San Diego - Imperial Counties Developmental Services, Inc.

Consolidated Financial Statements

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
San Diego – Imperial Counties
Developmental Services, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of San Diego – Imperial Counties Developmental Services, Inc., a California nonprofit corporation, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 entity'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of San Diego – Imperial Counties Developmental Services, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying consolidating statement of financial position and consolidating statement of activities are also presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2015, on our consideration of San Diego – Imperial Counties Developmental Services Inc.'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Diego – Imperial Counties Developmental Services Inc.'s internal control over financial reporting and compliance.

Windes, Inc.

Long Beach, California
January 5, 2015

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2014	June 30, 2013
ASSETS		
Cash and cash equivalents	$ 18,408,100	$ 6,352,139
Cash – client trust funds	1,969,184	2,012,422
Restricted cash		2,664,255
Contracts receivable from state and federal agencies	12,208,328	21,498,034
Receivables from Intermediate Care Facility vendors	3,732,302	3,091,888
Investments	841,102	781,222
Sundry receivables, prepaids, and other assets	340,266	706,087
Due from state-accrued leave and retirement benefits	22,327,739	20,790,518
Property and equipment, net	8,852,955	9,079,171
TOTAL ASSETS	$ 68,679,976	$ 66,975,736

LIABILITIES AND NET DEFICIT

	June 30, 2014	June 30, 2013
LIABILITIES		
Accounts payable	$ 24,777,311	$ 24,125,003
Accrued payroll	452,588	501,157
Line of credit		6,000,000
Due to state	5,280,517	
Amounts payable under retirement plan	51,521,542	44,580,041
Accrued leave benefits	1,689,351	1,702,806
Amounts held for clients	1,930,998	2,002,851
Note payable	8,197,349	
Bonds payable		8,250,000
	93,849,656	87,161,858
COMMITMENTS AND CONTINGENCIES (Notes 10 and 11)		
NET DEFICIT		
Unrestricted	(25,169,680)	(20,186,122)
TOTAL LIABILITIES AND NET DEFICIT	$ 68,679,976	$ 66,975,736

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

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF ACTIVITIES

	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contracts – state and federal agencies	$ 278,460,361	$ 262,431,292
Intermediate Care Facility supplemental services income	9,570,860	9,089,308
Interest and dividend income	98,533	81,049
Unrealized and realized gain on investments, net	69,435	55,629
Donations	38,455	50,622
Rental related and other income	807,642	792,078
	289,045,286	272,499,978
EXPENSES		
Program Services		
Client services	29,457,748	31,344,870
Residential care	65,671,362	64,720,643
Day care and training	95,618,551	88,674,572
Medical programs	4,307,150	2,804,258
Respite service	20,243,145	19,481,172
Independent living costs	21,977,373	17,232,755
Transportation services	15,103,527	14,314,839
Prevention services	4,533,343	3,371,656
Other purchased services	20,512,368	18,822,525
	277,424,567	260,767,290
Supporting Services		
General and administrative	11,213,452	11,277,378
Total Expenses	288,638,019	272,044,668
CHANGE IN NET DEFICIT BEFORE PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	407,267	455,310
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	(5,390,825)	18,187,952
CHANGE IN NET DEFICIT	(4,983,558)	18,643,262
NET DEFICIT AT BEGINNING OF YEAR	(20,186,122)	(38,829,384)
NET DEFICIT AT END OF YEAR	($ 25,169,680)	($ 20,186,122)

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

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services				
	Client Services	Residential Care	Day Care and Training	Medical Programs	Respite Service
Salaries	$ 20,930,159				
Employee health and retirement benefits	7,745,014				
Payroll taxes	301,866				
Total salaries and related expenses	28,977,039				
Purchase of services		$ 65,671,362	$ 95,618,551	$ 4,307,150	$ 20,243,145
Facility maintenance					
Postage					
General expenses	53,642				
ARCA dues					
Accounting fees					
Printing					
Insurance					
Board expenses					
Legal fees					
Utilities					
Public information and education					
Staff training					
Outside services					
Depreciation and amortization					
Telephone					
Building rent					
Equipment purchases, rental, and maintenance					
Interest expense					
Write-off bond issuance costs					
Travel	427,067				
	$ 29,457,748	$ 65,671,362	$ 95,618,551	$ 4,307,150	$ 20,243,145

