

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

San Diego, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITORS' REPORTS

**June 30, 2017**



# San Diego-Imperial Counties Developmental Services Inc.

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June 30, 2017

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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 Financial Statements**

We have audited the accompanying financial statements of San Diego-Imperial Counties Developmental Services, Inc., a California nonprofit corporation (SDICDSI), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

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

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

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

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

## **INDEPENDENT AUDITORS' REPORT**

(Continued)

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SDICDSI as of June 30, 2017, 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.

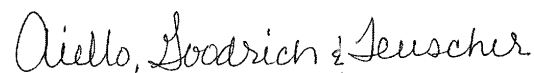
### ***Other Matters***

#### *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 audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the 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 February 13, 2018, on our consideration of SDICDSI'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 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 SDICDSI's internal control over financial reporting and compliance.



February 13, 2018  
Aiello, Goodrich & Teuscher  
An Accountancy Corporation  
Redding, California

## **FINANCIAL SECTION**

# San Diego-Imperial Counties Developmental Services Inc.

## STATEMENT OF FINANCIAL POSITION

June 30, 2017

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### ASSETS

Cash and cash equivalents	\$	18,751,619
Cash and cash equivalents - client trust funds		3,169,983
Receivable - State Regional Center contracts		106,443,810
Receivable - ICF providers		5,174,039
Sundry receivables, prepaids, and other assets		840,435
Due from state - accrued vacation and retirement		33,484,270

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<b>TOTAL ASSETS</b>	\$	<b>167,864,156</b>
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### LIABILITIES AND NET ASSETS

#### Liabilities

Accounts payable	\$	33,500,932
Advance - State Regional Center contracts		95,916,811
Accrued salaries and payroll taxes		1,109,417
Accrued pension contribution		67,617,993
Accrued vacation leave benefits		1,802,524
Client trust funds liability		3,079,095

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<b>Total Liabilities</b>		<b>203,026,772</b>
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#### Net Assets (Deficit)

Unrestricted		(35,162,616)
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<b>Total Net Assets (Deficit)</b>		<b>(35,162,616)</b>
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<b>TOTAL LIABILITIES AND NET ASSETS (DEFICIT)</b>	\$	<b>167,864,156</b>
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*The accompanying notes are an integral part of these financial statements.*

# San Diego-Imperial Counties Developmental Services Inc.

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

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### REVENUE

State Regional Center contracts	\$ 370,086,979
Intermediate Care Facility supplemental services income	12,229,655
Interest income	121,215
Other income	594,586

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<b>TOTAL REVENUE</b>	<b>383,032,435</b>
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### EXPENSES

#### Program Services

Client services	40,724,571
Residential care	93,842,413
Day care and training	123,343,000
Medical programs	5,210,359
Respite service	30,088,541
Independent living costs	14,571,862
Transportation services	19,478,855
Prevention services	8,889,565
Other purchased services	31,129,129

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<b>Total Program Services</b>	<b>367,278,295</b>
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#### Supporting Services

General and administrative	15,717,363
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<b>Total Supporting Services</b>	<b>15,717,363</b>
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<b>TOTAL EXPENSES</b>	<b>382,995,658</b>
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#### Change in Net Assets (Deficit) Before Pension-Related

Changes Other Than Net Periodic Pension Cost	36,777
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#### Pension-Related Changes Other Than

Net Periodic Pension Cost	16,743,984
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<b>Change in Net Assets (Deficit)</b>	<b>16,780,761</b>
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<b>Net Assets (Deficit) - Beginning of Year</b>	<b>(51,943,377)</b>
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<b>Net Assets (Deficit) - End of Year</b>	<b>\$ (35,162,616)</b>
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*The accompanying notes are an integral part of these financial statements.*

