

**REDWOOD COAST DEVELOPMENTAL
SERVICES CORPORATION**

**FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**



**WINDES & McLAUGHRY
ACCOUNTANCY CORPORATION**
Certified Public Accountants & Consultants

EXCEEDING EXPECTATIONS SINCE 1926

**REDWOOD COAST DEVELOPMENTAL
SERVICES CORPORATION**

**FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

TABLE OF CONTENTS

Independent Auditors' Report.....	1
Statements of Financial Position.....	2
Statements of Activities	3
Statements of Functional Expenses	4-5
Statements of Cash Flows	6
Notes to the Financial Statements	7-14
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	15-16



WINDES & McCLAUGHRY
ACCOUNTANCY CORPORATION
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

Landmark Square
111 West Ocean Boulevard
Twenty-Second Floor
Long Beach, CA 90802

Mailing Address:
Post Office Box 87
Long Beach, CA 90801-0087

T: (562) 435-1191
F: (562) 495-1665

www.windes.com

Other Offices:
Irvine
Los Angeles
Torrance

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Redwood Coast Developmental Services Corporation

We have audited the accompanying statements of financial position of Redwood Coast Developmental Services Corporation (a California nonprofit corporation) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Redwood Coast Developmental Services Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Redwood Coast Developmental Services Corporation as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 29, 2012 on our consideration of the 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Long Beach, California
March 29, 2012

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2011	2010
ASSETS		
Cash and cash equivalents	\$ 6,250,135	\$ 6,206,252
Investments	50,433	46,203
Contracts receivable – state of California	724,829	6,649,770
Prepaid expenses	77,980	198,451
Due from state – accrued vacation and other leave benefits	<u>399,376</u>	<u>454,326</u>
TOTAL ASSETS	<u>\$ 7,502,753</u>	<u>\$ 13,555,002</u>

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 6,207,133	\$ 6,552,451
Short-term borrowings		5,902,000
Accrued vacation and other leave benefits	399,376	454,326
Due to state	746,561	501,738
Reserve for unemployment insurance	<u>99,250</u>	<u>94,171</u>
	<u>7,452,320</u>	<u>13,504,686</u>
COMMITMENTS AND CONTINGENCIES (Notes 3 and 5)		
NET ASSETS		
Unrestricted	<u>50,433</u>	<u>50,316</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,502,753</u>	<u>\$ 13,555,002</u>

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

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

STATEMENTS OF ACTIVITIES

	For the Year Ended	
	June 30,	
	<u>2011</u>	<u>2010</u>
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contracts – state of California	\$ 75,532,042	\$ 76,027,744
Interest income	54,555	93,961
Other income	9,153	14,637
Unrealized gain (loss) on investments	4,167	(1,826)
Total Support and Revenue	<u>75,599,917</u>	<u>76,134,516</u>
EXPENSES		
Program Services		
Intake	219,545	301,827
Case management	5,082,184	5,145,550
Program development	622,626	669,333
Other direct services	1,135,156	1,006,634
Living out of own home	8,844,773	8,960,623
Day program	3,479,418	3,719,954
Other purchased services	54,767,215	54,926,374
Total Program Services	<u>74,150,917</u>	<u>74,730,295</u>
Supporting Services		
General and administrative	<u>1,448,883</u>	<u>1,403,288</u>
Total Expenses	<u>75,599,800</u>	<u>76,133,583</u>
CHANGE IN NET ASSETS	117	933
NET ASSETS AT BEGINNING OF YEAR	<u>50,316</u>	<u>49,383</u>
NET ASSETS AT END OF YEAR	<u>\$ 50,433</u>	<u>\$ 50,316</u>

