REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2024

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2024

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Redwood Coast Developmental Services Corporation, a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Redwood Coast Developmental Services Corporation as of June 30, 2024, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Redwood Coast Developmental Services Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Redwood Coast Developmental Services Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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<u>Auditor's Responsibilities for the Audit of the Financial Statements</u>

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Redwood Coast Developmental Services Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Redwood Coast Developmental Services Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

<u>Other Reporting Required by Government Auditing Standards</u>

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2025 on our consideration of Redwood Coast Developmental Services Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 Redwood Coast Developmental Services Corporation'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 Redwood Coast Developmental Services Corporation's internal control over financial reporting and compliance.

Lindquist, von Husen and Joyce LLP

March 12, 2025

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2024

ASSETS

Cash and cash equivalents	$ 18,540,698
Receivables:	
State Regional Center contracts (Note 3)	54,780,692
Intermediate Care Facility	61,418
Due from State – unfunded pension liability (Note 4)	12,673,897
Due from State – accrued vacation and other leave benefits	699,203
Other receivables, including insurance recovery	736,799
Investments	90,718
Prepaid expenses	87,736
Security deposits	25,950
Total current assets	87,697,111
Right-of-use assets – operating leases (Note 7)	7,242,739
Total assets	$ 94,939,850

LIABILITIES AND NET ASSETS

Accounts payable	$ 17,866,813
Advances – State Regional Center contracts (Note 5)	56,215,648
Unfunded accrued pension liability (Note 4)	12,673,897
Accrued vacation and other leave benefits	699,203
Reserve for unemployment insurance	150,832
Operating lease liabilities – current portion (Note 7)	1,093,961
Total current liabilities	88,700,354
Operating lease liabilities – net of current portion (Note 7)	6,148,778
Total liabilities	94,849,132
Net assets:	
Without donor restrictions	90,718
Total net assets	90,718
Total liabilities and net assets	$ 94,939,850

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

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2024

	2024 *Without Donor Restrictions*	*With Donor Restrictions*	*Total*
Support and revenue:			
State Regional Center contracts	$ 190,185,842	$ -	$ 190,185,842
Intermediate Care Facility revenue	236,148	-	236,148
Realized and unrealized gain on investments	10,458	-	10,458
Interest income	990,904	-	990,904
Other income	3,582	-	3,582
	191,426,934	-	191,426,934
Expenses:			
Program services:			
Living out of home	12,718,171	-	12,718,171
Case management	14,929,999	-	14,929,999
Day program	10,162,274	-	10,162,274
Other purchased services	146,787,808	-	146,787,808
Program development	1,671,025	-	1,671,025
Intake	834,541	-	834,541
Other direct services	1,990,153	-	1,990,153
Supporting services:			
Management and general	2,324,744	-	2,324,744
Total expenses	191,418,715	-	191,418,715
Change in net assets from operations	8,219	-	8,219
Change in unfunded accrued pension liability (Note 4)	(848,022)	-	(848,022)
Change in Due from State – unfunded pension liability (Note 4)	848,022	-	848,022
Change in net assets	8,219	-	8,219
Net assets, beginning of year	82,499	-	82,499
Net assets, end of year	$ 90,718	$ -	$ 90,718

