



San Diego Center for Children

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

As of and for the Year Ended June 30, 2017
(With Comparative Information for June 30, 2016)

San Diego Center for Children

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

As of and for the Year Ended June 30, 2017
(With Comparative Information for June 30, 2016)

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, 2017, 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, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited San Diego Center for Children's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 26, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2017 on our consideration of San Diego Center for Children's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Diego Center for Children's internal control over financial reporting and compliance.

BDO USA, LLP

San Diego, California
October 25, 2017

Financial Statements

San Diego Center for Children

Statements of Financial Position

<i>As of June 30,</i>	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 1,685,882	\$ 1,865,933
Accounts receivable		
less allowance for doubtful receivables of \$25,000	2,925,882	2,739,664
Prepaid expenses and other current assets	205,263	362,882
Investments, at fair value	21,070	195
Total current assets	4,838,097	4,968,674
Noncurrent assets		
Investments, at fair value, less current portion	2,199,188	1,995,804
Property and equipment, net	7,646,657	7,345,688
Total assets	\$ 14,683,942	\$ 14,310,166
Liabilities and Net assets		
Current liabilities		
Accounts payable	\$ 327,652	\$ 241,856
Accrued liabilities	1,068,678	1,129,286
Current portion of capital lease obligation	33,927	-
Notes payable, current portion	174,677	154,751
Total current liabilities	1,604,934	1,525,893
Long-term liabilities		
Capital lease obligation, net of current portion	140,139	-
Notes payable, less current portion	2,581,386	2,694,519
Total liabilities	4,326,459	4,220,412
Net assets		
Unrestricted	8,288,325	8,176,861
Temporarily restricted	1,101,788	945,523
Permanently restricted	967,370	967,370
Total net assets	10,357,483	10,089,754
Total liabilities and net assets	\$ 14,683,942	\$ 14,310,166

See accompanying notes to financial statements.

San Diego Center for Children

Statement of Activities (With Comparative Totals of the Year Ended June 30, 2016)

<i>Year ended June 30,</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2017	Total 2016
Revenue and support					
Fees from government agencies	\$ 20,070,661	\$ -	\$ -	\$ 20,070,661	\$ 18,995,955
Fees from non-government agencies	959,100	-	-	959,100	1,157,466
Special events revenue - net of expenses of \$145,011 and \$169,062, respectively	314,805	-	-	314,805	309,504
In-kind contributions	222,530	-	-	222,530	132,373
Contributions and grants	437,049	426,711	-	863,760	869,246
(Loss) gain on investments	42,172	133,913	-	176,085	(158,163)
Investments income	14,408	40,321	-	54,729	98,265
Other income	25,054	-	-	25,054	5,260
Net assets released from restrictions of time or purpose	444,680	(444,680)	-	-	-
Total revenue and support	22,530,459	156,265	-	22,686,724	21,409,906
Expenses					
Program services	19,865,797	-	-	19,865,797	18,848,158
General and administrative	2,081,986	-	-	2,081,986	2,000,083
Fundraising	471,212	-	-	471,212	525,080
Total expenses	22,418,995	-	-	22,418,995	21,373,321
Change in net assets	111,464	156,265	-	267,729	36,585
Net assets, beginning of year	8,176,861	945,523	967,370	10,089,754	10,053,169
Net assets, end of year	\$ 8,288,325	\$ 1,101,788	\$ 967,370	\$ 10,357,483	\$ 10,089,754

See accompanying notes to financial statements.

San Diego Center for Children

Statement of Functional Expenses (With Comparative Totals of the Year Ended June 30, 2016)