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

						Supporting Services	
	Independent Living Costs	Transportation Services	Prevention Services	Other Purchased Services	Total	General and Administrative	Total Expenses
					$ 20,930,159	$ 3,417,500	$ 24,347,659
					7,745,014	1,008,836	8,753,850
					301,866	49,289	351,155
					28,977,039	4,475,625	33,452,664
	$ 21,977,373	$ 15,103,527	$ 4,533,343	$ 20,512,368	247,966,819		247,966,819
						613,765	613,765
						147,074	147,074
					53,642	1,060,653	1,114,295
						83,834	83,834
						47,050	47,050
						41,315	41,315
						96,666	96,666
						16,946	16,946
						344,403	344,403
						236,369	236,369
						191,594	191,594
						68,763	68,763
						447,313	447,313
						240,657	240,657
						264,597	264,597
						1,619,609	1,619,609
						497,679	497,679
						393,488	393,488
						290,472	290,472
					427,067	35,580	462,647
	$ 21,977,373	$ 15,103,527	$ 4,533,343	$ 20,512,368	$ 277,424,567	$ 11,213,452	$ 288,638,019

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services				
	Client Services	Residential Care	Day Care and Training	Medical Programs	Respite Service
Salaries	$ 19,876,506				
Employee health and retirement benefits	10,712,762				
Payroll taxes	288,842				
Total salaries and related expenses	30,878,110				
Purchase of services		$ 64,720,643	$ 88,674,572	$ 2,804,258	$ 19,481,172
Facility maintenance					
Postage					
General expenses	57,150				
ARCA dues					
Accounting fees					
Printing					
Insurance					
Board expenses					
Legal fees					
Utilities					
Public information and education					
Staff training					
Outside services					
Depreciation and amortization					
Telephone					
Building rent					
Equipment purchases, rental, and maintenance					
Interest expense					
Travel	409,610				
	$ 31,344,870	$ 64,720,643	$ 88,674,572	$ 2,804,258	$ 19,481,172

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

Independent Living Costs	Transportation Services	Prevention Services	Other Purchased Services	Total	Supporting Services General and Administrative	Total Expenses
				$ 19,876,506	$ 3,339,532	$ 23,216,038
				10,712,762	1,660,032	12,372,794
				288,842	48,530	337,372
				30,878,110	5,048,094	35,926,204
$ 17,232,755	$ 14,314,839	$ 3,371,656	$ 18,822,525	229,422,420		229,422,420
					476,275	476,275
					154,652	154,652
				57,150	983,756	1,040,906
					69,598	69,598
					48,250	48,250
					42,771	42,771
					259,409	259,409
					13,091	13,091
					225,327	225,327
					256,146	256,146
					76,254	76,254
					8,992	8,992
					436,954	436,954
					216,714	216,714
					257,667	257,667
					1,426,049	1,426,049
					772,378	772,378
					480,001	480,001
				409,610	25,000	434,610
$ 17,232,755	$ 14,314,839	$ 3,371,656	$ 18,822,525	$ 260,767,290	$ 11,277,378	$ 272,044,668

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net deficit	($ 4,983,558)	$ 18,643,262
Adjustments to reconcile change in net deficit to net cash from operating activities:		
Depreciation	226,216	196,596
Amortization of bond issuance costs and noncash financing costs	314,054	20,118
Unrealized and realized gain on investments	(69,435)	(55,629)
(Increase) decrease in:		
Cash – client trust funds	43,238	1,241,998
Restricted cash	2,664,255	(125,949)
Contracts receivable from state and federal agencies	9,289,706	(3,750,229)
Receivables from Intermediate Care Facility vendors	(640,414)	(3,091,888)
Sundry receivables, prepaids, and other assets	60,908	(106,212)
Due from state-accrued leave and retirement benefits	(1,537,221)	(4,349,263)
Increase (decrease) in:		
Accounts payable	652,308	2,322,722
Accrued payroll	(48,569)	(90,736)
Due to state	5,280,517	
Amounts payable under retirement plan	6,941,501	(13,740,977)
Accrued leave benefits	(13,455)	(97,712)
Amounts held for clients	(71,853)	(1,040,735)
Net Cash Provided By (Used In) Operating Activities	18,108,198	(4,024,634)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(278,909)	(342,364)
Proceeds from sale of investments	288,464	356,633
Purchase of property and equipment		(166,121)
Net Cash Provided By (Used In) Investing Activities	9,555	(151,852)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(6,000,000)	6,000,000
Proceeds from note payable	188,208	
Repayment of bonds payable	(250,000)	(250,000)
Net Cash Provided By (Used In) Financing Activities	(6,061,792)	5,750,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,055,961	1,573,514
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,352,139	4,778,625
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 18,408,100	$ 6,352,139

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

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation

San Diego – Imperial Counties Developmental Services, Inc. (SDICDSI) is a nonprofit public benefit corporation, the primary purpose of which is to contract with the State of California Department of Developmental Services (DDS) and other governmental agencies to operate a regional center for persons with developmental disabilities and their families. The regional 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. Contracts with the state and other agencies are generally renewed on an annual basis and provide a limit on expenditures and the respective contract funding. The period of expenditure reimbursement may, in some cases, extend beyond one year. Required services provided include outreach, diagnosis, assessment, counseling, prevention services, public information and education, and advocacy to persons with developmental disabilities and their families residing in San Diego and Imperial Counties.

