



## San Diego Center for Children

Financial Statements, Schedule of  
Expenditures of Federal Awards, and  
Independent Auditor's Reports Required by  
*Government Auditing Standards* and OMB  
Circular A-133

As of and for the Year Ended June 30, 2014  
(With Comparative Information for June 30, 2013)

## San Diego Center for Children

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

*Standards* and OMB Circular A-133

As of and for the Year Ended June 30, 2014

(With Comparative Information for June 30, 2013)

# 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, 2014, 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, 2014, 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.

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*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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 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 16, 2014 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 16, 2014

## Financial Statements

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# San Diego Center for Children

## Statements of Financial Position

<i>As of June 30,</i>	2014	2013
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 466,687	\$ 532,035
Accounts receivable		
less allowance for doubtful receivables of \$25,000	2,739,681	1,957,621
Pledges receivables	4,172	14,172
Prepaid expenses and other current assets	290,181	233,382
Investments	59,062	3,669
Total current assets	3,559,783	2,740,879
<b>Noncurrent assets</b>		
Investments, less current portion	1,694,490	1,416,751
Property and equipment, net	7,459,654	7,596,251
Total assets	\$ 12,713,927	\$ 11,753,881
<b>Liabilities and Net assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 305,755	\$ 347,929
Accrued liabilities	829,103	630,092
Capital lease obligation, current portion	115,515	99,983
Note payable, current portion	2,256,060	163,474
Total current liabilities	3,506,433	1,241,478
<b>Long-term liabilities</b>		
Note payable, less current portion	-	2,254,009
Capital lease obligation, less current portion	29,271	154,128
Total liabilities	3,535,704	3,649,615
<b>Net assets</b>		
Unrestricted	6,901,501	6,092,733
Temporarily restricted	1,340,367	1,075,178
Permanently restricted	936,355	936,355
Total net assets	9,178,223	8,104,266
Total liabilities and net assets	\$ 12,713,927	\$ 11,753,881

*See accompanying notes to financial statements.*

# San Diego Center for Children

## Statements of Activities (With Comparative Totals of the Year Ended June 30, 2013)

<i>June 30,</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
Revenue and support					
Fees from government agencies	\$ 17,397,507	\$ -	\$ -	\$ 17,397,507	\$ 13,864,209
Special events revenue - net of expenses of \$200,229 and \$77,093, respectively	358,815	-	-	358,815	404,245
In-kind contributions	162,234	-	-	162,234	272,795
Contributions and grants	562,141	401,777	-	963,918	959,707
Gain on investments	10,404	170,925	-	181,329	165,213
Investments income	17,981	37,066	-	55,047	43,671
Other income	50,795	-	-	50,795	60,157
Net assets released from restrictions of time or purpose	344,579	(344,579)	-	-	-
<b>Total revenue and support</b>	<b>18,904,456</b>	<b>265,189</b>	<b>-</b>	<b>19,169,645</b>	<b>15,769,997</b>
Expenses					
Program services	15,533,236	-	-	15,533,236	13,418,969
General and administrative	2,062,410	-	-	2,062,410	2,391,430
Fundraising	500,042	-	-	500,042	464,433
<b>Total expenses</b>	<b>18,095,688</b>	<b>-</b>	<b>-</b>	<b>18,095,688</b>	<b>16,274,832</b>
Change in net assets	808,768	265,189	-	1,073,957	(504,835)
Net assets, beginning of year	6,092,733	1,075,178	936,355	8,104,266	8,609,101
Net assets, end of year	\$ 6,901,501	\$ 1,340,367	\$ 936,355	\$ 9,178,223	\$ 8,104,266

*See accompanying notes to financial statements.*

San Diego Center for Children

Statement of Functional Expenses  
(With Comparative Totals for the Year Ended June 30, 2013)

