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**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

FINANCIAL STATEMENTS

June 30, 2013 and 2012

CONTENTS

Independent Auditors' Report	1-2
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses	5-6
Statements of Cash Flows.....	7
Notes to the Financial Statements.....	8-27
Schedule of Expenditures of Federal Awards	28
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 <i>Government Auditing Standards</i>	29-30
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	31-33
Schedule of Findings and Questioned Costs	34-35

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Tri-Counties Association for the Developmentally Disabled, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-Counties Association for the Developmentally Disabled, Inc. (a California nonprofit corporation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the entity'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 entity'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 Tri-Counties Association for the Developmentally Disabled as of June 30, 2013 and 2012, 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing*

In accordance with *Government Auditing Standards*, we have also issued our report dated [Date] , on our consideration of Tri-Counties Association for the Developmentally Disabled, Inc.'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 Tri-Counties Association for the Developmentally Disabled, Inc.'s internal control over financial reporting and compliance.



Windes, Inc.

Long Beach, California
February 7, 2014

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 856,992	\$ 1,985,911
Cash - client trust funds	1,273	1,326
Contracts receivable – state of California	15,675,399	17,776,272
Receivables from Intermediate Care Facility vendors	3,421,520	
Client receivables from government agencies		49,756
Other receivables	7,360	8,227
Prepaid expenses and deposits	107,908	106,907
Due from state – accrued vacation, sick leave and other employee benefits	7,034,596	7,843,744
Prepaid post-retirement health care plan expense	1,406,072	
TOTAL ASSETS	\$ 28,511,120	\$ 27,772,143

LIABILITIES AND NET ASSETS (DEFICIT)

LIABILITIES		
Accounts payable	\$ 19,293,170	\$ 19,366,954
Accrued payroll	488,288	226,461
Accrued vacation and sick leave	1,199,538	1,166,077
Due to state	9,871	2,376
Post-retirement health care plan obligation	5,835,058	8,088,717
Other liabilities	219,462	209,042
Unexpended client support	1,273	51,082
	27,046,660	29,110,709
COMMITMENTS AND CONTINGENCIES (Notes 5, 6, and 9)		
NET ASSETS (DEFICIT)		
Unrestricted	1,464,460	(1,338,566)
	1,464,460	(1,338,566)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 28,511,120	\$ 27,772,143

The accompanying notes are an integral part of these financial statements.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

STATEMENTS OF ACTIVITIES

	For the Year Ended	
	June 30,	
	<u>2013</u>	<u>2012</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Support and Revenues		
Contracts – state of California	\$ 210,933,700	\$ 209,598,764
Intermediate Care Facility supplemental services income	7,076,183	
Interest income	89,205	89,832
Other income	523,294	296,296
Total Support and Revenues	<u>218,622,382</u>	<u>209,984,892</u>
Expenses		
Program services:		
Client services	215,975,515	207,595,598
Supporting services:		
General and administrative	<u>2,660,963</u>	<u>2,383,767</u>
Total Expenses	<u>218,636,478</u>	<u>209,979,365</u>
CHANGE IN NET ASSETS (DEFICIT) BEFORE HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	(14,096)	5,527
HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST- RETIREMENT BENEFIT COST	<u>2,817,122</u>	(<u>936,782</u>)
CHANGE IN NET ASSETS (DEFICIT)	2,803,026	(931,255)
NET DEFICIT AT BEGINNING OF YEAR	(<u>1,338,566</u>)	(<u>407,311</u>)
NET ASSETS (DEFICIT) AT END OF YEAR	<u>\$ 1,464,460</u>	<u>(\$ 1,338,566)</u>

The accompanying notes are an integral part of these financial statements.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013**

