

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

San Diego, California

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS**

June 30, 2019



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 Financial Statements

We have audited the accompanying financial statements of San Diego-Imperial Counties Developmental Services, Inc. (SDICDSI), a California nonprofit corporation, which comprise the statement of financial position as of June 30, 2019, 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, 2019, 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 July 29, 2020, 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 solely 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 effectiveness of SDICDSI's 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.

AGT CPAs & Advisors

July 29, 2020
AGT CPAs & Advisors
Redding, California

FINANCIAL SECTION

San Diego-Imperial Counties Developmental Services, Inc.
STATEMENT OF FINANCIAL POSITION

June 30, 2019

ASSETS

Cash and cash equivalents	\$ 19,095,734
Cash and cash equivalents - client trust funds	2,107,489
Receivable - State Regional Center contracts	125,347,391
Receivable - ICF providers	5,397,244
Sundry receivables, prepaids, and other assets	1,094,349
Due from state - deferred rent	384,660
Due from state - accrued vacation and retirement	32,632,115

TOTAL ASSETS \$ 186,058,982

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 39,013,425
Advance - State Regional Center contracts	108,365,574
Accrued salaries and payroll taxes	1,891,625
Accrued pension contribution	80,004,195
Deferred rent	384,660
Accrued vacation leave benefits	2,016,658
Client trust funds liability	1,894,821

Total Liabilities 233,570,958

Net Assets (Deficit)

Without donor restrictions (47,511,976)

Total Net Assets (Deficit) (47,511,976)

TOTAL LIABILITIES AND NET ASSETS (DEFICIT) \$ 186,058,982

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, 2019

REVENUE	
State Regional Center contracts	\$ 431,161,202
Intermediate Care Facility supplemental services income	12,133,852
Interest income	226,679
Contribution income	10,100
Other income	1,039,645
TOTAL REVENUE	444,571,478
EXPENSES	
Program Services	
Client services	37,844,903
Residential care	115,774,784
Day care and training	136,041,923
Medical programs	7,452,406
Respite service	42,615,724
Independent living costs	16,611,414
Transportation services	21,059,362
Prevention services	12,554,897
Other purchased services	35,845,114
Total Program Services	425,800,527
Supporting Services	
General and administrative	17,549,544
Total Supporting Services	17,549,544
TOTAL EXPENSES	443,350,071
Change in Net Assets (Deficit) Before Pension-Related Changes Other Than Net Periodic Pension Cost	1,221,407
Pension-Related Changes Other Than Net Periodic Pension Cost	(14,974,000)
Change in Net Assets (Deficit)	(13,752,593)
Net Assets (Deficit) - Beginning of Year	(33,759,383)
Net Assets (Deficit) - End of Year	\$ (47,511,976)

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, 2019	Program Services						Balance Forward
	Client Services	Residential Care	Day Care and Training	Medical Programs	Respite Service	Independent Living Costs	
Salaries	\$ 31,193,928	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,193,928
Employee health and retirement benefits	5,640,347	-	-	-	-	-	5,640,347
Payroll taxes	440,416	-	-	-	-	-	440,416
Total Salaries and Related Expenses	37,274,691	-	-	-	-	-	37,274,691
Purchase of services	-	115,774,784	136,041,923	7,452,406	42,615,724	16,611,414	318,496,251
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	570,212	-	-	-	-	-	570,212
Staff training	-	-	-	-	-	-	-
Accounting fees	-	-	-	-	-	-	-
Board of Directors' expenses	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-
Total	\$ 37,844,903	\$ 115,774,784	\$ 136,041,923	\$ 7,452,406	\$ 42,615,724	\$ 16,611,414	\$ 356,341,154

