



## San Diego Center for Children

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

As of and for the Year Ended June 30, 2012  
(With Comparative Information for June 30, 2011)

## San Diego Center for Children

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# San Diego Center for Children

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Tel: 858-404-9200  
Fax: 858-404-9201  
www.bdo.com

4250 Executive Square, Suite 600  
La Jolla, CA 92037

## Independent Auditors' Report

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

We have audited the accompanying statement of financial position of San Diego Center for Children as of June 30, 2012, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of San Diego Center for Children's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from San Diego Center for Children's 2011 financial statements and in our report dated October 26, 2011, we expressed an unqualified opinion on those financial statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of San Diego Center for Children's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2012 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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements taken as a whole.

*BDO USA, LLP*

San Diego, California  
December 5, 2012

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## Financial Statements

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# San Diego Center for Children

## Statements of Financial Position

<i>As of June 30,</i>	2012	2011
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,193,691	\$ 1,873,510
Accounts receivable		
less allowance for doubtful receivables of \$25,000	2,360,668	2,922,246
Pledges receivables	49,544	166,544
Prepaid expenses and other current assets	216,402	413,350
Investments	17,399	1,161,157
<b>Total current assets</b>	<b>3,837,704</b>	<b>6,536,807</b>
<b>Noncurrent assets</b>		
Investments, less current portion	1,704,711	476,440
Property and equipment, net	7,171,982	6,550,291
<b>Total assets</b>	<b>\$ 12,714,397</b>	<b>\$ 13,563,538</b>
<b>Liabilities and Net assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 534,799	\$ 625,152
Accrued liabilities	998,117	1,300,569
Capital lease obligation, current portion	2,990	18,238
Note payable, current portion	153,977	145,190
<b>Total current liabilities</b>	<b>1,689,883</b>	<b>2,089,149</b>
<b>Long-term liabilities</b>		
Note payable, less current portion	2,415,413	2,566,665
Capital lease obligation, less current portion	-	1,363
<b>Total liabilities</b>	<b>4,105,296</b>	<b>4,657,177</b>
<b>Net assets</b>		
Unrestricted	6,737,533	6,828,739
Temporarily restricted	935,213	1,141,267
Permanently restricted	936,355	936,355
<b>Total net assets</b>	<b>8,609,101</b>	<b>8,906,361</b>
<b>Total liabilities and net assets</b>	<b>\$ 12,714,397</b>	<b>\$ 13,563,538</b>

*See accompanying independent auditors' report and notes to financial statements.*

# San Diego Center for Children

## Statements of Activities (With Comparative Totals of the Year Ended June 30, 2011)

<i>June 30,</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Revenue and support					
Fees from government agencies	\$ 16,498,172	\$ -	\$ -	\$ 16,498,172	\$ 17,157,059
Special events revenue - net of expenses of \$96,864 and \$110,012, respectively	398,265	-	-	398,265	377,911
In-kind contributions	285,328	-	-	285,328	289,180
Contributions and grants	522,874	198,285	-	721,159	1,036,790
Gain on investments	10,333	21,249	-	31,582	262,337
Investments income	23,722	29,042	-	52,764	16,358
Other income	15,850	-	-	15,850	12,323
Net assets released from restrictions of time or purpose	454,630	(454,630)	-	-	-
<b>Total revenue and support</b>	<b>18,209,174</b>	<b>(206,054)</b>	<b>-</b>	<b>18,003,120</b>	<b>19,151,958</b>
Expenses					
Program services	15,250,947	-	-	15,250,947	14,491,652
General and administrative	2,648,443	-	-	2,648,443	2,276,637
Fundraising	400,990	-	-	400,990	485,805
<b>Total expenses</b>	<b>18,300,380</b>	<b>-</b>	<b>-</b>	<b>18,300,380</b>	<b>17,254,094</b>
Change in net assets	(91,206)	(206,054)	-	(297,260)	1,897,864
Net assets, beginning of year	6,828,739	1,141,267	936,355	8,906,361	7,008,497
Net assets, end of year	\$ 6,737,533	\$ 935,213	\$ 936,355	\$ 8,609,101	\$ 8,906,361