June 30,	Program Services					Supporting Services		Total 2014	Total 2013
	San Diego Center Academy	Campus Programs	Foster Care Programs	Community Programs	Total Program Services	Fundraising	Overhead Departments		
Salaries and wages	\$ 1,419,511	\$ 4,700,856	\$ 2,093,474	\$ 1,372,170	\$ 9,586,011	\$ 173,514	\$ 1,140,263	\$ 10,899,788	\$ 9,605,864
Payroll taxes and employee benefits	299,627	1,200,072	379,392	257,645	2,136,736	28,849	176,906	2,342,491	2,246,308
<b>Total personnel costs</b>	<b>1,719,138</b>	<b>5,900,928</b>	<b>2,472,866</b>	<b>1,629,815</b>	<b>11,722,747</b>	<b>202,363</b>	<b>1,317,169</b>	<b>13,242,279</b>	<b>11,852,172</b>
Activity Fee	10,945	132,683	12,972	24,555	181,155	-	5,122	186,277	130,781
Advertising	269	-	1,188	-	1,457	-	6,155	7,612	10,732
Audit & Accounting	-	-	-	-	-	-	51,446	51,446	43,761
Auto, Gas & Mileage	921	36,513	183,723	8,011	229,168	210	739	230,117	158,851
Auto Lease	4,774	13,500	-	4,024	22,298	-	-	22,298	22,836
Auto Maintenance	2,120	15,818	202	1,424	19,564	40	27	19,631	41,107
Bad Debt Allowance	-	-	-	-	-	-	12,025	12,025	-
Bank Fees	-	-	-	-	-	33	27,088	27,121	22,823
Building & Ground Maintenance	55,438	169,128	100,978	11,920	337,464	4,250	24,134	365,848	152,942
Client Allowance	-	5,182	-	-	5,182	-	-	5,182	8,593
Client Incentives	-	1,440	-	-	1,440	-	-	1,440	8,077
Clothing	-	28,772	(118)	-	28,654	-	-	28,654	44,358
Computer Expense	8,688	6,756	48,721	4,227	68,392	170	4,826	73,388	78,335
CSI Lease Sales Tax	8,231	531	159	-	8,921	32	697	9,650	8,937
Depreciation	93,353	260,214	19,529	4,059	377,155	9,561	64,263	450,979	392,926
Dietary	80,928	80,928	-	-	161,856	-	-	161,856	145,260
Dues & Subscriptions	4,164	10,697	7,176	6,813	28,850	594	19,895	49,339	54,500
EAC - Employee Appreciation Committee	-	-	-	-	-	-	17,587	17,587	8,029
Educational	9,720	635	-	-	10,355	-	-	10,355	8,655
Equipment Lease	6,371	8,882	7,726	4,264	27,243	886	7,713	35,842	45,102
Equipment Maintenance	1,466	3,830	956	125	6,377	-	3,202	9,579	1,131
Foster Family	-	-	340,706	-	340,706	-	-	340,706	379,076
Furnishings	2,439	14,213	35,124	5,403	57,179	545	1,047	58,771	7,102
Housekeeping & Janitorial	17,681	126,941	9,278	5,396	159,296	1,350	10,897	171,543	186,050
In-Kind Expense	7,233	42,368	5,590	3,150	58,341	102,234	1,660	162,235	272,795
Insurance - Auto	900	8,657	104	1,385	11,046	21	14	11,081	11,125
Insurance: Business & Prof Liab	28,971	107,074	36,949	24,373	197,367	4,876	23,402	225,645	207,955
Interest Expense	44,722	84,686	2,351	1,233	132,992	2,642	21,208	156,842	168,083
Investment Management Fees	-	-	-	-	-	-	7,197	7,197	7,200
Legal	38	-	-	-	38	-	122,340	122,378	144,140
License & Fees	4,556	6,530	12,483	1,796	25,365	6,113	12,971	44,449	54,144
Medical	-	12,801	669	4,152	17,622	-	-	17,622	24,488
Meals & Entertainment	670	1,043	33	263	2,009	107	878	2,994	2,393
Meetings & Conventions	1,251	6,562	1,214	1,182	10,209	717	13,509	24,435	9,470
Miscellaneous	96	3,987	5,139	22,756	31,978	7	10,853	42,838	20,410
Flex Funds	-	-	3,963	-	3,963	-	-	3,963	-
Office	6,730	19,952	47,828	6,670	81,180	1,497	14,588	97,265	52,485
Other Consultants	109,059	48,628	13,708	768	172,163	152,193	91,242	415,598	456,003
Other Expense	-	-	-	-	-	-	5,587	5,587	4,299
Payroll Services	-	-	-	-	-	-	49,619	49,619	43,281
Personal Hygiene	-	10,518	-	-	10,518	-	-	10,518	9,329
Postage & Shipping	837	3,785	762	777	6,161	340	4,259	10,760	10,501
Printing	164	-	-	-	164	4,517	5,712	10,393	9,961
Property Tax	-	-	-	-	-	-	884	884	876
Psychiatric	-	193,320	57,397	55,905	306,622	-	-	306,622	280,573
Records Storage	-	3,675	296	396	4,367	-	1,447	5,814	5,838
Recreation	3,179	13,094	4,227	-	20,500	-	-	20,500	41,162
Recruitment	3,002	19,851	9,013	5,328	37,194	697	8,571	46,462	19,681
Rent	12,996	6,000	85,878	63,918	168,792	360	240	169,392	125,669
Respite Payments	-	-	19,343	-	19,343	-	-	19,343	15,600
Safety	4,809	8,015	2,404	-	15,228	480	321	16,029	4,259
Security	9,556	30,669	7,157	324	47,706	705	6,359	54,770	139,266
Small Equipment	14,927	24,875	28,374	9,976	78,152	39	5,614	83,805	16,869
Staff Wellness	-	-	-	-	-	-	22,120	22,120	32,766
Telephone	2,910	23,824	46,506	17,017	90,257	196	3,092	93,545	57,171
Temporary Assistance	-	13,528	240	240	14,008	-	31,184	45,192	41,500
Training	2,754	10,543	31,391	9,976	54,664	431	5,140	60,235	27,351
Travel	-	-	-	-	-	-	-	-	3,219
Utilities	25,924	71,118	16,054	6,732	119,828	1,743	18,367	139,938	142,424
Volunteer Appreciation	-	-	-	-	-	93	-	93	410
<b>Total functional expenses</b>	<b>\$ 2,311,930</b>	<b>\$ 7,592,694</b>	<b>\$ 3,680,259</b>	<b>\$ 1,948,353</b>	<b>\$ 15,533,236</b>	<b>\$ 500,042</b>	<b>\$ 2,062,410</b>	<b>\$ 18,095,688</b>	<b>\$ 16,274,832</b>

