

**San Diego-Imperial Counties
Developmental Services, Inc.**

San Diego, California

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2015 and 2014



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San Diego-Imperial Counties Developmental Services Inc.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of San Diego-Imperial Counties Developmental Services, Inc. (the Organization), a California nonprofit corporation, which comprise the consolidated statement of financial position as of June 30, 2015; 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.

Management's Responsibility for the Financial Statements

The Organization's 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 consolidated 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 audit. We did not audit the financial statements of the San Diego-Imperial Counties Developmental Services Foundation, a wholly-owned subsidiary, whose statements reflect total assets constituting 10 percent of the consolidated total assets at June 30, 2015, and total revenues constituting 1 percent of consolidated total revenues for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for San Diego-Imperial Counties Developmental Services Foundation, is based solely on the report of the other auditors. 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 consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

(Continued)

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 auditors' 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 Organization'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 Organization'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, based on our audit and the report of the other auditors, 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, 2015, 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.

Other Matters

Other Information Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The accompanying Consolidating Schedules of Financial Position and Activities are also presented for the purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

The financial statements of the Organization for the year ended June 30, 2014 were audited by another auditor who expressed an unmodified opinion on those statements on January 5, 2015.

INDEPENDENT AUDITORS' REPORT

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2016 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

KCae Jam, LLP

May 24, 2016
Redding, California

FINANCIAL SECTION

San Diego-Imperial Counties Developmental Services Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30	2015	2014
ASSETS		
Cash and cash equivalents	\$ 11,580,807	\$ 18,408,100
Cash and cash equivalents - client trust funds	2,059,535	1,969,184
Investments	828,092	841,102
Receivable - State Regional Center contracts	88,721,561	80,232,777
Receivable - ICF providers	11,198,957	33,426,159
Sundry receivables, prepaids, and other assets	2,076,329	340,266
Due from state - accrued vacation and retirement	22,365,285	22,327,739
Property and equipment, net	8,865,164	8,852,955
TOTAL ASSETS	\$ 147,695,730	\$ 166,398,282
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 29,974,115	\$ 24,777,311
Advance - State Regional Center contracts	55,748,046	68,024,449
Accrued salaries and payroll taxes	614,189	452,588
Due to state	2,992,986	5,280,517
Accrued pension contribution	57,610,222	51,521,542
Accrued vacation leave benefits	1,726,897	1,689,351
Due to ICF supplemental services	20,139,181	29,693,857
Client trust funds liability	1,993,750	1,930,998
Tenant security deposits	120,880	-
Loans payable	7,795,692	8,197,349
Total Liabilities	178,715,958	191,567,962
Net Assets (Deficit)		
Unrestricted	(31,020,228)	(25,169,680)
Total Net Assets (Deficit)	(31,020,228)	(25,169,680)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 147,695,730	\$ 166,398,282

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

San Diego-Imperial Counties Developmental Services Inc.
CONSOLIDATED STATEMENTS OF ACTIVITIES

Year Ended June 30	2015	2014
REVENUE		
State Regional Center contracts	\$ 299,392,625	\$ 278,460,361
Intermediate Care Facility supplemental services income	9,987,252	9,570,860
Interest and dividend income	124,417	98,533
Special event, net of expenses of \$5,523	20,833	-
Unrealized and realized gain (loss) on investments	(56,702)	69,435
Donations	1,841,725	38,455
Rental related and other income	1,160,710	807,642
TOTAL REVENUE	312,470,860	289,045,286
EXPENSES		
Program Services		
Client services	34,834,500	29,457,748
Residential care	71,634,217	65,671,362
Day care and training	101,667,769	95,618,551
Medical programs	4,890,591	4,307,150
Respite service	22,678,750	20,243,145
Independent living costs	24,705,159	21,977,373
Transportation services	16,217,816	15,103,527
Prevention services	5,631,762	4,533,343
Other purchased services	21,914,818	20,512,368
Total Program Services	304,175,382	277,424,567
Supporting Services		
General and administrative	11,512,914	11,213,452
Total Supporting Services	11,512,914	11,213,452
TOTAL EXPENSES	315,688,296	288,638,019
Change in Net Assets (Deficit) Before Pension-Related Changes Other Than Net Periodic Pension Cost	(3,217,436)	407,267
Pension-Related Changes Other Than Net Periodic Pension Cost	(2,633,112)	(5,390,825)
Change in Net Assets (Deficit)	(5,850,548)	(4,983,558)
Net Assets - Beginning of Year	(25,169,680)	(20,186,122)
Net Assets - End of Year	\$ (31,020,228)	\$ (25,169,680)