*See accompanying independent auditors' report and notes to financial statements.*

# San Diego Center for Children

## Statement of Functional Expenses (With Comparative Totals for the Year Ended June 30, 2011)

June 30,	Program Services					Supporting Services			Total 2012	Total 2011
	San Diego Center Academy	Campus Programs	Foster Care Programs	Community Programs	Total Program Services	Fundraising	Overhead Departments			
Salaries and wages	\$ 1,572,824	\$ 4,573,207	\$ 1,601,005	\$ 1,378,032	\$ 9,125,068	\$ 248,384	\$ 1,514,046	\$ 10,887,498	\$ 10,166,125	
Payroll taxes and employee benefits	340,669	1,237,888	327,361	280,230	2,186,148	25,147	186,227	2,397,522	2,302,799	
<b>Total personnel costs</b>	<b>1,913,493</b>	<b>5,811,095</b>	<b>1,928,366</b>	<b>1,658,262</b>	<b>11,311,216</b>	<b>273,531</b>	<b>1,700,273</b>	<b>13,285,020</b>	<b>12,468,924</b>	
Activity fee	21,994	109,605	10,168	12,455	154,222	5	27	154,254	121,257	
Advertising	137	-	-	-	137	-	9,619	9,756	9,541	
Audit and accounting	-	-	-	-	-	-	71,294	71,294	65,167	
Auto, gas and mileage	4,608	13,340	299	4,390	22,637	40	159	22,836	23,663	
Auto lease	541	24,366	325	2,513	27,745	43	173	27,961	31,069	
Auto maintenance	2,487	42,746	145,513	10,255	201,001	28	1,602	202,631	146,611	
Bank fees	-	-	-	-	-	193	13,536	13,729	22,309	
Building and ground maintenance	25,600	64,054	20,111	23,240	133,005	1,975	9,388	144,368	186,759	
Client allowance	-	9,621	-	-	9,621	-	-	9,621	12,346	
Clothing	-	37,535	1,113	-	38,648	-	-	38,648	38,283	
Computer expense	14,939	19,603	11,583	18,251	64,376	683	32,337	97,396	81,205	
Depreciation	49,866	223,550	20,598	-	294,014	6,838	36,328	337,180	286,315	
Dietary	82,772	82,772	-	-	165,544	-	-	165,544	173,917	
Dues and subscriptions	3,230	112	11,088	11,038	25,468	30	25,195	50,693	30,606	
EAC - employee appreciation committee	-	-	-	-	-	-	32,382	32,382	34,840	
Educational	4,063	55	-	63	4,181	-	-	4,181	16,024	
Equipment lease	7,947	13,246	7,636	4,848	33,677	1,518	3,875	39,070	43,728	
Equipment maintenance	78	156	47	135	416	6	68	490	9,942	
Flex funds	-	-	7,229	-	7,229	-	-	7,229	5,164	
Foster family	-	-	300,097	-	300,097	-	-	300,097	298,047	
Furnishings	763	2,716	2,987	109	6,575	33	1,900	8,508	13,338	
Housekeeping and janitorial	24,464	138,501	9,212	7,141	179,318	2,793	15,404	197,515	143,345	
In-kind expense	18,034	98,145	19,907	15,522	151,608	91,200	42,521	285,329	289,180	
Insurance	26,160	92,803	24,380	24,338	167,681	4,625	21,881	194,187	180,525	
Interest expense	35,571	97,909	2,735	2,035	138,250	4,163	20,735	163,148	173,109	
Investment management fees	-	-	-	-	-	-	7,327	7,327	2,070	
Leasehold improvements	-	-	-	-	-	-	15,862	15,862	17,621	
Legal	-	-	-	-	-	-	100,818	100,818	154,945	
License and fees	6,431	7,620	5,669	1,522	21,242	62	32,583	53,887	53,409	
Meals and entertainment	-	-	321	55	376	350	2,928	3,654	2,352	
Medical	397	28,815	66	1,382	30,660	-	-	30,660	29,309	
Meetings and conventions	1,139	1,611	2,138	2,076	6,964	240	3,682	10,886	16,858	
Miscellaneous	382	5,657	81,051	182	87,272	645	7,698	95,615	58,610	
Office	7,021	22,842	12,409	6,455	48,727	1,809	13,846	64,382	85,013	
Other consultants	179,283	220,293	14,840	8,687	423,103	33	145,624	568,760	516,745	
Other expense	1,737	7,789	718	-	10,244	238	1,266	11,748	71,857	
Payroll services	-	-	-	-	-	-	43,991	43,991	32,160	
Personal hygiene	-	8,762	-	-	8,762	-	-	8,762	12,925	
Postage and shipping	1,534	5,365	565	177	7,641	259	3,010	10,910	13,279	
Printing	2,065	4,879	2,966	2,749	12,659	1,192	13,746	27,597	31,574	
Property tax	-	-	-	-	-	-	1,598	1,598	1,849	
Psychiatric	1,050	211,757	64,760	144,738	422,305	-	-	422,305	506,873	
Records storage	-	1,222	856	1,948	4,026	-	2,290	6,316	6,351	
Recreation	6,166	31,860	4,200	-	42,226	-	-	42,226	39,528	
Recruitment	5,605	17,421	5,638	6,219	34,883	473	3,497	38,853	42,043	
Rent	12,374	6,000	48,193	137,100	203,667	240	960	204,867	160,693	
Repairs and replacements	7,499	21,069	3,675	54	32,297	484	1,984	34,765	80,196	
Respite payments	-	-	22,606	-	22,606	-	-	22,606	16,438	
Safety	3,016	6,032	1,810	-	10,858	241	965	12,064	-	
Security	15,058	50,281	6,529	721	72,589	1,662	8,727	82,978	13,048	
Small equipment	4,870	13,136	62	2,097	20,165	-	9,247	29,412	31,959	
Staff Wellness - Live for Life	-	-	-	-	-	-	23,632	23,632	-	
Telephone	12,306	23,615	26,623	15,331	77,875	1,111	16,583	95,569	47,448	
Temporary assistance	-	1,854	-	-	1,854	-	109,864	111,718	54,690	
Training	9,929	23,592	32,373	8,629	74,523	1,145	15,679	91,347	67,128	
Travel	-	600	-	-	600	-	4,514	5,114	1,301	
Utilities	29,279	77,347	11,962	17,569	136,157	2,711	17,825	156,693	175,795	
Volunteer appreciation	-	-	-	-	-	391	-	391	1,155	
<b>Total functional expenses</b>	<b>\$ 2,543,888</b>	<b>\$ 7,681,349</b>	<b>\$ 2,873,424</b>	<b>\$ 2,152,286</b>	<b>\$ 15,250,947</b>	<b>\$ 400,990</b>	<b>\$ 2,648,443</b>	<b>\$ 18,300,380</b>	<b>\$ 17,250,436</b>	