The Act includes governance provisions regarding the composition of the regional 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, SDICDSI's board of directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the regional center and a client service provider of the regional center.

The regional center contract between SDICDSI and the DDS stipulates that funded expenditures are not to exceed $277,449,321 and $261,302,497 for the 2013-2014 and 2012-2013 contract years, respectively. Actual net expenditures under the regional center contract for the 2013-2014 and 2012-2013 contracts were $273,693,446 and $256,992,678, respectively, as of June 30, 2014.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

As discussed above, SDICDSI operates under contracts with the DDS. Contract revenue is funded on a cost reimbursement basis. The net deficits reported as of June 30, 2014 and 2013 on the statements of financial position are primarily the result of SDICDSI's defined benefit pension plan. As further discussed in Note 10, an accounting standard required SDICDSI to recognize as a charge to net assets the actuarial losses and prior service cost which had not yet been recognized as components of periodic benefit costs which amounted to $30,883,154 and $25,492,329 as of June 30, 2014 and 2013, respectively. For purposes of reporting periodic benefit costs, the unrecognized actuarial losses and prior service costs will continue to be amortized into plan expenses over future years. Periodic benefit costs under the defined benefit pension plan are reimbursed under the DDS contract as SDICDSI funds the plan. Although SDICDSI expects that the plan costs will ultimately be funded over future years, plan funding will depend on continued funding by the DDS.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of SDICDSI and the San Diego – Imperial Counties Developmental Services Foundation (the Foundation) hereafter referred to as, collectively, the Organization. Intercompany transactions and accounts are eliminated in the accompanying consolidated financial statements.

The Foundation is a separately incorporated, nonprofit organization in which SDICDSI is the sole member and elects the Chair and Board members. The Foundation was organized to provide fund-raising and other services to benefit children and adults with developmental disabilities residing in San Diego and Imperial Counties.

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the Organization are classified and reported as described below:

> **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed restrictions.
>
> **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

As of June 30, 2014 and 2013, the Organization 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 nature of any donor-imposed restrictions.

Contributions, including pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing consolidated 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 support, revenues, and expenses. Principal areas requiring the use of estimates include useful lives of property and equipment and defined benefit pension plan assumptions. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements.

Cash and Cash Equivalents and Concentration of Credit Risk

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

At June 30, 2014 and throughout the year, the Organization has maintained cash balances with one of its financial institutions in excess of federally insured limits.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Contracts Receivable from State and Federal Agencies

Contracts receivable from state and federal agencies and contract support are recorded on the accrual method as related expenses are incurred.

Receivables from Intermediate Care Facility Vendors

The Centers for Medicare and Medicaid Services (CMS) has approved federal financial participation in the funding of the day and transportation services related to the SDICDSI's Intermediate Care Facility (ICF) services. The federal rules allow for only one provider of the ICF service, requiring all the Medicaid funding for the ICF resident to go through the applicable vendors. SDICDSI receives a 1.5% administrative fee based on the funds received to cover the additional workload.

The DDS has directed SDICDSI to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. SDICDSI was directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICFs. DDS advances the amount according to the state claim to the ICFs. The ICFs are then required to pass on the payments received, as well as SDICDSI's administrative fee to SDICDSI within 30 days of receipt of funds from the State Controller's Office.

Investments

Investments are recorded at fair market value. Unrealized gains and losses are included in the change in net assets (deficit).

Property and Equipment

Pursuant to the terms of the DDS contract, SDICDSI equipment purchases become the property of DDS and, accordingly, are charged as expense when incurred. Property and equipment pertaining to the Foundation and corporate funds are stated at cost and depreciated using the straight-line method over their estimated useful lives.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Long-Lived Assets

The Organization reviews long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Organization records impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less costs to sell.

Leave and Retirement Benefits

SDICDSI has accrued a liability for leave benefits earned and retirement obligations discussed in Note 10. However, such benefits are reimbursed under the DDS contract only when actually paid. SDICDSI has also recorded a receivable from the DDS for the accrued benefits to reflect the future reimbursement of such benefits.

Defined Benefit Pension Plan

The Organization recognizes the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in the statements of financial position, with an offsetting charge or credit to net assets. Gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net period benefit cost will be recognized each year as a separate charge or credit to net assets (deficit).

Allocation of Expenses

The consolidated statements of functional expenses allocates expenses to the program and supporting service categories based on a direct-cost basis for purchase of services expenses, including salaries and related expenses. Operating expenses are allocated to supporting services, except for travel, which is allocated on a direct-cost basis.

