



MATSON  
& ISOM

REDWOOD COAST DEVELOPMENTAL  
SERVICES CORPORATION

**Ukiah, California**

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION WITH  
INDEPENDENT AUDITORS' REPORTS

**June 30, 2013**

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*Redwood Coast Developmental  
Services Corporation*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Redwood Coast Developmental  
Services Corporation  
Ukiah, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Redwood Coast Developmental Services Corporation (the Center), a California nonprofit corporation, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2013, 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.

## INDEPENDENT AUDITORS' REPORT

Continued

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2014, on our consideration of the Center's internal control over financial reporting and 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 control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

*Matson and Isom*

February 22, 2014  
Redding, California

**FINANCIAL SECTION**

**STATEMENT OF FINANCIAL POSITION**

*Redwood Coast Developmental  
Services Corporation*

June 30, 2013	Unrestricted		Total
	General	State Contracts	
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 2,595,831	\$ 2,595,831
Investments	55,381	-	55,381
Contracts receivable - State Regional Center Contract	-	18,251,793	18,251,793
Receivable - ICF providers	-	342,016	342,016
Prepaid expenses	-	24,031	24,031
Due from State - accrued vacation and other leave benefits	-	411,539	411,539
<b>Total Assets</b>	<b>\$ 55,381</b>	<b>\$ 21,625,210</b>	<b>\$ 21,680,591</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 6,293,640	\$ 6,293,640
Short-term borrowings	-	2,000,000	2,000,000
Advance - State Regional Center Contract	-	12,817,258	12,817,258
Accrued vacation and other leave benefits	-	411,539	411,539
Reserve for unemployment insurance	-	102,773	102,773
<b>Total Liabilities</b>	<b>-</b>	<b>21,625,210</b>	<b>21,625,210</b>
<b>NET ASSETS</b>			
Unrestricted	55,381	-	55,381
<b>Total Liabilities and Net Assets</b>	<b>\$ 55,381</b>	<b>\$ 21,625,210</b>	<b>\$ 21,680,591</b>

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

**STATEMENT OF ACTIVITIES***Redwood Coast Developmental  
Services Corporation*

Year Ended June 30, 2013

**CHANGE IN UNRESTRICTED NET ASSETS****REVENUE**

State Regional Center Contracts	\$ 77,165,243
Intermediate care facility revenue	598,019
Other income	254,604
Interest income	37,410
Unrealized and realized gain (loss) on investments	4,857

**Total Revenue** 78,060,133**EXPENSES****PROGRAM SERVICES**

Intake	179,257
Case management	4,929,619
Program development	467,865
Other direct services	783,711
Living out of home	7,971,662
Day program	3,457,019
Other purchased services	58,857,866

**Total Program Services** 76,646,999**SUPPORTING SERVICES**

General and administrative	1,407,722
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**Total Supporting Services** 1,407,722**Total Expenses** 78,054,721**Change in Net Assets** 5,412**Net Assets - Beginning of Year** 49,969**Net Assets - End of Year** \$ 55,381*The accompanying notes are an integral part of these financial statements.*