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

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2024

	Program Services								*Supporting Services*	
	Living Out of Home	*Case Management*	*Day Program*	*Other Purchased Services*	*Program Development*	*Intake*	*Other Direct Services*	*Program Services Total*	*Management and General*	*Total*
Purchase of services	$ 12,718,171	$ -	$ 10,162,274	$ 146,787,808	$ -	$ -	$ -	$ 169,668,253	$ -	$ 169,668,253
Salaries	-	6,746,618	-		760,757	377,718	1,615,697	9,500,790	981,536	10,482,326
Employee health and retirement benefits	-	3,434,029	-	-	387,225	192,259	262,623	4,276,136	499,602	4,775,738
Facility rent	-	799,072	-	-	90,104	44,737	-	933,913	116,254	1,050,167
Communication	-	1,127,147	-	-	127,098	63,105	-	1,317,350	163,984	1,481,334
Staff travel	-	247,782	-	-	15,441	12,538	19,221	294,982	72,241	367,223
General expenses	-	1,465,409	-	-	165,241	82,043	-	1,712,693	213,196	1,925,889
Consultant services	-	351,114	-	-	39,592	19,658	92,612	502,976	51,081	554,057
Utilities	-	142,721	-	-	16,093	7,990	-	166,804	20,765	187,569
Insurance	-	124,138	-	-	13,998	6,950	-	145,086	18,060	163,146
Payroll taxes	-	3,513	-	-	396	197	-	4,106	511	4,617
Facility maintenance	-	150,003	-	-	16,915	8,398	-	175,316	21,823	197,139
Equipment rental and maintenance	-	113,545	-	-	12,804	6,357	-	132,706	16,519	149,225
ARCA dues	-	-	-	-	-	-	-	-	60,143	60,143
Accounting fees	-	-	-	-	-	-	-	-	52,730	52,730
Advertising	-	45,073	-	-	5,082	2,523	-	52,678	6,558	59,236
Data processing	-	57,447	-	-	6,478	3,216	-	67,141	8,358	75,499
Legal fees	-	79,680	-	-	8,985	4,461	-	93,126	11,592	104,718
Equipment purchases	-	10,474	-	-	1,181	586	-	12,241	1,524	13,765
Board expenses	-	5,736	-	-	647	321	-	6,704	835	7,539
Interest	-	-	-	-	-	-	-	-	3,578	3,578
Printing	-	26,498	-	-	2,988	1,484	-	30,970	3,854	34,824
Total expenses	$ 12,718,171	$ 14,929,999	$ 10,162,274	$ 146,787,808	$ 1,671,025	$ 834,541	$ 1,990,153	$ 189,093,971	$ 2,324,744	$ 191,418,715

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

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2024

Cash flows from operating activities:	
Receipts from contract income	$ 189,595,339
Intermediate Care Facilities receipts	313,676
Interest receipts	990,904
Other receipts	3,582
Total receipts	190,903,501
Purchase of services	(169,668,253)
Salaries	(10,486,943)
Employee health and retirement benefits	(3,607,591)
Facility rent and maintenance	(1,250,008)
Equipment purchases, rental, and maintenance	(162,990)
General office expenses	(2,064,202)
Communication	(1,516,158)
Consultant services	(554,057)
Training, development, and conferences	(434,905)
Utilities	(187,569)
Insurance	(163,146)
Accounting fees	(52,730)
Legal fees	(104,718)
Total disbursements	(190,253,270)
Net cash provided by operating activities	650,231
Cash flows from investing activities:	
Proceeds from sale of investments	2,239
Net cash used by investing activities	2,239
Increase in cash and cash equivalents	652,470
Cash and cash equivalents, beginning of year	17,888,228
Cash and cash equivalents, end of year	$ 18,540,698

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

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

(A California Nonprofit Public Benefit Corporation)

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2024

Cash flows from operating activities:	
Change in net assets	$ 8,219
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Realized and unrealized gain on investments	(10,458)
Amortization of right-of-use assets – operating lease	645,787
(Increase) decrease in assets:	
Receivable – State Regional Center contracts	(4,045,065)
Receivable – Intermediate Care Facility	77,528
Due from State – unfunded pension liability	(848,022)
Due from State – accrued vacation and other leave benefits	(242,123)
Other receivables	(735,390)
Prepaid expenses	(2,702)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	1,132,783
Advances – State Regional Center contracts	4,189,952
Unfunded accrued pension liability	848,022
Accrued vacation and other leave benefits	242,123
Reserve for unemployment insurance	35,364
Operating lease liabilities	(645,787)
Net cash provided by operating activities	$ 650,231
Cash and cash equivalents	$ 18,540,698
Total cash and cash equivalents shown in the statement of cash flows	$ 18,540,698

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

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Redwood Coast Developmental Services Corporation (the Center), was incorporated on November 10, 1977, as a California nonprofit public benefit corporation under contract with the State of California Department of Developmental Services (DDS) for the purpose of operating the Center and related activities. The Center was organized in accordance with the provision of the Lanterman Developmental Disabilities Services Act (the Lanterman Act) of the Welfare and Institutions Code of the State of California. In accordance with the Lanterman Act, the Center, doing business as the Redwood Coast Regional Center, coordinates, through outside providers, diagnostic and assessment of eligible services to persons with developmental disabilities and plans, accesses, coordinates and monitors services to such individuals and their families. The Center is one of 21 regional centers within the State of California system and serves the counties of Del Norte, Humboldt, Lake, and Mendocino.