	Program Services	Supporting Services	Total Expenses	% of Total Expenses
	Client Services	General and Admin- istrative		
PURCHASE OF SERVICES				
Living out of home	\$ 33,850,860		\$ 33,850,860	15.48 %
Day program	63,971,398		63,971,398	29.26
Transportation	11,244,580		11,244,580	5.14
Supported living services	37,994,721		37,994,721	17.38
Behavioral services	20,576,464		20,576,464	9.41
Medical services	5,859,535		5,859,535	2.68
Respite services	10,897,632		10,897,632	4.99
Other services	7,891,850		7,891,850	3.61
	<u>192,287,040</u>		<u>192,287,040</u>	<u>87.95</u>
OPERATIONS				
Personnel services				
Salaries	12,964,932	\$ 1,409,120	14,374,052	6.57
Benefits	5,411,073	529,605	5,940,678	2.72
Taxes	174,568	17,399	191,967	0.09
Occupancy				
Facility rent and maintenance	2,367,026	265,463	2,632,489	1.20
Office relocation	122,703	13,784	136,487	0.06
Utilities	139,206	15,638	154,844	0.07
General expense	627,793	49,501	677,294	0.31
Equipment				
Purchase, rental and maintenance	516,735	57,978	574,713	0.26
Professional fees				
Accounting fees		56,060	56,060	0.03
Legal fees	82,135	9,227	91,362	0.04
Consultant services	30,482	101,864	132,346	0.06
Insurance	145,372	16,319	161,691	0.07
Communication				
Telephone	308,375	34,642	343,017	0.16
Postage	33,275	3,700	36,975	0.02
Travel	507,509	52,268	559,777	0.26
Training, development, and conferences				
	122,186	13,235	135,421	0.06
General office expense				
Office supplies	135,105	14,979	150,084	0.07
Interest expense		181	181	0.00
	<u>23,688,475</u>	<u>2,660,963</u>	<u>26,349,438</u>	<u>12.05</u>
TOTAL EXPENSES	<u>\$ 215,975,515</u>	<u>\$ 2,660,963</u>	<u>\$ 218,636,478</u>	<u>100.00 %</u>

The accompanying notes are an integral part of these financial statements.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012**

	Program Services	Supporting Services	Total Expenses	% of Total Expenses
	Client Services	General and Admin- istrative		
PURCHASE OF SERVICES				
Living out of home	\$ 31,136,611		\$ 31,136,611	14.83 %
Day program	60,717,718		60,717,718	28.92
Transportation	10,783,760		10,783,760	5.13
Supported living services	38,915,064		38,915,064	18.53
Behavioral services	22,562,384		22,562,384	10.75
Medical services	6,186,548		6,186,548	2.95
Respite services	10,137,073		10,137,073	4.82
Other services	5,495,104		5,495,104	2.61
	<u>185,934,262</u>		<u>185,934,262</u>	<u>88.54</u>
OPERATIONS				
Personnel services				
Salaries	11,899,166	\$ 1,200,370	13,099,536	6.24
Benefits	4,640,701	458,533	5,099,234	2.43
Taxes	168,276	16,636	184,912	0.09
Occupancy				
Facility rent and maintenance	2,376,711	246,668	2,623,379	1.25
Office relocation	138,939	14,442	153,381	0.07
Utilities	128,652	13,372	142,024	0.07
General expense	443,109	24,289	467,398	0.22
Equipment				
Purchase, rental, and maintenance	461,674	47,976	509,650	0.24
Professional fees				
Accounting fees		52,500	52,500	0.03
Legal fees	203,031	21,104	224,135	0.11
Consultant services	33,171	168,254	201,425	0.10
Insurance	118,657	12,323	130,980	0.06
Communication				
Telephone	315,323	32,776	348,099	0.17
Postage	23,088	2,369	25,457	0.01
Travel	419,685	42,515	462,200	0.22
Training, development, and conferences	131,296	13,148	144,444	0.07
General office expense				
Office supplies	159,857	16,492	176,349	0.08
	<u>21,661,336</u>	<u>2,383,767</u>	<u>24,045,103</u>	<u>11.46</u>
TOTAL EXPENSES	<u>\$ 207,595,598</u>	<u>\$ 2,383,767</u>	<u>\$ 209,979,365</u>	<u>100.00 %</u>

The accompanying notes are an integral part of these financial statements.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets (deficit)	\$ 2,803,026	(\$ 931,255)
Adjustments to reconcile change in net assets (deficit) to net cash from operating activities:		
Changes in post-retirement health care plan obligation	(3,659,731)	1,625,541
(Increase) decrease in:		
Cash - client trust funds	53	(9)
Contracts receivable – state of California	2,100,873	(17,776,272)
Receivables from Intermediate Care Facility vendors	(3,421,520)	
Client receivables from government agencies	49,756	
Other receivables	867	14,169
Prepaid expenses and deposits	(1,001)	(268)
Due from state – accrued vacation and other employee benefits	809,148	(1,064,347)
Increase (decrease) in:		
Accounts payable	(73,784)	1,160,594
Accrued payroll	261,827	(229,947)
Contract advances – state of California		(1,801,423)
Accrued vacation and sick leave	33,461	375,589
Due to state	7,495	(93,096)
Other liabilities	10,420	58,553
Unexpended client support	(49,809)	991
Net Cash Used In Operating Activities	(1,128,919)	(18,661,180)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,128,919)	(18,661,180)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,985,911</u>	<u>20,647,091</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 856,992</u>	<u>\$ 1,985,911</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

There was no interest paid during 2012. Cash paid for interest totaled approximately \$180 during the year ended June 30, 2013.

