,815,306
Cash and Cash Equivalents - End of Year	\$ 5,842,788

**RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES**

Change in net assets	\$ 7,731
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized and realized (gain) loss on investments	(6,948)
Changes in:	
Receivable - State Regional Center contracts	(11,834,141)
Receivable - ICF providers	(7,607)
Prepaid expenses	(66,488)
Due from State - accrued vacation and other leave benefits	48,070
Accounts payable	1,113,403
Advances - State Regional Center contracts	10,810,018
Accrued vacation and other leave benefits	(48,070)
Reserve for unemployment insurance	12,297
Net Cash Provided By Operating Activities	\$ 28,265

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, 2017, 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, 2017, cash exceeded federally insured limits by \$5,717,066. 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.

The Receivable – ICF providers balance consisted of the following:

Year Ended	Receivable - ICF Providers
June 30, 2017	\$ 148,178

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.

Redwood Coast Developmental Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 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, 2017, and the Center does not expect this to change significantly over the next 12 months.

Subsequent Events Management has evaluated subsequent events through March 17, 2018, 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 4.25% at June 30, 2017, and amounted to \$23,090 for the year ended June 30, 2017. The line of credit expired on September 29, 2017. The Center intends to renew the LOC. There was no outstanding balance at June 30, 2017.

Redwood Coast Developmental Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 2016-17 fiscal year was 13.794% 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, 2016, the agent multi-employer defined benefit plan in total reported total pension liability of \$14,397,353,530, fiduciary net position of \$10,923,476,287, employer contributions of \$406,781,720, employee contributions of \$160,736,159 and benefit payments of \$614,485,499. The plan was 74.10% 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 \$7,992,705. 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, 2017 recognized was \$771,209.

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.

Redwood Coast Developmental Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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, 2017	\$ 108,366,489	\$ 106,855,943	\$ 1,510,546
June 30, 2016	\$ 93,235,751	\$ 92,551,913	\$ 683,838
June 30, 2015	\$ 85,892,904	\$ 85,511,856	\$ 381,048

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 2027. 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	
2018	\$ 796,469
2019	832,907
2020	711,590
2021	481,807
2022	366,915
Thereafter	470,007
Total	\$ 3,659,695

Total facility rental expense for the year ended June 30, 2017 was \$783,624. Equipment rental expense for the year ended June 30, 2017 was \$43,436.

Redwood Coast Developmental Services Corporation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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, 2017.

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, 2017, the Center had \$106,411 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	\$	410,039
-----------------	----	---------

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 \$2,983,483 were made for the fiscal year ended June 30, 2017.

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, 2017, 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 17, 2018.

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 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 17, 2018
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Redding, California

FINDINGS AND RESPONSES SECTION

Redwood Coast Developmental Services Corporation

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2017

None

Redwood Coast Developmental Services Corporation

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2017

None