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, 2019	Program Services				Supporting Services		Total Expenses
	Balance Brought Forward	Transportation Services	Prevention Services	Other Purchased Services	Total Program	General and Administrative	
Salaries	\$ 31,193,928	\$ -	\$ -	\$ -	\$ 31,193,928	\$ 3,439,862	\$ 34,633,790
Employee health and retirement benefits	5,640,347	-	-	-	5,640,347	2,722,596	8,362,943
Payroll taxes	440,416	-	-	-	440,416	48,566	488,982
Total Salaries and Related Expenses	37,274,691	-	-	-	37,274,691	6,211,024	43,485,715
Purchase of services	318,496,251	21,059,362	12,554,897	35,845,114	387,955,624	-	387,955,624
Facility rent	-	-	-	-	-	4,290,765	4,290,765
General expenses	-	-	-	-	-	1,682,133	1,682,133
Facility maintenance	-	-	-	-	-	1,685,944	1,685,944
Equipment purchases, rental, and maintenance	-	-	-	-	-	756,832	756,832
Outside services	-	-	-	-	-	421,242	421,242
Public information and education	-	-	-	-	-	892,186	892,186
Telephone	-	-	-	-	-	577,245	577,245
Legal fees	-	-	-	-	-	383,069	383,069
ARCA dues	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	370,775	370,775
Utilities	-	-	-	-	-	65,789	65,789
Travel	570,212	-	-	-	570,212	58,663	628,875
Staff training	-	-	-	-	-	77,235	77,235
Accounting fees	-	-	-	-	-	30,000	30,000
Board of Directors' expenses	-	-	-	-	-	46,642	46,642
Interest expense	-	-	-	-	-	-	-
Total	\$ 356,341,154	\$ 21,059,362	\$ 12,554,897	\$ 35,845,114	\$ 425,800,527	\$ 17,549,544	\$ 443,350,071

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, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (13,752,593)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) decrease in:	
Receivable - State Regional Center contracts	(43,748,633)
Receivable - ICF providers	210,040
Sundry receivables, prepaids, and other assets	(244,006)
Due from state - accrued vacation leave benefits	1,990,547
Increase (decrease) in:	
Accounts payable	1,380,020
Advance - State Regional Center contracts	49,920,270
Accrued salaries and payroll taxes	783,618
Accrued pension contribution	12,818,725
Accrued vacation leave benefits	164,728
Client trust fund liability	(773,854)
Net Cash Provided by Operating Activities	8,748,862
Net Increase in Cash	8,748,862
Cash - Beginning of Year	12,454,361
Cash - End of Year	\$ 21,203,223
COMPONENTS OF CASH AND CASH EQUIVALENTS	
Cash and cash equivalents	\$ 19,095,734
Cash and cash equivalents - client trust funds	2,107,489
Total Cash and Cash Equivalents	\$ 21,203,223

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

San Diego-Imperial Counties Developmental Services, Inc.

NOTES TO THE 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 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. Program service payments were made on behalf of persons with developmental disabilities that were governing board members or were related to governing board members.

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 \$432,637,148, \$396,063,887 and \$380,446,439 for the 2018-2019, 2017-2018 and 2016-2017 contract years, respectively. Actual net expenditures under the regional center contracts for the 2018-2019, 2017-2018 and 2016-2017 were \$418,498,957, \$389,877,643, and \$367,930,442, respectively, as of June 30, 2019.

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, 2019, on the statement of financial position is primarily the result of SDICDSI's defined benefit pension plan. As further discussed in Note 5, accounting standards require SDICDSI to recognize as a charge to net assets the actuarial losses which amounted to \$49,388,738 as of June 30, 2019. 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)

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

Net Assets Without Donor Restrictions: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions: Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, SDICDSI had no net assets with donor restrictions.

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, 2019, cash exceeded federally insured limits by \$23,682,460. 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)

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.

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 is directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services are 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. SDICDSI receives a 1.5% administrative fee based on the funds received to cover the additional workload.

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 with or without donor restriction 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)

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).

Deferred Rent SDICDSI leases office facilities under lease agreements that are subject to scheduled acceleration of rental payments. The scheduled rent increases are amortized evenly over the life of the leases. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. SDICDSI has recorded a receivable from the state to offset the deferred rent liability.

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, 2019, and SDICDSI does not expect this to change significantly over the next 12 months.

San Diego-Imperial Counties Developmental Services, Inc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Recently Issued Accounting Pronouncements In May 2014 the FASB issued a new standard on revenue recognition, ASU 2014-09, *Revenue from Contracts with Customers*, with the intent of creating a new, principle-based revenue recognition framework. The ASU creates a new topic in the FASB Accounting Standards Codification, Topic 606, in addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance. The main provisions of the ASU are:

- Establish a new control-based revenue recognition model.
- Changes the basis for deciding when revenue is recognized over time or at a point in time.
- Provides new and more detailed guidance on specific topics.
- Expands and improves disclosures about revenue.

The ASU is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of this ASU on its financial statements.

