Redwood Coast Developmental Services Corporation

Ukiah, California

FINANCIAL STATEMENTS WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2020

AGT

CPAs & Advisors

Redwood Coast Developmental Services Corporation
TABLE OF CONTENTS
June 30, 2020

	Page Number
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 *Government Auditing Standards*	20
FINDINGS AND RESPONSES SECTION	
Schedule of Findings and Responses	23
Summary Schedule of Prior Audit Findings	24

CPAs & Advisors

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, 2020, 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.

P.O. Box 158 • 205 N. Mt. Shasta Blvd., Suite 300 • Mt. Shasta, California 96067 • (530) 926-3881 • E-mail info@agtcpa.com
1726 Court Street • Redding, California 96001 • (530) 241-3881

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, 2020, 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 10, 2021, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

AGT CPAs & Advisors

March 10, 2021
AGT CPAs & Advisors
Redding, California

FINANCIAL SECTION

Redwood Coast Developmental Services Corporation
STATEMENT OF FINANCIAL POSITION

June 30, 2020		General		State Contracts		Total
ASSETS						
Cash and cash equivalents	$	-	$	9,976,832	$	9,976,832
Investments		70,670		-		70,670
Receivable - State Regional Center contracts		-		38,567,303		38,567,303
Receivable - Intermediate Care Facility providers		-		248,270		248,270
Due from State - unfunded accrued pension liability		-		9,628,908		9,628,908
Due from State - accrued vacation and other leave benefits		-		339,512		339,512
Due from State - deferred rent		-		76,320		76,320
Prepaid expenses		-		92,695		92,695
TOTAL ASSETS	$	70,670	$	58,929,840	$	59,000,510
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	$	-	$	13,877,165	$	13,877,165
Advances - State Regional Center contracts		-		34,881,090		34,881,090
Unfunded accrued pension liability		-		9,628,908		9,628,908
Accrued vacation and other leave benefits		-		339,512		339,512
Reserve for unemployment insurance		-		126,845		126,845
Deferred rent		-		76,320		76,320
Total Liabilities		-		58,929,840		58,929,840
Net Assets						
Without donor restriction		62,670		-		62,670
With donor restriction		8,000		-		8,000
Total Net Assets		70,670		-		70,670
TOTAL LIABILITIES AND NET ASSETS	$	70,670	$	58,929,840	$	59,000,510

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

Redwood Coast Developmental Services Corporation

STATEMENT OF ACTIVITIES

Year Ended June 30, 2020	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
State Regional Center contracts	$ 138,312,761	$ -	$ 138,312,761
Intermediate Care Facility revenue	374,251	-	374,251
Other income	18,472	8,000	26,472
Interest income	60,971	-	60,971
Unrealized and realized gain (loss) on investments	102	-	102
TOTAL REVENUE	138,766,557	8,000	138,774,557
EXPENSES			
Program Services			
Intake	267,790	-	267,790
Case management	8,203,640	-	8,203,640
Program development	1,087,977	-	1,087,977
Other direct services	690,565	-	690,565
Living out of home	11,224,670	-	11,224,670
Day program	5,158,291	-	5,158,291
Other purchased services	110,548,279	-	110,548,279
Total Program Services	137,181,212	-	137,181,212
Supporting Services			
General and administrative	1,596,736	-	1,596,736
Total Supporting Services	1,596,736	-	1,596,736
TOTAL EXPENSES	138,777,948	-	138,777,948
Change in Net Assets	(11,391)	8,000	(3,391)
Net Assets - Beginning of Year	74,061	-	74,061
Net Assets - End of Year	$ 62,670	$ 8,000	$ 70,670

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, 2020	Intake	Case Management	Program Development	Other Direct Services	Living Out of Home	Day Program	Other Purchased Services	Total Program Services	General and Administrative	Total
Purchase of services	$ -	$ -	$ -	$ -	$ 11,224,670	$ 5,158,291	$ 110,548,279	$ 126,931,240	$ -	$ 126,931,240
Salaries	133,730	4,143,766	545,855	495,951	-	-	-	5,319,302	745,336	6,064,638
Employee health and retirement benefits	66,465	2,059,484	271,294	119,998	-	-	-	2,517,241	370,438	2,887,679
Facility rent	20,146	624,243	82,231	-	-	-	-	726,620	112,282	838,902
Communication	8,119	251,589	33,142	-	-	-	-	292,850	45,253	338,103
General office expenses	5,466	169,373	22,311	356	-	-	-	197,506	30,466	227,972
Equipment purchases	5,365	166,243	21,899	-	-	-	-	193,507	29,902	223,409
Staff travel	6,593	110,188	21,834	16,153	-	-	-	154,768	19,771	174,539
General expenses	3,918	121,409	15,993	2,121	-	-	-	143,441	20,308	163,749
Consultant services	1,908	59,106	7,786	51,883	-	-	-	120,683	10,631	131,314
Facility maintenance	2,906	90,032	11,860	-	-	-	-	104,798	16,194	120,992
Utilities	2,606	80,747	10,637	-	-	-	-	93,990	14,523	108,513
Equipment rental and maintenance	2,345	72,654	9,571	-	-	-	-	84,570	13,067	97,637
Payroll taxes	2,032	62,958	8,293	4,103	-	-	-	77,386	11,324	88,710
Insurance	2,047	63,421	8,354	-	-	-	-	73,822	11,408	85,230
Data processing	1,818	56,347	7,423	-	-	-	-	65,588	10,135	75,723
ARCA dues	-	-	-	-	-	-	-	-	67,904	67,904
Accounting fees	-	-	-	-	-	-	-	-	44,800	44,800
Advertising	745	23,080	3,040	-	-	-	-	26,865	4,151	31,016
Legal fees	559	17,334	2,283	-	-	-	-	20,176	3,118	23,294
Board expenses	356	11,032	1,453	-	-	-	-	12,841	1,985	14,826
Bank service charges	337	10,454	1,377	-	-	-	-	12,168	1,881	14,049
Printing	329	10,180	1,341	-	-	-	-	11,850	1,830	13,680
Interest	-	-	-	-	-	-	-	-	10,029	10,029
Total Expenses	$ 267,790	$ 8,203,640	$ 1,087,977	$ 690,565	$ 11,224,670	$ 5,158,291	$ 110,548,279	$ 137,181,212	$ 1,596,736	$ 138,777,948

