



## San Diego Center for Children

Financial Statements, Schedule of  
Expenditures of Federal Awards, and  
Independent Auditor's Reports Required by  
*Government Auditing Standards* and  
Uniform Guidance

As of and for the Year Ended June 30, 2016  
(With Comparative Information for June 30, 2015)

## San Diego Center for Children

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Independent Auditor's Reports Required by *Government Auditing  
Standards* and Uniform Guidance

As of and for the Year Ended June 30, 2016  
(With Comparative Information for June 30, 2015)

# San Diego Center for Children

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## Independent Auditor's Report

To the Board of Directors and Audit Committee  
San Diego Center for Children  
San Diego, California

### Report on the Financial Statements

We have audited the accompanying financial statements of San Diego Center for Children (the "Center"), which comprise the statement of financial position as of June 30, 2016, 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.

#### *Auditor's 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 the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego Center for Children as of June 30, 2016, 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, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Report on Summarized Comparative Information*

We have previously audited San Diego Center for Children's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Other Reporting Required by Government Auditing Standards*

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

*BDO USA, LLP*

San Diego, California  
October 26, 2016

## Financial Statements

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# San Diego Center for Children

## Statements of Financial Position

<i>As of June 30,</i>	2016	2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,865,933	\$ 1,108,334
Accounts receivable		
less allowance for doubtful receivables of \$25,000	2,739,664	3,163,522
Pledges receivables	-	4,172
Prepaid expenses and other current assets	362,882	290,842
Investments, at fair value	195	6,054
Total current assets	4,968,674	4,572,924
<b>Noncurrent assets</b>		
Investments, less current portion and at fair value	1,995,804	2,059,060
Property and equipment, net	7,345,688	7,212,608
Total assets	\$ 14,310,166	\$ 13,844,592
<b>Liabilities and Net assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 241,856	\$ 360,424
Accrued liabilities	1,129,286	1,293,545
Capital lease obligation	-	29,271
Note payable, current portion	154,751	152,719
Total current liabilities	1,525,893	1,835,959
<b>Long-term liabilities</b>		
Note payable, less current portion	2,694,519	1,955,464
Total liabilities	4,220,412	3,791,423
<b>Net assets</b>		
Unrestricted	8,176,861	7,997,012
Temporarily restricted	945,523	1,088,787
Permanently restricted	967,370	967,370
Total net assets	10,089,754	10,053,169
Total liabilities and net assets	\$ 14,310,166	\$ 13,844,592

*See accompanying notes to financial statements.*

# San Diego Center for Children

## Statements of Activities (With Comparative Totals of the Year Ended June 30, 2015)

<i>June 30,</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Revenue and support					
Fees from government agencies	\$ 18,995,955	\$ -	\$ -	\$ 18,995,955	\$ 19,192,334
Fees from non-government agencies	1,157,466	-	-	1,157,466	538,525
Special events revenue - net of expenses of \$169,062 and \$171,609, respectively	309,504	-	-	309,504	435,029
In-kind contributions	132,373	-	-	132,373	153,214
Contributions and grants	621,526	247,720	-	869,246	567,436
(Loss) gain on investments	(30,878)	(127,285)	-	(158,163)	23,060
Investments income	24,517	73,748	-	98,265	65,319
Other income	5,260	-	-	5,260	944
Net assets released from restrictions of time or purpose	337,447	(337,447)	-	-	-
<b>Total revenue and support</b>	<b>21,553,170</b>	<b>(143,264)</b>	<b>-</b>	<b>21,409,906</b>	<b>20,975,861</b>
Expenses					
Program services	18,848,158	-	-	18,848,158	17,577,962
General and administrative	2,000,083	-	-	2,000,083	2,015,525
Fundraising	525,080	-	-	525,080	507,428
<b>Total expenses</b>	<b>21,373,321</b>	<b>-</b>	<b>-</b>	<b>21,373,321</b>	<b>20,100,915</b>
Change in net assets	179,849	(143,264)	-	36,585	874,946
Net assets, beginning of year	7,997,012	1,088,787	967,370	10,053,169	9,178,223
<b>Net assets, end of year</b>	<b>\$ 8,176,861</b>	<b>\$ 945,523</b>	<b>\$ 967,370</b>	<b>\$ 10,089,754</b>	<b>\$ 10,053,169</b>