**STATEMENT OF FUNCTIONAL EXPENSES**

*Redwood Coast Developmental  
Services Corporation*

Year Ended June 30, 2013	Program Services							Supporting Services		Total
	Intake	Case Management	Program Development	Other Direct Services	Living Out of Home	Day Program	Other Purchased Services	Total Program Services	General and Administrative	
Salaries	\$ 105,623	\$ 2,708,461	\$ 268,917	\$ 518,574	\$ -	\$ -	\$ -	\$ 3,601,575	\$ 740,781	\$ 4,342,356
Employee health and retirement benefits	29,389	1,067,492	89,676	201,191	-	-	-	1,387,748	282,736	1,670,484
Payroll taxes	1,491	41,531	5,521	7,152	-	-	-	55,695	11,532	67,227
Purchase of services	-	-	-	-	7,971,662	3,457,019	58,857,866	70,286,547	-	70,286,547
Facility rent	17,928	501,368	47,821	50	-	-	-	567,166	135,938	703,104
Communication	4,719	131,978	12,588	-	-	-	-	149,285	35,784	185,069
Staff travel	6,771	105,834	7,769	31,383	-	-	-	151,757	18,198	169,955
Consultant services	1,761	49,244	4,697	17,034	-	-	-	72,735	13,352	86,087
Utilities	2,033	56,847	5,422	-	-	-	-	64,302	15,413	79,715
Equipment rental and maintenance	1,761	49,237	4,696	-	-	-	-	55,693	13,350	69,043
Insurance	1,558	43,559	4,155	-	-	-	-	49,272	11,810	61,082
Facility maintenance	1,556	43,512	4,150	-	-	-	-	49,218	11,798	61,016
General office expenses	1,129	31,575	3,012	-	-	-	-	35,716	8,561	44,277
Accounting fees	-	-	-	-	-	-	-	-	38,000	38,000
General expenses	705	19,729	1,882	8,327	-	-	-	30,643	5,349	35,992
ARCA dues	-	-	-	-	-	-	-	-	34,064	34,064
Bank service charges	769	21,497	2,050	-	-	-	-	24,316	5,829	30,145
Data processing	543	15,185	1,448	-	-	-	-	17,177	4,117	21,294
Board expenses	527	14,731	1,405	-	-	-	-	16,663	3,994	20,657
Printing	310	8,663	826	-	-	-	-	9,799	2,349	12,148
Equipment purchases	273	7,626	727	-	-	-	-	8,626	2,068	10,694
Legal fees	256	7,148	682	-	-	-	-	8,086	1,938	10,024
Interest	-	-	-	-	-	-	-	-	9,569	9,569
Advertising	157	4,401	420	-	-	-	-	4,979	1,193	6,172
<b>Total Expenses</b>	<b>\$ 179,257</b>	<b>\$ 4,929,619</b>	<b>\$ 467,865</b>	<b>\$ 783,711</b>	<b>\$ 7,971,662</b>	<b>\$ 3,457,019</b>	<b>\$ 58,857,866</b>	<b>\$ 76,646,999</b>	<b>\$ 1,407,722</b>	<b>\$ 78,054,721</b>

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

**STATEMENT OF CASH FLOWS***Redwood Coast Developmental  
Services Corporation*

Year Ended June 30, 2013

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from grants, contracts, and clients	\$ 78,178,776
Cash paid to suppliers and employees	(77,522,576)
Interest received	37,410
<b>Net Cash Provided by Operating Activities</b>	<b>693,610</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of investments	(555)
<b>Net Cash Used by Investing Activities</b>	<b>(555)</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Net change in short-term borrowings	(4,500,000)
<b>Net Cash Used by Financing Activities</b>	<b>(4,500,000)</b>
<b>Change in Cash and Cash Equivalents</b>	<b>(3,806,945)</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<b>6,402,776</b>
<b>Cash and Cash Equivalents - End of Year</b>	<b>\$ 2,595,831</b>

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

Change in net assets	\$ 5,412
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Unrealized (gain) loss on investments	(4,857)
Changes in:	
Contracts receivable - State Regional Center Contract	1,268,667
Receivables - ICF providers	(342,016)
Prepaid expenses	27
Due from State - accrued vacation and other leave benefits	(1,968)
Accounts payable	529,692
Advance - State Regional Center Contract	(457,039)
Accrued vacation and other leave benefits	1,968
Due to State	(308,702)
Reserve for unemployment insurance	2,426
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 693,610</b>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Interest paid	\$ 9,569
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*The accompanying notes are an integral part of these financial statements.*

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

*Financial Statement Presentation* The Center's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under FASB ASC Topic 958, the Center is required to report information regarding its financial position and activities according to three classes of net assets based upon the existence or absence of donor-imposed restrictions, as follows:

*Unrestricted net assets:* Represents resources over which the Board of Directors has discretionary control and that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

*Temporarily restricted net assets:* Represents resources whose use by the Center is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Center pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. The Center has no temporarily restricted net assets.

*Permanently restricted net assets:* Represents resources whose use by the Center is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Center. The Center has no permanently restricted net assets.

*Fund Accounting* The accounts of the Center are maintained in accordance with the principles of fund accounting. Under fund accounting, resources are classified for accounting and reporting considerations into funds established according to their nature and purpose.