In February 2016 the FASB issued ASU 2016-02, *Leases* (Topic 842). The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The ASU is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

In June 2018 the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, with the intent of clarifying the definition of an exchange transaction. As a result, NFPs will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). The new guidance requires modified prospective transition. In the period of adoption, the changes will apply to new agreements entered into after the effective date, as well as the remaining portions of any agreements from prior years that have not been completed as of the effective date. However, full retrospective application can be elected, if desired. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of this ASU on their financial statements.

Change in Accounting Principle On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. SDICDSI has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU had no effect on net income or the total net assets.

Subsequent Events SDICDSI's management has evaluated subsequent events from the statement of financial position date through July 29, 2020, the date at which the financial statements were available to be issued for the year ended June 30, 2019.

San Diego-Imperial Counties Developmental Services, Inc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

The COVID-19 outbreak in the United States, and the ensuing Governor's Stay at Home Order that began in March 2020, resulted in temporary business changes through modifications of SDICDSI's operations and offices. While the changes are currently expected to be temporary, there is some uncertainty around the duration of the changes. SDICDSI has made arrangements to conduct its business both on premises and remotely during this time. Currently the California State budget has a growth increase contained in it for the regional center system and there are no triggers to reduce spending even if State revenues are lower than expected.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for purchase of client service and operation expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

June 30, 2019

Cash and cash equivalents	\$ 19,095,734
Receivable - State Regional Center Contracts	125,347,391
Less: Advance State Regional Center Contracts	(108,365,574)
Receivable - Intermediate Care Facility	5,397,244
Total	\$ 41,474,795

SDICDSI, along with other regional centers submit a monthly purchase of service expenditure projection to DDS, beginning in December of each fiscal year. By February 1st of each year, DDS allocates to all regional centers no less than 100% of the enacted budget for Operations and 99% of the enacted budget for Purchase of Service. To do this, it may be necessary to amend SDICDSI's contract in order to allocate funds made available from budget augmentations and to move funds among regional centers. In the event that DDS determines that a regional center has insufficient funds to meet its contractual obligations, DDS makes best efforts to secure additional funds and/or provide the regional center with regulatory and statutory relief. The contract with DDS allows for adjustments to SDICDSI's allocations and for the payment of claims up to two years after the close of each fiscal year.

In addition, SDICDSI maintains a revolving note (Note 4) to manage cash flow requirements as needed should there be delays in reimbursement for expenditures from DDS.

San Diego-Imperial Counties Developmental Services, Inc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. 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, 2019

Social security and other client support received	\$	22,301,411
Residential care and other disbursements		23,075,265
Support Over (Under) Disbursements		(773,854)
Changes to reconcile support over disbursements to net cash for support and care activities:		
Increase (decrease) in amounts due to SDICDSI		123,124
(Increase) decrease in receivable from state and federal agencies		(181,509)
Increase (Decrease) in Cash		(832,239)
Cash - Beginning of Year		2,939,728
Cash - End of Year	\$	2,107,489

4. LINE OF CREDIT

At June 30, 2019, SDICDSI had a revolving line of credit agreement with MUFU Union Bank whereby it could borrow up to \$50,000,000. 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, 2019. The line of credit expired on October 1, 2019, and was renewed in June 2020 for four months. The balance at June 30, 2019 was \$0.

5. 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, 2019

CHANGE IN BENEFIT OBLIGATION

Benefit Obligation - Beginning of Year	\$ 145,166,293
Service cost	3,980,653
Interest cost	5,797,104
Actuarial (gain) loss	14,992,773
Benefit paid	(3,252,276)
Benefit Obligation - End of Year	\$ 166,684,547

CHANGE IN PLAN ASSETS

Fair Value of Plan Assets - Beginning of Year	\$ 77,980,823
Actual return on plan assets	4,045,042
Employer contribution	7,906,763
Benefit paid	(3,252,276)
Fair Value of Plan Assets - End of Year	\$ 86,680,352
Net Liability Recognized in the Statement of Financial Position	\$ 80,004,195

Net periodic postretirement benefit cost consisted of the following components:

Year Ended June 30, 2019

Service cost	\$ 3,980,653
Interest cost	5,797,104
Expected return on plan assets	(5,473,399)
Amortization of net loss (gain)	1,447,130
Net Periodic Benefit Cost	\$ 5,751,488

All previously unrecognized actuarial gains or losses are reflected in the statement 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, 2019

Unamortized net loss	\$ 49,388,738
Total	\$ 49,388,738

San Diego-Imperial Counties Developmental Services, Inc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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 \$30,615,457 as of June 30, 2019, representing the portion of the accrued benefit obligation which has been recognized as plan expense.