*See accompanying notes to financial statements.*

# San Diego Center for Children

## Statements of Functional Expenses (With Comparative Totals of the Year Ended June 30, 2015)

June 30,	Program Services					Supporting Services		Total 2016	Total 2015
	San Diego Center Academy	Campus Programs	Foster Care Programs	Community Programs	Total Program Services	Fundraisin	Overhead Departments		
Salaries and wages	\$ 1,943,137	\$ 5,688,111	\$ 2,826,008	\$ 1,598,387	\$ 12,055,643	\$ 244,098	\$ 1,093,314	\$ 13,393,055	\$ 12,553,341
Payroll taxes and employee benefits	346,822	1,533,742	528,283	275,163	2,684,010	33,082	190,258	2,907,350	2,730,193
<b>Total personnel costs</b>	<b>2,289,959</b>	<b>7,221,853</b>	<b>3,354,291</b>	<b>1,873,550</b>	<b>14,739,653</b>	<b>277,180</b>	<b>1,283,572</b>	<b>16,300,405</b>	<b>15,283,534</b>
Activity Fee	15,234	132,729	15,347	31,285	194,595	-	99	194,694	180,683
Advertising	275	106	-	100	481	-	12,450	12,931	7,919
Audit & Accounting	-	-	-	-	-	-	49,767	49,767	61,875
Auto, Gas & Mileage	1,508	36,879	221,164	12,202	271,753	1,094	849	273,696	291,065
Auto Lease	-	-	-	-	-	-	-	-	3,187
Auto Maintenance	641	23,376	239	-	24,256	48	32	24,336	20,743
Bad Debt Allowance	-	-	-	-	-	-	85,737	85,737	6,115
Bank Fees	-	-	-	-	-	3	61,467	61,470	30,686
Building & Ground Maintenance	44,668	133,339	23,779	16,079	217,865	3,846	21,192	242,903	273,487
Client Allowance	-	5,359	-	-	5,359	-	-	5,359	7,178
Client Incentives	-	-	-	-	-	-	-	-	-
Clothing	-	11,367	454	-	11,821	-	-	11,821	6,964
Computer Expense	1,852	11,595	12,935	9,873	36,255	804	6,250	43,309	34,684
CSI Lease Sales Tax	4,504	290	87	-	4,881	17	381	5,279	12,973
Depreciation	82,863	234,544	36,516	5,618	359,541	23,969	84,641	468,151	454,758
Dietary	91,612	91,612	-	-	183,224	-	-	183,224	170,220
Donation Expense	-	-	-	-	-	-	-	-	2,590
Dues & Subscriptions	7,102	13,740	8,430	11,486	40,758	978	17,450	59,186	52,735
EAC - Employee Appreciation Committee	-	1,372	-	107	1,479	-	24,704	26,183	16,322
Educational	18,472	-	-	-	18,472	-	-	18,472	12,572
Equipment Lease	1,009	4,589	5,192	2,210	13,000	272	2,820	16,092	15,429
Equipment Maintenance	2,705	2,511	(12)	-	5,204	(2)	8,630	13,832	14,788
Foster Family	-	-	314,912	-	314,912	-	-	314,912	368,018
Furnishings	1,105	21,923	2,414	11,955	37,397	51	106	37,554	46,665
Housekeeping & Janitorial	22,912	154,282	17,582	8,076	202,852	1,965	14,892	219,709	175,171
In-Kind Expense	9,070	33,495	14,567	7,465	64,597	67,728	48	132,373	144,734
Insurance - Auto	794	12,711	-	-	13,505	-	-	13,505	12,382
Insurance: Business & Prof Liab	39,750	129,819	54,459	35,909	259,937	3,187	15,799	278,923	252,078
Interest Expense	57,999	66,026	2,274	941	127,240	2,588	20,818	150,646	125,470
Investment Management Fees	-	-	-	-	-	-	8,755	8,755	7,816

**San Diego Center for Children**  
**Statements of Functional Expenses**  
**(With Comparative Totals of the Year Ended June 30, 2015)**