*See accompanying independent auditors' report and notes to financial statements.*

# San Diego Center for Children

## Statements of Cash Flows

<i>Years ended June 30,</i>	2012	2011
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (297,260)	\$ 1,897,864
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	337,180	286,315
Gain on investments	(31,582)	(262,337)
Reinvested interest and dividends	(52,764)	(16,358)
Donations of investments	(11,030)	(10,000)
Increase (decrease) in cash resulting from change in:		
Accounts receivable	561,578	344,433
Pledges receivable	117,000	(166,544)
Prepaid expenses and other current assets	196,948	(158,088)
Accounts payable	(90,353)	139,313
Accrued liabilities	(302,452)	(147,660)
<b>Net cash provided by operating activities</b>	<b>427,265</b>	<b>1,906,938</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(958,871)	(546,952)
Sales of investments	10,863	180,637
<b>Net cash used in investing activities</b>	<b>(948,008)</b>	<b>(366,315)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on note payable	(142,465)	(134,539)
Principal payments on capital lease	(16,611)	(14,543)
<b>Net cash used in financing activities</b>	<b>(159,076)</b>	<b>(149,082)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(679,819)</b>	<b>1,391,541</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,873,510</b>	<b>481,969</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,193,691</b>	<b>\$ 1,873,510</b>
<b>Supplemental disclosure:</b>		
Interest paid	\$ 163,148	\$ 173,109

*See accompanying independent auditors' report and 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, 2012 and 2011.