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

San Diego-Imperial Counties Developmental Services Inc.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2015	Program Services								
	Client Services	Residential Care	Day Care and Training	Medical Programs	Respite Service	Independent Living Costs	Transportation Services	Prevention Services	Balance Forward
Salaries	\$ 22,706,215	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,706,215
Employee health and retirement benefits	9,797,027	-	-	-	-	-	-	-	9,797,027
Payroll taxes	306,699	-	-	-	-	-	-	-	306,699
Total Salaries and Related Expenses	32,809,941	-	-	-	-	-	-	-	32,809,941
Purchase of services	-	71,634,217	101,667,769	4,890,591	22,678,750	24,705,159	16,217,816	5,631,762	247,426,064
Facility rent	-	-	-	-	-	-	-	-	-
Equipment purchases, rental, and maintenance	-	-	-	-	-	-	-	-	-
General expenses	1,546,384	-	-	-	-	-	-	-	1,546,384
Travel	478,175	-	-	-	-	-	-	-	478,175
Telephone	-	-	-	-	-	-	-	-	-
Legal fees	-	-	-	-	-	-	-	-	-
Outside services	-	-	-	-	-	-	-	-	-
Public information and education	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
Facility maintenance	-	-	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-	-	-
ARCA dues	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-
Accounting fees	-	-	-	-	-	-	-	-	-
Printing	-	-	-	-	-	-	-	-	-
Staff training	-	-	-	-	-	-	-	-	-
Board of Directors' expenses	-	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-	-
Total	\$ 34,834,500	\$ 71,634,217	\$ 101,667,769	\$ 4,890,591	\$ 22,678,750	\$ 24,705,159	\$ 16,217,816	\$ 5,631,762	\$ 282,260,564

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

San Diego-Imperial Counties Developmental Services Inc.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
(Continued)

Year Ended June 30, 2015	Program Services		Supporting Services		Total Expenses
	Balance Brought Forward	Other Purchased Services	Total Program	General and Administrative	
Salaries	\$ 22,706,215	\$ -	\$ 22,706,215	\$ 3,521,802	\$ 26,228,017
Employee health and retirement benefits	9,797,027	-	9,797,027	1,517,599	11,314,626
Payroll taxes	306,699	-	306,699	47,570	354,269
Total Salaries and Related Expenses	32,809,941	-	32,809,941	5,086,971	37,896,912
Purchase of services	247,426,064	21,914,818	269,340,882	-	269,340,882
Facility rent	-	-	-	1,812,277	1,812,277
Equipment purchases, rental, and maintenance	-	-	-	1,553,325	1,553,325
General expenses	1,546,384	-	1,546,384	696,644	2,243,028
Travel	478,175	-	478,175	43,423	521,598
Telephone	-	-	-	286,293	286,293
Legal fees	-	-	-	306,800	306,800
Outside services	-	-	-	418,975	418,975
Public information and education	-	-	-	355,485	355,485
Insurance	-	-	-	180,800	180,800
Facility maintenance	-	-	-	298,645	298,645
Postage	-	-	-	125,072	125,072
ARCA dues	-	-	-	83,672	83,672
Utilities	-	-	-	53,933	53,933
Accounting fees	-	-	-	110,441	110,441
Printing	-	-	-	40,427	40,427
Staff training	-	-	-	18,184	18,184
Board of Directors' expenses	-	-	-	41,547	41,547
Interest expense	-	-	-	-	-
Total	\$ 282,260,564	\$ 21,914,818	\$ 304,175,382	\$ 11,512,914	\$ 315,688,296

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

San Diego-Imperial Counties Developmental Services Inc.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
(Continued)

Year Ended June 30, 2014	Program Services								
	Client Services	Residential Care	Day Care and Training	Medical Programs	Respite Service	Independent Living Costs	Transportation Services	Prevention Services	Balance Forward
Salaries	\$ 20,930,159	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,930,159
Employee health and retirement benefits	7,745,014	-	-	-	-	-	-	-	7,745,014
Payroll taxes	301,866	-	-	-	-	-	-	-	301,866
Total Salaries and Related Expenses	28,977,039	-	-	-	-	-	-	-	28,977,039
Purchase of services	-	65,671,362	95,618,551	4,307,150	20,243,145	21,977,373	15,103,527	4,533,343	227,454,451
Facility rent	-	-	-	-	-	-	-	-	-
General expenses	53,642	-	-	-	-	-	-	-	53,642
Equipment purchases, rental, and maintenance	-	-	-	-	-	-	-	-	-
Travel	427,067	-	-	-	-	-	-	-	427,067
Outside services	-	-	-	-	-	-	-	-	-
Legal fees	-	-	-	-	-	-	-	-	-
Facility maintenance	-	-	-	-	-	-	-	-	-
Telephone	-	-	-	-	-	-	-	-	-
Public information and education	-	-	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-	-	-
ARCA dues	-	-	-	-	-	-	-	-	-
Staff training	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-
Printing	-	-	-	-	-	-	-	-	-
Accounting fees	-	-	-	-	-	-	-	-	-
Board of Directors' expenses	-	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-	-
Total	\$ 29,457,748	\$ 65,671,362	\$ 95,618,551	\$ 4,307,150	\$ 20,243,145	\$ 21,977,373	\$ 15,103,527	\$ 4,533,343	\$ 256,912,199