Year ended June 30,	Program Services					Supporting Services		Total 2017	Total 2016
	San Diego Center Academy	Campus Programs	Foster Care Programs	Community Programs	Total Program Services	Fundraising	Overhead Departments		
Salaries and wages	\$ 2,196,835	\$ 6,001,573	\$ 2,918,235	\$ 1,926,021	\$ 13,042,664	\$ 259,340	\$ 1,222,162	\$ 14,524,166	\$ 13,393,055
Payroll taxes and employee benefits	370,559	1,562,475	494,677	306,137	2,733,848	29,103	212,424	2,975,375	2,907,350
Total personnel costs	2,567,394	7,564,048	3,412,912	2,232,158	15,776,512	288,443	1,434,586	17,499,541	16,300,405
Activity Fee	28,959	158,988	15,254	30,262	233,463	-	-	233,463	194,694
Advertising	275	900	-	275	1,450	-	7,413	8,863	12,931
Audit & Accounting	-	-	-	-	-	-	60,944	60,944	49,767
Auto, Gas & Mileage	1,676	33,310	201,757	15,433	252,176	412	583	253,171	273,696
Auto Maintenance	1,880	34,060	129	-	36,069	26	17	36,112	24,336
Bad Debt Allowance	-	-	-	-	-	-	730	730	85,737
Bank Fees	-	-	-	-	-	376	20,652	21,028	61,470
Building & Ground Maintenance	48,795	116,755	57,292	6,195	229,037	3,231	14,343	246,611	242,903
Client Allowance	-	7,700	-	-	7,700	-	-	7,700	5,359
Clothing	-	6,070	(612)	-	5,458	-	-	5,458	11,821
Computer Expense	-	6,511	(422)	-	6,089	-	2,192	8,281	43,309
CSI Lease Sales Tax	768	50	15	-	833	3	65	901	5,279
Depreciation	92,353	262,131	41,242	6,806	402,532	26,714	92,521	521,767	468,151
Dietary	89,341	89,341	-	-	178,682	-	-	178,682	183,224
Dues & Subscriptions	7,259	10,963	6,919	12,017	37,158	958	19,055	57,171	59,186
EAC - Employee Appreciation Committee	-	-	-	159	159	-	36,590	36,749	26,183
Educational	6,531	-	-	-	6,531	-	-	6,531	18,472
Equipment Lease	1,665	4,239	5,220	2,424	13,548	321	2,346	16,215	16,092
Equipment Maintenance	848	1,159	319	-	2,326	64	8,134	10,524	13,832
Foster Family	-	-	259,425	-	259,425	-	-	259,425	314,912
Furnishings	3,126	11,112	20,417	1,495	36,150	60	1,205	37,415	37,554
Housekeeping & Janitorial	21,541	168,049	15,112	8,882	213,584	2,136	13,331	229,051	219,709
In-Kind Expense	19,435	54,678	22,261	14,630	111,004	53,506	8,020	172,530	132,373
Insurance - Auto	1,016	12,771	117	-	13,904	23	16	13,943	13,505
Insurance: Business & Prof Liab	38,436	116,455	50,860	33,467	239,218	2,841	13,394	255,453	278,923
Interest Expense	35,913	66,339	1,900	1,443	105,595	2,472	18,741	126,808	150,646

San Diego Center for Children

Statement of Functional Expenses (With Comparative Totals of the Year Ended June 30, 2016)