The Lanterman Act includes governance provisions regarding the composition of the Center's Board of Directors. The Lanterman Act states that the Board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50% of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25% of the members of the governing board shall be persons with developmental disabilities. In addition, a member of a required advisory committee composed of persons representing the various categories of providers from which the Center purchases client services, shall serve as a member of the board. To comply with the Lanterman Act, the Center's board of directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the Center and a client service provider of the Center.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method

The Center uses the accrual method of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Center reports information regarding its financial position and activities according to two classes of net assets, as applicable: net assets without donor restrictions and net assets with donor restrictions.

- Net assets without donor restrictions include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Center.

- Net assets with donor restrictions include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. 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. When a donor restriction expires – that is, when a stipulated time restrictions ends or purpose restriction is accomplished – 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*. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity.

Revenue Recognition:

Contributions

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Contributions are recorded at their fair value as support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is accomplished), 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. If donors' restrictions are satisfied in the same period that the contribution is received, the contribution is reported as support without donor restrictions.

Government contracts, which are funded on a reimbursement basis, are shown as revenue without donor restriction. A 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.

The Center determined that governmental contract revenue represents unconditional contributions to the extent that reimbursable costs have been incurred. The excess unexpended balance of the governmental contracts represents a conditional contribution.

Federal Grants

U.S. Department of Education

The Center is a sub-recipient to DDS with regard to the Special Education Grants for Infants and Families, Part C, which provides funding for early intervention services for infants and toddlers, through age 3, as authorized by Public Law 102-119.

This grant is conditional upon certain performance requirements and/or the incurrence of allowable qualifying expenses. During the year ended June 30, 2024, the Center recognized grant revenue totaling $682,217 from this award.

Intermediate Care Facility

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.

Leases

The accounting standard on leases, required by accounting principles generally accepted in the United States of America, requires lessees to account for leases as either finance leases or operating leases and to recognize right-of-use (ROU) assets and corresponding lease liabilities on the statement of financial position for all leases other than leases with terms of 12 months or less. For finance leases, lessees recognize interest expense and amortization of the ROU asset, and for operating leases, lessees recognize straight-line total rent expense. The Center does not recognize rent expense on a straight-line basis and the impact of this is not significant since there would be a corresponding adjustment to accrued revenue from the State DDS cost-reimbursement contract. The accounting standard also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases.

The Center accounts for the existing office space and equipment leases as operating leases.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less qualify as cash equivalents. The Center occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance was approximately $18,321,000 as of June 30, 2024. The Center has not experienced any losses in such accounts.

State Regional Center Contract Receivables and Advances

The majority of the Center's receivables 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.

Investments

Under accounting principles generally accepted in the United States of America, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

Accounting principles generally accepted in the United States of America establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Center. Unobservable inputs, if any, reflects the Center's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Center has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

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 Equipment

State Equipment is stated at cost of acquisition. Pursuant to the terms of the DDS contract, equipment purchases become the property of the State of California and, accordingly, are charged as expenses when incurred. The Center expenses the cost of equipment upon acquisition if purchased with funds from the DDS contract in accordance with the Regional Center Fiscal Manual. The Center capitalizes items which cost more than $5,000 and have an estimated useful life of more than one year.

Accrued Vacation, Sick and Other Leave Benefits

The Center has accrued a liability for leave benefits earned by employees. However, such benefits are reimbursed under the contract with DDS only when actually paid. The Center has recorded a receivable from the DDS for the accrued leave benefits to reflect the future reimbursement of such benefits.