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

San Diego-Imperial Counties Developmental Services Inc.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
(Continued)

	Program Services			Supporting Services	
	Balance Brought Forward	Other Purchased Services	Total Program	General and Administrative	Total Expenses
Year Ended June 30, 2014					
Salaries	\$ 20,930,159	\$ -	\$ 20,930,159	\$ 3,417,500	\$ 24,347,659
Employee health and retirement benefits	7,745,014	-	7,745,014	1,008,836	8,753,850
Payroll taxes	301,866	-	301,866	49,289	351,155
Total Salaries and Related Expenses	28,977,039	-	28,977,039	4,475,625	33,452,664
Purchase of services	227,454,451	20,512,368	247,966,819	-	247,966,819
Facility rent	-	-	-	1,619,609	1,619,609
General expenses	53,642	-	53,642	1,060,653	1,114,295
Equipment purchases, rental, and maintenance	-	-	-	497,679	497,679
Travel	427,067	-	427,067	35,580	462,647
Outside services	-	-	-	447,313	447,313
Legal fees	-	-	-	344,403	344,403
Facility maintenance	-	-	-	613,765	613,765
Telephone	-	-	-	264,597	264,597
Public information and education	-	-	-	191,594	191,594
Postage	-	-	-	147,074	147,074
Insurance	-	-	-	96,666	96,666
ARCA dues	-	-	-	83,834	83,834
Staff training	-	-	-	68,763	68,763
Depreciation and amortization	-	-	-	240,657	240,657
Utilities	-	-	-	236,369	236,369
Printing	-	-	-	41,315	41,315
Accounting fees	-	-	-	47,050	47,050
Board of Directors' expenses	-	-	-	16,946	16,946
Write-off bond issuance costs	-	-	-	290,472	290,472
Interest expense	-	-	-	393,488	393,488
Total	\$ 256,912,199	\$ 20,512,368	\$ 277,424,567	\$ 11,213,452	\$ 288,638,019

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

San Diego-Imperial Counties Developmental Services Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (5,850,548)	\$ (4,983,558)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	210,570	226,216
Amortization of bond issuance costs	-	314,054
Unrealized and realized (gain) loss on investments	56,702	(69,435)
Cash - client trust funds	-	43,238
Restricted cash	-	2,664,255
(Increase) decrease in:		
Receivable - State Regional Center contracts	(8,488,784)	9,289,706
Receivable - ICF providers	22,227,202	(640,414)
Other receivables	(1,736,063)	60,908
Due from state - accrued vacation leave benefits	(37,546)	(1,537,221)
Increase (decrease) in:		
Accounts payable	5,196,804	652,308
Advance - State Regional Center contracts	(12,276,403)	-
Accrued salaries and payroll taxes	161,601	(48,569)
Due to state	(2,287,531)	5,280,517
Accrued pension contribution	6,088,680	6,941,501
Accrued vacation leave benefits	37,546	(13,455)
Due to ICF supplemental services	(9,554,676)	-
Client trust fund liability	62,752	(71,853)
Tenant security deposits	120,880	-
Net Cash Provided (Used) by Operating Activities	(6,068,814)	18,108,198
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(62,809)	(278,909)
Purchase of property and equipment	(222,580)	-
Proceeds from sale of investments	19,118	288,464
Net Cash Provided (Used) by Investing Activities	(266,271)	9,555
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	-	(6,000,000)
Proceeds from note payable	-	188,208
Repayment of debt	(401,657)	(250,000)
Net Cash Provided (Used) by Financing Activities	(401,657)	(6,061,792)
Net Increase (Decrease) in Cash	(6,736,742)	12,055,961
Cash - Beginning of Year	20,377,284	8,321,323
Cash - End of Year	\$ 13,640,542	\$ 20,377,284
COMPONENTS OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 11,580,807	\$ 18,408,100
Cash and cash equivalents - client trust funds	2,059,535	1,969,184
Total Cash and Cash Equivalents	\$ 13,640,342	\$ 20,377,284

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

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities 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. SDICDSI 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 (the State). 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 SDICDSI'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 SDICDSI purchases client services, shall serve as a member of the SDICDSI 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 SDICDSI and a client service provider of SDICDSI.

The regional center contracts between SDICDSI and the DDS stipulates that funded expenditures are not to exceed contracted amounts. Total contract amounts for the three open claim years were \$300,380,758, \$277,671,678 and \$261,302,497 for the 2014-2015, 2013-2014 and 2012-2013 contract years, respectively. Actual net expenditures under the regional center contracts for the 2014-2015, 2013-2014 and 2012-2013 were \$298,122,309, \$277,610,233 and \$257,590,303, respectively, as of June 30, 2015.