The accompanying notes are an integral part of these financial statements.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 – Summary of Significant Accounting Policies

Organization and Operations

Tri-Counties Association for the Developmentally Disabled, Inc. (the Center), was incorporated on November 29, 1968 as a California not-for-profit corporation for the purpose of operating Tri-Counties Regional Center and related activities. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State of California. In accordance with the Act, the Center provides diagnostic evaluations, client program management and lifelong planning services for persons with developmental disabilities and their families. The Center serves the counties of Ventura, Santa Barbara and San Luis Obispo.

The Act includes governance provisions regarding the composition of the Center's board of directors. The Act states that the board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50% of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25% of the members of the governing board shall be persons with developmental disabilities. In addition, a member of a required advisory committee, composed of persons representing the various categories of providers from which the regional center purchases client services, shall serve as a member of the regional center board. To comply with the Act, the Center's board of directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the Center and a client service provider of the Center.

The Center contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for individuals with developmental disabilities and their families. Under the terms of these contracts, funded expenditures are not to exceed \$205,595,041 and \$209,427,680 for the 2012-2013 and 2011-2012 contract years, respectively. As of June 30, 2013, actual net expenditures under the 2012-2013 and 2011-2012 contracts were \$207,139,689 and \$208,977,943, respectively.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Organization and Operations (Continued)

As discussed above, the Center operates under contracts with the DDS. Contract revenue is funded on a cost reimbursement basis. The net assets (deficit) reported as of June 30, 2013 and 2012 on the statements of financial position is primarily the result of the Center's post-retirement health care plan. As further discussed in Notes 1 and 5, the accounting standard required the Center to recognize as a credit or charge to net assets the actuarial gains (losses) and prior service cost that had not yet been recognized as components of periodic plan expenses. For purposes of reporting plan expenses, the unrecognized actuarial gains (losses) and prior service costs will continue to be amortized into plan expenses over future years. Plan expenses under the post-retirement health care plan are reimbursed under the DDS contract as the Center funds the plan. Although the Center expects that the plan costs will ultimately be funded over future years, plan funding will depend on continued funding by the DDS.

Financial Statement Presentation

The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of June 30, 2013 and 2012, the Center had no permanently restricted or temporarily restricted net assets.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Contributions

The Center recognizes all contributions received as income in the period received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's 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.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Cash and Cash Equivalents and Concentration of Credit Risk

For the purpose of the statements of cash flows, the Center considers all highly liquid debt instruments with maturity of three months or less when purchased to be cash equivalents.

At June 30, 2013 and throughout the year, the Center maintained cash balances in its bank in excess of federally insured limits. Given the current economic environment and risks in the banking industry, there is risk that these deposits may not be readily available or covered by insurance.

Support and Contracts Receivable – State of California

Contracts receivable and contract support are recorded on the accrual method as related expenses are incurred.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Receivables from Intermediate Care Facility Vendors

The Centers for Medicare and Medicaid Services (CMS) has approved federal financial participation in the funding of the day and transportation services related to the Center's Immediate Care Facility (ICF) services. The federal rules allow for only one provider of the ICF service, requiring all the Medicaid funding for the ICF resident to go through the applicable vendors. The Center receives a 1.5% administrative fee based on the funds received to cover the additional workload.

Equipment

Pursuant to the terms of the contract with the DDS, equipment purchases become the property of the state and, accordingly, are charged as expenses when incurred. For the years ended June 30, 2013 and 2012, equipment purchases totaled \$505,484 and \$437,571, respectively.

Accrued Vacation, Sick Leave and Other Employee Benefits

The Center has accrued a liability for leave benefits earned and for post-retirement health care as discussed in Note 5. However, such benefits are reimbursed under the contract with the DDS only when actually paid. The Center has also recorded a receivable from the DDS for the accrued benefits to reflect the future reimbursement of such benefits.