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

Redwood Coast Developmental Services Corporation

STATEMENT OF CASH FLOWS

Year Ended June 30, 2020		
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants, contracts, and clients	$	139,574,958
Cash paid to suppliers and employees		(136,700,151)
Interest received		60,971
Interest paid		(19,789)
Net Cash Provided By Operating Activities		2,915,989
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments		3,493
Net Cash Provided By Investing Activities		3,493
Change in Cash and Cash Equivalents		2,919,482
Cash and Cash Equivalents - Beginning of Year		7,057,350
Cash and Cash Equivalents - End of Year	$	9,976,832
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	$	(3,391)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized and realized (gain) loss on investments		(102)
Changes in:		
Receivable - State Regional Center contracts		(2,349,114)
Receivable - Intermediate Care Facility providers		(131,128)
Prepaid expenses		(1,088)
Accounts payable		2,041,400
Advances - State Regional Center contracts		3,341,716
Reserve for unemployment insurance		17,696
Net Cash Provided By Operating Activities	$	2,915,989
SCHEDULE OF NONCASH INVESTING AND FINANCING		
Increase in due from state - unfunded accrued pension liability	$	(691,001)
Decrease in due from state - accrued vacation and other leave benefits		6,567
Decrease in due from state - deferred rent		34,103
Increase in unfunded accrued pension liability		691,001
Decrease in accrued vacation and other leave benefits		(6,567)
Decrease in deferred rent		(34,103)
Total	$	-

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 by the Center include Del Norte, Humboldt, Mendocino, and Lake Counties.

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

Basis of 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 two classes of net assets based upon the existence or absence of donor-imposed restrictions, as follows:

> *Net Assets Without Donor Restrictions*: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
>
> *Net Assets With Donor Restrictions:* Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Center reports contributions restricted by donors as increases in net assets without donor restrictions 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. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

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, 2020, 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, 2020, cash exceeded federally insured limits by $10,024,199. 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, 2020, was $232,710. This balance includes only the equipment that 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.

Defined Benefit Pension Plan The Center records the unfunded accrued pension liability of its defined benefit pension plan with California Public Employees' Retirement System (CalPERS) on the statement of financial position. CalPERS has characteristics of a multiemployer plan. The Center uses the actuarial report provided by CalPERS coinciding with the Centers fiscal year end; however, the actuarial report is one year in arrears. The delay is due to the fact that there is a two-year lag between the Valuation Date and the Contribution Fiscal Year. The lag is necessary due to the amount of time needed to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution rates well in advance of the start of the fiscal year. Accordingly, the actual unfunded accrued pension liability may differ from the recorded amount. As of June 30, 2020, the difference cannot be reasonably determined; however, according to CalPERS, the respective actuarial report provides the most accurate representation of the unfunded accrued pension liability and plan assets as detailed in Note 4.

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.

Revenue and Revenue Recognition The Center recognizes contributions when cash; securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

A significant portion of the Center's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Center has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as Advance – State Regional Center contracts on the statement of financial position. The Center received cost-reimbursable grants of $34,881,090 that have not been recognized in revenue at June 30, 2020, because qualifying expenditures have not yet been incurred. An advance payment of $34,881,090 is recognized in the statement of financial position as Advances – State Regional Center contracts.

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.

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, 2020, and the Center does not expect this to change significantly over the next 12 months.

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. 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.

In May 2020, the FASB issued ASU 2020-05, which delayed the effective date of the standard to fiscal years beginning after December 15, 2019. Management is currently evaluating the impact of this ASU on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for most leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of activities. The effective date for this standard has been delayed to annual reporting periods beginning after December 15, 2021. Management is currently evaluating the impact of this standard on its financial statements.