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, 2015 and 2014 on the statements of financial position are primarily the result of SDICDSI's defined benefit pension plan. As further discussed in Note 4, 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 \$33,516,266 and \$30,883,154 as of June 30, 2015 and 2014, 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.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Basis of Accounting The accompanying financial statements have been prepared on the accrual basis of accounting. SDICDSI is reimbursed by the State for expenses incurred in operating the regional center to the extent that the expenses are not covered by client support funds.

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 Organization 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.

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, 2015 and 2014, the Organization had no temporarily or permanently restricted net assets.

Fund Accounting The accounts of the Organization 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 and Concentrations of Credit Risk For purposes of the statement 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.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The Organization maintains substantially all of its cash and temporary cash investments at one financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2015, cash exceeded federally insured limits by \$11,988,888. The Organization has not experienced any loss and management believes it is not exposed to any significant credit risk on such accounts.

State Regional Center Contract Receivables and Advances Contracts receivable from state and federal agencies and contract support are recorded on the accrual method as related expenses are incurred. Contracts receivable represent amounts due from the State for reimbursement of expenditures made by the Organization under the annual Regional Center contracts. Advances represent cash advances received by the Organization under the annual Regional Center contracts. Amounts receivable from the State are offset against advances payable when the State notifies the Organization that a right of offset exists.

The Organization considers all amounts receivable under grant contracts to be collectible; accordingly, no allowance for doubtful accounts exists.

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.

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 based on quoted market prices and consist of endowment funds managed by the San Diego – Imperial Counties Developmental Services Foundation equity based mutual funds. 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.

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.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

Client Trust Funds The Organization assumes a fiduciary relationship with certain clients who cannot manage their own finances. Client support funds are received from private and governmental sources, including the Social Security Administration and Veterans Administration. These funds are used primarily to offset clients' out-of-home placement and living costs, thereby reducing the amount expended by the Organization. These funds are held in a separate bank account and interest earnings are credited to the clients' balances.

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 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.

Leave and Retirement Benefits SDICDSI has accrued a liability for leave benefits earned and retirement obligations. 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.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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.

Income Taxes 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 *California Revenue and Taxation Code*. Tax-exempt status is generally granted to nonprofit entities organized for charitable or mutual benefit purposes.

The Organization files exempt organization returns in the U.S. federal and California jurisdictions. The federal returns for tax years 2011 and beyond, and the California returns for tax years 2010 and beyond, remain subject to examination by the taxing authorities.

The Organization 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 Organization 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 Organization'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, 2015 and 2014, and the Organization does not expect this to change significantly over the next 12 months.

Subsequent Events The Organization's management has evaluated subsequent events from the consolidated statements of financial position date through May 24, 2016, the date at which the consolidated financial statements were available to be issued for the year ended June 30, 2015.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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:

Years Ended June 30	2015	2014
Social security and other client support received	\$ 25,345,606	\$ 25,404,229
Residential care and other disbursements	25,282,854	25,476,083
Support Over (Under) Disbursements	62,752	(71,854)
Changes to reconcile disbursements over support to net cash for support and care activities:		
Increase (Decrease) in amounts due to SDICDSI	108,908	(9,539)
(Increase) Decrease in receivable from state and federal agencies	(81,309)	38,155
Increase (Decrease) in Cash	90,351	(43,238)
Cash at Beginning of Year	1,969,184	2,012,422
Cash at End of Year	\$ 2,059,535	\$ 1,969,184

3. LINE OF CREDIT

At June 30, 2015, SDICDSI had a revolving line of credit agreement with MUFG Union Bank, which expired September 30, 2015, whereby it could borrow up to \$42,400,000. Borrowings were secured by substantially all assets of SDICDSI with interest payable monthly at an interest rate of 5.00%, at June 30, 2015. The line of credit was renewed for \$42,400,000 and will expire September 30, 2016. There were no amounts outstanding at June 30, 2015 and 2014.

4. 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.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

Reconciliation of Benefit Obligation

Years Ended June 30	2015	2014
Change in Benefit Obligation		
Obligation at beginning of year	\$ 102,313,307	\$ 84,341,853
Service cost	3,402,924	2,907,883
Interest cost	4,481,873	4,001,307
Actuarial (gain) loss	3,801,733	12,439,060
Benefit paid	(1,685,349)	(1,376,796)
Benefit Obligation at End of Year	\$ 112,314,488	\$ 102,313,307
Change in Plan Assets		
Fair value of plan assets at beginning of year	\$ 50,791,765	\$ 39,761,812
Actual return on plan assets	1,292,720	7,130,709
Employer contribution	4,305,130	5,276,040
Benefit paid	(1,685,349)	(1,376,796)
Fair Value of Plan Assets at End of Year	\$ 54,704,266	\$ 50,791,765
Funded Status	\$ (57,610,222)	\$ (51,521,542)
Net Amount Recognized in the Consolidated Statement of Financial Position	\$ (57,610,222)	\$ (51,521,542)