Post-Retirement Health Care Plan

The Center is required to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in the statements of financial position, with an offsetting charge or credit to net assets. Gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net period benefit cost will be recognized each year as a separate charge or credit to net assets.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Allocation of Expenses

The statements of functional expenses allocate expenses to the program and supporting service categories based on both a direct-cost basis for purchase of services and salaries and related expenses. Operating expenses are based on a percentage of salaries per category to total salaries and related expenses, except for travel and contract consulting expenses, which are allocated on a direct-cost basis. Trailer Bill Language enacted March 24, 2011 requires that all contracts between the Department of Developmental Services and the regional centers require that not more than 15% of all funds appropriated through the regional center's operations budget be spent on administrative costs. The Center is using an agreed-upon model to allocate expenses. For fiscal years ending June 30, 2013 and 2012, the Center's ratio was 10.09% and 9.91%, respectively.

Tax Status

The Center has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively.

The Center recognizes the financial statement benefit of tax positions, such as the filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California purposes is generally three and four years, respectively.

Reclassifications

Certain amounts in the June 30, 2012 financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

The Center's management has evaluated subsequent events from the statement of financial position date through February 7, 2014, the date the financial statements were available to be issued for the year ended June 30, 2013, and determined, except as disclosed in Note 9, there are no other items to disclose.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 2 – Cash - Client Trust Funds and Unexpended Client Support

The Center functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. The cash balances are segregated from the operating cash accounts of the Center and are restricted for client support. In August 2008, a significant portion of the client trust fund and unexpended client support was transferred to an unrelated third-party management service.

NOTE 3 – Contracts Receivable/Contract Advances – State of California

As of June 30, 2013 and 2012, the DDS had advanced the Center \$37,598,321 and \$40,901,605, respectively, under the contracts with the DDS. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from the DDS as follows:

	June 30,	
	2013	2012
Contracts receivable	\$ 53,273,720	\$ 58,677,877
Contract advances	(37,598,321)	(40,901,605)
Net contracts receivable	<u>\$ 15,675,399</u>	<u>\$ 17,776,272</u>

NOTE 4 – Short-Term Borrowings

The Center had a line of credit agreement with a bank which expired October 15, 2013, whereby it could borrow up to \$33,600,000. Borrowings were secured by substantially all assets of the Center. There was no outstanding balance at June 30, 2013.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 5 – Post-Retirement Health Care Plan

The Center has a noncontributory post-retirement health care plan for its employees. The Center uses a June 30 measurement date for its plan.

The following tables provide a reconciliation of the changes in the plan’s benefit obligations and funded status as of June 30, 2013 and 2012:

Reconciliation of Benefit Obligation

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 9,615,682	\$ 8,055,033
Service cost	526,964	545,907
Interest cost	313,203	407,985
Actuarial loss (gain)	(2,668,251)	836,181
Benefits paid	(237,654)	(229,424)
Obligation at end of year	<u>7,549,944</u>	<u>9,615,682</u>
Change in plan assets		
Fair value of plan assets at beginning of year	1,526,965	1,591,857
Actual return on plan assets	<u>187,921</u>	<u>(64,892)</u>
Fair value of plan assets at end of year	<u>1,714,886</u>	<u>1,526,965</u>
Net amount recognized in the statements of financial position	<u>\$ 5,835,058</u>	<u>\$ 8,088,717</u>

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 5 – Post-Retirement Health Care Plan (Continued)

The following table provides the components of the net periodic benefit cost for the plan:

	For the Year Ended June 30,	
	2013	2012
Service cost	\$ 526,964	\$ 545,907
Interest cost	313,203	407,985
Return on investments	(187,921)	64,892
Net asset (gain) loss	65,764	(192,241)
Amortization of (gain) loss from earlier periods	(41,650)	(33,117)
Amortization of unrecognized past service cost	<u>124,757</u>	<u>124,757</u>
Net periodic benefit cost	<u>\$ 801,117</u>	<u>\$ 918,183</u>

The plan items not yet recognized as a component of periodic plan expenses, but included as a separate credit or charge to net assets at June 30, 2013 and 2012, are:

	June 30,	
	2013	2012
Prior service cost	\$ 623,789	\$ 748,546
Actuarial (gain) loss	<u>(2,029,861)</u>	<u>662,504</u>
	<u>(\$ 1,406,072)</u>	<u>\$ 1,411,050</u>

The Center has accrued a receivable as of June 30, 2013 and 2012 from the DDS totaling \$5,835,058 and \$6,677,667, respectively, representing the portion of the post-retirement health care plan obligation which has been recognized as plan expense. The receivables are included in due from state-accrued vacation, sick leave and other employee benefits in the statements of financial position.

