



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, 2013
(With Comparative Information for June 30, 2012)

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, 2013

(With Comparative Information for June 30, 2012)

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, 2013, 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, 2013, 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 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 5, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 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 December 4, 2013 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
December 5, 2013

Financial Statements

San Diego Center for Children

Statements of Financial Position

<i>As of June 30,</i>	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 532,035	\$ 1,193,691
Accounts receivable		
less allowance for doubtful receivables of \$25,000	1,957,621	2,360,668
Pledges receivables	14,172	49,544
Prepaid expenses and other current assets	233,382	216,402
Investments	3,669	17,399
Total current assets	2,740,879	3,837,704
Noncurrent assets		
Investments, less current portion	1,416,751	1,704,711
Property and equipment, net	7,596,251	7,171,982
Total assets	\$ 11,753,881	\$ 12,714,397
Liabilities and Net assets		
Current liabilities		
Accounts payable	\$ 347,929	\$ 534,799
Accrued liabilities	630,092	998,117
Capital lease obligation, current portion	99,983	2,990
Note payable, current portion	163,474	153,977
Total current liabilities	1,241,478	1,689,883
Long-term liabilities		
Note payable, less current portion	2,254,009	2,415,413
Capital lease obligation, less current portion	154,128	-
Total liabilities	3,649,615	4,105,296
Net assets		
Unrestricted	6,092,733	6,737,533
Temporarily restricted	1,075,178	935,213
Permanently restricted	936,355	936,355
Total net assets	8,104,266	8,609,101
Total liabilities and net assets	\$ 11,753,881	\$ 12,714,397

See accompanying independent auditor's report and notes to financial statements.

San Diego Center for Children

Statements of Activities (With Comparative Totals of the Year Ended June 30, 2012)

<i>June 30,</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2013	Total 2012
Revenue and support					
Fees from government agencies	\$ 13,864,209	\$ -	\$ -	\$ 13,864,209	\$ 16,498,172
Special events revenue - net of expenses of \$77,093 and \$96,864, respectively	404,245	-	-	404,245	398,265
In-kind contributions	272,795	-	-	272,795	285,328
Contributions and grants	569,740	389,967	-	959,707	721,159
Gain on investments	39,807	125,406	-	165,213	31,582
Investments income	16,605	27,066	-	43,671	52,764
Other income	60,157	-	-	60,157	15,850
Net assets released from restrictions of time or purpose	402,474	(402,474)	-	-	-
Total revenue and support	15,630,032	139,965	-	15,769,997	18,003,120
Expenses					
Program services	13,418,969	-	-	13,418,969	15,250,947
General and administrative	2,391,430	-	-	2,391,430	2,648,443
Fundraising	464,433	-	-	464,433	400,990
Total expenses	16,274,832	-	-	16,274,832	18,300,380
Change in net assets	(644,800)	139,965	-	(504,835)	(297,260)
Net assets, beginning of year	6,737,533	935,213	936,355	8,609,101	8,906,361
Net assets, end of year	\$ 6,092,733	\$ 1,075,178	\$ 936,355	\$ 8,104,266	\$ 8,609,101

See accompanying independent auditor's report and notes to financial statements.

San Diego Center for Children

Statement of Functional Expenses
(With Comparative Totals for the Year Ended June 30, 2012)