*Cash and Cash Equivalents* For purposes of the statement of cash flows, the Center considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. In accordance with the State Regional Center Contract, bank accounts are in the name of both the State of California Department of Developmental Services (DDS) and the Center.

**Significant Concentrations of Credit Risk** At June 30, 2013, and throughout the year, the Center had maintained a cash balance with a bank in excess of federally insured limits. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2013, cash exceeded federally insured limits by \$2,409,811. The Center has not experienced any loss and management believes it is not exposed to any significant credit risk on such accounts.

**Investments** Investments are recorded at fair value 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.

**State Regional Center Contract Receivables and Advances** Contracts receivable represent amount due from the State for reimbursement of expenditures made by the Center under the annual Regional Center contracts. Advances represent cash advances received by the Center under annual Regional Center contracts. Amounts receivable from the State are offset against advances payable when the State notifies the Center that a right of offset exists. The Center considers all amounts receivable under grant contracts to be collectible; accordingly, no allowance for doubtful accounts exists.

**Receivable, ICF Providers** During the year ended June 30, 2011, various legislative changes were made to the *California Welfare and Institutions Code* retroactively to July 1, 2007, making Intermediate Care Facility (ICF) providers responsible for providing consumer day treatment and transportation services, and ultimately, making such services eligible for reimbursement under California's Home and Community Based Services (HCBS) Program, which is funded by the Medicaid Waiver grant (Medicaid). Previously, such services were not reimbursable by Medicaid because the funds were not directly billed and received by the ICFs. The legislative changes allow for DDS to bill these services to Medicaid and capture federal dollars. Billings prior to June 30, 2012 are billed retroactively and billings after this date are billed prospectively.

**Retroactive Billings:** The Center was directed by DDS to prepare retroactive billings to DDS on behalf of ICF providers for the cost of day treatment and transportation services beginning with the fiscal year ending June 30, 2008. The billings included a 5.5% quality assurance fee for the State Department of Health Care Services (DHCS), a 1.5% administrative fee for the ICFs, and a 1.5% administration fee for the Center. The ICFs were directed to remit to the Center the amounts billed on their behalf less their administrative fee and the quality assurance fee, which they were required to remit to DHCS. Management of the Center has decided only to record the ICF revenue receivable from ICF providers under the retroactive billing as the revenue is received from the providers as these amounts can vary based on a multitude of factors. Therefore, no amounts receivable from ICF providers or payables to DDS have been recorded in these financials for the retroactive billings. During the year ended June 30, 2013, \$441,779 of retroactive billings were received from ICF providers and \$435,688 of these funds were repaid to DDS.

*Prospective Billings:* Effective July 1, 2012, the Center also 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. Therefore, no amounts are payable to DDS. During the year ended June 30, 2013, \$598,019 in revenue billed direct to ICF providers is included in the state regional center contracts revenue on the accompanying financial statements.

Receivable – ICF providers and Payable – DDS balances consisted of the following at June 30, 2013:

Year Ended	<b>Receivable - ICF Providers</b>
June 30, 2013	\$ 342,016
<b>Total</b>	<b>\$ 342,016</b>

Management considers all receivables to be fully collectible.

**Prepaid Expenses** Payments made to vendors for services that will benefit the Center for periods beyond the current fiscal year are recorded as prepaid expenses.

**Equipment Purchase** In accordance with the State Regional Center contracts, all equipment purchased with contract funds is the property of the State. The Center is required to maintain memorandum records of equipment purchases and dispositions. Equipment purchases are recorded as supporting or program service expenses when they are incurred.

**Accrued Vacation and Other Leave Benefits** The Center has accrued a liability for leave benefits. However, such benefits are reimbursed under the DDS contract only when actually paid. The Center has also recorded a receivable from the DDS for the accrued leave benefits to reflect the future reimbursement of such benefits.

**Revenue Concentration** State Regional Center contract revenue is revenue received from the State of California in accordance with the Lanterman Act. Ninety-nine percent of revenue is derived from this source.

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

**Allocation of Expenses** The statement of functional expenses allocates expenses to the program and supporting service categories based on a direct-cost basis for purchase of services and salaries and related expenses. In addition, expenses are allocated based on a percentage of salaries and related expenses per category to total salaries and related expenses for operating expenses, except for travel and certain administrative costs, which are allocated on a direct-cost basis.