See accompanying notes to financial statements.

# San Diego Center for Children

## Statements of Cash Flows

<i>Years ended June 30,</i>	2014	2013
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 1,073,957	\$ (504,835)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	450,979	392,926
Gain on investments	(181,329)	(165,213)
Reinvested interest and dividends	(55,047)	(43,671)
Increase (decrease) in cash resulting from change in:		
Accounts receivable	(782,060)	403,047
Pledges receivable	10,000	35,372
Prepaid expenses and other current assets	(56,799)	(16,980)
Accounts payable	(42,174)	(186,870)
Accrued liabilities	199,011	(368,025)
<b>Net cash provided by (used in) operating activities</b>	<b>616,538</b>	<b>(454,249)</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(314,382)	(817,195)
Purchase of investments	(96,756)	-
Sales of investments	-	510,574
<b>Net cash used in investing activities</b>	<b>(411,138)</b>	<b>(306,621)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on note payable	(161,423)	(151,907)
Borrowings on capital lease	-	352,360
Principal payments on capital lease	(109,325)	(101,239)
<b>Net cash provided by (used in) financing activities</b>	<b>(270,748)</b>	<b>99,214</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(65,348)</b>	<b>(661,656)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>532,035</b>	<b>1,193,691</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 466,687</b>	<b>\$ 532,035</b>
<b>Supplemental disclosure:</b>		
Interest paid	\$ 151,766	\$ 168,084
Taxes paid	9,649	8,938

*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 expert 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, and loving 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 3 to 6 years old whose multiple foster care placements have caused behavior challenges; a 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 on an out-patient basis; 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 300 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, a recreational therapist, 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, 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, 2014 and 2013.

# San Diego Center for Children

## Notes to Financial Statements

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### *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 \$4,172 and \$14,172 as of June 30, 2014 and 2013, respectively. Management has determined that an allowance for doubtful accounts was not necessary at June 30, 2014 or 2013.

### *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.

# San Diego Center for Children

## Notes to Financial Statements

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### *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.

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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 2014, the San Diego Center for Children completed the upgrade and centralization of the Academy's campus including a multisensory room, four new classrooms, and a 5,000 square foot center shade pavilion for assemblies, student performances, and other school related activities. The project was funded by a CDBG Grant, donor pledge, and certain implemented financing arrangements. The Center also improved and opened an additional five bedrooms for its Level 14 Adolescent program to meet demand for intensive residential services for children between the ages of 13 and 19.