# San Diego-Imperial Counties Developmental Services Inc.

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017	Program Services						Balance Forward
	Client Services	Residential Care	Day Care and Training	Medical Programs	Respite Service	Independent Living Costs	
Salaries	\$ 28,164,175	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,164,175
Employee health and retirement benefits	11,696,300	-	-	-	-	-	11,696,300
Payroll taxes	395,494	-	-	-	-	-	395,494
<b>Total Salaries and Related Expenses</b>	<b>40,255,969</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,255,969</b>
Purchase of services	-	93,842,413	123,343,000	5,210,359	30,088,541	14,571,862	267,056,175
Facility rent	-	-	-	-	-	-	-
General expenses	-	-	-	-	-	-	-
Facility maintenance	-	-	-	-	-	-	-
Equipment purchases, rental, and maintenance	-	-	-	-	-	-	-
Outside services	-	-	-	-	-	-	-
Public information and education	-	-	-	-	-	-	-
Telephone	-	-	-	-	-	-	-
Legal fees	-	-	-	-	-	-	-
ARCA dues	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-
Travel	468,602	-	-	-	-	-	468,602
Staff training	-	-	-	-	-	-	-
Accounting fees	-	-	-	-	-	-	-
Board of Directors' expenses	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 40,724,571</b>	<b>\$ 93,842,413</b>	<b>\$ 123,343,000</b>	<b>\$ 5,210,359</b>	<b>\$ 30,088,541</b>	<b>\$ 14,571,862</b>	<b>\$ 307,780,746</b>

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



**San Diego-Imperial Counties Developmental Services Inc.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
(Continued)

Year Ended June 30, 2017	Program Services					Supporting Services	
	Balance Brought Forward	Transportation Services	Prevention Services	Other Purchased Services	Total Program	General and Administrative	Total Expenses
Salaries	\$ 28,164,175	\$ -	\$ -	\$ -	\$ 28,164,175	\$ 3,586,980	\$ 31,751,155
Employee health and retirement benefits	11,696,300	-	-	-	11,696,300	2,162,817	13,859,117
Payroll taxes	395,494	-	-	-	395,494	50,370	445,864
<b>Total Salaries and Related Expenses</b>	<b>40,255,969</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,255,969</b>	<b>5,800,167</b>	<b>46,056,136</b>
Purchase of services	267,056,175	19,478,855	8,889,565	31,129,129	326,553,724		326,553,724
Facility rent	-	-	-	-	-	3,957,364	3,957,364
General expenses	-	-	-	-	-	1,345,858	1,345,858
Facility maintenance	-	-	-	-	-	609,746	609,746
Equipment purchases, rental, and maintenance	-	-	-	-	-	1,304,061	1,304,061
Outside services	-	-	-	-	-	605,571	605,571
Public information and education	-	-	-	-	-	472,692	472,692
Telephone	-	-	-	-	-	324,647	324,647
Legal fees	-	-	-	-	-	264,012	264,012
ARCA dues	-	-	-	-	-	106,406	106,406
Postage	-	-	-	-	-	33,290	33,290
Insurance	-	-	-	-	-	637,831	637,831
Utilities	-	-	-	-	-	49,026	49,026
Travel	468,602	-	-	-	468,602	44,206	512,808
Staff training	-	-	-	-	-	61,913	61,913
Accounting fees	-	-	-	-	-	63,700	63,700
Board of Directors' expenses	-	-	-	-	-	36,873	36,873
<b>Total</b>	<b>\$ 307,780,746</b>	<b>\$ 19,478,855</b>	<b>\$ 8,889,565</b>	<b>\$ 31,129,129</b>	<b>\$ 367,278,295</b>	<b>\$ 15,717,363</b>	<b>\$ 382,995,658</b>

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

# San Diego-Imperial Counties Developmental Services Inc.

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

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### CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 16,780,761
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) decrease in:	
Receivable - State Regional Center contracts	(39,487,115)
Receivable - ICF providers	(1,723,894)
Other receivables	(245,385)
Due from state - accrued vacation leave benefits	(4,096,874)
Increase (decrease) in:	
Accounts payable	4,646,002
Advance - State Regional Center contracts	38,827,249
Accrued salaries and payroll taxes	246,417
Accrued pension contribution	(12,691,789)
Accrued vacation leave benefits	44,679
Client trust fund liability	1,194,807