**Use of Estimates** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

**Income Taxes** The Center has received tax-exempt status under Section 501(c)(3) of the *Internal Revenue Code*, and Section 23701(d) of the *State of California Revenue and Taxation Code*, and has been classified as an organization that is not a private foundation under Section 509(a) of the *Internal Revenue Code*. Accordingly, no provision for income taxes is included in the financial statements.

The Center files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2009 and beyond, and the California returns for tax years 2008 and beyond, remain subject to examination by the taxing authorities.

The Center accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes and how an uncertain tax position is recognized in financial statements. The Center analyzes tax positions taken in previously filed returns and tax positions expected to be taken in future returns. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. The Center's practice is to recognize interest and penalties, if any, related to uncertain tax positions in the tax expense. There were no uncertain tax positions identified or related interest and penalties recorded as of June 30, 2013, and the Center does not expect this to change significantly over the next 12 months.

**Subsequent Events** Management has evaluated subsequent events through February 22, 2014, the date on which the financial statements were available to be issued.

## 2. LINE OF CREDIT

The Center has an \$11,800,000 revolving line of credit with Union Bank, secured by substantially all assets of the Center. Interest on the outstanding balance is payable monthly at an interest rate of 3.25% at June 30, 2013, and amounted to \$9,569 for the year ended June 30, 2013. The line of credit expired on October 15, 2013. The outstanding balance at June 30, 2013, was \$2,000,000. The line of credit was renewed on January 1, 2014, in the amount of \$12,500,000.

## 3. RETIREMENT PLAN

### Defined Benefit Plan

**Plan Descriptions** The Center contributes to the California Public Employees Retirement System (PERS), an agent multi-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS 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 PERS' annual financial report may be obtained from their Executive Office, 400 Q Street, Sacramento, California 95811.

**Funding Policy** Participants are required to contribute 7% of their annual covered salary. The Center is required to contribute at an actuarially determined rate for its participants; the rate for the 2012-13 fiscal year was 12.612% of annual covered payroll. The contribution requirements of plan members and the Center are established and may be amended by PERS.

**Annual Pension Cost** For 2013, the Center’s annual pension cost for PERS was equal to the Center’s required and actual contributions. The required contribution was determined as part of the June 30, 2010, actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percentage of pay.

A summary of principal actuarial assumptions used is as follows:

*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 actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period (smoothed market value). PERS unfunded actuarial accrued liability of \$4,379,330 as of June 30, 2012, is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2013, was 25 years.

The three-year trend information for PERS is as follows:

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2011	\$ 537,832	100%	\$ -
June 30, 2012	\$ 519,337	100%	\$ -
June 30, 2013	\$ 519,894	100%	\$ -

The schedule of funding progress is as follows:

Actuarial Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Asset Value	Unfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Unfunded Actuarial Liability as Percentage of Covered Payroll
June 30, 2010	\$ 17,184,586	\$ 12,588,725	\$ 4,595,861	73%	\$ 5,117,768	90%
June 30, 2011	\$ 18,804,564	\$ 13,892,974	\$ 4,911,590	74%	\$ 4,691,957	105%
June 30, 2012	\$ 19,415,403	\$ 15,036,073	\$ 4,379,330	77%	\$ 4,014,527	109%

**4. FUNDING LIMITS**

The Center’s contract is funded by the State’s General Fund and Federal reimbursements. The contracts specify the level and nature of the services to be provided to developmentally disabled persons. Allocated amounts are based primarily on projected client caseloads, and are subject to amendment based upon actual services provided.

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

Fiscal Year Ended	Contract Amount	Cumulative Expenses	Unexpended Balance
June 30, 2013	\$ 76,957,403	\$ 76,894,649	\$ 62,754
June 30, 2012	\$ 76,947,817	\$ 76,364,174	\$ 583,643
June 30, 2011	\$ 75,935,425	\$ 75,098,523	\$ 836,902

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 State contract amount.