The Center's auxiliary contributed a new van to replace aging transportation equipment. The information technology infrastructure, including new servers, internet connectivity equipment, and replacements of outdated computer equipment, was upgraded to meet current demand and to replace outdated equipment that achieved its useful life.

### *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, 2014, 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.

# San Diego Center for Children

## Notes to Financial Statements

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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, 2014 and 2013 the Center recorded in-kind contributions of \$162,234 and \$272,795, 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 Corporation (FDIC) up to \$250,000. At June 30, 2014 and 2013, the Center had no interest-bearing amounts on deposit in excess of federally insured limits. At June 30, 2014 and 2013, the Center had approximately \$206,587 and \$268,457, respectively 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, 2014 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risk with respect to trade receivables are 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, 2014, the Center received 37% of its revenue and support from its residential and foster care programs, 39% of its revenue and support from its mental health programs, and 14% of its revenue and support from its non-public school program fees.

For the year ended, June 30, 2013, the Center received 39% of its revenue and support from its residential and foster care programs, 35% of its revenue and support from its mental health programs, and 13% 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).

# San Diego Center for Children

## Notes to Financial Statements

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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, 2013, 2012, and 2011 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 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.

### *Recently Adopted Guidance*

In 2013, the Center adopted Accounting Standards Update ("ASU") 2012-05, "Statement of Cash Flows: Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows." ASU 2012-05 requires a not-for-profit to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit imposed restrictions for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those securities would be classified as cash flows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts would be classified as cash flows from financing activities. Otherwise, receipts from the sale of donated securities would be classified as cash flows from investing activities by the not-for-profit.

# San Diego Center for Children

## Notes to Financial Statements

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### *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, 2013 from which the summarized information was derived.

### *Reclassification*

For comparability, certain June 30, 2013 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at June 30, 2014.

### *Subsequent Events*

Management has evaluated subsequent events through October 16, 2014, 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, 2014:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Money market	\$ 59,062	\$ -	\$ -	\$ 59,062
<b>Total current investments</b>	<b>59,062</b>	<b>-</b>	<b>-</b>	<b>59,062</b>
Mutual funds:				
Equity securities	992,997	-	-	992,997
Fixed income	561,242	-	-	561,242
Asset backed securities	17,787	-	-	17,787
Complementary strategies	16,359	-	-	16,359
Investments held by others	-	-	106,105	106,105
<b>Total noncurrent investments</b>	<b>1,588,385</b>	<b>-</b>	<b>106,105</b>	<b>1,694,490</b>
<b>Total investments</b>	<b>\$ 1,647,447</b>	<b>\$ -</b>	<b>\$ 106,105</b>	<b>\$ 1,753,552</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, 2014.

# San Diego Center for Children

## Notes to Financial Statements

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*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.

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, 2013	\$ 100,385
Change in valuation	5,720
Balance at June 30, 2014	\$ 106,105

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

	2014
Unrealized gain	\$ 179,940
Realized gain	1,389
Gain on investment	\$ 181,329

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#### 4. Property and Equipment

Property and equipment consist of the following at June 30:

	2014	2013
Land	\$ 32,361	\$ 32,361
Buildings and building improvements	9,557,151	9,323,373
Furniture and equipment	1,336,997	1,234,960
Computer equipment	224,735	195,872
Vehicles	27,469	27,469
Construction in progress	19,647	69,943
	11,198,360	10,883,978
Less: accumulated depreciation	(3,738,706)	(3,287,727)
	\$ 7,459,654	\$ 7,596,251

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# San Diego Center for Children

## Notes to Financial Statements

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Depreciation expense was \$450,979 and \$392,926 for the years ended June 30, 2014 and 2013, respectively.

The Center estimates the cost to complete construction in progress to be \$340,000 at June 30, 2014. The estimate to complete includes \$240,000 in commitments outstanding as of June 30, 2014. Such commitments are either accounts payable or executed, but cancellable, contracts for the construction projects. Total construction costs are funded by CDBG grants, the County of San Diego, and by donor pledges.