June 30,	Program Services					Supporting Services		Total 2016	Total 2015
	San Diego Center Academy	Campus Programs	Foster Care Programs	Community Programs	Total Program Services	Fundraisin	Overhead Departments		
Legal	-	182	137	137	456	-	(101,051)	(100,595)	19,841
License & Fees	6,399	17,502	12,031	4,409	40,341	1,844	56,262	98,447	48,203
Medical	15	26,612	-	757	27,384	-	-	27,384	18,292
Meals & Entertainment	-	73	-	-	73	-	-	73	1,554
Meetings & Conventions	-	2,875	1,774	1,891	6,540	1,031	5,508	13,079	17,751
Miscellaneous	100	(8)	2,583	(6)	2,669	-	11,556	14,225	22,124
Flex Funds	-	-	15,750	-	15,750	-	-	15,750	16,321
Office	15,318	35,411	27,409	18,489	96,627	2,067	16,644	115,338	115,618
Other Consultants	73,263	102,073	52,586	6,799	234,721	113,148	120,696	468,565	378,579
Other Expense	-	-	-	-	-	-	2,215	2,215	847
Payroll Services	-	-	-	-	-	-	41,704	41,704	59,487
Personal Hygiene	-	11,267	-	-	11,267	-	-	11,267	8,780
Postage & Shipping	1,741	4,399	778	348	7,266	2,334	1,546	11,146	12,911
Printing	-	-	-	-	-	11,257	2,445	13,702	25,260
Property Tax	-	-	-	-	-	-	1,013	1,013	1,017
Psychiatric	-	227,400	107,052	86,134	420,586	-	-	420,586	395,022
Records Storage	-	4,231	265	563	5,059	-	1,943	7,002	6,742
Recreation	2,926	3,084	1,194	23	7,227	-	-	7,227	11,030
Recruitment	6,366	19,501	7,922	5,791	39,580	1,625	6,814	48,019	44,584
Rent	13,952	6,000	113,968	121,401	255,321	360	240	255,921	210,287
Respite Payments	-	-	21,359	-	21,359	-	-	21,359	28,743
Safety	4,141	6,608	1,982	-	12,731	396	264	13,391	14,784
Security	9,221	30,200	6,269	801	46,491	849	7,132	54,472	52,276
Small Equipment	6,922	10,724	4,133	4,895	26,674	766	52	27,492	41,867
Staff Wellness	-	-	-	-	-	-	27,275	27,275	31,785
Telephone	1,157	15,031	65,276	28,570	110,034	1,388	2,737	114,159	85,984
Temporary Assistance	31,297	40,199	6,676	1,327	79,499	1,243	47,689	128,431	67,108
Training	7,813	34,122	31,985	13,489	87,409	931	1,430	89,770	94,483
Travel	-	-	-	-	-	-	-	-	474
Utilities	30,531	75,187	24,493	13,846	144,057	2,091	25,510	171,658	176,244
Volunteer Appreciation	-	-	-	-	-	22	-	22	76
<b>Total functional expenses</b>	<b>\$ 2,905,196</b>	<b>\$ 9,016,190</b>	<b>\$ 4,590,252</b>	<b>\$ 2,336,520</b>	<b>\$ 18,848,158</b>	<b>\$ 525,080</b>	<b>\$ 2,000,083</b>	<b>\$ 21,373,321</b>	<b>\$ 20,100,915</b>

*See accompanying notes to financial statements.*

# San Diego Center for Children

## Statements of Cash Flows

<i>Years ended June 30,</i>	2016	2015
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 36,585	\$ 874,946
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Contributions restricted for endowments	-	(31,015)
Depreciation	468,151	454,758
Investment fees deducted from investments	4,519	
Loss (gain) on investments	158,163	(23,060)
Reinvested interest and dividends	(98,265)	(65,319)
Increase (decrease) in cash resulting from change in:		
Accounts receivable	423,858	(423,841)
Pledges receivable	4,172	-
Prepaid expenses and other current assets	(72,040)	(661)
Accounts payable	(118,568)	54,669
Accrued liabilities	(164,259)	464,442
<b>Net cash provided by operating activities</b>	<b>642,316</b>	<b>1,304,919</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(601,231)	(207,712)
Purchase of investments	-	(223,183)
Proceeds from sale of investments	4,698	-
<b>Net cash used in investing activities</b>	<b>(596,533)</b>	<b>(430,895)</b>
<b>Cash flows from financing activities:</b>		
Contributions restricted for endowments	-	31,015
Borrowings on note payable	3,000,000	-
Principal payments on note payable	(2,258,913)	(147,877)
Principal payments on capital lease	(29,271)	(115,515)
<b>Net cash provided by (used in) financing activities</b>	<b>711,816</b>	<b>(232,377)</b>
<b>Net increase in cash and cash equivalents</b>	<b>757,599</b>	<b>641,647</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,108,334</b>	<b>466,687</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,865,933</b>	<b>\$ 1,108,334</b>
<b>Supplemental disclosure:</b>		
Interest paid	\$ 116,447	\$ 121,208
Taxes paid	5,280	9,649

*See accompanying notes to financial statements.*

# San Diego Center for Children

## Notes to Financial Statements

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### 1. Organization

Established in 1887, the San Diego Center for Children (the "Center") helps children thrive whose trauma, abuse or mental health problems are interfering with their success. The Center is a Joint Commission accredited institution with expertise in helping children with behavioral health problems, such as depression, autism, bipolar disorder, post-traumatic stress, reactive attachment disorder and extreme anxiety. Children are referred to the Center by the foster care system, Child Welfare Services, County Mental Health, public school districts, health insurance companies, professionals in the community and caring families. The Center is a clinical training site for several local universities. The Center focuses on a strengths-based, positive behavioral support model to help children find and fulfill their potential.

Each year, the Center adopts additional evidence-based practices to support the well-being of the children. The Center has an array of programs and services for children from age infancy to 18 years of age. The Center's services have a scope that reaches across San Diego County, and some of our services are available to children from other counties who require very specialized care. Programs and services include behavioral therapy for children and youth whose multiple foster care placements have caused behavior challenges; a WASC accredited K-12<sup>th</sup> grade school for special needs children; a residential treatment program for children aged 6 to 18 needing the most care and help; day treatment programs in public schools across San Diego County integrating mental health therapy as part of the school day; mental health counseling for children and families on an out-patient basis; Wraparound intensive outpatient services; a county-wide program dedicated to providing individual and family therapy for special needs foster children and their families; a foster care agency for infants up to 18 years of age; counseling for families of children who have mental health problems; and aftercare services for some of the children and teens who leave our program. The Center integrates music, art, recreation, and life skills into many of our mental health programs. As well, the Center provides an intensive reading improvement program for our special needs children who are most behind in reading.

