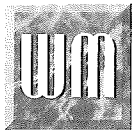


**REDWOOD COAST DEVELOPMENTAL  
SERVICES CORPORATION**

**FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

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## 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, 2010 and 2009, 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 the Organization'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, 2010 and 2009, 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 28, 2011 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 28, 2011

**REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION**

**STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,206,252	\$ 2,604,430
Investments	46,203	
Contracts receivable – State of California	6,148,032	3,755,242
Other receivables		530
Prepaid expenses	198,451	124,515
Due from state – accrued vacation and other leave benefits	454,326	427,666
<b>TOTAL ASSETS</b>	<b>\$ 13,053,264</b>	<b>\$ 6,912,383</b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable	\$ 6,552,451	\$ 6,355,367
Short-term borrowings	5,902,000	
Accrued vacation and other leave benefits	454,326	427,666
Reserve for unemployment insurance	94,171	79,967
	13,002,948	6,863,000
<b>COMMITMENTS AND CONTINGENCIES (Notes 3 and 5)</b>		
<b>NET ASSETS</b>		
Unrestricted	50,316	49,383
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 13,053,264</b>	<b>\$ 6,912,383</b>

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,	
	2010	2009
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Contracts – State of California	\$ 76,027,744	\$ 75,156,815
Interest income	93,961	96,743
Other income	14,637	11,684
Unrealized loss on investments	( 1,826)	
Total Support and Revenue	76,134,516	75,265,242
<b>EXPENSES</b>		
Program Services		
Intake	301,827	350,565
Case management	5,145,550	5,216,929
Program development	669,333	623,141
Other direct services	1,006,634	992,741
Living out of own home	8,960,623	7,956,912
Day program	3,719,954	4,566,173
Other purchased services	54,926,374	54,160,440
Total Program Services	74,730,295	73,866,901
Supporting Services		
General and administrative	1,403,288	1,399,706
Total Expenses	76,133,583	75,266,607
<b>CHANGE IN NET ASSETS</b>	933	( 1,365)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	49,383	50,748
<b>NET ASSETS AT END OF YEAR</b>	\$ 50,316	\$ 49,383

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, 2010**

	<u>Program Services</u>			<u>Other Direct Services</u>
	<u>Intake</u>	<u>Case Management</u>	<u>Program Development</u>	
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>	
<b>TOTAL EXPENSES</b>	<u><b>\$ 301,827</b></u>	<u><b>\$ 5,145,550</b></u>	<u><b>\$ 669,333</b></u>	<u><b>\$ 1,006,634</b></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
\$ 8,960,623	\$ 3,719,954	\$ 54,926,374	5,571,028	1,069,216	6,640,244
			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**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2009**

	<u>Program Services</u>			<u>Other Direct Services</u>
	<u>Intake</u>	<u>Case Management</u>	<u>Program Development</u>	
Salaries	\$ 196,151	\$ 2,938,918	\$ 353,247	\$ 672,105
Employee health and retirement benefits	64,983	933,565	111,598	221,681
Payroll taxes	<u>2,707</u>	<u>44,348</u>	<u>5,002</u>	<u>10,193</u>
Total Salaries and Related Expenses	263,841	3,916,831	469,847	903,979
Purchase of services				
Equipment rental and maintenance	3,451	51,237	6,146	
Facility rent	29,456	437,293	52,456	332
Facility maintenance	2,293	34,035	4,083	104
Communication	9,349	138,783	16,648	100
General office expenses	2,158	32,039	3,843	633
Printing	901	13,378	1,605	
Insurance	2,885	42,826	5,137	
Data processing	1,748	25,956	3,114	
Legal fees	5,646	83,823	10,055	
Board expenses	925	13,730	1,647	
Equipment purchases	3,652	54,215	6,503	846
Consultant services	2,391	35,496	4,258	41,616
Staff travel	7,606	125,554	12,400	30,688
ARCA dues	2,586	38,397	4,606	
General expenses	4,062	60,299	7,233	14,316
Accounting fees	2,357	34,992	4,197	
Interest	227	3,365	404	
Bank service charges	1,094	16,237	1,948	
Utilities	3,210	47,655	5,717	127
Advertising	<u>727</u>	<u>10,788</u>	<u>1,294</u>	
<b>TOTAL EXPENSES</b>	<u><b>\$ 350,565</b></u>	<u><b>\$ 5,216,929</b></u>	<u><b>\$ 623,141</b></u>	<u><b>\$ 992,741</b></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>
			\$ 4,160,421	\$ 786,369	\$ 4,946,790
			1,331,827	260,734	1,592,561
			<u>62,250</u>	<u>11,131</u>	<u>73,381</u>
\$ 7,956,912	\$ 4,566,173	\$ 54,160,440	5,554,498	1,058,234	6,612,732
			<u>66,683,525</u>		<u>66,683,525</u>
			60,834	13,844	74,678
			519,537	118,147	637,684
			40,515	9,195	49,710
			164,880	37,495	202,375
			38,673	8,657	47,330
			15,884	3,614	19,498
			50,848	11,571	62,419
			30,818	7,013	37,831
			99,524	22,648	122,172
			16,302	3,709	20,011
			65,216	14,648	79,864
			83,761	9,590	93,351
			176,248	24,137	200,385
			45,589	10,375	55,964
			85,910	16,292	102,202
			41,546	9,454	51,000
			3,996	908	4,904
			19,279	4,386	23,665
			56,709	12,875	69,584
			<u>12,809</u>	<u>2,914</u>	<u>15,723</u>
<u>\$ 7,956,912</u>	<u>\$ 4,566,173</u>	<u>\$ 54,160,440</u>	<u>\$ 73,866,901</u>	<u>\$ 1,399,706</u>	<u>\$ 75,266,607</u>

**REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION**

**STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended</b>	
	<b>June 30,</b>	
	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 933	(\$ 1,365)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Unrealized loss on investments	1,826	
(Increase) decrease in:		
Contracts receivable – State of California	( 2,392,790)	( 2,913,296)
Other receivables	530	( 222)
Prepaid expenses	( 73,936)	( 37,095)
Due from state – accrued vacation and other leave benefits	( 26,660)	( 37,707)
Increase (decrease) in:		
Accounts payable	197,084	706,010
Accrued vacation and other leave benefits	26,660	37,707
Reserve for unemployment insurance	14,204	( 22,214)
Net Cash Used In Operating Activities	<u>( 2,252,149)</u>	<u>( 2,268,182)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	( 48,029)	
Net Cash Used In Investing Activities	<u>( 48,029)</u>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	<u>5,902,000</u>	
Net Cash Provided By Financing Activities	<u>5,902,000</u>	
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	3,601,822	( 2,268,182)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>2,604,430</u>	<u>4,872,612</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 6,206,252</u>	<u>\$ 2,604,430</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid for interest totaled \$13,703 and \$4,904 during the years ended June 30, 2010 and 2009, respectively.

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

# REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

### 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, 2010 and 2009, 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, 2010 AND 2009

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, 2010 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 \$76,154,560 and \$74,850,367 for the 2009-2010 and 2008-2009 contract years, respectively. As of June 30, 2010, actual net expenditures under the 2009-2010 and 2008-2009 contracts were \$75,728,912 and \$74,871,915, respectively. The Center's management believes additional funding will be received from the DDS to cover excess expenditures of \$21,548 related to the 2008-2009 contract.

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

**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, 2010 and 2009, equipment purchases totaled \$12,340 and \$79,864, 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, which is 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.

*Subsequent Events*

The Center's management has evaluated subsequent events from the statement of position date through March 28, 2011, the date the financial statements were available to be issued for the year ended June 30, 2010, and determined that there were no other items to disclose.

**REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 2 – Contracts Receivable – State of California**

As of June 30, 2010 and 2009, the DDS had advanced the Center \$12,479,701 and \$18,145,538, 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:

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
Contracts receivable	\$18,627,733	\$21,900,780
Contract advances	( 12,479,701)	( 18,145,538)
Net contracts receivable	<u>\$ 6,148,032</u>	<u>\$ 3,755,242</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, 2010 AND 2009**

**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, 2009
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 expense)
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, 2009. 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>
Cash equivalents	6.5%	0.0%
Global fixed income	28.1	19.0
Equities	55.6	66.0
Inflation linked	2.4	5.0
Real estate	7.4	10.0
	<u>100.0%</u>	<u>100.0%</u>

**REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2010 AND 2009**

**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>
6/30/05	\$ 10,280,528	\$ 5,806,835	\$ 4,473,693	56.5%	\$ 4,485,086	99.7%
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%

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, 2010 and 2009, was \$601,720 and \$606,845, respectively.

**NOTE 4 – Short-Term Borrowings**

The Center has a revolving line of credit agreement with a bank, which expires July 30, 2010, whereby it may borrow up to \$5,902,000. Borrowings are secured by substantially all assets of the Center with interest payable monthly at an interest rate of 3.25% at June 30, 2010. At June 30, 2010, the outstanding balance was \$5,902,000. The outstanding balance was paid in full in July 2010.



REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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>	
2011	\$ 658,741
2012	641,769
2013	587,407
2014	473,692
2015	345,990
Thereafter	<u>1,794,909</u>
	<u>\$ 4,502,508</u>

Total facility rental expense for the years ended June 30, 2010 and 2009 was \$645,116 and \$637,684, respectively. Equipment rental expense for the years ended June 30, 2010 and 2009 was \$49,577 and \$48,782, respectively.

*Contingencies*

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, 2010 and 2009, and for the years then ended.

REDWOOD COAST DEVELOPMENTAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009

NOTE 5 – Commitments and Contingencies (Continued)

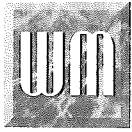
*Contingencies (Continued)*

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 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 2010/2011 fiscal year as a result of cost control efforts and legislation enacted.

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, 2010 and 2009, the Center had \$94,171 and \$79,967, 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.



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**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, 2010, and have issued our report thereon dated March 28, 2011. 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.

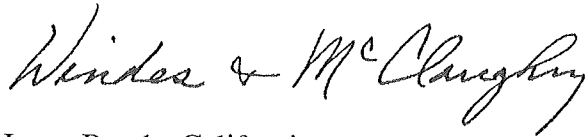
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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 28, 2011.

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.



Long Beach, California  
March 28, 2011