Year ended June 30,	Program Services					Supporting Services		Total 2017	Total 2016
	San Diego Center Academy	Campus Programs	Foster Care Programs	Community Programs	Total Program Services	Fundraising	Overhead Departments		
Legal	-	121	91	91	303	-	40,525	40,828	(100,595)
License & Fees	10,560	34,565	17,306	11,016	73,447	939	20,324	94,710	98,447
Medical	-	14,475	-	523	14,998	-	-	14,998	27,384
Meals & Entertainment	-	-	-	-	-	-	-	-	73
Meetings & Conventions	1,686	9,814	2,367	1,016	14,883	602	5,540	21,025	13,079
Miscellaneous	1,347	3,730	1,246	-	6,323	-	8,332	14,655	14,225
Flex Funds	-	-	10,468	-	10,468	-	-	10,468	15,750
Office	20,824	35,069	31,040	16,845	103,778	1,658	17,705	123,141	115,338
Other Consultants	143,505	59,348	25,082	2,726	230,661	52,863	60,884	344,408	468,565
Other Expense	-	-	-	-	-	-	1,674	1,674	2,215
Payroll Services	-	-	-	-	-	-	70,772	70,772	41,704
Personal Hygiene	-	15,134	-	-	15,134	-	-	15,134	11,267
Postage & Shipping	1,326	3,357	608	427	5,718	4,549	1,715	11,982	11,146
Printing	-	-	-	-	-	17,512	14,963	32,475	13,702
Property Tax	-	-	-	-	-	-	1,009	1,009	1,013
Psychiatric	-	230,150	91,236	64,428	385,814	-	-	385,814	420,586
Records Storage	-	4,530	495	398	5,423	-	2,218	7,641	7,002
Recreation	3,170	379	361	24	3,934	-	-	3,934	7,227
Recruitment	22,055	35,947	11,327	8,700	78,029	643	5,297	83,969	48,019
Rent	12,908	6,000	115,557	131,600	266,065	360	240	266,665	255,921
Respite Payments	-	-	14,428	-	14,428	-	-	14,428	21,359
Safety	1,172	1,954	586	-	3,712	117	78	3,907	13,391
Security	1,080	2,327	1,816	800	6,023	111	214	6,348	54,472
Small Equipment	5,447	26,426	39,774	10,582	82,229	1,835	10,772	94,836	27,492
Staff Wellness	-	-	-	-	-	-	30,026	30,026	27,275
Telephone	2,214	16,101	63,176	29,505	110,996	1,201	2,268	114,465	114,159
Temporary Assistance	9,018	15,296	4,509	434	29,257	882	10,173	40,312	128,431
Training	10,661	36,284	26,725	17,940	91,610	3,565	1,547	96,722	89,770
Utilities	25,102	79,042	24,299	15,518	143,961	2,789	20,832	167,582	171,658
Volunteer Appreciation	-	-	-	-	-	-	-	-	22
Total functional expenses	\$ 3,239,286	\$ 9,355,678	\$ 4,592,614	\$ 2,678,219	\$ 19,865,797	\$ 471,212	\$ 2,081,986	\$ 22,418,995	\$ 21,364,566

See accompanying notes to financial statements.

San Diego Center for Children

Statements of Cash Flows

<i>Years ended June 30,</i>	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 267,729	\$ 36,585
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	521,767	468,151
Investment fees deducted from investments	11,462	4,519
Loss (gain) on investments	(176,085)	158,163
Reinvested interest and dividends	(59,637)	(98,265)
Increase (decrease) in cash resulting from change in:		
Accounts receivable	(186,218)	428,030
Prepaid expenses and other current assets	157,619	(72,040)
Accounts payable	85,796	(118,568)
Accrued liabilities	(60,608)	(164,259)
Net cash provided by operating activities	561,825	642,316
Cash flows from investing activities:		
Purchase of property and equipment	(569,426)	(601,231)
Proceeds from sale of investments	-	4,698
Net cash used in investing activities	(569,426)	(596,533)
Cash flows from financing activities:		
Borrowings on note payable	-	3,000,000
Principal payments on notes payable	(161,515)	(2,258,913)
Principal payments on capital lease	(10,395)	(29,271)
Net cash provided by (used in) financing activities	(172,450)	711,816
Net increase (decrease) in cash and cash equivalents	(180,051)	757,599
Cash and cash equivalents, beginning of year	1,865,933	1,108,334
Cash and cash equivalents, end of year	\$ 1,685,882	\$ 1,865,933
Supplemental disclosure:		
Interest paid	\$ 115,558	\$ 116,447
Taxes paid	\$ 901	\$ 5,280
Noncash investing and financing activities:		
Acquisition of property and equipment through notes payable	\$ 68,310	\$ -
Acquisition of property and equipment through a capital lease	\$ 185,000	\$ -

See accompanying notes to financial statements.

San Diego Center for Children

Notes to Financial Statements

1. Organization

Founded in 1887, the San Diego Center for Children (the "Center") is the oldest children's 501(c)(3) nonprofit in San Diego. The Center provides evidence-based therapeutic, educational, foster care and transition services to children and families struggling with mental, emotional and behavioral disorders. Its comprehensive continuum of services includes outpatient therapies and assessment, school-based behavioral health services, transition supports, special education, wraparound, foster care placement and therapy, and short term residential treatment.