Net periodic postretirement benefit cost consists of the following components:

Years Ended June 30	2015	2014
Service cost	\$ 3,402,924	\$ 2,907,883
Interest cost	4,481,873	4,001,307
Expected return on plan assets	(3,512,946)	(2,844,597)
Amortization of transition obligation	2,021,844	2,021,844
Amortization of net loss	1,367,003	740,279
Net Periodic Benefit Cost	\$ 7,760,698	\$ 6,826,716

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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:

Years Ended June 30	2015	2014
Unamortized net transition obligation	\$ 4,043,690	\$ 6,065,534
Unamortized net loss	29,472,576	24,817,620
Total	\$ 33,516,266	\$ 30,883,154

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 \$24,093,956 and \$20,638,388 as of June 30, 2015 and 2014, respectively, representing the portion of the accrued benefit obligation which has been recognized as plan expense.

The accumulated benefit obligation was \$95,851,142 and \$86,994,948 at June 30, 2015 and 2014, respectively. The unamortized net transition obligation as of June 30, 2015 is \$4,043,690, with remaining amortization of two years. Annual amortization is \$2,021,844.

Assumptions

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

Years Ended June 30	2015	2014
Discount rate	4.41%	4.33%
Rate of compensation increase	3.00%	3.00%

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

Years Ended June 30	2015	2014
Discount rate	4.41%	4.33%
Expected long-term return on plan assets	N/A	6.75%
Rate of compensation increase	3.00%	3.00%
Increase in IRC limits	3.00%	3.00%

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

Years Ended June 30	2015	2014	Target Allocation
Asset Category			
Equity securities	71%	79%	55%
Debt securities	29%	21%	45%
Total	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.

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:

June 30, 2015	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	\$ 379,637	\$ -	\$ 379,637	\$ -
Mutual funds				
Fixed income	11,090,066	11,090,066	-	-
Equity based	43,234,563	43,234,563	-	-
Total Assets at Fair Value	\$ 54,704,266	\$ 54,324,629	\$ 379,637	\$ -

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

June 30, 2014	Total	Quoted Prices		
		in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		Level 1	Level 2	Level 3
Money market funds	\$ 343,677	\$ -	\$ 343,677	\$ -
Mutual funds				
Fixed income	10,322,594	10,322,594	-	-
Equity based	40,125,494	40,125,494	-	-
Total	\$ 50,791,765	\$ 50,448,088	\$ 343,677	\$ -

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	Amount
2016	\$ 1,863,849
2017	2,291,022
2018	2,842,795
2019	3,251,601
2020	3,577,648
Thereafter	22,648,583
Total	\$ 36,475,498

Contributions

The Organization expects to contribute at least the minimum funding requirement to this plan in the fiscal year ending in 2016. In addition, it may contribute additional amounts not yet determined.

5. 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 DDS and SDICDSI is not renewed. Several leases are subject to periodic adjustment based on price indices or cost increases.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Rental expense for facilities and equipment for the years ended June 30, 2015 and 2014 was \$3,706,611 and \$3,467,000, respectively. SDICDSI is leasing its main office from the Foundation. The Foundation received \$1,893,528 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 \$3,706,611 for the year ended June 30, 2015. 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 \$3,467,000 for the year ended June 30, 2014.

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

Year Ending June 30	Related Party	Other	Total
2016	\$ 1,522,128	\$ 1,549,190	\$ 3,071,318
2017	1,522,128	1,530,852	3,052,980
2018	1,522,128	1,431,021	2,953,149
2019	1,522,128	1,356,619	2,878,747
2020	1,522,128	1,343,044	2,865,172
Thereafter	18,899,755	5,411,915	24,311,670
Total	\$ 26,510,395	\$ 12,622,641	\$ 39,133,036

Agreement with Insurance Company

SDICDSI had entered into an agreement with an insurance company that required an irrevocable standby letter of credit for workers' compensation insurance. SDICDSI was to 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, 2015, and for the year then ended.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

SDICDSI is dependent on continued funding provided by 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.

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.

6. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest expense paid during the years ended June 30, 2015 and 2014 was \$342,135 and \$553,119, respectively.

7. RELATED-PARTY TRANSACTIONS

California Welfare and Institutions Code, Section 4622, requires that a minimum of 50% of the Organization'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.

8. RECLASSIFICATIONS

Certain reclassifications have been made to prior year amounts to conform to current year presentation.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

9. DISCRETELY PRESENTED COMPONENT UNIT – FOUNDATION

Basis of Presentation San Diego-Imperial Counties Developmental Services Foundation (the Foundation) is a California nonprofit corporation organized to provide fund-raising and other services to benefit children and adults with developmental disabilities residing in San Diego and Imperial Counties. San Diego-Imperial Counties Developmental Services, Inc. (SDICDSI) is a separately incorporated California nonprofit, organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act of the Welfare and Institutions Code of the State of California. SDICDSI is the sole member of the Foundation and elects the Foundation's Chair and board members.