**5. LEASE COMMITMENTS**

The Center is obligated under lease agreements for office facilities and equipment. The lease terms range from three to 15 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 payments under these leases are as follows:

Year Ended June 30	
2014	\$ 723,706
2015	759,892
2016	815,886
2017	862,680
2018	796,887
Thereafter	2,347,873
<b>Total</b>	<b>\$ 6,306,924</b>

Total facility rental expense for the year ended June 30, 2013, was \$703,104. Equipment rental expense for the year ended June 30, 2013, was \$45,619.

**6. LITIGATION CLAIMS AND CONTINGENCIES**

In accordance with the terms of the State of California contract, an audit may be performed by an authorized state representative. Should such audit disclose any unallowable costs, the Center may be liable to the State for reimbursement of such costs. In the opinion of the Center’s management, the effect of any disallowed costs, if any, would be immaterial to the financial statements as of June 30, 2013.

The Center is dependent on continued funding provided by the DDS to operate and provide services for its clients. The Center's contract with DDS provides funding for services under the Lanterman Act. In the event that the operations of the Center result in a deficit position at the end of any contract year, DDS may reallocate surplus funds within the State of California system to supplement the Center's funding. Should a system-wide deficit occur, DDS is required to report to the Governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. DDS's recommendations are subsequently reviewed by the Governor and the Legislature and a decision is made with regard to specific actions, including the possible suspension of the entitlement.

The Center has elected to finance its unemployment insurance using the prorated cost-of-benefits method. Under this method, the Center is required to reimburse the State of California for benefits paid to its former employees. At June 30, 2013, the Center had \$102,773 in a reserve trust account to pay for any potential unemployment claims.

The Center is involved in various claims and lawsuits arising in the normal conduct of its business. The Center believes it has adequate defenses and insurance coverage for these actions and, thus, has made no provision in the financial statements for any costs relating to the settlement of such claims.

**7. CONTRACT COMMITMENTS**

The Center contracts with various vendors for administrative functions and client services. Significant unpaid commitments under these contracts at June 30, 2013, consisted of the following:

Administrative services	\$ 38,836
Client services	<u>185,000</u>
<b>Total</b>	<b><u>\$ 223,836</u></b>

**8. RELATED-PARTY TRANSACTIONS**

California Welfare and Institutions Code 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. Program service payments were made on behalf of persons with developmental disabilities that were governing board members or were related to governing board members. Payments of \$604,994 were made for the fiscal year ended June 30, 2013.

**OTHER REPORTS SECTION**



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
Redwood Coast Developmental  
Services Corporation  
Ukiah, California

We have audited, in accordance with 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 (the Center), a California nonprofit corporation, which comprise the statement of financial position as of June 30, 2013, 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 February 22, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control described in the accompanying schedule of findings and responses as item 2013-1 that we consider to be a significant deficiency.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Continued

**Compliance and Other Matters**

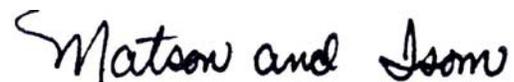
As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

**The Center's Response to Findings**

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 result of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



February 22, 2014  
Redding, California

## **FINDINGS AND RESPONSES SECTION**

**SCHEDULE OF FINDINGS AND  
RESPONSES**

June 30, 2013

*Redwood Coast Developmental  
Services Corporation*

**Management Review (Finding 2013-1)**

**Condition**

During our testing of internal controls, we observed that the control environment lacked a high level (management) detailed review of transactions specifically related to disbursements, payroll, and general ledger detail.

**Criteria**

Control environments can be strengthened when a member of management (controller) is given the responsibility of performing a detail review of transactions and general ledger detail to ensure accuracy and completeness. Implementation of such a position provides a final layer of control and strengthens segregation of duties at the management level.

**Effect**

Without a high level review performed by management, the potential risk for error, incompleteness, or fraud is increased.

***Recommendation***

We recommend that the Regional Center implement a controller-type position to oversee and detail review the daily transaction processes that occur within the entity on a daily basis.

***Response***

The Director of Administration agrees with the assessment of internal controls and the lack of a controller-type position to oversee and detail review transactions and general ledger detail. The Director acknowledges that he has recommended to the Board that such a position would greatly benefit the Center by strengthening the internal control environment of the Center as a whole. It is the intention of management to work toward this goal.