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 multi-employer plan. The Center uses the actuarial report provided by CalPERS coinciding with the Center's 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 at year-end may differ from the recorded amount as calculated one year in arrears. As of June 30, 2024, the difference cannot be reasonably determined; however, according to CalPERS, the respective actuarial report provides the most accurate representation available of the unfunded accrued pension liability and plan assets.

Income Taxes

The Center is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and the related California code sections.

The Center believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Center's federal and state information returns for the years 2020 through 2023 are subject to examination by regulatory agencies, generally for three years and four years after they were filed for federal and state, respectively.

Functional Expenses Allocation

The costs of providing program and supporting services are summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Expenses directly attributed to a specific functional area of the Center are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by management to be equitable. Shared costs are generally allocated among the program and supporting service benefited based on an analysis of personnel time and square footage occupied by the program and supporting services.

Subsequent Events

Management has evaluated subsequent events through March 12, 2025, the date on which the financial statements were available to be issued.

NOTE 3 – STATE REGIONAL CENTER CONTRACT RECEIVABLE

State Regional Center contract receivable at June 30, 2024 is summarized, as follows:

Claims submitted for the:	
Current year	$ 50,465,600
Prior year	4,315,092
Second prior year	-
Total	$ 54,780,692

NOTE 4 – DEFINED BENEFIT PENSION PLAN

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 7.75% 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 2023-2024 fiscal year was 10.10% (for the classic plan) and 7.68% (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, 2024, the Center's actuarially determined contribution was $1,419,321 and the actual contribution was $1,618,914.

Unfunded Accrued Pension Liability

At June 30, 2024, the Center reported an unfunded accrued pension liability of $12,673,897 for its proportionate share of the net pension liability that was measured as of June 30, 2023, and the total pension liability used to calculate the unfunded accrued pension liability was determined by an actuarial valuation as of June 30, 2022. 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, 2023, the Center's proportion was 0.0017427 for the total pension liability and 0.0015189 for the fiduciary net position.

Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation date	June 30, 2022
Measurement date	June 30, 2023
Actuarial cost method	Entry Age Normal
Asset valuation method	Market Value
Actuarial assumptions:	
Discount rate	6.90% (Net of administrative expenses)
Inflation	2.30%
Salary increases	Varies by entry age and service
Mortality rate table	Derived using CalPERS' Membership Data for all funds
Post-retirement benefit increase	Contract COLA up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies

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, 2022 valuation were derived from the June 30, 2023, funding valuation report.

Discount Rate

The discount rate used to measure the total pension liability was 6.9% 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 6.9% 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 7.05%. 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 6.90%, 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 (5.90%) or one percentage point higher (7.90%) than the current rate:

	1% Decrease (5.90%)	Current Discount Rate (6.90%)	1% Increase (7.90%)
Unfunded accrued pension liability	$ 18,022,546	$ 12,673,897	$ 8,271,499

Pension Plan Fiduciary Net Position

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

NOTE 5 – CONTRACT ADVANCES

Contract advances represents funds DDS advances to the Center at the beginning of each fiscal year to provide interest-free working capital. DDS uses its discretion in determining the balance on a month-to-month basis. If DDS so chooses, the advances can be paid by off-setting claim reimbursements partially or in full or require the Center to make a payment. As of June 30, 2024, the contract advances balance totaled $56,215,648.

NOTE 6 – LINE OF CREDIT

The Center had a $7,000,000 revolving line of credit with U.S. Bank., secured by substantially all assets of the Center. Interest on the outstanding balance is payable monthly at an interest rate of 5.00%, and amounted to $3,461 for the year ended June 30, 2024. The line of credit expired in September 2023.

On April 1, 2024, the Center entered into a new credit and security agreement for a $7,000,000 revolving line of credit with U.S. Bank, secured by substantially all assets of the Center. Interest on the outstanding balance is payable monthly at an interest rate of 5.00% at June 30, 2024, and amounted to $117 for the year ended June 30, 2024. There was no outstanding balance at June 30, 2024. The line of credit expires in September 2024.