The accumulated benefit obligation as of July 1, 2000 of \$2,245,630 is being considered an unrecognized prior service cost and is being amortized on a straight-line basis over 18 years.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 5 – Post-Retirement Health Care Plan (Continued)

Assumptions

Weighted-average assumptions used to determine benefit obligations at June 30:

	<u>2013</u>	<u>2012</u>
Discount rate	4.80%	4.15%
General inflation	2.80%	2.15%
Long-term rate of return on plan assets	8.00%	8.00%

Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30:

	<u>2013</u>	<u>2012</u>
Discount rate	4.15%	5.65%
General inflation	2.15%	2.65%
Long-term rate of return on plan assets	8.00%	8.00%

Assumed health care cost trends at June 30:

	<u>2013</u>	<u>2012</u>
Net Periodic Benefit Cost:		
Health care cost trend rate assumed for next year	6.53%	7.33%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.65%	4.65%
Year that the rate reaches the ultimate trend rate	2017	2016

Accumulated Benefit Obligation:

Health care cost trend rate assumed for next year	7.00%	7.00%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%	4.65%
Year that the rate reaches the ultimate trend rate	2018	2017

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 5 – Post-Retirement Health Care Plan (Continued)

Assumptions (Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A 1% change in assumed health care cost trend rates would have the following effects for the year ended June 30, 2013:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on the accumulated post-retirement benefit obligation	\$ 1,274,923	(\$ 1,030,214)

Plan Assets

The plan's assets are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A recent accounting standard has established 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 5 – Post-Retirement Health Care Plan (Continued)

Plan Assets (Continued)

The following table sets forth by level, with the fair value hierarchy, the plan’s assets at fair value as of June 30, 2013:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Asset category:				
Cash and cash equivalents	\$ 130,801	\$ 130,801		
Common stocks	87,621	87,621		
Mutual funds/ETFs – equities	1,168,961	1,168,961		
Mutual funds/ETFs – fixed income	<u>327,503</u>	<u>327,503</u>		
Total	<u>\$ 1,714,886</u>	<u>\$ 1,714,886</u>	<u>None</u>	<u>None</u>

The following table sets forth by level, with the fair value hierarchy, the plan’s assets at fair value as of June 30, 2012:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Asset category:				
Cash and cash equivalents	\$ 67,371	\$ 67,371		
Common stocks	66,409	66,409		
Mutual funds/ETFs – equities	1,117,422	1,117,422		
Mutual funds/ETFs – fixed income	<u>275,763</u>	<u>275,763</u>		
Total	<u>\$ 1,526,965</u>	<u>\$ 1,526,965</u>	<u>None</u>	<u>None</u>

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 5 – Post-Retirement Health Care Plan (Continued)

Plan Asset Allocations

Weighted-average asset allocations at June 30, 2013 were as follows:

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target</u>
Cash equivalents *	8%	5%
Fixed income	19%	20%
Equity	73%	75%

Weighted-average asset allocations at June 30, 2012 were as follows:

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target</u>
Cash equivalents *	4%	5%
Fixed income	18%	20%
Equity	78%	75%

* Included in fixed income target with variance of +/- 10% in accordance with the Center's investment policy.

Cash Flows

Estimated Future Benefit Payments

The following is a projection of future benefit payments under the plan net of retiree contributions:

<u>For the Year Ending June 30,</u>	
2014	\$ 260,000
2015	\$ 290,000
2016	\$ 314,000
2017	\$ 378,000
2018	\$ 405,000
Years 2019 – 2023	\$ 2,256,000

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 6 – Retirement Plan

The Center contributes to the California Public Employees' Retirement Systems (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within California. Substantially all of the Center's employees participate in PERS.

The actuarial calculations generated by PERS are based on a number of assumptions about very long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis.

PERS actuarial calculation determines plan cost as the sum of two pieces: 1) Normal Cost - the future annual premiums excluding any surplus or unfunded liability; and 2) Past Service Cost or accrued liability - the current value of the benefit for all credited past service of current members.