Income Tax Status

The Organization 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. Tax-exempt status is generally granted to nonprofit entities organized for charitable or mutual benefit purposes.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Income Tax Status (Continued)

The Organization recognizes the financial statement benefit of tax positions, such as its filing status as tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Organization 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 Organization's management has evaluated subsequent events from the consolidated statements of financial position date through January 5, 2015, the date at which the consolidated financial statements were available to be issued for the year ended June 30, 2014, and determined there are no other items to disclose.

NOTE 2 – Cash-Client Trust Funds

SDICDSI functions as custodian for receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. The cash balances are segregated from the operating cash accounts of SDICDSI and are restricted for client support. The following is a summary of the client trust operating cash activity:

	For the Fiscal Year Ended June 30,	
	2014	**2013**
Social Security and other client support received	$ 25,404,229	$ 24,478,503
Residential care and other disbursements	25,476,083	25,519,238
Disbursements over support	(71,854)	(1,040,735)
Changes to reconcile disbursements over support to net cash for support and care activities:		
Decrease in amounts due to SDICDSI	(9,539)	(162,684)
Increase (decrease) in receivable from state and federal agencies	38,155	(38,579)
Decrease in cash	(43,238)	(1,241,998)
Cash at beginning of year	2,012,422	3,254,420
Cash at end of year	$ 1,969,184	$ 2,012,422

NOTE 3 – Restricted Cash

Pursuant to the terms of a bond agreement, various funds have been established. (See Note 8.) The Foundation paid off the bonds during the year ended June 30, 2014 and the remaining funds were unrestricted.

	June 30, 2014	June 30, 2013
Reserve fund		$ 940,000
Debt services		559,220
Capital improvements		1,165,035
	None	$ 2,664,255

NOTE 4 – Contracts Receivable from State

As of June 30, 2014 and 2013, the DDS had advanced SDICDSI $68,024,449 and $44,819,555, 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 the DDS.

	June 30, 2014	June 30, 2013
Contracts receivable	$ 80,232,777	$ 66,317,589
Contract advances	(68,024,449)	(44,819,555)
Net contracts receivable	$ 12,208,328	$ 21,498,034

NOTE 5 – Investments

The Organization accounts for investments at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table sets forth by level, within the fair value hierarchy, investment assets at fair value:

	Assets at Fair Value as of June 30, 2014			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds				
Equity based	$ 841,102	$ 841,102		
Total assets at fair value	$ 841,102	$ 841,102	None	None

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 – Investments (Continued)

	Assets at Fair Value as of June 30, 2013			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities	$ 27,740	$ 27,740		
Mutual Funds				
Equity based	753,482	753,482		
Total assets at fair value	$ 781,222	$ 781,222	None	None

Investment income is summarized as follows:

	For the Year Ended June 30,	
	2014	2013
Interest and dividends	$ 25,253	$ 18,027
Unrealized and realized gain	69,435	55,629
	$ 94,688	$ 73,656

NOTE 6 – Property and Equipment

Property and equipment consists of the following:

	June 30, 2014	June 30, 2013	Estimated Useful Lives
Building and improvements	$ 5,708,305	$ 5,708,305	10-40 years
Equipment	33,824	33,824	5 years
	5,742,129	5,742,129	
Less accumulated depreciation	(1,889,174)	(1,662,958)	
	3,852,955	4,079,171	
Land	5,000,000	5,000,000	
	$ 8,852,955	$ 9,079,171	

NOTE 7 – Line of Credit

At June 30, 2014, SDICDSI had a revolving line of credit agreement with a bank, which expired October 15, 2014, whereby it could borrow up to $42,400,000. Subsequent to year-end, the line of credit was renewed until October 15, 2015. Borrowings were secured by substantially all assets of SDICDSI with interest payable monthly at an interest rate of 3.25% at June 30, 2014. There were no amounts outstanding at June 30, 2014. As of June 30, 2013, the balance outstanding totaled $6,000,000.

NOTE 8 – Bonds Payable

In September 2002, the Foundation issued $10,750,000 Certificates of Participation Series 2002 bonds (the Certificates) through the County of San Diego. The bonds are secured by a deed of trust with assignment of rents and fixture filing. The proceeds received from the sale of the Certificates were used by the Foundation to purchase the main office building and related capital improvements, to fund a reserve and project fund for the Certificates, and to pay certain delivery costs of the Certificates. The Foundation incurred bond issuance costs in the amount of $492,898, included in sundry receivables, prepaids and other assets, which are amortized under the interest method over the life of the related bonds payable. Total accumulated amortization as of June 30, 2013 was $217,947. In May 2014, the Foundation paid off the bonds with the proceeds of the note payable described in Note 9. The unamortized bond issuance costs of $274,951 were written off during the year ended June 30, 2014.

NOTE 9 – Note Payable

In March 2014, the Foundation obtained a loan, the proceeds of which were used to pay off the balance on the Certificates of Participation Series 2002 bonds (the Certificates) discussed in Note 8. The note is secured by a deed of trust with assignment of leases, rents, profits and fixture filing. The note is payable in monthly installments of $61,983, including interest at 4.21%, and matures in April 2029.