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

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Program Services</u>			<u>Other Direct Services</u>
	<u>Intake</u>	<u>Case Management</u>	<u>Program Development</u>	
Salaries	\$ 123,052	\$ 2,763,350	\$ 335,280	\$ 774,484
Employee health and retirement benefits	34,908	987,284	125,754	244,272
Payroll taxes	<u>1,758</u>	<u>41,495</u>	<u>4,824</u>	<u>8,976</u>
Total Salaries and Related Expenses	159,718	3,792,129	465,858	1,027,732
Purchase of services				
Equipment rental and maintenance	1,831	43,475	5,341	
Facility rent	21,559	511,868	62,882	14,320
Facility maintenance	1,493	35,446	4,355	
Communication	11,293	268,120	32,938	5,520
General office expenses	1,042	24,747	3,040	441
Printing	421	10,004	1,229	
Insurance	1,765	41,899	5,147	336
Data processing	1,268	30,111	3,699	
Legal fees	635	15,072	1,852	
Board expenses	604	14,346	1,762	
Equipment purchases	1,709	40,565	4,983	
Consultant services	2,379	56,494	6,940	56,971
Staff travel	9,345	91,475	9,526	23,889
ARCA dues				
General expenses	1,225	29,079	3,572	4,514
Accounting fees				
Interest				
Bank service charges	907	21,528	2,645	
Utilities	2,102	49,918	6,132	1,433
Advertising	<u>249</u>	<u>5,908</u>	<u>725</u>	
TOTAL EXPENSES	<u>\$ 219,545</u>	<u>\$ 5,082,184</u>	<u>\$ 622,626</u>	<u>\$ 1,135,156</u>

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

<u>Living Out of Own Home</u>	<u>Day Program</u>	<u>Other Purchased Services</u>	<u>Total</u>	<u>Supporting Services General and Admin- istrative</u>	<u>Total Expenses</u>
			\$ 3,996,166	\$ 732,313	\$ 4,728,479
			1,392,218	260,774	1,652,992
			57,053	10,832	67,885
			5,445,437	1,003,919	6,449,356
\$ 8,844,773	\$ 3,479,418	\$ 54,767,215	67,091,406		67,091,406
			50,647	11,510	62,157
			610,629	135,511	746,140
			41,294	9,384	50,678
			317,871	70,981	388,852
			29,270	6,551	35,821
			11,654	2,649	14,303
			49,147	11,092	60,239
			35,078	7,972	43,050
			17,559	3,989	21,548
			16,712	3,798	20,510
			47,257	10,739	57,996
			122,784	14,957	137,741
			134,235	11,639	145,874
				40,970	40,970
			38,390	7,699	46,089
				58,888	58,888
				16,157	16,157
			25,080	5,699	30,779
			59,585	13,215	72,800
			6,882	1,564	8,446
<u>\$ 8,844,773</u>	<u>\$ 3,479,418</u>	<u>\$ 54,767,215</u>	<u>\$ 74,150,917</u>	<u>\$ 1,448,883</u>	<u>\$ 75,599,800</u>

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010**

	Program Services			Other Direct Services
	Intake	Case Management	Program Development	
Salaries	\$ 175,401	\$ 2,873,324	\$ 372,274	\$ 718,057
Employee health and retirement benefits	48,352	989,117	133,252	200,172
Payroll taxes	<u>2,493</u>	<u>43,643</u>	<u>5,317</u>	<u>9,626</u>
Total Salaries and Related Expenses	226,246	3,906,084	510,843	927,855
Purchase of services				
Equipment rental and maintenance	2,398	41,408	5,415	
Facility rent	25,525	440,690	57,634	636
Facility maintenance	2,034	35,114	4,592	
Communication	10,526	181,726	23,766	
General office expenses	1,615	27,890	3,648	
Printing	652	11,260	1,473	
Insurance	2,584	44,615	5,835	
Data processing	1,397	24,112	3,153	
Legal fees	1,765	30,468	3,985	
Board expenses	541	9,343	1,222	
Equipment purchases	489	8,438	1,104	
Consultant services	3,235	55,853	7,305	47,634
Staff travel	9,541	99,290	9,376	26,508
ARCA dues	1,697	29,294	3,831	
General expenses	4,292	74,100	9,691	4,001
Accounting fees	2,079	35,899	4,695	
Interest	543	9,370	1,225	
Bank service charges	1,347	23,261	3,042	
Utilities	2,848	49,174	6,431	
Advertising	<u>473</u>	<u>8,161</u>	<u>1,067</u>	
TOTAL EXPENSES	<u>\$ 301,827</u>	<u>\$ 5,145,550</u>	<u>\$ 669,333</u>	<u>\$ 1,006,634</u>