NOTE 7 – OPERATING LEASES

The Center leases office spaces and equipment under operating leases. The leases have remaining lease terms of 1 to 10 years. Rental expense included in operating expenses in 2024 was $1,050,167. Cash paid for amounts included in the measurement of lease liabilities was $1,069,282 in 2024, as part of operating cash flows from operating leases.

As of June 30, 2024, the weighted average remaining lease term and discount rate for the operating leases was 7 years and 2.94%, respectively. The lease asset and liability were calculated utilizing the risk-free discount rate according to the Center's elected policy. The options to renew the operating leases were considered when assessing the value of the ROU assets when the Center is reasonably certain that it will exercise its option to renew a lease.

As of June 30, 2024, the right-of-use (ROU) assets had a balance of $7,242,739, as shown in noncurrent assets on the statement of financial position; the lease liabilities are included in other current liabilities ($1,093,961) and other long-term liabilities ($6,148,778).

The maturities of lease liabilities are estimated as follows:

Year ended June 30,

2025	$ 1,093,961
2026	1,098,406
2027	1,102,272
2028	1,058,459
2029	1,006,876
Thereafter	2,592,303
Total lease payments	7,952,277
Less amount representing interest	(709,538)
Present value of lease liabilities	$ 7,242,739

NOTE 8 – FUNDING LIMITS

State of California Contract

The Center operates under an annual cost-reimbursement contract with DDS under the Lanterman Act. The maximum expenditures under the contract are limited to the contract amount plus interest earned. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual, issued by DDS, and is required to have DDS approval for certain expenses. In the event of termination or nonrenewal of the contract, the State of California maintains the right to assume control of the Center's operation and the obligation of its liabilities.

Under the terms of these contracts, funded expenditures are not to exceed the contract amount and are subject to budget amendments. The unexpended balance under these contracts represents a conditional contribution that will be used to fund expenditures in the next fiscal years until the contract amounts are fully expended or expire. The Center can bill DDS in the future for expenses relating to previous fiscal years if the expenses billed relate to the previous fiscal year. As a result, the Center internally tracks revenue by current year, previous year and second previous year.

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

Fiscal Year Ended	*Contract Amount*	*Cumulative Expenses*	*Unexpended Balance*
June 30, 2024	$ 215,850,907	$ 181,325,048	$ 34,525,859
June 30, 2023	$ 207,507,214	$ 167,908,572	$ 39,598,642
June 30, 2022	$ 180,064,083	$ 157,785,919	$ 22,278,164

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.

NOTE 9 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restriction limiting their use, within one year of the statement of financial position, comprise the following:

Financial assets at end of year available within one year:	
Cash and cash equivalents	$ 18,540,698
Receivable – State Regional Center Contracts	54,780,692
Receivable – Intermediate Care Facility	61,418
Investments	90,718
	73,473,526
Less financial assets not available for general expenditures:	
Advance State Regional Center Contracts	(56,215,648)
Financial assets available for general expenditures within one year	$ 17,257,878

Financial assets include amounts that will be used to pay accounts payable, accrued expenses and other distributions from operating cash flow, if any, in the subsequent year. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

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 to manage cash flow requirements during the months of May through October as needed to cover any delays in cash advances and reimbursements over the beginning of the fiscal year.

NOTE 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 $5,509,720 were made for the fiscal year ended June 30, 2024.

NOTE 11 – COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

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, 2024.

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.

Unemployment Insurance

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, 2024, the Center had $150,832 in a reserve trust account to pay for any potential unemployment claims.

NOTE 12 – LEGAL MATTERS

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.

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INDEPENDENT AUDITOR'S 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*

We have audited, in accordance with the 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, which comprise the statement of financial position as of June 30, 2024, 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 12, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Redwood Coast Developmental Services Corporation's internal control over financial reporting (internal control) as a basis for designing 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 Redwood Coast Developmental Services Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Redwood Coast Developmental Services Corporation'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 entity'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 or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Redwood Coast Developmental Services Corporation'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 financial statements. 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindquist, von Husen and Joyce LLP

March 12, 2025