Financial Statement Presentation The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Accordingly, the net assets of the Foundation 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 Organization 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.

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, 2015, the Foundation had no temporarily or permanently restricted net assets.

Contributions Contributions, including unconditional promises to give, 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.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted contributions and net assets have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Legacies and Bequests The Foundation has been named as a beneficiary of a bequest. Bequests are recognized at the time the Foundation's right to them is established by a court and the proceeds are subject to reasonable estimation. The Foundation recorded a receivable and related support for a bequest in the amount of \$1,680,000 as of and for the year ended June 30, 2015.

Revenue Recognition The Foundation leases office facilities to the SDICDSI under a long-term noncancelable operating lease. The lease provides for minimum annual rent during the lease term. The Foundation recognizes minimum rental revenue on a straight-line basis over the lease term. These amounts are eliminated in the consolidated financial statements.

Use of Estimates and Assumptions Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. Significant items subject to such estimates and assumptions include long-lived assets and the useful lives of buildings and improvements.

Concentrations The Foundation derived substantially all of its rental and other related income from the SDICDSI.

The SDICDSI is dependent on funding from the California Department of Developmental Services.

Cash and Cash Equivalents and Concentration of Credit Risk For the purpose of the statement of cash flows, The Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

At June 30, 2015, and throughout the year, the Foundation has maintained cash balances in its bank in excess of federally insured limits. The Foundation maintains its cash and cash equivalents with high quality financial institutions and has not experienced any losses in such accounts.

Land, Buildings, and Improvements Land, buildings, and improvements are stated at cost. Depreciation is computed using the straight-line method over the assets' estimated useful lives of forty years for buildings and ten to twenty years for improvements.

Long-Lived Assets Long-lived assets, such as land, buildings, and improvements, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds its fair value. Management has determined that there is no impairment of long-lived assets as of June 30, 2015. There can be no assurance, however, that market conditions will not change, which could result in impairment of long-lived assets in the future.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Functional Allocation of Expenses The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated based upon the relative benefit received.

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

The Foundation recognizes the financial statement benefit of tax positions, such as filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Foundation 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 Foundation's management has evaluated subsequent events from the statement of financial position date through December 11, 2015, the date the financial statements were available to be issued for the year ended June 30, 2015, and determined that there were no other items to disclose, except as described below.

In September 2015, the Foundation amended its articles of incorporation and bylaws so that the SDICDSI is no longer the sole member of the Foundation and will no longer elect the Foundation's Chair and board members. However, in order to comply with provisions of the Internal Revenue Code and related regulations to ensure the Foundation is supervised or controlled in connection with one or more of its supported organizations, a majority of the Foundation's board of directors shall be officers, directors or other members of the governing bodies of one or more of the supported organizations.

INVESTMENTS - FOUNDATION

The Foundation 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.

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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:

June 30, 2015	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	\$ 828,092	\$ 828,092	\$ -	\$ -		
Total Assets at Fair Value	\$ 828,092	\$ 828,092	\$ -	\$ -		

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	\$ -	\$ -		

Investment income is summarized as follows:

Years Ended June 30	2015	2014
Interest and dividends	\$ 34,446	\$ 18,027
Unrealized and realized gains	(56,702)	55,629
Total	\$ (22,256)	\$ 73,656

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

LAND, BUILDINGS, AND IMPROVEMENTS - FOUNDATION

Land, buildings, and improvements consist of the following:

Years Ended June 30		2015	2014	Estimated Useful Lives
Buildings and improvements	\$	5,930,884	\$ 5,708,305	10-40 years
Equipment		-	33,824	5 years
Subtotal		5,930,884	5,742,129	
Less: Accumulated depreciation		2,065,720	1,889,174	
Subtotal		3,865,164	3,852,955	
Land		5,000,000	5,000,000	
Total Property and Equipment	\$	8,865,164	\$ 8,852,955	

NOTE PAYABLE - FOUNDATION

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). 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 \$61,982, including interest at 4.21%, and matures in April 2029.

Future principal payments on the note payable are as follows:

Years Ended June 30	
2016	\$ 423,993
2017	442,192
2018	461,172
2019	480,966
2020	501,610
Thereafter	5,485,759
Total	\$ 7,795,692

San Diego-Imperial Counties Developmental Services Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

COMMITMENTS AND RELATED PARTY TRANSACTIONS - FOUNDATION

Lease – As Lessor

The Foundation leases office facilities and recognized \$1,916,300 of rental income and common area and utility expense reimbursements during the year ended June 30, 2015. The Foundation received \$1,893,528 of rental income and common area and utility expense reimbursements from SDICDSI during the year ended June 30, 2015. The lease agreement with the SDICDSI expires November 1, 2032. Monthly payments for rental income and operating expense reimbursement are based on terms under the noncancelable lease.