June 30,	Program Services				Total Program Services	Supporting Services		Total 2013	Total 2012
	San Diego Center Academy	Campus Programs	Foster Care Programs	Community Programs		Fundraising	Overhead Departments		
Salaries and wages	\$ 1,424,448	\$ 4,321,656	\$ 1,145,777	\$ 1,151,229	\$ 8,043,110	\$ 191,386	\$ 1,371,368	\$ 9,605,864	\$ 10,887,498
Payroll taxes and employee benefits	307,803	1,191,280	251,341	235,732	1,986,156	14,087	246,065	2,246,308	2,397,522
Total personnel costs	1,732,251	5,512,936	1,397,118	1,386,961	10,029,266	205,473	1,617,433	11,852,172	13,285,020
Activity Fee	15,554	89,047	4,736	16,419	125,756	731	4,294	130,781	154,254
Advertising	250	-	-	-	250	-	10,482	10,732	9,756
Audit & Accounting	-	-	-	-	-	-	43,761	43,761	71,294
Auto, Gas & Mileage	1,642	35,091	112,143	8,308	157,184	120	1,547	158,851	202,631
Auto Lease	4,110	14,336	-	4,390	22,836	-	-	22,836	22,836
Auto Maintenance	3,579	36,856	247	343	41,025	49	33	41,107	27,961
Bank Fees	-	-	-	-	-	95	22,728	22,823	13,729
Building & Ground Maintenance	29,464	63,555	44,882	10,495	148,396	2,671	1,875	152,942	144,368
Client Allowance	-	8,593	-	-	8,593	-	-	8,593	9,621
Client Incentives	-	8,077	-	-	8,077	-	-	8,077	-
Clothing	-	42,511	1,847	-	44,358	-	-	44,358	38,648
Computer Expense	11,701	19,309	5,954	15,452	52,416	895	25,024	78,335	97,396
CSI Lease Sales Tax	7,624	492	147	-	8,263	29	645	8,937	-
Depreciation	81,336	226,718	17,682	3,536	329,272	8,330	55,324	392,926	337,180
Dietary	72,630	72,630	-	-	145,260	-	-	145,260	165,544
Dues & Subscriptions	3,306	11,337	8,323	8,323	31,289	-	23,211	54,500	50,693
EAC - Employee Appreciation Committee	-	-	-	-	-	-	8,029	8,029	32,382
Educational	8,491	-	-	-	8,491	-	164	8,655	4,181
Equipment Lease	19,387	13,511	2,699	4,861	40,458	1,201	3,443	45,102	39,070
Equipment Maintenance	498	498	-	135	1,131	-	-	1,131	490
Equipment Maintenance	-	-	-	-	-	-	-	-	7,229
Foster Family	-	-	379,076	-	379,076	-	-	379,076	300,097
Furnishings	307	2,376	2,394	1,160	6,237	10	855	7,102	8,508
Housekeeping & Janitorial	23,297	136,243	4,808	4,526	168,874	1,760	15,416	186,050	197,515
In-Kind Expense	12,793	48,760	6,947	5,830	74,330	189,877	8,588	272,795	285,329
Insurance - Auto	934	8,007	108	2,040	11,089	22	14	11,125	194,187
Insurance: Business & Prof Liab	30,155	101,932	25,090	22,688	179,865	4,478	23,612	207,955	-
Interest Expense	46,241	93,709	2,446	1,267	143,663	2,722	21,698	168,083	163,148
Investment Management Fees	-	-	-	-	-	-	7,200	7,200	7,327
Leasehold improvement s	-	-	-	-	-	-	-	-	15,862
Legal	-	-	-	-	-	-	144,140	144,140	100,818
License & Fees	1,455	5,777	5,282	1,416	13,930	398	39,816	54,144	53,887
Medical	53	24,300	42	84	24,479	-	9	24,488	30,660
Meals & Entertainment	576	180	28	28	812	28	1,553	2,393	3,654
Meetings & Conventions	244	1,528	500	556	2,828	181	6,461	9,470	10,886
Miscellaneous	413	689	7,329	71	8,502	-	11,908	20,410	95,615
Office	6,196	17,142	9,477	7,056	39,871	1,299	11,315	52,485	64,382
Other Consultants	149,326	145,032	12,739	6,390	313,487	35,935	106,581	456,003	568,760
Other Expense	645	2,837	258	-	3,740	86	473	4,299	11,748
Payroll Services	-	-	-	-	-	-	43,281	43,281	43,991
Personal Hygiene	-	9,329	-	-	9,329	-	-	9,329	8,762
Postage & Shipping	1,232	4,318	355	233	6,138	119	4,244	10,501	10,910
Printing	-	-	-	-	-	27	9,934	9,961	27,597
Property Tax	-	-	-	-	-	-	876	876	1,598
Psychiatric	1,995	172,068	57,429	49,081	280,573	-	-	280,573	422,305
Records Storage	-	1,948	577	1,643	4,168	-	1,670	5,838	6,316
Recreation	704	35,899	4,559	-	41,162	-	-	41,162	42,226
Recruitment	1,825	11,592	1,314	2,958	17,689	608	1,384	19,681	38,853
Rent	12,985	6,000	47,784	58,300	125,069	360	240	125,669	204,867
Repairs and replacements	-	-	-	-	-	-	-	-	34,765
Respite Payments	-	-	15,600	-	15,600	-	-	15,600	22,606
Safety	1,278	2,129	639	-	4,046	128	85	4,259	12,064
Security	25,094	87,696	4,894	907	118,591	1,939	18,736	139,266	82,978
Small Equipment	1,712	7,810	-	3,712	13,234	276	3,359	16,869	29,412
Staff Wellness	-	-	-	-	-	-	32,766	32,766	23,632
Telephone	4,941	18,912	20,944	1,603	46,400	1,060	9,711	57,171	95,569
Temporary Assistance	-	9,021	3,151	3,151	15,323	-	26,177	41,500	111,718
Training	8,010	6,258	6,528	4,384	25,180	735	1,436	27,351	91,347
Travel	172	1,685	76	76	2,009	484	726	3,219	5,114
Utilities	28,527	78,593	7,872	6,362	121,354	1,897	19,173	142,424	156,693
Volunteer Appreciation	-	-	-	-	-	410	-	410	391
Total functional expenses	\$ 2,352,933	\$ 7,197,267	\$ 2,224,024	\$ 1,644,745	\$ 13,418,969	\$ 464,433	\$ 2,391,430	\$ 16,274,832	\$ 18,300,380