With 8 program sites and community-based services within hundreds of homes and schools across San Diego County, the Center empowers over 1,000 people every day. We serve families from all different backgrounds and circumstances, including children who come from loving homes and those who are in foster care, and who have experienced abuse, trauma or neglect.

With a superior quality of care, nationally accredited by The Joint Commission, each youth served through our programs receives individualized treatment that is strength-based, child and family centered, and culturally relevant. Our team of over 350 culturally and trauma-informed experts are highly qualified to effectively address the mental and behavioral health struggles of families in a holistic way.

The Center is also accredited by the Western Association of Schools and Colleges (WASC) for our privately-operated K-12 nonpublic school. Additionally, we are an approved Nonpublic Agency with the California Department of Education and an approved qualified special education service provider by the California Charter Schools Association.

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.

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.

San Diego Center for Children

Notes to Financial Statements

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.

Reclassifications

Certain 2016 amounts have been reclassified to conform to the 2017 financial statement presentation. These reclassifications have no effect on previously reported net income.

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, 2017 and 2016.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. The Center has pledge receivables of \$0 as of June 30, 2017 and 2016.

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.

San Diego Center for Children

Notes to Financial Statements

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.

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 and software	3 - 5
Vehicles	5

San Diego Center for Children

Notes to Financial Statements

In fiscal year 2017, the Center received from the City of San Diego a Community Development Block Grant ("CDBG") in the amount of \$168,000 to remodel the Ferguson nursing station and to construct a 520 square foot free standing sensory building. As of June 30, 2017, the Center had \$35,697 in Construction in Progress related to this project.

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, 2017, the Center did not identify any events or circumstances that would require the recognition of an impairment loss under this standard.

Revenue and Support

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

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

Donated Materials and Services

Contributions of donated non-cash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills 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, 2017 and 2016 the Center recorded in-kind contributions of \$222,530 and \$132,373, respectively.

Concentration of Credit Risks

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2017, the Center had no interest-bearing amounts on deposit in excess of federally insured limits. At June 30, 2017, the Center had non-interest bearing cash balances in excess of FDIC insured limits. The Center has never experienced any losses related to these balances.

The primary receivable balance outstanding at June 30, 2017 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risk with

San Diego Center for Children

Notes to Financial Statements

respect to trade receivables is limited, as the majority of the Center's receivables consist of earned fees from contract programs granted by governmental agencies.

For the year ended, June 30, 2017, the Center received 36% of its program revenue from its residential and foster care programs, 40% of its revenue from its mental health programs, and 16% of its revenue from its non-public school program fees.

For the year ended, June 30, 2016 the Center received 36% of its program revenue from its residential and foster care programs, 42% of its revenue from its mental health programs, and 16% of its revenue 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, 2017, 2016, and 2015 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.

San Diego Center for Children

Notes to Financial Statements

Litigation

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

Comparative Totals

The financial statements include certain prior year summarized comparative information. With respect to the statement of activities, the prior year information is presented in total, not by net asset class. With respect to the statement of functional expenses, the prior year expenses are presented by expense classification in total rather than functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2016 from which the summarized information was derived.

Recent Accounting Pronouncements

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-18, *Restricted Cash*. The standard requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statement of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. The ASU includes examples of the revised presentation guidance, and additional presentation and disclosure requirements apply. The guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The Center is in the process of evaluating the impact of adoption on its financial statements.

In August 2016, FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. The ASU aims to improve presentation of financial information, ultimately making nonprofit financial reporting statements more informative transparent and useful to readers. Key qualitative and quantitative requirements covered in the final ASU include net asset classes, return on investment expenses, liquidity and availability of capital resources and presentation of operating cash flows. The guidance is effective for fiscal years beginning after December 31, 2017 and early adoption is permitted. Management continues to evaluate the potential impact of this update on the financial statements.

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

San Diego Center for Children

Notes to Financial Statements

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

Subsequent Events

Management has evaluated subsequent events through October 25, 2017, the date which the financial statements were available to be issued.