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<b>Net Cash Provided by Operating Activities</b>	<b>3,494,858</b>
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<b>Net Increase in Cash</b>	<b>3,494,858</b>
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<b>Cash - Beginning of Year</b>	<b>18,426,744</b>
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<b>Cash - End of Year</b>	<b>\$ 21,921,602</b>
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### COMPONENTS OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents	\$ 18,751,619
Cash and cash equivalents - client trust funds	3,169,983

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<b>Total Cash and Cash Equivalents</b>	<b>\$ 21,921,602</b>
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*The accompanying notes are an integral part of these financial statements.*

# San Diego-Imperial Counties Developmental Services Inc.

## NOTES TO THE FINANCIAL STATEMENTS

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### 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 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 SDICDSI purchases client services, shall serve as a member of 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 \$380,223,160, \$327,113,920 and \$302,677,818 for the 2016-2017, 2015-2016 and 2014-2015 contract years, respectively. Actual net expenditures under the regional center contracts for the 2016-2017, 2015-2016 and 2014-2015 were \$373,040,073, \$318,576,531, and \$301,202,573, respectively, as of June 30, 2017.

As discussed above, SDICDSI operates under contracts with the DDS. Contract revenue is funded on a cost reimbursement basis. The net deficit reported as of June 30, 2017, on the statement of financial position is 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 \$35,936,247 as of June 30, 2017. 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 FINANCIAL STATEMENTS

(Continued)

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**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.

**Financial Statement Presentation** SDICDSI 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 SDICDSI 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 SDICDSI 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, 2017, SDICDSI had no temporarily or permanently restricted net assets.

**Fund Accounting** The accounts of SDICDSI 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, SDICDSI considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

SDICDSI 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, 2017, cash exceeded federally insured limits by \$23,357,908. SDICDSI 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 SDICDSI under the annual Regional Center contracts. Advances represent cash advances received by SDICDSI under the annual Regional Center contracts. Amounts receivable from the State are offset against advances payable when the State notifies SDICDSI that a right of offset exists.

# San Diego-Imperial Counties Developmental Services Inc.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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SDICDSI 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 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.

**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. SDICDSI is required to maintain memorandum records of equipment purchases and dispositions.

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

**Client Trust Funds** SDICDSI 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 SDICDSI. 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. Approximately 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.

# San Diego-Imperial Counties Developmental Services Inc.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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**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** SDICDSI 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 statement 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.

**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 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 financial statements.

**Income Taxes** SDICDSI 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.

SDICDSI 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. SDICDSI 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. SDICDSI'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, 2017, and SDICDSI does not expect this to change significantly over the next 12 months.

**Subsequent Events** SDICDSI's management has evaluated subsequent events from the statement of financial position date through February 13, 2018, the date at which the financial statements were available to be issued for the year ended June 30, 2017.

## San Diego-Imperial Counties Developmental Services Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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#### 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:

Year Ended June 30, 2017

Social security and other client support received	\$ 26,174,629
Residential care and other disbursements	24,979,822
<b>Support Over (Under) Disbursements</b>	<b>1,194,807</b>
Changes to reconcile support over disbursements to net cash for support and care activities:	
Increase (Decrease) in amounts due to SDICDSI	121,474
(Increase) Decrease in receivable from state and federal agencies	(124,652)
<b>Increase (Decrease) in Cash</b>	<b>1,191,629</b>
<b>Cash at Beginning of Year</b>	<b>1,978,354</b>
<b>Cash at End of Year</b>	<b>\$ 3,169,983</b>

#### 3. LINE OF CREDIT

At June 30, 2017, SDICDSI had a revolving line of credit agreement with MUFG Union Bank whereby it could borrow up to \$48,000,000. Borrowings are secured by substantially all assets of SDICDSI with interest payable monthly at the banks reference rate, which was 4.25% at June 30, 2017. The line of credit expired on October 31, 2107, and was renewed for six more months. The balance at June 30, 2017 was \$0.