# 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 \$49,544 and \$166,544 as of June 30, 2012 and 2011, respectively. Management has determined that an allowance for doubtful accounts was not necessary at June 30, 2012 or 2011.

### *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	40
Furniture and equipment	10
Computer equipment	3
Vehicles	5

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In fiscal year 2012, the San Diego Center for Children continued with several refurbishment and improvement projects. With CDBG funding, the Kearny Mesa campus parking lot is expanding to comply with now current San Diego building codes. Residential cottages and furnishings are being maintained and upgraded. With funding from City of San Diego Board of Supervisors, Kearny Mesa campus security upgrades are being installed. All of the refurbishment and improvement projects have anticipated completion dates prior to November 2012.

The San Diego Center Academy is being upgraded and centralized on the Kearny Mesa campus to include a multisensory room, three new classrooms, and a center quad pavilion for assemblies, student performances, and other school related events. This major project has an approximate budget of \$650,000 partially funded by CDBG grants, some lease financing, and by a restricted gift. Estimated completion of the school upgrade is October 2012.

### *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, 2012, 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, 2012 and 2011 the Center recorded in-kind contributions of \$285,328 and \$289,180, 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, 2012 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 will revert 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, 2012 the Center had no interest-bearing amounts on deposit in excess of federally insured limits.

The primary receivable balance outstanding at June 30, 2012 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, 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).

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, 2011, 2010, and 2009 are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

# San Diego Center for Children

## Notes to Financial Statements

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### *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.

### *Comparative Totals*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. 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, 2011 from which the summarized information was derived.

### *Reclassification*

For comparability, certain June 30, 2011 amounts have been reclassified, where appropriate, to conform to the financial statement presentation used at June 30, 2012.

### *Subsequent Events*

Management has evaluated subsequent events through December 5, 2012, the date which the financial statements were available to be issued.

# San Diego Center for Children

## Notes to Financial Statements

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### Investments

The following table sets forth by level within the fair value hierarchy the Center's investment assets and investment liabilities at fair value as of June 30, 2012:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<b>Total</b>
Money market	\$ 17,399	\$ -	\$ -	17,399
<b>Total current investments</b>	<b>17,399</b>	<b>-</b>	<b>-</b>	<b>17,399</b>
Mutual funds				
Equity securities	53,781	-	-	53,781
Fixed income	1,268,365	-	-	1,268,365
Asset backed securities	16,042	-	-	16,042
Complementary strategies	10,590	-	-	10,590
Exchange Traded Funds	257,745	-	-	257,745
Investments held by others	-	-	98,188	98,188
<b>Total noncurrent investments</b>	<b>1,606,523</b>	<b>-</b>	<b>98,188</b>	<b>1,704,711</b>
<b>Total investments</b>	<b>\$ 1,623,922</b>	<b>\$ -</b>	<b>\$ 98,188</b>	<b>\$ 1,722,110</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, 2012.

**Exchange Traded Funds:** Exchange Traded Funds are valued at the closing price reported on the active market on which the individual securities are traded.

**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.

# San Diego Center for Children

## Notes to Financial Statements

For assets and liabilities 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, 2011	\$	99,319
Change in valuation		(1,131)
<b>Balance at June 30, 2012</b>	<b>\$</b>	<b>98,188</b>

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

		2012
Unrealized gain, net of losses	\$	31,570
Realized gain		12
<b>Gain on investment</b>	<b>\$</b>	<b>31,582</b>

### 3. Property and Equipment

Property and equipment consist of the following at June 30:

	2012	2011
Land	\$ 32,361	\$ 32,361
Buildings and building improvements	8,203,987	9,505,042
Furniture and equipment	896,446	810,486
Computer equipment	156,663	323,803
Vehicles	4,566	163,420
Construction in progress	772,760	416,248
	<b>10,066,783</b>	<b>11,251,360</b>
Less: accumulated depreciation	(2,894,801)	(4,701,069)
	<b>\$ 7,171,982</b>	<b>\$ 6,550,291</b>

Depreciation expense was \$337,180 and \$286,315 for the years ended June 30, 2012 and 2011, respectively.