The Center's staff of more than 340 full and part-time caring professionals helps to improve the lives of these children. Our team includes psychiatrists, mental health therapists, family therapists, occupational therapists, speech therapists, recreation professionals, reading specialists, social workers, special education teachers, instructional aides, music instructors, nurses, youth advisors and mentors, and youth counselors. Volunteers also play an important part of the Center's fabric of support for the children by providing fun activities for the children, and assisting in the upkeep of our campuses. The Center relies on government contracts, private pay from health insurances as well as the generosity of foundation, corporate, and individual support from donors.

### 2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

#### *Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

# San Diego Center for Children

## Notes to Financial Statements

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### *Financial Statement Presentation*

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of the Center are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

#### *Unrestricted*

These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

#### *Temporarily Restricted*

The Center reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities.

#### *Permanently Restricted*

These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit the Center to expend all of the income (or other economic benefits) derived from the donated assets.

#### *Cash and Cash Equivalents*

The Center has defined cash and cash equivalents as cash in banks, and money market funds with an original maturity of three months or less.

#### *Accounts Receivable*

Accounts receivable are recorded when services are provided and are presented net of any allowance for doubtful accounts. No collateral is obtained. Receivables are written-off in the period deemed uncollectible. Management determined an allowance for doubtful accounts of \$25,000 to be necessary for accounts receivable at June 30, 2016 and 2015.

#### *Pledges Receivable*

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. The Center has pledge receivables of \$-0- and \$4,172 as of June 30, 2016 and

# San Diego Center for Children

## Notes to Financial Statements

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2015, respectively. Management has determined that an allowance for doubtful accounts was not necessary at June 30, 2016 or 2015.

### *Investments*

The Center values its investments at fair value. Realized and unrealized gains or losses (including investments bought, sold and held during the year) are reflected in the Statement of Activities as gain on investments.

### *Fair Value Measurements*

Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

<i>Level Input</i>	<i>Input Definition</i>
Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.
Level 2	Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• Quoted process for similar assets or liabilities in active markets;</li><li>• Quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• Inputs or other than quoted prices that are observable for the asset or liability;</li><li>• Inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> <p>If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.</p>
Level 3	Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

### *Property and Equipment*

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets, which range from three to forty years. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand dollars and the useful life is greater than one year.

# San Diego Center for Children

## Notes to Financial Statements

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	<i>Years</i>
Buildings and building improvements	25 - 40
Furniture and equipment	10
Computer equipment	3
Vehicles	5

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In fiscal year 2016 the Center received new CDBG grants for the purposes of adding two new classrooms. In addition to the funds provided by CDBG, the Center received a grant from the Del Webb Foundation to complete the project. The Center also started working on the lobby upgrade that is funded by the Center.

### *Valuation of Long-Lived Assets*

ASC Topic 360, *Property, Plant, and Equipment*, requires that long-lived assets and certain identifiable intangibles to be held and used by the Center be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment, which is determined based upon the estimated fair value of the asset, is recorded when estimated undiscounted cash flows expected to be generated by the asset is insufficient to recover its net carrying value. As of June 30, 2016, the Center did not identify an events or circumstances that would require the recognition of an impairment loss under this standard.

### *Revenue and Support*

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Revenue from government agencies is recognized to the extent of eligible costs incurred up to an amount not to exceed the total contract authorized.

### *Donated Materials and Services*

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. For the years ended June 30, 2016 and 2015 the Center recorded in-kind contributions of \$132,373 and \$153,214, respectively.

### *Concentration of Credit Risks*

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance

# San Diego Center for Children

## Notes to Financial Statements

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Corporation (FDIC) up to \$250,000. At June 30, 2016, the Center had no interest-bearing amounts on deposit in excess of federally insured limits. At June 30, 2016, the Center had approximately \$1,604,933 of non-interest bearing cash balances in excess of FDIC insured limits. The Center has never experienced any losses related to these balances.

The primary receivable balance outstanding at June 30, 2016 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risk with respect to trade receivables is limited, as the majority of the Center's receivables consist of earned fees from contract programs granted by governmental agencies.

For the year ended, June 30, 2016, the Center received 36% of its revenue and support from its residential and foster care programs, 42% of its revenue and support from its mental health programs, and 16% of its revenue and support from its non-public school program fees.

For the year ended, June 30, 2015, the Center received 37% of its revenue and support from its residential and foster care programs, 42% of its revenue and support from its mental health programs, and 15% of its revenue and support from its non-public school program fees.