#### 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 FINANCIAL STATEMENTS

(Continued)

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

### Reconciliation of Benefit Obligation

Year Ended June 30, 2017

<b>Change in Benefit Obligation</b>	
Obligation at beginning of year	\$ 136,970,172
Service cost	4,236,977
Interest cost	4,929,826
Actuarial (gain) loss	(7,682,102)
Benefit paid	(2,259,850)
<b>Benefit Obligation at End of Year</b>	<b>\$ 136,195,023</b>
<b>Change in Plan Assets</b>	
Fair value of plan assets at beginning of year	\$ 56,660,390
Actual return on plan assets	7,746,214
Employer contribution	6,430,276
Benefit paid	(2,259,850)
<b>Fair Value of Plan Assets at End of Year</b>	<b>\$ 68,577,030</b>
<b>Funded Status</b>	<b>\$ (67,617,993)</b>
<b>Net Amount Recognized in the Statement of Financial Position</b>	<b>\$ (67,617,993)</b>

Net periodic postretirement benefit cost consists of the following components:

Year Ended June 30, 2017

Service cost	\$ 4,236,977
Interest cost	4,929,826
Expected return on plan assets	(3,914,339)
Amortization of transition obligation	2,021,846
Amortization of net loss	3,208,161
<b>Net Periodic Benefit Cost</b>	<b>\$ 10,482,471</b>



## San Diego-Imperial Counties Developmental Services Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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All previously unrecognized actuarial gains or losses are reflected in the 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 (deficit), are:

Year Ended June 30, 2017	
Unamortized net loss	\$ 35,936,247
<b>Total</b>	<b>\$ 35,936,247</b>

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. SDICDSI has accrued a receivable from the DDS for the balance of the accrued benefit obligation of \$31,681,746 as of June 30, 2017, representing the portion of the accrued benefit obligation which has been recognized as plan expense.

The accumulated benefit obligation was \$116,828,638 at June 30, 2017. The unamortized net transition obligation as of June 30, 2017 is \$0. Amortization was \$2,021,846 for the year ended June 30, 2017.

#### Assumptions

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

Year Ended June 30, 2017	
Discount rate	3.85%
Rate of compensation increase	3.00%

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

Year Ended June 30, 2017	
Discount rate	3.85%
Expected long-term return on plan assets	6.75%
Rate of compensation increase	3.00%
Increase in IRS limits	3.00%

# San Diego-Imperial Counties Developmental Services Inc.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

Year Ended June 30, 2017

Asset Category	
Equity securities	77%
Debt securities	23%
<b>Total</b>	<b>100%</b>

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, 2017	Total	Quoted Prices	Significant	Significant
		in Active	Other	Significant
		Markets for	Observable	Unobservable
		Identical Assets	Inputs	Inputs
		Level 1	Level 2	Level 3
Money market funds	\$ 1,851,266	\$ 1,851,266	\$ -	\$ -
<b>Mutual Funds</b>				
Columbia Contrarian Core	4,971,165	4,971,165	-	-
Templeton Global Bond, Class A	2,032,928	2,032,928	-	-
Columbia Dividend Opportunity	866,419	866,419	-	-
Metro West Ttl Rtn Bd Admin	1,344,206	1,344,206	-	-
Amer Funds New Persp Fund, R6	4,458,998	4,458,998	-	-
Invesco Intl Growth, R5	2,333,110	2,333,110	-	-
Winslow Capital Large Cap Gro	4,348,844	4,348,844	-	-
Loomis Sayles Inv Gr Bond Class A	1,199,903	1,199,903	-	-
Brck Strat Inc Opps Instl	2,433,140	2,433,140	-	-
Eaton Vance Atlanta Smid-Cap A	5,156,168	5,156,168	-	-
AB Discovery Value Z	1,702,616	1,702,616	-	-
Intech US Core	4,884,349	4,884,349	-	-
DFA Infl-Protected Sec Port, I	1,099,888	1,099,888	-	-
DFA Emerging Markets Val Port	1,219,244	1,219,244	-	-
Perkins Small Cap Value	1,090,649	1,090,649	-	-
Causeway Intl Value Instl	668,825	668,825	-	-
Goldman Sachs Shrt Dur Govt	5,572,744	5,572,744	-	-
TIAA-Cref Intl Eq Idx Instl	1,272,882	1,272,882	-	-
Blackrock Global Allocation	12,299,843	12,299,843	-	-
Janus Triton N	3,993,995	3,993,995	-	-
Perkins Mid Cap Value N	3,775,848	3,775,848	-	-
<b>Total</b>	<b>\$ 68,577,030</b>	<b>\$ 68,577,030</b>	<b>\$ -</b>	<b>\$ -</b>