### 5. Accrued Liabilities

Accrued liabilities consist of the following at June 30:

	2014	2013
Accrued salaries and wages	\$ 63,683	\$ 25,011
Accrued vacation	495,511	356,559
Overpayment liability	73,331	57,355
Other accrued liabilities	196,578	191,167
	<u>\$ 829,103</u>	<u>\$ 630,092</u>

### 6. Line of Credit

The Center has a revolving line of credit with a financial institution, secured by real property, in the amount of \$650,000, bearing interest, at 4.25%, due to mature on December 1, 2014. At June 30, 2014, no amount was outstanding.

### 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%.

# San Diego Center for Children

## Notes to Financial Statements

The cost of the school expansion and remodel and the information technology under the capital lease at June 30, 2014, included in property and equipment, consists of the following:

	2014
School building and remodel	\$ 326,635
Less: accumulated depreciation	(26,132)
	\$ 300,503
Computer equipment	\$ 25,725
Less: accumulated depreciation	(12,148)
	\$ 13,577

Future minimum payments under this lease at June 30, 2014 are as follows:

*Year ended June 30,*

2015	\$ 119,408
2016	42,805
Total minimum lease payments	162,213
Less: interest and tax expense	(17,427)
Present value of net minimum lease payments	144,786
Less: current portion	115,515
Long-term portion	\$ 29,271

### 8. Note Payable

The Center has a note payable to a financial institution that was executed on November 12, 2004, secured by real property, with monthly payments of \$25,329, including interest at 6%, due in December 2014. The outstanding balance was \$2,256,060 and \$2,417,483 as of June 30, 2014 and 2013, respectively.

Principal payments on the note payable are as follows:

*Years ended June 30,*

2015	\$ 2,256,060
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# San Diego Center for Children

## Notes to Financial Statements

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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 ending June 30, 2014, the Center met all financial ratios including the fixed coverage ratio covenant required under the terms of the note and received extensions of its credit facilities through December, 2014. Because of the Center's financial results for the year ended June 30, 2014, the bank has provided an indication of further extension of the credit facilities through March 2015. Management plans to negotiate a refinancing of the current note payable in the third fiscal quarter of the next year. The note is classified as current as the note is due on December 31, 2014.

### 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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2015	\$	196,436
2016		199,984
2017		133,821
2018		69,593
2019		54,400
Thereafter		-
	\$	654,234

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Rent expense under operating leases for the years ended June 30, 2014 and 2013 was \$169,392 and \$125,669, respectively.

#### *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.

# San Diego Center for Children

## Notes to Financial Statements

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### 10. Fees from Government Agencies

Fees from government agencies for the years ended June 30, 2014 and 2013 consist of the following:

	2014	2013
Foster care - Title IV-E	\$ 7,238,497	\$ 6,173,919
Mental health	7,449,872	5,494,783
Non-public school	2,614,395	2,113,850
Other	94,743	81,657
	<hr/> \$ 17,397,507	<hr/> \$ 13,864,209

### 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, 2014 and 2013.

### 12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 consist of:

	2014	2013
Children's Therapeutic and Recreation Activity fund	\$ 210,931	\$ 256,593
Cottage Fund	34,419	42,904
Endowment Funds (see Note 13)	589,173	381,181
Maintenance Funds	29,725	13,549
Music program	17,261	3,322
Outcomes Analyst Program	-	20,555
Renovation of the Clark Adolescent Program Building	137,407	143,704
San Diego Assessment Program	298,292	178,361
San Diego Academy Reading Program	9,658	26,337
Various	13,501	8,672
	<hr/> \$ 1,340,367	<hr/> \$ 1,075,178

Net assets in the amounts of \$344,579 and \$401,323 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, 2014 and 2013, respectively.

# San Diego Center for Children

## Notes to Financial Statements

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### 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, 2014 and 2013 consist of:

	2014	2013
Clark Endowment	\$ 532,519	\$ 532,519
Iris Auxiliary Endowment	122,244	122,244
Mary Allen Sellers Endowment	189,396	189,396
San Diego Foundation	92,196	92,196
	<hr/> \$ 936,355	<hr/> \$ 936,355

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 is managed by Wells Fargo and by John Brennan, of Personal Financial Management using TD Ameritrade 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 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

# San Diego Center for Children

## Notes to Financial Statements

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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. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. 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 investments to temporary 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, 2014, 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:

	Temporarily Restricted	Permanently Restricted	Total 2014
Donor restricted endowment funds	\$ 589,172	\$ 936,355	\$ 1,525,527

	Temporarily Restricted	Permanently Restricted	Total 2013
Donor restricted endowment funds	\$ 381,181	\$ 936,355	\$ 1,317,536

# San Diego Center for Children

## Notes to Financial Statements

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

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, June 30, 2012	\$ 228,709	\$ 936,355	\$ 1,165,064
Investment income	27,066	-	27,066
Realized investment gain	3,307	-	3,307
Unrealized investment gain	122,099	-	122,099
Amount appropriated for expenditure	-	-	-
Endowment net assets, June 30, 2013	\$ 381,181	\$ 936,355	\$ 1,317,536
Investment income	37,066	-	37,066
Realized investment gain	1,606	-	1,606
Unrealized investment gain	169,319	-	169,319
Amount appropriated for expenditure	-	-	-
Endowment net assets, June 30, 2014	\$ 589,172	\$ 936,355	\$ 1,525,527

### 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, 2014 consist of the following:

	2014
Revenue earned	\$ 2,661,766
Costs incurred:	
Personnel	1,719,138
Operating	592,792
Total costs	2,311,930
Surplus applied to Overhead Expense	\$ 349,836

## Schedule of Expenditures of Federal Awards

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# San Diego Center for Children

## Note to Schedule of Expenditures of Federal Awards

<i>Year ended June 30, 2014</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 (San Bernardino County)	93.778	N/A	\$ 30,360
Children's L14 Day Treatment (Kern County)	93.778	N/A	29,946
<b>Total Medical Assistance Program</b>			<b>60,306</b>
Passed through San Diego County Department of Health and Human Services			
Foster Care - Title IV-E			
Children's RCL 12 Residential	93.658	525073	339,242
Children's RCL 14 Residential	93.658	525071	241,079
Children's Clark RCL 14 Residential	93.658	525070	98,413
Special Families - Foster Family Agency	93.658	524975	31,849
Multidimensional Treatment Foster Care - Adolescent	93.658	525072	89,063
Multidimensional Treatment Foster Care - Preschool	93.658	525370	160,309
<b>Total Foster Care - Title IV-E</b>			<b>959,955</b>
Passed through San Diego County Department of Health and Human Services			
Adoption Assistance			
Children's RCL 12 Residential	93.659	525073	284,935
Children's RCL 14 Residential	93.659	525071	357,093
Children's Clark RCL 14 Residential	93.659	525070	396,541
<b>Total Adoption Assistance</b>			<b>1,038,569</b>
<b>Total Department of Health and Human Services</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	55,427
National School Lunch Program	10.555	A68500	36,671
<b>Total Department of Agriculture</b>			<b>92,098</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	N/A	188,746
<b>Total Department of Housing &amp; Urban Development</b>			<b>188,746</b>
<b>Total Federal Expenditures</b>			<b>\$ 2,339,674</b>

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

# San Diego Center for Children

## Note to Schedule of Expenditures of Federal Awards

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### *Note 1 - Basis of Presentation*

The accompanying schedule of expenditures of federal awards includes the federal grant activity of San Diego Center for Children and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Independent Auditor's Reports Required by  
*Government Auditing Standards*  
and OMB Circular A-133

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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, 2014, 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 16, 2014.

### 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 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 of 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 16, 2014



## **Independent Auditor's Report on Compliance For Each Major Federal Program and Report on Internal Control Over Compliance**

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 (the "Center") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of San Diego Center for Children's major federal programs for the year ended June 30, 2014. 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 the requirements of laws, regulations, contracts, and grants applicable to each of 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 *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about San Diego 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, 2014.



## 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 a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Diego 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*BDO USA, LLP*

San Diego, California  
October 16, 2014

# San Diego Center for Children

## Schedule of Findings and Questioned Costs

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*Year ended June 30, 2013*

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

#### Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

#### Federal Awards:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

#### Identification of Major Programs:

U.S. Department of Health and Human Services:	
Passed through San Diego County Department of Health and Human Services Foster Care - Title IV-E	93.658
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

### Section II - Financial Statements 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 OMB Circular A-133.

### Section IV - Summary Schedule of Prior Year Findings

There were no findings or questioned costs for awards (as defined in section .510(a) of the Circular) that were required to be reported for the prior year.