See accompanying independent auditor's report and notes to financial statements.

San Diego Center for Children

Statements of Cash Flows

<i>Years ended June 30,</i>	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ (504,835)	\$ (297,260)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	392,926	337,180
Gain on investments	(165,213)	(31,582)
Reinvested interest and dividends	(43,671)	(52,764)
Donations of investments	-	(11,030)
Increase (decrease) in cash resulting from change in:		
Accounts receivable	403,047	561,578
Pledges receivable	35,372	117,000
Prepaid expenses and other current assets	(16,980)	196,948
Accounts payable	(186,870)	(90,353)
Accrued liabilities	(368,025)	(302,452)
Net cash provided by (used in) operating activities	(454,249)	427,265
Cash flows from investing activities:		
Purchase of property and equipment	(817,195)	(958,871)
Sales of investments	510,574	10,863
Net cash used in investing activities	(306,621)	(948,008)
Cash flows from financing activities:		
Principal payments on note payable	(151,907)	(142,465)
Borrowings on capital lease	352,360	-
Principal payments on capital lease	(101,239)	(16,611)
Net cash provided by (used in) financing activities	99,214	(159,076)
Net decrease in cash and cash equivalents	(661,656)	(679,819)
Cash and cash equivalents, beginning of year	1,193,691	1,873,510
Cash and cash equivalents, end of year	\$ 532,035	\$ 1,193,691
Supplemental disclosure:		
Interest paid	\$ 168,084	\$ 163,148

See accompanying independent auditor's report and notes to financial statements.

San Diego Center for Children

Notes to Financial Statements

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-12th 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

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, 2013 and 2012.

San Diego Center for Children

Notes to Financial Statements

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 \$14,172 and \$49,544 as of June 30, 2013 and 2012, respectively. Management has determined that an allowance for doubtful accounts was not necessary at June 30, 2013 or 2012.

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">• Quoted process for similar assets or liabilities in active markets;• Quoted prices for identical or similar assets or liabilities in inactive markets;• Inputs or other than quoted prices that are observable for the asset or liability;• Inputs that are derived principally from or corroborated by observable market data by correlation or other means. <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.

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

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.

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

In fiscal year 2013, the San Diego Center for Children completed the upgrade and centralization of the Academy's campus including a multisensory room, three new classrooms, and a center quad 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 six 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, 2013, 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

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, 2013 and 2012 the Center recorded in-kind contributions of \$272,795 and \$285,328, respectively.

Concentration of Credit Risks

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Center has never experienced any losses related to these balances. All of the non-interest bearing cash balances were fully insured at June 30, 2013 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage reverted to \$250,000 per depositor at each financial institution, and our non-interest bearing cash balances may again exceed federally insured limits. At June 30, 2013 the Center had no interest-bearing amounts on deposit in excess of federally insured limits.

The primary receivable balance outstanding at June 30, 2013 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, 2013, the Center received 39% of its revenue and support from its residential 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.

For the year ended, June 30, 2012, the Center received 40% of its revenue and support from its residential programs, 39% 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

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, 2012, 2011, and 2010 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 Issued Accounting Pronouncement

In October 2012, the Financial Accounting Standards Board ("FASB") issued 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. The amendments are to be applied prospectively and are effective for fiscal years beginning after June 15, 2013. Management is currently evaluating the effect that the provisions of ASU 2012-05 will have on the financial statements.

San Diego Center for Children

Notes to Financial Statements

Accounting Guidance Issued But Not Adopted as of June 30, 2013

Effective July 1, 2013, the Center will adopt the amended guidance in ASC 210, Balance Sheet. The amended guidance addresses disclosure of offsetting financial assets and liabilities. It requires entities to add disclosures showing both gross and net information about instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The updated disclosures will be implemented retrospectively and will not impact the Center's financial position or results of operations.