Change in Accounting Principle On June 21, 2018, FASB issued Accounting Standard Update (ASU) 2018-08, Not-for-Profit Entities (Topic 605) – *Clarifying the Scope and the Accounting guidance for Contributions received and Contributions Made*. The update addresses whether a grant, contract, or agreement is a contribution or an exchange transaction based on whether the Center is receiving commensurate value in return. If commensurate value is received by the contributor, it is accounted for as an exchange transaction. If commensurate value is not received by the contributor, it is accounted for as a contribution. The Center has implemented ASU 2018-08 and has adjusted the presentation in these financial statements accordingly. The ASU had no material effect on previously reported net assets.

Subsequent Events Management has evaluated subsequent events through March 10, 2021, the date on which the financial statements were available to be issued.

The COVID-19 outbreak in the United States, that began in March 2020, has caused business disruption through mandated and voluntary closings of the Center's offices and closure of several vendors that the Center works with on a daily basis. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. The Center has made arrangements to conduct business remotely during this time. The financial impact and duration cannot be reasonably estimated as of the date of this report.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for purchase of client service and operation expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

June 30, 2020	
Cash and cash equivalents	$ 9,976,832
Investments	70,670
Receivable - State Regional Center Contracts	38,567,303
Less: Advance State Regional Center Contracts	(34,881,090)
Receivable - Intermediate Care Facility providers	248,270
Less: Net assets subject to restriction by donors for spending on a specific purpose	(8,000)
Total	$ 13,973,985

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

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

The Center maintains a line of credit (see Note 3) to manage cash flow requirements during the months of May through September as needed to cover any delays in cash advances and reimbursements over the beginning of the fiscal year.

3. LINE OF CREDIT

The Center has a $7,000,000 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 3.25% at June 30, 2020, and amounted to $10,029 for the year ended June 30, 2020. The line of credit expired on September 30, 2020. The Center intends to renew the LOC. There was no outstanding balance at June 30, 2020 or 2019.

4. 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 6.75% 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 2019-20 fiscal year was 8.081% (for the classic plan) and 6.985% (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, 2020, the Center's actuarially determined contribution was $918,450 and the actual contribution was $1,059,358.

Unfunded Accrued Pension Liability At June 30, 2020, the Center reported an unfunded accrued pension liability of $9,628,908 for its proportionate share of the net pension liability that was measured as of June 30, 2019, and the total pension liability used to calculate the unfunded accrued pension liability was determined by an actuarial valuation as of June 30, 2018, rolled forward to June 30, 2019, 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, 2019, the Center's proportion was 0.0017538 for the total pension liability and 0.0015674 for the fiduciary net position.

Actuarial Assumptions The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2018
Measurement date	June 30, 2019
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, 2018 valuation were derived from the June 30, 2018, funding valuation report.

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 7.375% 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 7.525%. 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 Unfunded Accrued Pension Liability to the Changes in the Discount Rate

The following presents the unfunded accrued pension liability of the Plan, calculated using the discount rate of 7.15%, as well as what the unfunded accrued 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%)
Unfunded accrued pension liability	$ 13,871,224	$ 9,628,908	$ 6,127,175

Pension Plan Fiduciary Net Position

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

5. NET ASSETS

June 30, 2020	
NET ASSETS WITHOUT DONOR RESTRICTION	
Undesignated	$ 62,670
Total Net Assets Without Donor Restriction	62,670
NET ASSETS WITH DONOR RESTRICTION	
Subject to Expenditures for Specified Purpose	
Client needs	8,000
Total Net Assets With Donor Restriction	8,000
Total	$ 70,670

6. 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, 2020	$ 145,233,216	$ 136,661,157	$ 8,572,059
June 30, 2019	$ 128,498,797	$ 123,478,846	$ 5,019,951
June 30, 2018	$ 116,629,790	$ 115,589,636	$ 1,040,154

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.

7. LEASE COMMITMENTS

The Center is obligated under lease agreements for office facilities. 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	
2021	$ 578,872
2022	467,907
2023	343,911
2024	175,767
2025	177,612
Thereafter	347,751
Total	$ 2,091,820

Total facility rental expense for the year ended June 30, 2020 was $838,902.

8. 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, 2020.

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, 2020, the Center had $126,845 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.

9. CONTRACT COMMITMENTS

The Center contracts with various vendors for administrative functions and client services. Significant unpaid commitments under these contracts amounted to $881,106 at June 30, 2020.

10. 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 $5,651,455 were made for the fiscal year ended June 30, 2020.

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, 2020, 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 10, 2021.

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.

P.O. Box 158 • 205 N. Mt. Shasta Blvd., Suite 300 • Mt. Shasta, California 96067 • (530) 926-3881 • E-mail info@agtcpa.com
1726 Court Street • Redding, California 96001 • (530) 241-3881

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.

AGT CPAs & Advisors

March 10, 2021
AGT CPAS & Advisors
Redding, California

FINDINGS AND RESPONSES SECTION

None

None