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

<u>Living Out of Own Home</u>	<u>Day Program</u>	<u>Other Purchased Services</u>	<u>Total</u>	<u>Supporting Services General and Admin- istrative</u>	<u>Total Expenses</u>
			\$ 4,139,056	\$ 798,544	\$ 4,937,600
			1,370,893	259,391	1,630,284
			61,079	11,281	72,360
			5,571,028	1,069,216	6,640,244
\$ 8,960,623	\$ 3,719,954	\$ 54,926,374	67,606,951		67,606,951
			49,221	11,336	60,557
			524,485	120,631	645,116
			41,740	9,612	51,352
			216,018	49,744	265,762
			33,153	7,635	40,788
			13,385	3,082	16,467
			53,034	12,212	65,246
			28,662	6,600	35,262
			36,218	8,340	44,558
			11,106	2,557	13,663
			10,031	2,309	12,340
			114,027	15,289	129,316
			144,715	21,969	166,684
			34,822	8,019	42,841
			92,084	20,284	112,368
			42,673	9,827	52,500
			11,138	2,565	13,703
			27,650	6,367	34,017
			58,453	13,460	71,913
			9,701	2,234	11,935
<u>\$ 8,960,623</u>	<u>\$ 3,719,954</u>	<u>\$ 54,926,374</u>	<u>\$ 74,730,295</u>	<u>\$ 1,403,288</u>	<u>\$ 76,133,583</u>

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 117	\$ 933
Adjustments to reconcile change in net assets to net cash from operating activities:		
Unrealized (gain) loss on investments	(4,167)	1,826
(Increase) decrease in:		
Contracts receivable – state of California	5,924,941	(2,874,528)
Other receivables		530
Prepaid expenses	120,471	(73,936)
Due from state – accrued vacation and other leave benefits	54,950	(26,660)
Increase (decrease) in:		
Accounts payable	(345,318)	197,084
Due to state	244,823	481,738
Accrued vacation and other leave benefits	(54,950)	26,660
Reserve for unemployment insurance	5,079	14,204
Net Cash Provided By (Used In) Operating Activities	<u>5,945,946</u>	<u>(2,252,149)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(63)	(48,029)
Net Cash Used In Investing Activities	<u>(63)</u>	<u>(48,029)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in short-term borrowings	(5,902,000)	5,902,000
Net Cash Provided By (Used In) Financing Activities	<u>(5,902,000)</u>	<u>5,902,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	43,883	3,601,822
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,206,252</u>	<u>2,604,430</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,250,135</u>	<u>\$ 6,206,252</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest totaled \$16,157 and \$13,703 during the years ended June 30, 2011 and 2010, respectively.

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

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2011 AND 2010

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation

Redwood Coast Developmental Services Corporation (the Center) was incorporated on June 7, 1983 as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State of California. In accordance with the Act, the Center, doing business as the Redwood Coast Regional Center, provides diagnostic evaluations, client program management, and lifelong planning services for persons with developmental disabilities, and their families. The geographical areas served include Del Norte, Humboldt, Mendocino, and Lake Counties.

The Act includes governance provisions regarding the composition of the Center's board of directors. The 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 regional center purchases client services, shall serve as a member of the regional center board. To comply with the 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.