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, 2012 from which the summarized information was derived.

Reclassification

For comparability, certain June 30, 2012 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at June 30, 2013.

Subsequent Events

Management has evaluated subsequent events through December 5, 2013, the date which the financial statements were available to be issued.

San Diego Center for Children

Notes to Financial Statements

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, 2013:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	Total
Money market	\$ 3,669	\$ -	\$ -	\$ 3,669
Total current investments	3,669	-	-	3,669
Mutual funds:				
Equity securities	811,152	-	-	811,152
Fixed income	474,803	-	-	474,803
Asset backed securities	15,999	-	-	15,999
Complementary strategies	14,412	-	-	14,412
Investments held by others	-	-	100,385	100,385
Total noncurrent investments	1,316,366	-	100,385	1,416,751
Total investments	\$ 1,320,035	\$ -	\$ 100,385	\$ 1,420,420

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, 2013.

Investments held by others: The endowment pool consists of stocks, fixed income securities, and alternative investments and 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, 2012	\$ 98,188
Change in valuation	2,197
Balance at June 30, 2013	\$ 100,385

San Diego Center for Children

Notes to Financial Statements

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

	2013
Unrealized gain	\$ 126,340
Realized gain	38,873
Gain on investment	\$ 165,213

4. Property and Equipment

Property and equipment consist of the following at June 30:

	2013	2012
Land	\$ 32,361	\$ 32,361
Buildings and building improvements	9,323,373	8,203,987
Furniture and equipment	1,234,960	896,446
Computer equipment	195,872	156,663
Vehicles	27,469	4,566
Construction in progress	69,943	772,760
	10,883,978	10,066,783
Less: accumulated depreciation	(3,287,727)	(2,894,801)
	\$ 7,596,251	\$ 7,171,982

Depreciation expense was \$392,926 and \$337,180 for the years ended June 30, 2013 and 2012, respectively.

The Center estimates the cost to complete construction in progress to be \$250,000 at June 30, 2013. The estimate to complete includes \$200,000 in commitments outstanding as of June 30, 2013. 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.

San Diego Center for Children

Notes to Financial Statements

5. Accrued Liabilities

Accrued liabilities consist of the following at June 30:

	2013	2012
Accrued salaries and wages	\$ 25,011	\$ 99,207
Accrued vacation	356,559	399,601
Overpayment liability	57,355	338,673
Other accrued liabilities	191,167	160,636
	<hr/> \$ 630,092	<hr/> \$ 998,117

The Center will from time to time receive payments from customers that are unwarranted. Examples include a client discharged from treatment which the customer agency has not timely recognized or cost reimbursement contract audit adjustments from prior fiscal years. In these cases, the Center records an overpayment for that customer agency. The change in Overpayment Liability consists of the following as of June 30:

Overpayment liability as of June 30, 2012	\$ 338,673
Refunds to customer agencies	(202,701)
Reconciliations with customer agencies resulting in accounts receivable reclassifications rather than refunds	(135,972)
2013 Overpayments or Advance Payments	(57,338)
Overpayment liability as of June 30, 2013	<hr/> \$ 57,338

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 November 30, 2013. At June 30, 2013, 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, 2013, included in property and equipment, consists of the following:

	2013
School building and remodel	\$ 326,635
Less: accumulated depreciation	(8,206)
	<u>\$ 318,429</u>
Computer equipment	\$ 25,725
Less: accumulated depreciation	(3,573)
	<u>\$ 22,152</u>

Future minimum payments under this lease at June 30, 2013 are as follows:

Year ended June 30,

2014	\$ 119,408
2015	130,263
2016	42,805
Total minimum lease payments	292,476
Less: interest and tax expense	(38,365)
Present value of net minimum lease payments	254,111
Less: current portion	(99,983)
Long-term portion	<u>\$ 154,128</u>

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 \$2,417,483 and \$2,569,390 as of June 30, 2013 and 2012, respectively.

Principal payments on the note payable are as follows:

Years ended June 30,

2014	\$ 163,474
2015	2,254,009

San Diego Center for Children

Notes to Financial Statements

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, 2013, the Center did not meet the fixed coverage ratio covenant required under the terms of the note. In March 2013, the Center received a waiver of default rights with respect to the anticipated fixed coverage ratio covenant at June 30, 2013.