Under the Normal Cost method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire to the assumed retirement age.

The actuarial accrued liability for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for members entitled to deferred benefits, is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants.

The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. If the plan's accrued liability exceeds the actuarial value of assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 6 – Retirement Plan (Continued)

A summary of principal actuarial assumptions used are as follows:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Average Remaining Period	10 years as of the valuation date
Asset Valuation Method	15-year smoothed market
Actuarial Assumptions (used for all plans)	
Discount Rate	7.50% (net of administrative expense)
Projected Salary Increases	Annual increases vary by category, entry age, and duration of service
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

The asset allocation shown below reflects the PERS fund in total as of June 30, 2012. The assets of the Center’s plan are part of the PERS fund and are invested accordingly.

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target Allocation</u>
Public equity	48.3 %	50.0 %
Private equity	14.5	14.0
Fixed income	18.2	17.0
Cash equivalents	3.2	4.0
Real assets	10.6	11.0
Inflation assets	3.0	4.0
Absolute Return Strategy	<u>2.2</u>	<u>0.0</u>
	<u>100.0 %</u>	<u>100.0 %</u>

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 6 – Retirement Plan (Continued)

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll.

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Unfunded Liability (UL)</u>	<u>Funded Ratios</u>		<u>Annual Covered Payroll</u>	<u>UL as a Percentage of Payroll</u>
				<u>AVA</u>	<u>Market Value</u>		
06/30/08	\$46,515,600	\$39,074,471	\$7,441,129	84.0%	84.5%	\$13,104,693	56.8%
06/30/09	\$50,592,735	\$43,399,285	\$7,193,450	85.8%	62.7%	\$13,484,056	53.3%
06/30/10	\$53,912,919	\$47,400,031	\$6,512,888	87.9%	69.7%	\$12,607,755	51.7%
06/30/11	\$58,622,350	\$52,797,562	\$5,824,788	90.1%	81.5%	\$12,454,822	46.8%
06/30/12	\$63,059,354	\$56,724,611	\$6,334,743	90.0%	76.6%	\$12,604,375	50.3%

Employee contributions to the PERS retirement plans are 6% of salary and wages. The Center has three retirement plans with PERS to which it contributes an amount above the employees' contributions, ranging from .25% to 2% of an employee's salary or wages. One plan is a 3%-at-age-60 formula which was closed as of December 31, 2005. All employees hired on or before this date participate in this plan. The second plan is a 2%-at-age-60 formula which was closed as of December 31, 2012. Employees hired from January 1, 2006 through December 31, 2012 participate in this plan. The third plan is a 2%-at-age-62 formula which was established through the Public Employees' Pension Reform Act of 2013 (PEPRA) and all employees hired on or after January 1, 2013 participate in this plan. The total required employee contributions are 8% for the 3%-at-age-60 plan, 7% for the 2%-at-age-60 plan, and 6.25% for the 2%-at-age-62 plan.

In addition, the Center is required to contribute the remaining amount necessary to fund benefits for its employees using the actuarial basis adopted by the PERS Board of Administration. The employer rate is determined using this actuarial basis and is reflected in the annual valuation report completed by PERS actuarial staff.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 6 – Retirement Plan (Continued)

On April 17, 2013, the PERS Board of Administration approved a recommendation to change the PERS amortization and smoothing policies. Prior to this change, PERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period while experience gains and losses were amortized over a rolling 30-year period. Effective with the June 30, 2013 valuations, PERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will spread rate increases or decreases over a 5-year period, and will amortize all experience gains and losses over a fixed 30-year period.

The new amortization and smoothing policy will be used for the first time in the June 30, 2013 actuarial valuations. These valuations will be performed in the fall of 2014 and will set employer contribution rates for the fiscal year 2015-16.

Total retirement expense for the years ended June 30, 2013 and 2012 was \$2,722,007 and \$2,270,290, respectively.