3. Investments

The following table sets forth by level within the fair value hierarchy the Center’s investment assets at fair value as of June 30, 2017:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	Total
Money market	\$ 21,070	\$ -	\$ -	\$ 21,070
Total current investments	21,070	-	-	21,070
Mutual funds:				
Equity securities	1,149,553	-	-	1,149,553
Fixed income	742,623	-	-	742,623
Investments held by others	-	-	307,012	307,012
Total noncurrent investments	1,892,176	-	307,012	2,199,188
Total investments	\$ 1,913,246	\$ -	\$ 307,012	\$ 2,220,258

San Diego Center for Children

Notes to Financial Statements

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

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

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, 2017 and 2016.

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

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

	Investments held by others
Balance at June 30, 2015	\$ 135,950
Transfer from Level 1 investments	144,733
Change in valuation	85
Balance at June 30, 2016	\$ 280,768
Change in valuation	26,244
Balance at June 30, 2017	\$ 307,012

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:

		2017
Unrealized gains	\$	216,062
Unrealized losses		(38,980)
<hr/>		
Unrealized gains, net		177,082
<hr/>		
Realized gains		841
Realized losses		(1,838)
<hr/>		
Realized losses, net		(997)
<hr/>		
Gain on investments, net	\$	176,085

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

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

4. Property and Equipment

Property and equipment consist of the following at June 30:

	2017		2016
Land	\$ 32,361	\$	32,361
Buildings and building improvements	9,577,031		9,557,151
Furniture and equipment	2,090,464		2,031,761
Computer equipment	438,092		230,373
Vehicles	123,253		48,031
Construction in progress	568,838		107,626
<hr/>			
	12,830,039		12,007,303
<hr/>			
Less: accumulated depreciation	(5,183,382)		(4,661,615)
<hr/>			
	\$ 7,646,657	\$	7,345,688

San Diego Center for Children

Notes to Financial Statements

Depreciation expense was \$521,767 and \$468,151 for the years ended June 30, 2017 and 2016, respectively.

The Center estimates the cost to complete construction in progress to be \$928,000 and it is estimated to be completed by June 30, 2018. The estimate to complete includes \$903,000 in commitments outstanding as of June 30, 2017. Such commitments are executed, but cancellable, contracts for the construction projects. Approximately \$168,000 of the costs to complete construction are expected to be obtained in CDBG grants that have not been received. The use of the CDBG grants requires matching of funds by the Center.

5. Accrued Liabilities

Accrued liabilities consist of the following at June 30:

	2017	2016
Accrued salaries and wages	\$ 249,153	\$ 191,013
Accrued vacation	571,366	605,120
Bonus liability	34,692	31,293
Overpayment liability	108,907	137,108
Other accrued liabilities	104,560	164,752
	\$ 1,068,678	\$ 1,129,286

6. Capital Lease Obligation

The Center leases equipment under a capital lease. The economic substance of the lease is that the Center is financing the acquisition of the equipment through the lease and, accordingly, it is recorded in the Center's assets and liabilities. This obligation is secured by the specific equipment financed under each lease and will be repaid monthly over the remaining lease terms through February 2022. The lease has an imputed interest rate of 5.06% per annum.

At June 30, 2017 and 2016, the Company had equipment held under capital lease with a cost of \$185,000 and \$0, respectively, and related accumulated amortization of \$8,810 and \$0, respectively.

San Diego Center for Children

Notes to Financial Statements

The following is a schedule by year of future minimum rental payments required under the leases together with their present value:

<i>Year Ending June 30,</i>		Amount
2018	\$	41,955
2019		41,955
2020		41,955
2021		41,955
2022		27,971
Total minimum lease payments		195,791
Less amount representing interest		(21,725)
Present value of net minimum lease payments		174,066
Current portion		33,927
Long-term portion		\$ 140,139

7. Debt Obligations

On July 1, 2015, the Center received proceeds related to refinancing agreement (“Business Loan Agreement”) with a financial institution that was dated June 23, 2015. The Business Loan Agreement is comprised of a term loan valued at \$3,000,000. A portion of the proceeds were used to pay off the outstanding principal of an existing loan with the remainder being received directly to the Center. The note bears an interest rate of 3.99% and is payable in equal monthly payments with the final payment due on June 23, 2030.