The accumulated benefit obligation was \$144,064,613 at June 30, 2019.

Assumptions

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

Year Ended June 30, 2019

Discount rate	3.48%
Rate of compensation increase	3.00%

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

Year Ended June 30, 2019

Discount rate	3.48%
Long-term rate of return	6.75%
Rate of compensation increase	3.00%
Increase in IRS limits	3.00%

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

Year Ended June 30, 2019

Asset Category	
Equity securities	63%
Debt securities	37%
Total	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.

San Diego-Imperial Counties Developmental Services, Inc.
NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

June 30, 2019	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	\$ 4,155,028	\$ 4,155,028	\$ -	\$ -
Mutual Funds				
Columbia Contrarian Core	4,281,442	4,281,442	-	-
Templeton Global Bond, Class A	2,110,687	2,110,687	-	-
Metro West Ttl Rtn Bd Admin	2,321,449	2,321,449	-	-
Amer Funds New Persp Fund, R6	9,375,258	9,375,258	-	-
Invesco Intl Growth, R5	3,095,698	3,095,698	-	-
Loomis Sayles Inv Gr Bond Class A	2,191,616	2,191,616	-	-
Brck Strat Inc Opps Instl	6,713,643	6,713,643	-	-
Columbia Limited Duration Credit Adv	1,058,233	1,058,233	-	-
Eaton Vance Atlanta Smid-Cap A	3,627,488	3,627,488	-	-
AB Discovery Value Z	1,834,686	1,834,686	-	-
Baron Emg Mkts Institut	3,729,193	3,729,193	-	-
Intech US Core	4,217,017	4,217,017	-	-
DFA Infl-Protected Sec Port, I	5,705,817	5,705,817	-	-
Perkins Small Cap Value	1,206,413	1,206,413	-	-
Causeway Intl Value Instl	4,486,068	4,486,068	-	-
Goldman Sachs Shrt Dur Govt	6,857,191	6,857,191	-	-
TIAA-Cref Intl Eq Idx Instl	3,362,653	3,362,653	-	-
Invesco Diversified Dividend R5	1,619,538	1,619,538	-	-
Janus Triton N	3,334,210	3,334,210	-	-
T. Rowe Price Large Cap Growth	4,326,094	4,326,094	-	-
Janus Henderson Mid Cap Val T	4,229,855	4,229,855	-	-
Invesco Equity and Income, R5	2,841,075	2,841,075	-	-
Total	\$ 86,680,352	\$ 86,680,352	\$ -	\$ -

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
2020	\$ 4,032,017
2021	4,377,718
2022	4,796,885
2023	5,132,232
2024	5,072,658
Thereafter	30,990,063
Total	\$ 54,401,573

San Diego-Imperial Counties Developmental Services, Inc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Contributions

SDICDSI expects to contribute at least the minimum funding requirement to this plan in the fiscal year ending in 2020. In addition, SDICDSI may contribute additional amounts not yet determined.

6. 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
2020	\$ 3,389,321
2021	3,461,732
2022	3,487,026
2023	3,407,332
2024	3,032,685
Thereafter	17,397,529
Total	\$ 34,175,625

Rental expense for facilities and equipment for the year ended June 30, 2019, was \$4,567,599.

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.

San Diego-Imperial Counties Developmental Services, Inc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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, 2019, 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.

7. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest expense paid during the year ended June 30, 2019 was \$0.

SUPPLEMENTARY INFORMATION SECTION

San Diego-Imperial Counties Developmental Services, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

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)				
	18/19	H181A180037	84.181A	\$ 2,853,396
TOTAL U.S. DEPARTMENT OF EDUCATION				2,853,396
Total Expenditures of Federal Awards				\$ 2,853,396

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

Purpose of Schedules

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with the Uniform Guidance and state requirements.

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grants activity of San Diego-Imperial Counties Developmental Services, Inc. and is presented on the accrual basis of accounting as provided by the California Department of Developmental Services. The information in this schedule is presented in accordance with the requirements the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*.

Indirect Cost Rate

San Diego-Imperial Counties Developmental Services, Inc. did not elect to use the 10% de minimis method for indirect costs.