The Center holds investments in the form of common stocks of publicly held companies, equity securities and mutual funds. Market values of such investments and credit ratings of bond issuers are routinely reviewed by the Center's Finance Committee. Investments held by the San Diego Foundation are distributed annually in accordance with the Center's spending policy.

### *Income Taxes*

The Center is a nonprofit organization and is exempt under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). Contributions are deductible under Internal Revenue Code Section 501(a).

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Center in their federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Center's returns for years ended June 30, 2015, 2014, and 2013 are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

### *Functional Allocation of Expenses*

Costs of providing the Center's programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services based on direct expenses.

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates used in preparation of these financial

# San Diego Center for Children

## Notes to Financial Statements

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statements include the valuation of investment gains and losses, and the functional allocation of expenses.

### *Litigation*

In the normal course of business, the Center is occasionally named as a defendant in various claims. It is the opinion of management that the outcome of any pending claims will not materially affect the operation or the financial position of the Center.

### *Comparative Totals*

The financial statements include certain prior year summarized comparative information. With respect to the statement of activities, the prior year information is presented in total, not by net asset class. With respect to the statement of functional expenses, the prior year expenses are presented by expense classification in total rather than functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2015 from which the summarized information was derived.

### *Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). The standard provides companies with a single model for accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. In August 2015, the FASB issued ASU 2015-14, *Deferral of the Effective date*, which defers the required adoption date of ASU 2014-09 by one year. As a result of the deferred effective date, ASU 2014-09 will be effective for the Company in its first quarter of fiscal 2019. Early adoption is permitted but not before the original effective date of the new standard of the first quarter of fiscal 2017. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Center is in the process of evaluating the impact of adoption on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). The standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued and provides guidance on determining when and how to disclose going concern uncertainties in the financial statements. Certain disclosures will be required if conditions give rise to substantial doubt about an entity's ability to continue as a going concern. ASU 2014-15 applies to all entities and is effective for annual and interim reporting periods ending after December 15, 2016, with early adoption permitted. The Center does not expect that the adoption of this standard will have a material effect on its financial statements.

# San Diego Center for Children

## Notes to Financial Statements

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In February 2016, the FASB issued ASU No. 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Center is in the process of evaluating the impact of adoption on its financial statements.

### *Subsequent Events*

Management has evaluated subsequent events through October 26, 2016, the date which the financial statements were available to be issued.

### **3. Investments**

The following table sets forth by level within the fair value hierarchy the Center's investment assets at fair value as of June 30, 2016:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<b>Total</b>
Money market	\$ 195	\$ -	\$ -	\$ 195
<b>Total current investments</b>	<b>195</b>	<b>-</b>	<b>-</b>	<b>195</b>
Mutual funds:				
Equity securities	1,191,299	-	-	1,191,299
Fixed income	523,737	-	-	523,737
Investments held by others	-	-	280,768	280,768
<b>Total noncurrent investments</b>	<b>1,715,036</b>	<b>-</b>	<b>280,768</b>	<b>1,995,804</b>
<b>Total investments</b>	<b>\$ 1,715,231</b>	<b>\$ -</b>	<b>\$ 280,768</b>	<b>\$ 1,995,999</b>

Following is a description of the valuation methodologies used for investment assets measured at fair value:

*Mutual Funds:* Mutual funds represent investments with various investment managers. The fair value of these investments are determined by reference to the fund's underlying assets, which are principally marketable equities and fixed income securities. Shares held in mutual funds traded on national securities exchanges are valued at the net asset value as of June 30, 2016.

*Investments held by others:* The endowment pool consists of stocks, fixed income securities, and alternative investments that are recorded at fair value. The fair value of alternative investments, for which quoted market prices are not available, are determined by investment managers in good faith using methods considered appropriate, and is subject to oversight and review by management.

# San Diego Center for Children

## Notes to Financial Statements

For assets measured at fair value on a recurring basis using Level 3 inputs during the year, authoritative guidance requires a reconciliation of the beginning and ending balances for each major category, except for derivative assets and liabilities, which may be presented net, as follows:

	Investments held by others
Balance at June 30, 2015	\$ 135,950
Transfer from Level 1 investments	144,733
Change in valuation	85
Balance at June 30, 2016	\$ 280,768

Gains or losses (including investments bought, sold, and held during the year) reflected in the Statement of Activities at June 30 are as follows:

	2016
Unrealized gains	\$ 207,474
Unrealized losses	(360,162)
Unrealized losses, net	(152,688)
Realized losses	(5,475)
Loss on investments, net	\$ (158,163)

#### 4. Property and Equipment

Property and equipment consist of the following at June 30:

	2016	2015
Land	\$ 32,361	\$ 32,361
Buildings and building improvements	9,557,151	9,557,151
Furniture and equipment	2,031,761	1,373,290
Computer equipment	230,373	224,735
Vehicles	48,031	48,031
Construction in progress	107,626	170,504
	12,007,303	11,406,072
Less: accumulated depreciation	(4,661,615)	(4,193,464)
	\$ 7,345,688	\$ 7,212,608

Depreciation expense was \$468,151 and \$454,758 for the years ended June 30, 2016 and 2015, respectively.