NOTE 7 – Related-Party Transactions

In June 2008, the Center established a nonprofit housing corporation, Tri-Counties Community Housing Corporation (the Housing Corporation) for the acquisition of and retention of housing in perpetuity for persons served by the Center. The Center and the Housing Corporation do not share common board directors. However, the Center has the power to designate each and all of the directors on the Housing Corporation's Board of Directors, or revoke a designation with or without cause. Under the housing guidelines established by the DDS, the Center obtained start-up funding under the Community Placement Plan and then, through a contract with the Housing Corporation, provided those funds to the Housing Corporation for the purchase of housing. At June 30, 2013 and 2012, the Center owed the Housing Corporation \$295,927 and \$80,000, respectively, under operating contracts. These amounts are included in accounts payable at June 30, 2013 and 2012. During the years ended June 30, 2013 and 2012, the Housing Corporation recognized \$344,364 and \$256,635, respectively, in revenue earned under the contracts.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 7 – Related-Party Transactions (Continued)

Summarized unaudited financial information for the Housing Corporation is as follows:

	June 30,	
	2013	2012
	(Unaudited)	(Unaudited)
Current assets	\$ 647,239	\$ 417,206
Property, buildings, and equipment	3,098,711	2,322,039
Other assets	24,602	11,142
	<u>\$ 3,770,552</u>	<u>\$ 2,750,387</u>
Current liabilities	\$ 13,102	\$ 17,524
Long-term liabilities	2,249,441	1,637,102
Unrestricted net assets	1,508,009	1,095,761
	<u>\$ 3,770,552</u>	<u>\$ 2,750,387</u>
	For the Year Ended	
	June 30,	
	2013	2012
	(Unaudited)	(Unaudited)
Revenue and support	\$ 791,824	\$ 523,051
Expenses	379,576	314,298
Change in unrestricted net assets	<u>\$ 412,248</u>	<u>\$ 208,753</u>

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 8 – Commitments and Contingencies

Lease Commitments

The Center has entered into various leases for office facilities. The lease terms range from three to ten-and-one-half years, expiring at various dates through June 30, 2018. Certain leases contain provisions for renewal options and for increasing rent due to increased expenses, taxes, and cost of living. In addition, the Center is required to pay for insurance on certain premises.

The following is a schedule of future minimum lease payments required as of June 30, 2013:

For the Year Ending June 30,	
2014	\$ 2,295,031
2015	2,082,730
2016	1,976,721
2017	2,006,751
2018	<u>1,436,434</u>
	<u>\$ 9,797,667</u>

The facilities rental expense for the years ended June 30, 2013 and 2012 was \$2,626,667 and \$2,616,155, respectively.

Contract Commitment

In January 2010, the Center entered into a contract agreement with a service provider to provide residential treatment services through June 30, 2020 along with two other regional centers. The agreement renews on an annual basis thereafter, unless canceled in accordance with a termination clause defined in the agreement. The agreement also provides for a funding contingency, where if funding under the Center's contract with the DDS is not adequate to pay for services under the agreement, the Center may cancel the agreement and fund other services as deemed necessary. The Center's maximum future payments under the agreement are approximately \$1.3 million per year.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 8 – Commitments and Contingencies (Continued)

Contract Commitment (Continued)

The following is a schedule of future payments required as of June 30, 2013:

For the Year Ending June 30,	
2014	\$ 1,304,912
2015	1,304,912
2016	1,304,912
2017	1,304,912
2018	1,304,912
Thereafter	<u>2,609,823</u>
	<u>\$ 9,134,383</u>

Total amounts paid under the agreement for the years ended June 30, 2013 and 2012 were \$1,247,349 and \$1,191,923, respectively.

Contingencies

In accordance with the terms of the contract with the DDS, an audit may be performed by an authorized DDS representative. Should such audit disclose any unallowable costs, the Center may be liable to the DDS for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2013 and 2012, and for the years then ended.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 8 – Commitments and Contingencies (Continued)

Contingencies (Continued)

The Center is dependent on continued funding provided by the DDS to operate and provide services for its clients. The Center's contract with the DDS provides funding for services under the Lanterman Act. In the event that the Center has insufficient funds to meet its contractual obligations, which has occurred for the year ended June 30, 2013, the state shall make its best effort to secure additional funds and/or provide the Center with regulatory and statutory relief. Should a system-wide deficit occur, the DDS is required to report to the Governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. The DDS's recommendations are subsequently reviewed by the Governor and the Legislature and a decision is made with regard to specific actions, including the possible suspension of the entitlement.

The Center retains approximately 54% of its labor force through Service Employees International Union Local 721; however, approximately 84% of the Center's labor force is subject to a collective bargaining agreement. As such, renegotiation of such an agreement could expose the Center to an increase in hourly costs and work stoppages. The current agreements are generally effective through December 31, 2014.