The following is a schedule by years of the Foundation's future minimum rents receivable under noncancelable operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2015:

Year Ending June 30	SDICDSI	Other	Balance
2016	\$ 1,648,915	\$ 21,540	\$ 1,670,455
2017	1,661,083	22,258	1,683,341
2018	1,661,083	9,921	1,671,004
2019	1,661,083	2,700	1,663,783
2020	1,661,083	-	1,661,083
Thereafter	20,486,694	-	20,486,694
Total	\$ 28,779,941	\$ 56,419	\$ 28,836,360

Property Management Agreement

The Foundation contracts with a property management company to manage operations through an agreement. The agreement is renewed annually. The agreement may be canceled by either party on not less than thirty days' advance written notice. Management fees incurred under this agreement for the year ended June 30, 2015 was \$62,288 and is included in facility maintenance on the statement of functional expenses.

SUPPLEMENTARY INFORMATION SECTION

San Diego-Imperial Counties Developmental Services Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Contract Year	Pass-Through Grant Number	Federal CFDA Number	Disbursements/ Expenditures
FEDERAL				
U.S. DEPARTMENT OF EDUCATION				
Passed Through State of California				
Department of Developmental Services -				
Special Education - Grants for Infants and Families with Disabilities (Part C)	14/15	H181A140037	84.181A	\$ 2,128,800
TOTAL U.S. DEPARTMENT OF EDUCATION				2,128,800
Total Expenditures of Federal Awards				\$ 2,128,800

The accompanying note is an integral part of these financial statements.

Note: The schedule of expenditures of federal awards is prepared on the cash basis of accounting as provided by the California Department of Developmental Services.

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 on the cash basis of accounting based on state contract budget allocations. 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 the schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

San Diego-Imperial Counties Developmental Services Inc.

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2015	SDICDSI	Foundation	Elimination Entries	Consolidated Balance
ASSETS				
Cash and cash equivalents	\$ 7,703,112	\$ 3,877,695	\$ -	\$ 11,580,807
Cash and cash equivalents - client trust funds	2,059,535	-	-	2,059,535
Investments	-	828,092	-	828,092
Receivable - State Regional Center contracts	88,721,561	-	-	88,721,561
Receivables - ICF providers	11,198,957	-	-	11,198,957
Sundry receivables, prepaids, and other assets	391,282	1,685,047	-	2,076,329
Due from state - accrued leave and retirement	22,365,285	-	-	22,365,285
Property and equipment, net	-	8,865,164	-	8,865,164
TOTAL ASSETS	\$ 132,439,732	\$ 15,255,998	\$ -	\$ 147,695,730
LIABILITIES				
Accounts payable	\$ 29,965,520	\$ 8,595	\$ -	\$ 29,974,115
Advance - State Regional Center contracts	55,748,046	-	-	55,748,046
Accrued salaries and payroll taxes	614,189	-	-	614,189
Due to state	2,992,986	-	-	2,992,986
Accrued pension contribution	57,610,222	-	-	57,610,222
Accrued vacation leave benefits	1,726,897	-	-	1,726,897
Due to ICF supplemental services	20,139,181	-	-	20,139,181
Client trust funds liability	1,993,750	-	-	1,993,750
Tenant security deposits	-	120,880	-	120,880
Loans payable	-	7,795,692	-	7,795,692
TOTAL LIABILITIES	170,790,791	7,925,167	-	178,715,958
NET ASSETS (DEFICIT)				
Unrestricted	(38,351,059)	7,330,831	-	(31,020,228)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 132,439,732	\$ 15,255,998	\$ -	\$ 147,695,730

San Diego-Imperial Counties Developmental Services Inc.

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

(Continued)

June 30, 2014	SDICDSI	Foundation	Elimination Entries	Consolidated Balance
ASSETS				
Cash and cash equivalents	\$ 14,539,507	\$ 3,868,593	\$ -	\$ 18,408,100
Cash and cash equivalents - client trust funds	1,969,184	-	-	1,969,184
Investments	-	841,102	-	841,102
Receivable - State Regional Center contracts	80,232,777	-	-	80,232,777
Receivables - ICF providers	33,426,159	-	-	33,426,159
Sundry receivables, prepaids, and other assets	340,266	-	-	340,266
Due from state - accrued leave and retirement	22,327,739	-	-	22,327,739
Property and equipment, net	-	8,852,955	-	8,852,955
TOTAL ASSETS	\$ 152,835,632	\$ 13,562,650	\$ -	\$ 166,398,282
LIABILITIES				
Accounts payable	\$ 24,656,432	\$ 120,879	\$ -	\$ 24,777,311
Advance - State Regional Center contracts	68,024,449	-	-	68,024,449
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
Due to ICF supplemental services	29,693,857	-	-	29,693,857
Amounts held for clients	1,930,998	-	-	1,930,998
Loans payable	-	8,197,349	-	8,197,349
TOTAL LIABILITIES	183,249,734	8,318,228	-	191,567,962
NET ASSETS (DEFICIT)				
Unrestricted	(30,414,102)	5,244,422	-	(25,169,680)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 152,835,632	\$ 13,562,650	\$ -	\$ 166,398,282

San Diego-Imperial Counties Developmental Services Inc.