Management plans to obtain additional financing or refinance the current note payable and is in the process of negotiating a new agreement to replace the \$2,417,483 note payable due 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,

2014	\$	146,885
2015		141,100
2016		131,454
2017		76,815
2018		19,230
Thereafter		2,564
	\$	518,048

Rent expense under operating leases for the years ended June 30, 2013 and 2012 was \$125,669 and \$204,867, 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

10. Fees from Government Agencies

Fees from government agencies for the years ended June 30, 2013 and 2012 consist of the following:

	2013	2012
Foster care - Title IV-E	\$ 6,173,919	\$ 7,096,677
Mental health	5,494,783	6,969,859
Non-public school	2,113,850	2,334,875
Other	81,657	96,761
	<hr/> \$ 13,864,209	<hr/> \$ 16,498,172

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, 2013 and 2012.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012 consist of:

	2013	2012
Children's Therapeutic and Recreation Activity fund	\$ 256,593	\$ 278,000
Cottage Fund	42,904	43,752
Endowment Funds (see Note 13)	381,181	228,709
Maintenance Funds	13,549	-
Music program	3,322	5,940
Outcomes Analyst Program	20,555	-
Renovation of the Clark Adolescent Program Building	143,704	-
San Diego Academy Pavilion Project	-	16,663
San Diego Assessment Program	178,361	293,143
San Diego Academy Reading Program	26,337	47,788
Various	8,672	20,313
Wraparound program	-	905
	<hr/> \$ 1,075,178	<hr/> \$ 935,213

Net assets in the amounts of \$401,323 and \$454,630 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, 2013 and 2012, respectively.

San Diego Center for Children

Notes to Financial Statements

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, 2013 and 2012 consist of:

	2013	2012
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.

San Diego Center for Children

Notes to Financial Statements

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 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 net 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, 2013, 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.

San Diego Center for Children

Notes to Financial Statements

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

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

	Temporarily Restricted	Permanently Restricted	Total 2012
Donor restricted endowment funds	\$ 228,709	\$ 936,355	\$ 1,165,064

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

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, June 30, 2011	\$ 178,418	\$ 936,355	\$ 1,114,773
Investment income	29,042	-	29,042
Realized investment gain	12	-	12
Unrealized investment gain	21,237	-	21,237
Amount appropriated for expenditure	-	-	-
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

San Diego Center for Children

Notes to Financial Statements

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, 2013 consist of the following:

	2013
Revenue earned	\$ 2,113,850
Costs incurred:	
Personnel	1,732,251
Operating	620,681
Total costs	2,352,932
Net cost	\$ (239,082)

Schedule of Expenditures of Federal Awards

San Diego Center for Children

Note to Schedule of Expenditures of Federal Awards

<i>Year ended June 30, 2013</i>	Federal CFDA Number	Contract Number	Federal Expenditures
US Department of Health and Human Services			
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	\$ 7,565
Children's L14 Day Treatment (Kern County)	93.778	N/A	35,763
Total Medical Assistance Program			43,328
Passed through San Diego County Department of Health and Human Services			
Foster Care - Title IV-E			
Children's RCL 12 Residential	93.658	525073	583,892
Children's RCL 14 Residential	93.658	525071	149,846
Children's Clark RCL 14 Residential	93.658	525070	197,652
Special Families - Foster Family Agency	93.658	524975	87,158
Multidimensional Treatment Foster Care - Adolescent	93.658	525072	123,465
Multidimensional Treatment Foster Care - Preschool	93.658	525370	135,872
Total Foster Care - Title IV-E			1,277,885
Passed through San Diego County Department of Health and Human Services			
Adoption Assistance			
Children's RCL 12 Residential	93.659	525073	148,916
Children's RCL 14 Residential	93.659	525071	289,460
Children's Clark RCL 14 Residential	93.659	525070	245,317
Total Adoption Assistance			683,693
Total Department of Health and Human Services			2,004,906
US Department of Agriculture			
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	31,310
National School Lunch Program	10.555	A68500	49,006
Total Department of Agriculture			80,316
US Department of Housing & Urban Development			
Passed through City of San Diego			
Community Development Block Grants / Entitlement Grants			
CDBG Funding	14.218	N/A	388,136
Total Department of Housing & Urban Development			388,136
Total Federal Expenditures			\$ 2,473,358

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

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



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, 2013, 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 December 5, 2013.

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
December 5, 2013



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, 2013. 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, 2013.



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
December 5, 2013

San Diego Center for Children

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

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
U.S. Department of Housing and Urban Development:	
Passed through City of San Diego Community Development Block Grants/Entitlement Grants	14.218
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.