On November 18, 2016 the Center entered into a 60-month installment loan with a financing company to purchase a vehicle. The loan is secured by the vehicle, bears interest at an annual rate of 0% and requires monthly payments of \$327. The final payment due is on November 15, 2021, which concludes the 60 month loan.

On January 1, 2017 the Center entered a 60-month loan agreement with a financing company to purchase a vehicle. The loan is secured by the vehicle, bears interest at an annual rate of 0% and requires monthly payments of \$520. The final payment due is on December 2, 2021, which concludes the 60 month loan.

On March 16, 2017 the Center entered a 60-month loan agreement with a financing company to purchase a vehicle. The loan is secured by the vehicle, bears interest at an annual rate of 1.9% and requires monthly payments of \$306. The final payment due is on March 30, 2022, which concludes the 60 month loan.

San Diego Center for Children

Notes to Financial Statements

Principal payments on the term loans are as follows:

Years ended June 30,

2018	\$	174,677
2019		182,779
2020		189,720
2021		196,841
2022		197,606
Thereafter		1,814,440
	\$	2,756,063

As required by the terms of the Business Loan Agreement, the Center is required to satisfy certain restrictive covenants which, among other terms, require the maintenance of certain financial ratios and places limits on other indebtedness, and requires certain informational reports. For the year ended June 30, 2017, the Center was in compliance with all covenants.

8. 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,

2018	\$	202,034
2019		184,088
2020		125,688
	\$	511,810

Rent expense under operating leases for the years ended June 30, 2017 and 2016 was \$266,665 and \$255,921, 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

9. Fees from Government Agencies

Fees from government agencies for the years ended June 30, 2017 and 2016 consist of the following:

	2017	2016
Foster care - Title IV-E	\$ 7,645,852	\$ 7,782,133
Mental health	8,835,565	7,891,841
Non-public school	3,479,974	3,216,470
Other	109,270	105,511
	<hr/> \$ 20,070,661	<hr/> \$ 18,995,955

10. 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, 2017 and 2016.

11. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2017 and 2016 consist of:

	2017	2016
Children's Therapeutic and Recreation Activity fund	\$ 227,529	\$ 214,745
Endowment Fund Earnings (see Note 12)	771,580	597,347
Maintenance Funds	50,477	70,886
San Diego Academy Math, Reading and Music Programs	37,859	3,681
Transition Youth Initiative	12,500	49,701
Various	1,843	9,163
	<hr/> \$ 1,101,788	<hr/> \$ 945,523

Net assets in the amounts of \$444,680 and \$337,447 were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors for the years ended June 30, 2017 and 2016, respectively.

12. 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.

San Diego Center for Children

Notes to Financial Statements

Permanently restricted net assets at June 30, 2017 and 2016 consist of:

	2017		2016
Clark Endowment	\$ 532,519	\$	532,519
Iris Auxiliary Endowment	122,244		122,244
Mary Allen Sellers Endowment	189,396		189,396
San Diego Foundation	123,211		123,211
	\$ 967,370	\$	967,370

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

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

The 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. The investment policy directs the Center that until, and at such time, Permanently Restricted Net Assets reach a value of \$5,000,000 no annual distributions should be made. Permanently Restricted Net Assets increase in value may consist of accumulated investment interest and capital appreciation and/or additional Center or donor restricted contributions to the

San Diego Center for Children

Notes to Financial Statements

investment pool. Once that investment value is reached annual distributions may be made regularly. The annual distribution may not reduce the investment pool balance below the \$5,000,000 threshold. The Center's investment policy dictates appropriate levels of risk relative to investment return objectives. Endowment assets are invested in a well-diversified asset mix, which includes money market funds, mutual funds and equity securities, which is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make a reasonable annual distribution, while growing the funds if possible. Therefore, the Center expects its endowment assets, over time, to produce an average rate of return of approximately 3% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Center has a policy of reporting any gain or loss on endowment assets to temporarily restricted nets assets until appropriated for expenditures. In establishing this policy, the Center considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Center's objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return. As of June 30, 2017, 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 \$5,000,000.