CONSOLIDATING SCHEDULE OF ACTIVITIES

Year Ended June 30, 2015	SDICDSI	Foundation	Elimination Entries	Consolidated Balance
REVENUE				
Contracts - state and federal agencies	\$ 299,392,625	\$ -	\$ -	\$ 299,392,625
Intermediate Care Facility supplemental services income	9,987,252	-	-	9,987,252
Interest and dividend income	89,971	34,446	-	124,417
Special event, net of expenses of \$5,523	-	20,833	-	20,833
Unrealized and realized gain on investments	-	(56,702)	-	(56,702)
Donations	-	1,841,725	-	1,841,725
Rental related and other income	1,135,038	1,919,200	(1,893,528)	1,160,710
TOTAL REVENUE	310,604,886	3,759,502	(1,893,528)	312,470,860
EXPENSES				
Program Services				
Client services	33,288,922	1,545,578	-	34,834,500
Residential care	71,634,217	-	-	71,634,217
Day care and training	101,667,769	-	-	101,667,769
Medical programs	4,890,591	-	-	4,890,591
Respite service	22,678,750	-	-	22,678,750
Independent living costs	24,705,159	-	-	24,705,159
Transportation services	16,217,816	-	-	16,217,816
Prevention services	5,631,762	-	-	5,631,762
Other purchased services	21,914,818	-	-	21,914,818
Total Program Services	302,629,804	1,545,578	-	304,175,382
Supporting Services				
General and administrative	13,278,927	127,515	(1,893,528)	11,512,914
TOTAL EXPENSES	315,908,731	1,673,093	(1,893,528)	315,688,296
Change in Net Assets (Deficit) Before Pension-Related Changes Other Than Net Periodic Pension Cost	(5,303,845)	2,086,409	-	(3,217,436)
Pension-Related Changes Other Than Net Periodic Pension Cost	(2,633,112)	-	-	(2,633,112)
Change in Net Assets (Deficit)	(7,936,957)	2,086,409	-	(5,850,548)
Net Assets (Deficit) - Beginning of Year	(30,414,102)	5,244,422	-	(25,169,680)
Net Assets (Deficit) - End of Year	\$ (38,351,059)	\$ 7,330,831	\$ -	\$ (31,020,228)

San Diego-Imperial Counties Developmental Services Inc.

CONSOLIDATING SCHEDULE OF ACTIVITIES

(Continued)

Year Ended June 30, 2014	SDICDSI	Foundation	Elimination Entries	Consolidated Balance
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
TOTAL REVENUE	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
Total Program Services	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) - Beginning of Year	(25,213,275)	5,027,153	-	(20,186,122)
Net Assets (Deficit) - End of Year	\$ (30,414,102)	\$ 5,244,422	\$ -	\$ (25,169,680)

OTHER REPORTS SECTION

**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
San Diego-Imperial Counties Developmental
Services Inc.
San Diego, California

We have audited, 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, the consolidated financial statements of San Diego-Imperial Counties Developmental Services, Inc. (the Organization), a California nonprofit corporation, which comprise the consolidated statement of financial position as of June 30, 2015; 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 May 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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. 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.

**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 Organization'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 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 result 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 report is not suitable for any other purpose.

KCoe Jam, LLP

May 24, 2016
Redding, California

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

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

Report on Compliance for Each Major Federal Program

We have audited San Diego-Imperial Counties Developmental Services, Inc.'s (the Organization), a California nonprofit corporation, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2015. The Organization's major federal program is 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 program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program 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 the Organization'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 the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

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

(Continued)

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization'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 the Organization'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.

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

(Continued)

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.

KCae Jam, LLP

May 24, 2016
Redding, California

FINDINGS AND RECOMMENDATIONS SECTION

San Diego-Imperial Counties Developmental Services Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2015

SECTION I

SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	No
Identification of major programs:	
CFDA No. 84.181	Special Education – Grants for Infants and Families With Disabilities (Plan C)
Threshold for distinguishing types A and B programs:	\$300,000
Auditee qualified as low-risk auditee?	Yes

San Diego-Imperial Counties Developmental Services Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2015

SECTION II FINDINGS

FINANCIAL STATEMENT AUDIT

None.

SECTION III FINDINGS

FEDERAL AWARDS AUDIT

None.

San Diego-Imperial Counties Developmental Services Inc.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2015

None.