# San Diego Center for Children

## Notes to Financial Statements

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The Center estimates the cost to complete construction in progress to be \$500,000 at June 30, 2012. As of June 30, 2012, the Center has outstanding commitments, either accounts payable or executed contracts, for the construction totaling \$156,868. Of the total construction costs of approximately \$1.3 million, approximately \$800,000 is funded by CDBG BLOC grants, by private donations, by County of San Diego, and by certain leases. The remaining construction cost is being funded by the Center's available unrestricted assets.

### 5. Accrued Liabilities

Accrued liabilities consist of the following at June 30:

	2012	2011
Accrued salaries and wages	\$ 99,207	\$ 361,288
Accrued vacation	399,601	349,062
Overpayment liability	338,673	255,515
Other accrued liabilities	160,636	334,704
	<u>\$ 998,117</u>	<u>\$ 1,300,569</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 \$1,000,000, bearing interest, at 4.25%, due to mature on December 31, 2012. At June 30, 2012, no amount was outstanding.

The Center has a revolving line of credit with a financial institution, secured by certificates of deposit, in the amount of \$325,000, bearing interest, at 2.75%, due to mature on December 11, 2012. At June 30, 2012, no amount was outstanding.

### 7. Capital Lease Obligation

The Center leases a phone system under a capital lease.

The cost of the phone system under the capital lease at June 30, 2012, included in property and equipment, consists of the following:

	2012
Phone system	\$ 66,598
Less: accumulated depreciation	(32,189)
	<u>\$ 34,409</u>

# San Diego Center for Children

## Notes to Financial Statements

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Future minimum payments under this lease at June 30, 2012 are as follows:

*Year ended June 30,*

---

2013	\$	3,040
<hr/>		
Total minimum lease payments		3,040
Less: interest expense		(50)
<hr/>		
Present value of net minimum lease payments		2,990
Less: current portion		(2,990)
<hr/>		
Long-term portion	\$	-

### 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 \$2,569,390 and \$2,711,855 as of June 30, 2012 and 2011, respectively.

Principal payments on the note payable are as follows:

*Years ended June 30,*

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2013	\$	153,977
2014		163,474
2015		2,251,939

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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, 2012, the Center did not meet the fixed coverage ratio covenant required under the terms of the note. In November 2012, the Center received a waiver of default rights with respect to that fixed coverage ratio covenant.

# San Diego Center for Children

## Notes to Financial Statements

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### 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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2013	\$	220,747
2014		167,624
2015		132,097
2014		121,196
2015		66,558
Thereafter		20,973
	\$	729,195

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Rent expense under operating leases for the years ended June 30, 2012 and 2011 was \$204,867 and \$160,693, 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.

### 10. Fees from Government Agencies

Fees from government agencies for the year ended June 30, 2012 and 2011 consist of the following:

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	2012	2011
Foster care - Title IV-E	\$ 7,096,677	\$ 8,037,008
Mental health	6,969,859	6,604,822
Non-public school	2,334,875	2,399,092
First five	-	7,099
Other	96,761	109,038
	\$ 16,498,172	\$ 17,157,059

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# San Diego Center for Children

## Notes to Financial Statements

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### 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, 2012 and 2011.

### 12. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2012 and 2011 consist of:

	2012	2011
Children's Therapeutic and Recreation Activity fund	\$ 278,000	\$ 279,521
San Diego Academy Pavilion Project	16,663	88,087
San Diego Assessment Program	293,143	398,544
San Diego Academy Reading Program	47,788	45,000
Various	20,313	102,659
Wraparound program	905	3,234
Music program	5,940	-
Endowment funds (see Note 13)	228,709	178,418
Cottage Fund	43,752	45,804
	<hr/> \$ 935,213	<hr/> \$ 1,141,267

Net assets in the amounts of \$454,630 and \$341,315 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, 2012 and 2011, respectively.