Future principal payments on the note payable are as follows:

Year Ending June 30,	
2015	$ 406,549
2016	423,999
2017	442,198
2018	461,178
2019	480,973
Thereafter	5,982,452
	$ 8,197,349

NOTE 10 – Defined Benefit Pension Plan

Effective July 1, 2004, SDICDSI adopted a defined benefit pension plan to provide retirement benefits for all employees. The benefits under the plan are funded in accordance with the insurance company contracts. SDICDSI is required to contribute an amount to the plan, after employee contributions to the retirement plan of 6.2%, which is necessary to purchase the contracts that will fund the retirement benefits.

The following table sets forth the plan's funded status:

RECONCILIATION OF BENEFIT OBLIGATION

	June 30, 2014	June 30, 2013
Change in benefit obligation		
Obligation at beginning of year	$ 84,341,853	$ 90,582,256
Service cost	2,907,883	3,587,928
Interest cost	4,001,307	3,637,691
Actuarial (gain) loss	12,439,060	(12,372,204)
Benefit paid	(1,376,796)	(1,093,818)
Benefit obligation at end of year	102,313,307	84,341,853
Change in plan assets		
Fair value of plan assets at beginning of year	39,761,812	32,261,238
Actual return on plan assets	7,130,709	4,148,779
Employer contribution	5,276,040	4,445,613
Benefit paid	(1,376,796)	(1,093,818)
Fair value of plan assets at end of year	50,791,765	39,761,812
Funded status	(51,521,542)	(44,580,041)
Net amount recognized in the consolidated statement of financial position	($ 51,521,542)	($ 44,580,041)

NOTE 10 – Defined Benefit Pension Plan (Continued)

Net periodic postretirement benefit cost consists of the following components:

	For the Year Ended June 30, 2014	For the Year Ended June 30, 2013
Service cost	$ 2,907,883	$ 3,587,928
Interest cost	4,001,307	3,637,691
Expected return on plan assets	(2,844,597)	(2,266,970)
Amortization of transition obligation	2,021,844	2,021,844
Amortization of net loss	740,279	1,912,095
Net periodic benefit cost	$ 6,826,716	$ 8,892,588

All previously unrecognized actuarial gains or losses are reflected in the consolidated statements of financial position. The plan items not yet recognized as a component of periodic plan expenses, but included as a separate charge to net assets, are:

	June 30, 2014	June 30, 2013
Unamortized net transition obligation	$ 6,065,534	$ 8,087,378
Unamortized net loss	24,817,620	17,404,951
	$ 30,883,154	$ 25,492,329

The above net amounts recognized as a separate charge to net assets (deficit) do not have an offsetting accrual from the DDS to reflect the future reimbursement of such benefits. The Organization has accrued a receivable from the DDS for the balance of the accrued benefit obligation of $20,638,388 and $19,087,712 as of June 30, 2014 and 2013, respectively, representing the portion of the accrued benefit obligation which has been recognized as plan expense.

The accumulated benefit obligation was $86,994,948 and $69,717,033 at June 30, 2014 and 2013, respectively. The unamortized net transition obligation as of June 30, 2014 is $6,065,534, with remaining amortization of three years. Annual amortization is $2,021,844.

NOTE 10 – Defined Benefit Pension Plan (Continued)

Assumptions

Weighted-average assumptions used to determine benefit obligations were as follows:

	June 30, 2014	June 30, 2013
Discount rate	4.33%	4.79%
Rate of compensation increase	3.00%	3.50%

Weighted-average assumptions used to determine net periodic benefit cost were as follows:

	June 30, 2014	June 30, 2013
Discount rate	4.79%	4.12%
Expected long-term return on plan assets	6.75%	6.75%
Rate of compensation increase	3.50%	3.50%
Increase in IRS limits	3.00%	3.00%

Weighted-average asset allocations at year-end were as follows:

Asset Category	June 30, 2014	June 30, 2013	Target Allocation
Equity securities	79%	67%	55%
Debt securities	21%	33%	45%
	100%	100%	100%

The investment objective of the plan is to provide a rate of return commensurate with a moderate degree of risk of loss of principal and return volatility. The pension plan assets are invested in a Group Annuity Contract through Minnesota Life Insurance Company. Investment responsibility for the assets is assigned to an Investment Policy Committee of the board of directors of SDICDSI. The assets of the plan are periodically rebalanced to remain within the desired target allocations.