## San Diego-Imperial Counties Developmental Services Inc.

### NOTES TO THE FINANCIAL STATEMENTS

(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	Amount
2018	\$ 3,079,197
2019	3,431,600
2020	3,721,298
2021	4,074,781
2022	4,483,258
Thereafter	26,317,989
<b>Total</b>	<b>\$ 45,108,123</b>

#### Contributions

SDICDSI expects to contribute at least the minimum funding requirement to this plan in the fiscal year ending in 2018. In addition, it may contribute additional amounts not yet determined.

## 5. COMMITMENTS AND CONTINGENCIES

#### Leases

SDICDSI leases facilities and certain equipment under operating leases expiring in various years through 2032. 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.

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

Year Ending June 30	Total
2018	\$ 3,227,938
2019	3,180,824
2020	3,168,761
2021	3,135,450
2022	3,116,055
Thereafter	20,070,772
<b>Total</b>	<b>\$ 35,899,800</b>

Rental expense for facilities and equipment for the year ended June 30, 2017, was \$4,235,502.

# San Diego-Imperial Counties Developmental Services Inc.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### **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 SDICDSI's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2017, and for the year then ended.

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 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, 2017 was \$0.

# San Diego-Imperial Counties Developmental Services Inc.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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### 7. RELATED-PARTY TRANSACTIONS

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

**SUPPLEMENTARY INFORMATION SECTION**

# San Diego-Imperial Counties Developmental Services Inc.

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Contract Year	Pass-Through Grant Number	Federal CFDA Number	Disbursements/Expenditures
<b>FEDERAL</b>				
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed Through State of California				
Department of Developmental Services -				
Special Education - Grants for Infants and				
Families with Disabilities (Part C)				
	16/17	H181A160037	84.181A	\$ 1,876,878
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>				<b>1,876,878</b>
<b>Total Expenditures of Federal Awards</b>				<b>\$ 1,876,878</b>

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

### 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 as provided by the California Department of Developmental Services. The information in this schedule is presented in accordance with Title 2 U.S Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the schedule may differ from amounts presented or used in the preparation of the basic financial statements. SDICDSI has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

## **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 financial statements of San Diego-Imperial Counties Developmental Services, Inc., a California nonprofit corporation (SDICDSI), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated February 13, 2018.

***Internal Control Over Financial Reporting***

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

**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 SDICDSI's 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 SDICDSI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SDICDSI's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

*Aiello, Goodrich & Teuscher*

February 13, 2018

Aiello, Goodrich & Teuscher

An Accountancy Corporation

Redding, California



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE UNIFORM GUIDANCE**

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, a California nonprofit corporation (SDICDSI), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on SDICDSI's major federal program for the year ended June 30, 2017. SDICDSI'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 on SDICDSI'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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 SDICDSI'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 SDICDSI's compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH THE UNIFORM GUIDANCE**

(Continued)

***Opinion on Each Major Federal Program***

In our opinion, SDICDSI 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, 2017.

***Report on Internal Control Over Compliance***

Management of SDICDSI 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 SDICDSI'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 the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 SDICDSI'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 IN  
ACCORDANCE WITH THE UNIFORM GUIDANCE**

(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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Aiello, Goodrich & Teuscher*

February 13, 2018

Aiello, Goodrich & Teuscher

An Accountancy Corporation

Redding, California

## **FINDINGS AND RECOMMENDATIONS SECTION**

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2017

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**SECTION I  
SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Is any noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No
Identification of major programs:	
CFDA No.    84.181    Special Education – Grants for Infants and Families With Disabilities (Part C)	
Threshold for distinguishing types A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

**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, 2017

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None