### 13. Permanently Restricted Net Assets

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

Permanently restricted net assets were available for the following purposes at June 30, 2012 and 2011:

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

# San Diego Center for Children

## Notes to Financial Statements

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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 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

# San Diego Center for Children

## Notes to Financial Statements

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, 2012, 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 2012
Donor restricted endowment funds	\$ 228,709	\$ 936,355	\$ 1,165,064

	Temporarily Restricted	Permanently Restricted	Total 2011
Donor restricted endowment funds	\$ 178,418	\$ 936,355	\$ 1,114,773

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

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, June 30, 2010	\$ 65,573	\$ 936,355	\$ 1,001,928
Investment income	15,556	-	15,556
Realized investment loss	(33,894)	-	(33,894)
Unrealized investment gain	131,183	-	131,183
Amount appropriated for expenditure	-	-	-
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

# San Diego Center for Children

## Notes to Financial Statements

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### 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, 2012 consist of the following:

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Revenue earned:	\$	2,334,875
Costs incurred:		
Personnel		1,913,493
Operating		630,395
<hr/>		
Total costs		2,543,888
<hr/>		
Net revenue	\$	(209,013)

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## 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, 2012</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 (Riverside County)	93.778	N/A	\$ 19,229
Children's L14 Day Treatment (San Bernardino County)	93.778	N/A	10,440
Children's L14 Day Treatment (Kern County)	93.778	N/A	4,209
Children's L14 Day Treatment (Sutter-Yuba County)	93.778	N/A	23,790
<b>Total Medical Assistance Program</b>			<b>57,668</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	393,859
Children's RCL 14 Residential	93.658	525071	219,026
Children's Clark RCL 14 Residential	93.658	525070	143,513
Special Families - Foster Family Agency	93.658	524975	92,519
Multidimensional Treatment Foster Care - Adolescent	93.658	525072	37,550
Multidimensional Treatment Foster Care - Preschool	93.658	525370	103,299
<b>Total Foster Care - Title IV-E</b>			<b>989,766</b>
Passed through San Diego County Department of Health and Human Services			
Adoption Assistance			
Children's RCL 12 Residential	93.659	525073	105,730
Children's RCL 14 Residential	93.659	525071	364,822
Children's Clark RCL 14 Residential	93.659	525070	323,877
<b>Total Adoption Assistance</b>			<b>794,429</b>
<b>Total Department of Health and Human Services</b>			<b>1,841,863</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	36,595
National School Lunch Program	10.555	A68500	61,262
<b>Total Department of Agriculture</b>			<b>97,857</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	186,187
<b>Total Department of Housing &amp; Urban Development</b>			<b>186,187</b>
<b>Total Federal Expenditures</b>			<b>\$ 2,125,907</b>

*See independent auditors' 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 Auditors' Reports Required by  
*Government Auditing Standards*  
and OMB Circular A-133

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Tel: 858-404-9200  
Fax: 858-404-9201  
www.bdo.com

4250 Executive Square, Suite 600  
La Jolla, CA 92037

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited the financial statements of San Diego Center for Children (the "Center") as of and for the year ended June 30, 2012, and have issued our report thereon dated December 5, 2012. 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.

**Internal Control Over Financial Reporting**

Management of the Entity is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center'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*.

This report is intended solely for the information and use of management, audit committee, board of directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*BDO USA, LLP*

San Diego, California  
December 5, 2012



Tel: 858-404-9200  
Fax: 858-404-9201  
www.bdo.com

4250 Executive Square, Suite 600  
La Jolla, CA 92037

## **Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

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

### **Compliance**

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 the Center's major federal programs for the year ended June 30, 2012. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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 the Center'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. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the 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, 2012.

### **Internal Control Over Compliance**

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 the Center'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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, audit committee, board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*BDO USA, LLP*

San Diego, California  
December 5, 2012

# San Diego Center for Children

## Schedule of Findings and Questioned Costs

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*Year ended June 30, 2012*

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

#### Financial Statements:

Type of auditor's report issued:	Unqualified
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:	Unqualified
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
Passed through San Diego County Department of Health and Human Services Adoption Assistance	93.659
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.