Financial Statement Presentation

The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of June 30, 2011 and 2010, the Center had no temporarily or permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the statements of cash flows, the Center considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

At June 30, 2011 and throughout the year, the Center had maintained a cash balance with a bank in excess of federally insured limits. Given the current economic environment and risks in the banking industry, there is risk that these deposits may not be readily available or covered by insurance.

Investments

Investments are recorded at fair value and consist of funds managed by the Community Foundation of Mendocino County and the Humboldt Area Foundation in pooled accounts consisting of mutual funds and equity securities. Unrealized gains and losses are included in the change in net assets.

Support and Contracts Receivable – State of California

Support and contracts receivable – state of California is recorded on the accrual method as related expenses are incurred.

The Center contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for persons with developmental disabilities, and their families. Under the terms of these contracts, funded expenditures are not to exceed \$75,360,270 and \$76,154,560 for the 2010-2011 and 2009-2010 contract years, respectively. As of June 30, 2011, actual net expenditures under the 2010-2011 and 2009-2010 contracts were \$75,184,129 and \$76,043,667, respectively.

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Equipment

Pursuant to the terms of the contract with the DDS, equipment purchases become the property of the DDS and, accordingly, are charged as expenses when incurred. For the years ended June 30, 2011 and 2010, equipment purchases totaled \$57,996 and \$12,340, respectively.

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.

Allocation of Expenses

The statements of functional expenses allocate 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.

Income Tax Status

The Center has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code, and Section 23701(d) of the Revenue and Taxation Code, respectively.

The Center recognizes the financial statement benefit of tax positions, such as the filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Reclassifications

Certain amounts in the June 30, 2010 financial statements have been reclassified to conform to the current year presentation.

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Center's management has evaluated subsequent events from the statement of position date through March 29, 2012, the date the financial statements were available to be issued for the year ended June 30, 2011, and determined that there were no other items to disclose.

NOTE 2 – Contracts Receivable (Advances) – State of California

As of June 30, 2011 and 2010, the DDS had advanced the Center \$12,987,913 and \$11,977,963, respectively, under the regional center contracts. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from DDS as follows:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Contracts receivable	\$13,712,742	\$18,627,733
Contract advances	(12,987,913)	(11,977,963)
Net contracts receivable (advances)	<u>\$ 724,829</u>	<u>\$ 6,649,770</u>

NOTE 3 – Retirement Plan

The Center contributes to the California Public Employees' Retirement Systems (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the state of California. Substantially all of the Center's employees participate in PERS.

PERS uses the Entry Age Normal Cost Method to fund benefits. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire to the assumed retirement age.

The actuarial accrued liability for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for members entitled to deferred benefits, is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants.

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 3 – Retirement Plan (Continued)

The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. All changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about 6% of unamortized gains and losses each year. Finally, if the plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

A summary of principal actuarial assumptions used is as follows:

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal Cost Method
Average Remaining Period	31 years as of valuation date
Amortization Method	Level percent of payroll
Asset Valuation Method	15-year smoothed market
Investment Rate of Return	7.75% (net of administrative expenses)
Projected Salary Increases	3.55% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of 0.25%

The asset allocation shown below reflects the PERS fund in total as of June 30, 2010. The assets of the Center's plan are part of the PERS fund and are invested accordingly.

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target</u>
Short-term investments	4.6%	4.0%
Global fixed income	26.2	16.0
Equities	45.1	49.0
Inflation linked	2.5	4.0
Real estate	7.5	13.0
Alternative investments	14.1	14.0
	<u>100.0%</u>	<u>100.0%</u>

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 3 – Retirement Plan (Continued)

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll.