NOTE 10 – Defined Benefit Pension Plan (Continued)

Assumptions (Continued)

Historical rates of return for individual asset classes and future estimated returns are used to develop expected rates of return. These rates of return are applied to the plan's investment policy to determine a range of expected returns.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2014:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 343,677		$ 343,677	
Mutual funds				
Fixed income	10,322,594	$ 10,322,594		
Equities	40,125,494	40,125,494		
Total	$ 50,791,765	$ 50,448,088	$ 343,677	None

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2013:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 1,106,896		$ 1,106,896	
Mutual funds				
Fixed income	11,916,621	$ 11,916,621		
Equities	26,738,295	26,738,295		
Total	$ 39,761,812	$ 38,654,916	$ 1,106,896	None

NOTE 10 – Defined Benefit Pension Plan (Continued)

Estimated Future Benefit Payments

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid on a fiscal year basis:

Year Ending June 30,	
2015	$ 1,617,297
2016	$ 1,784,729
2017	$ 2,219,182
2018	$ 2,798,015
2019	$ 3,343,809
2020-2024	$ 22,323,716

Contributions

The Organization expects to contribute at least the minimum funding requirement to this plan in the fiscal year ending in 2015. In addition, it may contribute additional amounts not yet determined.

NOTE 11 – Commitments and Contingencies

Leases – As Lessee and Related Party Transactions

SDICDSI leases facilities and certain equipment under operating leases expiring in various years through 2027. These leases, which may be renewed for periods up to five years, generally require the lessee to pay all maintenance, insurance, and property taxes and contain a termination clause in the event the annual contract between the DDS and SDICDSI is not renewed. Several leases are subject to periodic adjustment based on price indices or cost increases.

NOTE 11 – Commitments and Contingencies (Continued)

Leases – As Lessee and Related Party Transactions (Continued)

Rental expense for facilities and equipment for the years ended June 30, 2014 and 2013 was approximately $3,467,000 and $3,233,000, respectively. SDICDSI is leasing its main office from the Foundation. The Foundation received approximately $1,847,000 of rental income and common area and utility expense reimbursements from SDICDSI, which was eliminated upon consolidation against the total building rental expense of SDICDSI of approximately $3,467,000 for the year ended June 30, 2014. The Foundation received approximately $1,807,000 of rental income and common area and utility expense reimbursements from SDICDSI, which was eliminated upon consolidation against the total building rental expense of SDICDSI of approximately $3,233,000 for the year ended June 30, 2013.

Future minimum lease payments by SDICDSI for operating leases are as follows:

Year Ending June 30,	Related Party-Foundation	Other	Total
2015	$ 1,522,128	$ 1,270,851	$ 2,792,979
2016	1,522,128	1,024,564	2,546,692
2017	1,522,128	1,050,473	2,572,601
2018	1,522,128	1,077,159	2,599,287
2019	1,522,128	731,467	2,253,595
Thereafter	20,421,883	2,808,940	23,230,823
	$ 28,032,523	$ 7,963,454	$ 35,995,977

NOTE 11 – Commitments and Contingencies (Continued)

Leases – As Lessor and Related Party Transactions

The following is a schedule by years of the Foundation's future minimum rents receivable under noncancellable operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2014:

Year Ending June 30,	Related Party-SDICDSI	Other	Total
2015	$ 1,522,128	$ 20,850	$ 1,542,978
2016	1,522,128	21,540	1,543,668
2017	1,522,128	22,258	1,544,386
2018	1,522,128	9,921	1,532,049
2019	1,522,128	2,700	1,524,828
Thereafter	20,421,883		20,421,883
	$ 28,032,523	$ 77,269	$ 28,109,792

The following schedule provides an analysis of the Foundation's investment in property and equipment held for lease by major classes:

	June 30, 2014	June 30, 2013
Land and buildings	$ 9,400,000	$ 9,400,000
Building improvements	1,308,305	1,308,305
	10,708,305	10,708,305
Less accumulated depreciation	(1,855,350)	(1,629,134)
	$ 8,852,955	$ 9,079,171

NOTE 11 – Commitments and Contingencies (Continued)

Agreement with Insurance Company

SDICDSI had entered into an agreement with an insurance company that requires an irrevocable standby letter of credit for workers' compensation insurance. SDICDSI will pay or reimburse the insurance company for all premiums, administrative expenses, and claims incurred through March 1, 2006 up to a retained limit of $250,000 per incident. This agreement required SDICDSI to establish, in favor of the insurance company, an irrevocable standby letter of credit for $200,000 as security for the agreement. Effective March 1, 2006, SDICDSI changed its workers' compensation carrier and acquired non-participating coverage. The standby letter of credit of $200,000 related to the prior policy is being maintained as security for any potential prior policy claims.

Contingencies

In accordance with the terms of the DDS contract, an audit may be performed by an authorized state representative. Should such audit disclose any unallowable costs, SDICDSI may be liable to the state for reimbursement of such costs. In the opinion of the SDICDSI's management, the effect of any disallowed costs would be immaterial to the consolidated financial statements at June 30, 2014, and for the year then ended.