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, 2019, 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 July 29, 2020.

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.

AGT CPAs & Advisors

July 29, 2020
AGT CPAs & Advisors
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 (SDICDSI), a California nonprofit corporation compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on SDICDSI's major federal program for the year ended June 30, 2019. 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 for 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, 2019.

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 the 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.

AGT CPAs & Advisors

July 29, 2020
AGT CPAs & Advisors
Redding, California

FINDINGS AND RECOMMENDATIONS SECTION

San Diego-Imperial Counties Developmental Services, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2019

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. 84.181A 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, 2019

None

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

REPORT TO THE BOARD OF DIRECTORS

June 30, 2019





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

We have audited the financial statements of San Diego-Imperial Counties Developmental Services, Inc., a California nonprofit corporation (SDICDSI), as of and for the year ended June 30, 2019, and have issued our report thereon dated July 29, 2020. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated October 18, 2019, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SDICDSI's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of SDICDSI solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding significant control deficiencies (if applicable) and other matters noted during our audit in a separate letter to you dated July 29, 2020.

Planned Scope and Timing of the Audit

The timing of the audit was delayed due to SDICDSI imposed workload restrictions.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Safeguards have been implemented to reduce the threats on our independence. These safeguards include continuing education related to independence and ethics requirements; external peer review of our firm's quality control system; our firm's internal policies and procedures which are designed to monitor compliance with the independence requirements; the involvement of another firm partner who is responsible for completing an independent technical review of the financial statements; and your management's skills, knowledge, experience to oversee any nonattest services provided.

Qualitative Aspects of SDICDSI's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by SDICDSI is included in Note 1 to the financial statements. During the year, as described in Note 1, SDICDSI adopted ASU 2016-14, which changed certain net asset descriptions and added new disclosures. Accordingly, the cumulative effect of the accounting changes as of the beginning of the year has been reported in the Statement of Activities.. No matters have come to our attention that would require us, under professional standards, to inform you about: (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were the estimate of receivables and the estimate for the pension liability.

Management's estimate of the receivables is based on management's historical experience. Management's estimate of the pension liability is based on an actuarial determination using various actuarial assumptions, which are described in the notes to the financial statements. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit other than the time delays noted above.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements With Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to SDICDSI's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations Requested From Management

We have requested certain written representations from management, which are included in the management representation letter dated July 29, 2020.

Management Consultations With Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with SDICDSI, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting SDICDSI, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as SDICDSI's auditors.

This report is intended solely for the information and use of the Board of Directors and management of the San Diego-Imperial Counties Developmental Services, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

AGT CPAs & Advisors

July 29, 2020
AGT CPAs & Advisors
Redding, California

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

MANAGEMENT COMMENTS LETTER

June 30, 2019





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

In planning and performing our audit of the financial statements of San Diego-Imperial Counties Developmental Services, Inc. (SDICDSI), as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered SDICDSI's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control that we consider to be a material weakness. However, as discussed below, we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated July 29, 2020, on the financial statements of SDICDSI. We will review the status of these comments during our next engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2018-001 - FIXED ASSET TAGGING

Condition

During our audit of the prior year, we noted that the state-owned fixed assets schedule and tagging of state-owned fixed assets were not being kept up to date. In addition, we noted some assets in the fixed asset schedule which had been recorded with incorrect amounts and/or dates placed in service. We also identified a couple of assets that were above the \$5,000 threshold but not tagged and added to the state schedule.

Recommendation

We recommended that management keep the state asset schedule up to date and reconcile the schedule each year to an inventory count. We also recommend management develop a control to ensure all assets over \$5,000 are tagged and added to the schedule as required by System Award Management (SAM) guidelines.

Status

Resolved

2018-002 – ACCOUNTS RECEIVABLE RECONCILIATION

Condition

During our audit of the prior year, the accounts receivable balances for prior years were not fully reconciled before the audit.

Recommendation

We recommended that SDICDSI should be reconciling the accounts receivable balances to the general ledger and all reconciling items should be accounted for at year end before audit fieldwork begins.

Status

Resolved

This communication is intended solely for the information and use of management, the Board of Directors, and others within SDICDSI, and is not intended to be and should not be used by anyone other than these specified parties.

AGT CPAs & Advisors

July 29, 2020
AGT CPAs & Advisors
Redding, California