# San Diego Center for Children

## Notes to Financial Statements

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The Center estimates the cost to complete construction in progress to be \$250,000 at June 30, 2016. The estimate to complete includes \$128,294 in commitments outstanding as of June 30, 2017. Such commitments are executed, but cancellable, contracts for the construction projects. Approximately \$106,000 of the costs to complete construction are expected to be obtained in CDBG grants that have not been received. The use of the CDBG grants requires matching of funds by the Center.

### 5. Accrued Liabilities

Accrued liabilities consist of the following at June 30:

	2016	2015
Accrued salaries and wages	\$ 191,013	\$ 102,703
Accrued vacation	605,120	542,592
Bonus liability	31,293	176,952
Overpayment liability	137,108	66,637
Other accrued liabilities	164,752	404,661
	<u>\$ 1,129,286</u>	<u>\$ 1,293,545</u>

### 6. Line of Credit

The Center had a revolving line of credit with a financial institution, secured by real property, in the amount of \$650,000, bearing interest, at 4.25%, which was set to mature on December 1, 2014. The Center closed the line of credit with the financial institution on November 20, 2014.

The Center has a revolving line of credit with a financial institution, secured by real property, in the amount of \$750,000, bearing interest at a variable rate of interest per annum, as adjusted from time to time to California Bank and Trust's prime rate (4.25% at June 30, 2016). The line of credit is set to mature on June 30, 2017. There is zero outstanding on the line of credit as of June 30, 2016.

### 7. Capital Lease Obligation

In fiscal year 2013, the Center entered into a sale-leaseback arrangement. Under the arrangement, the Center sold modular buildings to a financial institution which it leased back for a period of three years. The leaseback has been accounted for as a capital lease with an effective interest rate of 5.52%. The capital lease obligation has been paid in full as of June 30, 2016.

### 8. Note Payable

The Center had a note payable to US Bank that was executed on November 12, 2004, secured by real property, with monthly payments of \$25,329, including interest at 6%, due June 30, 2015. In November of 2014, the Center signed an amendment stipulating monthly principal payments of \$13,000 and monthly interest payments of 6% of the outstanding balance through June 30, 2015. At June 30, 2015, the outstanding principal balance was due and paid in its entirety. The outstanding balance was \$2,108,183 as of June 30, 2015. The note payable was classified as long term because, as stated below, the note was refinanced prior to the issuance of the financial statements.

# San Diego Center for Children

## Notes to Financial Statements

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On July 1, 2015, the Center received proceeds related to refinancing agreement (“Business Loan Agreement”) with California Bank & Trust that was dated June 23, 2015. The Business Loan Agreement is comprised of a term loan valued at \$3,000,000. A portion of the proceeds were used to pay off the outstanding principal with US Bank with the remainder being received directly to the Center. The note bears an interest rate of 3.99% and is payable in equal monthly payments with the final payment due on June 23, 2030. The remainder of approximately \$850,000 is expected to be used for capital or operating expenses, and is not subject to any board level restriction and has not been formally set aside at the board level.

Principal payments on the new term loan are as follows:

*Years ended June 30,*

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2017	\$	154,751
2018		161,119
2019		169,165
2020		176,039
2021		183,193
Thereafter		2,005,003
	\$	2,849,270

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As required by the terms of the note’s regulatory agreement, the Center is required to satisfy certain restrictive covenants which, among other terms, require the maintenance of certain financial ratios and places limits on other indebtedness, and requires certain informational reports. For the year ended June 30, 2016, the Center was in compliance with all covenants.

## 9. Commitments and Contingencies

### *Obligations Under Operating Leases*

The Center leases real property and equipment under operating leases expiring in various years. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

*Years ended June 30,*

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2017	\$	246,645
2018		202,033
2019		184,088
2020		125,688
	\$	758,454

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Rent expense under operating leases for the years ended June 30, 2016 and 2015 was \$255,921 and \$210,287, respectively.

# San Diego Center for Children

## Notes to Financial Statements

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### *Contracts*

The Center's grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, the Center has no provisions for the possible disallowance of program costs on its financial statements.

### 10. Fees from Government Agencies

Fees from government agencies for the years ended June 30, 2016 and 2015 consist of the following:

	2016	2015
Foster care - Title IV-E	\$ 7,782,133	\$ 7,670,786
Mental health	7,891,841	8,319,066
Non-public school	3,216,470	3,107,847
Other	105,511	94,635
	<hr/>	<hr/>
	\$ 18,995,955	\$ 19,192,334

### 11. Retirement Plan

The Center maintains a tax deferred defined contribution plan qualified under Section 403(b) of the Internal Revenue Code. Eligible employees may contribute a percentage of their compensation to the Plan. There were no employer contributions for the years ended June 30, 2016 and 2015.