SDICDSI is dependent on continued funding provided by the DDS to operate and provide services for its clients. SDICDSI's contract with DDS provides funding for services under the Lanterman Act. In the event that the operations of SDICDSI 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 SDICDSI'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.

SDICDSI has elected to self-insure its unemployment insurance. SDICDSI is required to reimburse the state of California for benefits paid to its former employees. In addition, SDICDSI has elected to self-insure a portion of its employee benefits based on actual costs of dental services performed.

NOTE 11 – Commitments and Contingencies (Continued)

Contingencies (Continued)

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

NOTE 12 – Supplemental Disclosure of Cash Flow Information

Interest expense paid during the years ended June 30, 2014 and 2013 was $553,119 and $480,001, respectively.

Supplemental Disclosure of Noncash Investing and Financing Activities

During the year ended June 30, 2014, the Foundation obtained a note payable from a bank in the amount of $8,250,000. The proceeds of the note were offset by the repayment of bonds payable of $8,000,000, the payment of interest on the bonds payable of $24,444, and the payment of financing costs of $37,348.

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/ Pass-Through Grantor/ Grant Title	Federal CFDA Number	Grant Identification Number	Grant Expenditures
U.S. Department of Education			
Passed through State of California Department of Developmental Services			
Special Education – Grants for Infants and Families	84.181	HD099017	$ 1,997,110

Note to Schedule of Expenditures of Federal Awards

Basis of Presentation

The Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of San Diego – Imperial Counties Developmental Services, Inc. and is prepared based on state contract budget allocations. Expenditures reported on the Schedule are reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

	SDICDSI	Foundation	Elimination Entries	Consolidated Balance
ASSETS				
Cash and cash equivalents	$ 14,539,507	$ 3,868,593		$ 18,408,100
Cash – client trust funds	1,969,184			1,969,184
Contracts receivable from state and federal agencies	12,208,328			12,208,328
Receivables from Intermediate Care Facility vendors	3,732,302			3,732,302
Investments		841,102		841,102
Sundry receivables, prepaids, and other assets	340,266			340,266
Due from state-accrued leave and retirement benefits	22,327,739			22,327,739
Property and equipment, net		8,852,955		8,852,955
TOTAL ASSETS	$ 55,117,326	$ 13,562,650		$ 68,679,976
LIABILITIES				
Accounts payable	$ 24,656,432	$ 120,879		$ 24,777,311
Accrued payroll	452,588			452,588
Due to state	5,280,517			5,280,517
Amounts payable under retirement plan	51,521,542			51,521,542
Accrued leave benefits	1,689,351			1,689,351
Amounts held for clients	1,930,998			1,930,998
Loans payable		8,197,349		8,197,349
	85,531,428	8,318,228		93,849,656
NET ASSETS (DEFICIT)				
Unrestricted	(30,414,102)	5,244,422		(25,169,680)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 55,117,326	$ 13,562,650		$ 68,679,976

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

	SDICDSI	Foundation	Elimination Entries	Consolidated Balance
ASSETS				
Cash and cash equivalents	$ 5,622,135	$ 730,004		$ 6,352,139
Cash – client trust funds	2,012,422			2,012,422
Restricted cash		2,664,255		2,664,255
Contracts receivable from state and federal agencies	21,498,034			21,498,034
Receivables from Intermediate Care Facility vendors	3,091,888			3,091,888
Investments		781,222		781,222
Sundry receivables, prepaids, and other assets	401,174	304,913		706,087
Due from state-accrued leave and retirement benefits	20,790,518			20,790,518
Property and equipment, net		9,079,171		9,079,171
TOTAL ASSETS	$ 53,416,171	$ 13,559,565		$ 66,975,736
LIABILITIES				
Accounts payable	$ 23,842,591	$ 282,412		$ 24,125,003
Accrued payroll	501,157			501,157
Line of credit	6,000,000			6,000,000
Amounts payable under retirement plan	44,580,041			44,580,041
Accrued leave benefits	1,702,806			1,702,806
Amounts held for clients	2,002,851			2,002,851
Bonds payable		8,250,000		8,250,000
	78,629,446	8,532,412		87,161,858
NET ASSETS (DEFICIT)				
Unrestricted	(25,213,275)	5,027,153		(20,186,122)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 53,416,171	$ 13,559,565		$ 66,975,736