The Center has elected to finance its unemployment insurance using the prorated cost-of-benefits method. Under this method, the Center is required to reimburse the State of California Employment Development Department for benefits paid to certain former employees. The Center had \$219,462 and \$209,042 in a reserve trust account to pay for any potential unemployment claims at June 30, 2013 and 2012, respectively.

The Center is involved in various claims and lawsuits arising in the normal conduct of its operations. The Center's management believes it has adequate defenses and insurance coverage for these actions and, thus, has made no provision in the financial statements for any costs relating to the settlement of such claims.

NOTE 9 – Subsequent Events

In January 2014, the Center entered into a revolving line of credit agreement with a bank whereby it can borrow up to \$35,000,000 through October 15, 2014 with interest at the bank's reference rate. The line of credit is secured by substantially all assets of the Center.

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education Passed through State of California Department of Developmental Services			
Early Intervention Services (IDEA) Cluster:			
Special Education – Grants for Infants and Families	84.181	HD099020	\$ 2,378,835
U.S. Corporation for National and Community Service Passed through State of California Department of Developmental Services			
Foster Grandparent Program	94.011	HD099020	<u>195,801</u>
			<u>\$ 2,574,636</u>

Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Tri-Counties Association for the Developmentally Disabled, Inc. and is prepared based on state contract budget allocations. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, 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' 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 of
Tri-Counties Association for the Developmentally Disabled, Inc.

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 Tri-Counties Association for the Developmentally Disabled, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tri-Counties Association for the Developmentally Disabled, Inc.'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 Tri-Counties Association for the Developmentally Disabled, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 entity'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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency listed as 2013-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tri-Counties Association for the Developmentally Disabled, Inc.'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*.

Tri-Counties Association for the Developmentally Disabled, Inc.'s Response to Finding

Tri-Counties Association for the Developmentally Disabled, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Tri-Counties Association for the Developmentally Disabled, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Windes, Inc.

Long Beach, California
February 7, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of
Tri-Counties Association for the Developmentally Disabled, Inc.

Report on Compliance for Each Major Federal Program

We have audited Tri-Counties Association for the Developmentally Disabled, Inc.'s 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 Tri-Counties Association for the Developmentally Disabled, Inc.'s major federal programs for the year ended June 30, 2013. Tri-Counties Association for the Developmentally Disabled, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Tri-Counties Association for the Developmentally Disabled, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tri-Counties Association for the Developmentally Disabled, Inc.'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 Tri-Counties Association for the Developmentally Disabled, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Tri-Counties Association for the Developmentally Disabled, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Tri-Counties Association for the Developmentally Disabled, Inc. 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 Tri-Counties Association for the Developmentally Disabled, Inc.'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 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 Tri-Counties Association for the Developmentally Disabled, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Windes".

Windes, Inc.

Long Beach, California

February 7, 2014

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued – Unmodified

Internal control over financial reporting

1. Material weakness(es) identified? – No
2. Significant deficiencies identified? – Yes (See page 35 for management’s corrective action)
3. Noncompliance material to financial statements noted? – No

Federal Awards

Internal control over major programs

1. Material weakness(es) identified? – No
2. Significant deficiencies identified? – None reported
3. Type of auditors’ report issued on compliance for major programs? – Unmodified
4. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? – No
5. Identification of major programs: Early Intervention Services (IDEA) Cluster – Special Education – Grants for Infants and Families, CFDA #84.181
6. Dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. Auditee qualified as low-risk auditee? – Yes

**TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013
(Continued)**

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

Significant Deficiency

Finding 2013-1 Cash Disbursements

Condition: We noted that the controller is authorized to originate and approve wire transfers on the operating cash account.

Criteria: The functions of maintaining the general ledger and authorizing cash transfers should be segregated.

Cause: This is due to having incompatible duties assigned to the controller position.

Effect: Since the controller has the ability to make entries to the general ledger, it is possible for an unauthorized disbursement to be recorded in the general ledger without approval or knowledge of management.

Recommendation: We recommend that management segregate the duties of maintenance of the accounting records and authorization of cash transfers.

Views of Responsible Officials and Planned Corrective Actions: Management of Tri-Counties Association for the Developmentally Disabled, Inc. agrees with the finding and the recommended segregation of duties has been implemented.

SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None