### 12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 consist of:

	2016	2015
Children's Therapeutic and Recreation Activity fund	\$ 214,745	\$ 187,295
Cottage Fund	-	1,438
Endowment Funds (see Note 13)	597,347	650,884
Maintenance Funds	70,886	36,478
Music Program	-	2,199
Renovation of the Clark Adolescent Program Building	-	45,208
San Diego Assessment Program	-	20,060
San Diego Academy Math and Reading Program	3,681	-
Transition Youth Initiative	49,701	115,129
Various	9,163	30,096
	<hr/>	<hr/>
	\$ 945,523	\$ 1,088,787

# San Diego Center for Children

## Notes to Financial Statements

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Net assets in the amounts of \$337,447 and \$599,008 were released from donor restrictions by incurring expenses and events satisfying the purpose or time restrictions specified by donors for the years ended June 30, 2016 and 2015, respectively.

### 13. Permanently Restricted Net Assets

Permanently restricted net assets represent contributions which the donor has stipulated that the principal is to be kept intact in perpetuity and only the interest and dividends there from may be expended for unrestricted purposes.

Permanently restricted net assets at June 30, 2016 and 2015 consist of:

	2016	2015
Clark Endowment	\$ 532,519	\$ 532,519
Iris Auxiliary Endowment	122,244	122,244
Mary Allen Sellers Endowment	189,396	189,396
San Diego Foundation	123,211	123,211
	<hr/> \$ 967,370	<hr/> \$ 967,370

ASC Topic 958-205, *Presentation of Financial Statements*, provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). ASC Topic 958-205 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The Board of Directors has determined that the majority of the Center's permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Center's interpretation of UPMIFA, the Center has reviewed all of its endowment funds and considers that they are currently being appropriately reflected.

The Center's endowment fund was managed by Wells Fargo and by John Brennan, of Personal Financial Management using TD Ameritrade brokers and held in various investments. Beginning in 2016, the Center's endowment fund is managed by Gregory Richardson, of Dowling & Yahnke using Charles Schwab brokers and held in various investments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Center has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of the gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portions of the donor-restricted endowment fund that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the

# San Diego Center for Children

## Notes to Financial Statements

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standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Center considered the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the organization, and (7) the investment policies of the organization.

### *Investment Return Objectives, Risk Parameters and Strategies*

The Center has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The investment policy directs the Center that until, and at such time, Permanently Restricted Net Assets reach a value of \$5,000,000 no annual distributions should be made. Permanently Restricted Net Assets increase in value may consist of accumulated investment interest and capital appreciation and/or additional Center or donor restricted contributions to the investment pool. Once that investment value is reached annual distributions may be made regularly. The annual distribution may not reduce the investment pool balance below the \$5,000,000 threshold. The Center's investment policy dictates appropriate levels of risk relative to investment return objectives. Endowment assets are invested in a well diversified asset mix, which includes money market funds, mutual funds and equity securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make a reasonable annual distribution, while growing the funds if possible. Therefore, the Center expects its endowment assets, over time, to produce an average rate of return of approximately 3% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

### *Spending Policy*

The Center has a policy of reporting any gain or loss on endowment assets to temporarily restricted nets assets until appropriated for expenditures. In establishing this policy, the Center considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Center's objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return. As of June 30, 2016, the Center's investment policy requires income or economic benefit derived from permanently restricted net assets to accumulate until such time as the investment balance reaches a total of \$5 million.

Endowment net assets composition by type of fund as of June 30:

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 597,347	\$ 967,370	\$ 1,564,717

# San Diego Center for Children

## Notes to Financial Statements

	2015		
	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 650,884	\$ 967,370	\$ 1,618,254

Changes in endowment net assets for the fiscal year ended June 30:

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, June 30, 2014	\$ 589,172	\$ 936,355	\$ 1,525,527
Contributions	-	31,015	31,015
Investment income	45,259	-	45,259
Realized investment gain	585	-	585
Unrealized investment gain	15,868	-	15,868
Amount appropriated for expenditure	-	-	-
Endowment net assets, June 30, 2015	\$ 650,884	\$ 967,370	\$ 1,618,254
Investment income	73,748	-	73,748
Unrealized investment loss	(127,285)	-	(127,285)
Amount appropriated for expenditure	-	-	-
Endowment net assets, June 30, 2016	\$ 597,347	\$ 967,370	\$ 1,564,717

### 14. Education Program - Revenue Earned and Funds Expended

Revenue earned for the Education Program is included in fees from government agencies on the Statement of Activities. Costs incurred for the Education Program ("Academy") are included in program services on the Statement of Functional Expenses. The revenue and costs for the year ended June 30, 2016 consist of the following:

	2016
Revenue earned	\$ 3,424,130
Costs incurred:	
Personnel	2,289,959
Operating	615,237
Total costs	2,905,196
Surplus applied to Overhead Expense	\$ 518,934

## Schedule of Expenditures of Federal Awards

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**San Diego Center for Children**  
**Schedule of Expenditures of Federal Awards**

<i>Year ended June 30, 2016</i>	Federal CFDA Number	Contract Number	Federal Expenditures
<b>US Department of Health and Human Services</b>			
Passed through San Diego County Department of Health and Human Services			
Medical Assistance Program			
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances			
Children's L14 Day Treatment (Kern County)	93.778	N/A	\$ 9,159
<b>Total Medical Assistance Program</b>			<b>9,159</b>
Passed through San Diego County Department of Health and Human Services			
Foster Care - Title IV-E			
Children's RCL 12 Residential	93.658	541030	287,827
Children's RCL 14 Residential	93.658	541030	122,128
Children's Clark RCL 14 Residential	93.658	541030	49,774
Special Families - Foster Family Agency	93.658	537487	73,457
Treatment Foster Care Oregon - Child Age	93.658	537487	60,464
Treatment Foster Care Oregon - Preschool	93.658	537487	194,356
<b>Total Foster Care - Title IV-E</b>			<b>788,006</b>
Passed through San Diego County Department of Health and Human Services			
Adoption Assistance			
Children's RCL 12 Residential	93.659	541030	269,929
Children's RCL 14 Residential	93.659	541030	242,651
Children's Clark RCL 14 Residential	93.659	541030	583,189
<b>Total Adoption Assistance</b>			<b>1,095,769</b>
<b>Total Department of Health and Human Services</b>			<b>1,892,934</b>
<b>US Department of Agriculture</b>			
Passed through State of California			
National School Breakfast (SBP) and Lunch (NSLP) Program			
Distribution by the Food and Nutrition Service of the US Department of Agriculture to provide healthful and nutritious meals to eligible children in Non Public Schools			
School Breakfast Program	10.553	A68500	44,273
National School Lunch Program	10.555	A68500	61,238
<b>Total Department of Agriculture</b>			<b>105,511</b>
<b>US Department of Housing &amp; Urban Development</b>			
Passed through City of San Diego			
Community Development Block Grants / Entitlement Grants			
CDBG Funding	14.218		118,365
<b>Total Department of Housing &amp; Urban Development</b>			<b>118,365</b>
<b>Total Federal Expenditures</b>			<b>\$ 2,116,810</b>

*See independent auditor's reports and note to schedule of expenditures of federal awards.*

# San Diego Center for Children

## Notes to Schedule of Expenditures of Federal Awards

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### *Note 1 - Basis of Presentation*

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of San Diego Center for Children under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of San Diego Center for Children, it is not intended to and does not present the financial position, changes in net assets or cash flows of San Diego Center for Children.

### *Note 2- Reconciliation to Financial Statements*

*Year ended June 30, 2016*

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Fees from government agencies per financial statements	\$	18,995,955
Less: non-federal fees from government agencies		16,879,145
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Expenditures of Federal Awards	\$	2,116,810

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Independent Auditor's Reports Required by  
*Government Auditing Standards*  
and Uniform Guidance

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**Independent Auditor's 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 and Audit Committee  
San Diego Center for Children  
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of San Diego Center for Children (the "Center"), which comprise the statement of financial position as of June 30, 2016, 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 October 26, 2016

**Internal Control Over Financial Reporting**

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

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

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



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Diego Center for Children'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 results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BDO USA, LLP*

San Diego, California  
October 26, 2016



## **Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors and Audit Committee  
San Diego Center for Children  
San Diego, California

### **Report on Compliance for Each Major Federal Program**

We have audited San Diego Center for Children's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of San Diego Center for Children's major federal programs for the year ended June 30, 2016. San Diego Center for Children's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of San Diego Center for Children's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* 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 San Diego Center for Children's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of San Diego Center for Children's compliance.

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

In our opinion, San Diego Center for Children complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.



## Report on Internal Control Over Compliance

Management of San Diego Center for Children is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Diego Center for Children's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 San Diego Center for Children's internal control over compliance.

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

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

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

*BDO USA, LLP*

San Diego, California  
October 26, 2016

# San Diego Center for Children

## Schedule of Findings and Questioned Costs June 30, 2016

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### Section I - Summary of Auditor's Results

#### *Financial Statements*

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes      X   none reported
- Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

#### *Federal Awards*

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes      X   none reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

\_\_\_\_\_ yes      X   no

#### Identification of Major Programs:

U.S. Department of Health and Human Services:

Passed through San Diego County Department of Health and Human Services  
Adoption Assistance Program

93.659

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

  X   yes    \_\_\_\_\_ no

### Section II - Financial Statement Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

### Section III - Federal Award Findings and Questioned Costs

There are no findings nor questioned costs for Federal awards as defined in Uniform Guidance.