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	SDICDSI	Foundation	Elimination Entries	Consolidated Balance
SUPPORT AND REVENUE				
Contracts – state and federal agencies	$ 278,460,361			$ 278,460,361
Intermediate Care Facility supplemental services income	9,570,860			9,570,860
Interest and dividend income	73,280	$ 25,253		98,533
Unrealized and realized gain on investments		69,435		69,435
Donations		38,455		38,455
Rental related and other income	743,218	1,911,445	($ 1,847,021)	807,642
	288,847,719	2,044,588	(1,847,021)	289,045,286
EXPENSES				
Program Services				
Client services	29,404,106	53,642		29,457,748
Residential care	65,671,362			65,671,362
Day care and training	95,618,551			95,618,551
Medical programs	4,307,150			4,307,150
Respite service	20,243,145			20,243,145
Independent living costs	21,977,373			21,977,373
Transportation services	15,103,527			15,103,527
Prevention services	4,533,343			4,533,343
Other purchased services	20,512,368			20,512,368
	277,370,925	53,642		277,424,567
Supporting Services				
General and administrative	11,286,796	1,773,677	(1,847,021)	11,213,452
Total Expenses	288,657,721	1,827,319	(1,847,021)	288,638,019
CHANGE IN NET ASSETS (DEFICIT) BEFORE PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	189,998	217,269		407,267
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	(5,390,825)			(5,390,825)
CHANGE IN NET ASSETS (DEFICIT)	(5,200,827)	217,269		(4,983,558)
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	(25,213,275)	5,027,153		(20,186,122)
NET ASSETS (DEFICIT) AT END OF YEAR	($ 30,414,102)	$ 5,244,422	None	($ 25,169,680)

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	SDICDSI	Foundation	Elimination Entries	Consolidated Balance
SUPPORT AND REVENUE				
Contracts – state and federal agencies	$ 262,431,292			$ 262,431,292
Intermediate Care Facility supplemental services income	9,089,308			9,089,308
Interest and dividend income	63,022	$ 18,027		81,049
Unrealized and realized gain on investments		55,629		55,629
Donations		50,622		50,622
Rental related and other income	682,776	1,915,908	($ 1,806,606)	792,078
	272,266,398	2,040,186	(1,806,606)	272,499,978
EXPENSES				
Program Services				
Client services	31,287,720	57,150		31,344,870
Residential care	64,720,643			64,720,643
Day care and training	88,674,572			88,674,572
Medical programs	2,804,258			2,804,258
Respite service	19,481,172			19,481,172
Independent living costs	17,232,755			17,232,755
Transportation services	14,314,839			14,314,839
Prevention services	3,371,656			3,371,656
Other purchased services	18,822,525			18,822,525
	260,710,140	57,150		260,767,290
Supporting Services				
General and administrative	11,567,007	1,516,977	(1,806,606)	11,277,378
Total Expenses	272,277,147	1,574,127	(1,806,606)	272,044,668
CHANGE IN NET ASSETS (DEFICIT) BEFORE PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	(10,749)	466,059		455,310
PENSION-RELATED CHANGES OTHER THAN NET PERIODIC PENSION COST	18,187,952			18,187,952
CHANGE IN NET ASSETS (DEFICIT)	18,177,203	466,059		18,643,262
NET ASSETS (DEFICIT) AT BEGINNING OF YEAR	(43,390,478)	4,561,094		(38,829,384)
NET ASSETS (DEFICIT) AT END OF YEAR	($ 25,213,275)	$ 5,027,153	None	($ 20,186,122)

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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 of
San Diego – Imperial Counties
Developmental Services, Inc.

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 consolidated financial statements of San Diego – Imperial Counties Developmental Services, Inc. (a California nonprofit corporation), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 5, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered San Diego – Imperial Counties Developmental Services, Inc.'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Diego – Imperial Counties Developmental Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of San Diego – Imperial Counties Developmental Services, Inc.'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Diego – Imperial Counties Developmental Services, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Windes, Inc.

Long Beach, California
January 5, 2015

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
San Diego – Imperial Counties
Developmental Services, Inc.

Report on Compliance for Each Major Federal Program

We have audited San Diego – Imperial Counties Developmental Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of San Diego – Imperial Counties Developmental Services Inc.'s major federal programs for the year ended June 30, 2014. San Diego – Imperial Counties Developmental Services, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of San Diego – Imperial Counties Developmental Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about San Diego – Imperial Counties Developmental Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of San Diego – Imperial Counties Developmental Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, San Diego – Imperial Counties Developmental Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of San Diego – Imperial Counties Developmental Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Diego – Imperial Counties Developmental Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Diego – Imperial Counties Developmental Services, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Windes, Inc.

Long Beach, California
January 5, 2015

SAN DIEGO – IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued – Unmodified

Internal control over financial reporting

1. Material weakness(es) identified? – No

2. Significant deficiencies identified? – None reported

3. Noncompliance material to consolidated financial statements noted? – No

Federal Awards

Internal control over major programs

1. Material weakness(es) identified? – No

2. Significant deficiencies identified? – None reported

3. Type of auditors' report issued on compliance for major programs? – Unmodified

4. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? – No

5. Identification of major programs: Special Education – Grants for Infants and Families, CFDA #84.181

6. Dollar threshold used to distinguish between Type A and Type B programs was $300,000.

7. Auditee qualified as low-risk auditee? – Yes

SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT

None

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None