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

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ 771,580	\$ 967,370	\$ 1,738,950

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

San Diego Center for Children

Notes to Financial Statements

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

	Temporarily Restricted	Permanently Restricted	Total Endowment Assets
Endowment net assets, June 30, 2015	\$ 650,884	\$ 967,370	\$ 1,618,254
Investment income	73,748	-	73,748
Unrealized investment loss	(127,285)	-	(127,285)
Endowment net assets, June 30, 2016	\$ 597,347	\$ 967,370	\$ 1,564,717
Investment income	40,320	-	40,320
Unrealized investment gain	133,913	-	133,913
Endowment net assets, June 30, 2017	\$ 771,580	\$ 967,370	\$ 1,738,950

13. 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, 2017 consist of the following:

	2017
Education Program:	
Revenue earned	\$ 3,743,711
Costs incurred:	
Personnel	2,567,394
Operating	671,892
Total costs	3,239,286
Surplus applied to overhead expense	\$ 504,425

Schedule of Expenditures of Federal Awards

San Diego Center for Children
Schedule of Expenditures of Federal Awards

<i>Year ended June 30, 2017</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			
Foster Care - Title IV-E			
Children's RCL 12 Residential	93.658	541030	\$ 508,281
Children's RCL 14 Residential	93.658	541030	192,401
Children's Clark RCL 14 Residential	93.658	541030	142,483
Special Families - Foster Family Agency	93.658	537487	89,635
Treatment Foster Care Oregon - Child Age	93.658	537487	128,720
Treatment Foster Care Oregon - Preschool	93.658	537487	47,169
Total Foster Care - Title IV-E			1,108,689
Passed through San Diego County Department of Health and Human Services			
Adoption Assistance			
Children's RCL 12 Residential	93.659	541030	280,476
Children's RCL 14 Residential	93.659	541030	331,069
Children's Clark RCL 14 Residential	93.659	541030	399,657
Total Adoption Assistance			1,011,202
Total Department of Health and Human Services			\$ 2,119,891
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	46,387
National School Lunch Program	10.555	A68500	62,784
Total Department of Agriculture			109,171
US Department of Housing & Urban Development			
Passed through City of San Diego			
Community Development Block Grants / Entitlement Grants			
CDBG Funding	14.218		92,553
Total Department of Housing & Urban Development			92,553
Total Federal Expenditures			\$ 2,321,615

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

San Diego Center for Children

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of San Diego Center for Children under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of San Diego Center for Children, it is not intended to and does not present the financial position, changes in net assets or cash flows of San Diego Center for Children.

Note 2- Reconciliation to Financial Statements

Year ended June 30, 2017

Fees from government agencies per financial statements	\$	20,070,661
Less: non-federal fees from government agencies		17,749,046
<hr/>		
Expenditures of Federal Awards	\$	2,321,615

Note 3 - Indirect Cost Rate

The Center has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of San Diego Center for Children (the "Center"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2017

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Diego Center for Children's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BDO USA, LLP

San Diego, California
October 25, 2017



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

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

Report on Compliance for Each Major Federal Program

We have audited San Diego Center for Children's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of San Diego Center for Children's major federal programs for the year ended June 30, 2017. San Diego Center for Children's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of San Diego Center for Children's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about San Diego Center for Children's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, San Diego Center for Children complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.



Report on Internal Control Over Compliance

Management of San Diego Center for Children is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Diego Center for Children's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Diego Center for Children's internal control over compliance.

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

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

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

BDO USA, LLP

San Diego, California
October 25, 2017

San Diego Center for Children

Schedule of Findings and Questioned Costs June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

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

Federal Awards

Internal control over major federal programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes X no

Identification of Major Programs:

U.S. Department of Health and Human Services:
Passed through San Diego County Department of Health and Human Services
Foster Care - Title IV-E 93.658

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X yes _____ no

Section II - Financial Statement Findings

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

Section III - Federal Award Findings and Questioned Costs

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