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (UL)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UL as a Percentage of Payroll</u>
6/30/06	\$ 11,748,299	\$ 7,224,186	\$ 4,524,113	61.5%	\$ 4,694,974	96.4%
6/30/07	\$ 13,280,975	\$ 8,579,908	\$ 4,701,067	64.6%	\$ 4,791,552	98.1%
6/30/08	\$ 14,463,307	\$ 10,129,512	\$ 4,333,795	70.0%	\$ 5,013,877	86.4%
6/30/09	\$ 15,966,144	\$ 11,321,226	\$ 4,644,918	70.9%	\$ 5,090,068	91.3%
6/30/10	\$ 17,184,586	\$ 12,588,725	\$ 4,595,861	73.3%	\$ 5,117,768	89.8%

Employee contributions are approximately 7% of salaries and wages. The Center is required to contribute the remaining amounts necessary to fund the benefits for its employees, using the actuarial basis adopted by the PERS Board of Administration.

Total retirement expense for the years ended June 30, 2011 and 2010, was \$537,832 and \$601,720, respectively.

NOTE 4 – Short-Term Borrowings

The Center had a revolving line of credit with a bank, which expired August 15, 2011, whereby the Center could borrow up to \$4,500,000. In October 2011, the line of credit was renewed and increased to \$11,500,000. The renewed line of credit expires in September 2012. Borrowings are secured by substantially all assets of the Center with interest payable monthly at an interest rate of 3.25% at June 30, 2011. At June 30, 2011, there was no amount outstanding.

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 – Commitments and Contingencies

Commitments – Leases

The Center is obligated under lease agreements for office facilities and equipment. The lease terms range from three to fifteen years and expire in various years through 2020. The terms of the leases provide for payment of minimum annual rentals and liability insurance.

Future minimum rental commitments are as follows:

<u>For the Year Ending June 30,</u>	
2012	\$ 642,789
2013	588,427
2014	474,712
2015	347,010
2016	338,571
Thereafter	<u>1,458,208</u>
	<u>\$ 3,849,717</u>

Total facility rental expense for the years ended June 30, 2011 and 2010 was \$746,140 and \$645,116, respectively. Equipment rental expense for the years ended June 30, 2011 and 2010 was \$51,574 and \$49,577, respectively.

Contingencies

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.

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 – Commitments and Contingencies (Continued)

Contingencies (Continued)

The state of California is experiencing an unprecedented budget shortfall due to the severe national and state economic crisis. The DDS has undertaken numerous efforts to control costs throughout the system and is committed to preserving the entitlement services and supports. Reductions in regional center operations and purchase of services are expected for the 2011/2012 fiscal year as a result of cost control efforts and legislation enacted.

In accordance with the terms of the contract with the DDS, an audit may be performed by an authorized DDS representative. Should such audit disclose any unallowable costs, the Center may be liable to the DDS 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, 2011 and 2010, and for the years then ended.

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, 2011 and 2010, the Center had \$99,250 and \$94,171, respectively, 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.



WINDES & McCLAUGHRY
ACCOUNTANCY CORPORATION
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

Landmark Square
111 West Ocean Boulevard
Twenty-Second Floor
Long Beach, CA 90802

Mailing Address:
Post Office Box 87
Long Beach, CA 90801-0087

T: (562) 435-1191
F: (562) 495-1665

www.windes.com

Other Offices:
Irvine
Los Angeles
Torrance

**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 of
Redwood Coast Developmental Services Corporation

We have audited the financial statements of Redwood Coast Developmental Services Corporation as of and for the year ended June 30, 2011, and have issued our report thereon dated March 29, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Redwood Coast Developmental Services Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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.

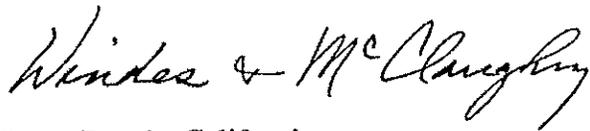
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Redwood Coast Developmental Services Corporation's financial statements are free of 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*.

We noted certain other matters that we reported to management of Redwood Coast Developmental Services Corporation in a separate letter dated March 29, 2012.

This report is intended solely for the information and use of the Board of Directors, management, others within the Center, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Winters & McCaughey".

Long Beach, California
March 29, 2012