

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

## **FINANCIAL STATEMENTS**

June 30, 2014 and 2013

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## 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, 2014 and 2013, 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 audits. We conducted our audits 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 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, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Other Information***

Our audits were 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 audits 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 Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2015, 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.



Long Beach, California  
February 6, 2015

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

**STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,587,891	\$ 856,992
Cash - client trust funds		1,273
Contracts receivable – state of California	13,294,925	15,675,399
Receivables from Intermediate Care Facility vendors	3,602,978	3,421,520
Other receivables	5,526	7,360
Prepaid expenses and deposits	110,983	107,908
Due from state – accrued vacation, sick leave and other employee benefits	7,172,304	7,034,596
Prepaid post-retirement health care plan expense	1,787,594	1,406,072
<b>TOTAL ASSETS</b>	<b>\$ 31,562,201</b>	<b>\$ 28,511,120</b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable	\$ 21,348,785	\$ 19,293,170
Accrued payroll	326,449	488,288
Accrued vacation and sick leave	1,375,237	1,199,538
Due to state	642,441	9,871
Post-retirement health care plan obligation	5,797,067	5,835,058
Other liabilities	233,477	219,462
Unexpended client support		1,273
	29,723,456	27,046,660
<b>COMMITMENTS AND CONTINGENCIES (Notes 6, 7, and 9)</b>		
<b>NET ASSETS</b>		
Unrestricted	1,838,745	1,464,460
	1,838,745	1,464,460
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 31,562,201</b>	<b>\$ 28,511,120</b>

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

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

**STATEMENTS OF ACTIVITIES**

	<b>For the Year Ended</b>	
	<b>June 30,</b>	
	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Support and Revenues		
Contracts – state of California	\$ 221,465,647	\$ 210,933,700
Intermediate Care Facility supplemental services income	7,309,874	7,076,183
Interest income	73,248	89,205
Other income	445,894	523,294
Total Support and Revenues	<u>229,294,663</u>	<u>218,622,382</u>
Expenses		
Program services:		
Client services	226,608,660	215,975,515
Supporting services:		
General and administrative	<u>2,693,240</u>	<u>2,660,963</u>
Total Expenses	<u>229,301,900</u>	<u>218,636,478</u>
<b>CHANGE IN NET ASSETS BEFORE HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST</b>	( 7,237)	( 14,096)
<b>HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST</b>	<u>381,522</u>	<u>2,817,122</u>
<b>CHANGE IN NET ASSETS</b>	374,285	2,803,026
<b>NET ASSETS (DEFICIT) AT BEGINNING OF YEAR</b>	<u>1,464,460</u>	( <u>1,338,566</u> )
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 1,838,745</u>	<u>\$ 1,464,460</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, 2014**

	<b>Program Services</b>	<b>Supporting Services</b>		<b>% of Total Expenses</b>
	<b>Client Services</b>	<b>General and Admin- istrative</b>	<b>Total Expenses</b>	<b>% of Total Expenses</b>
<b>PURCHASE OF SERVICES</b>				
Living out of home	\$ 35,725,320		\$ 35,725,320	15.58 %
Day program	67,132,438		67,132,438	29.28
Transportation	12,002,126		12,002,126	5.24
Supported living services	39,062,211		39,062,211	17.04
Behavioral services	20,807,669		20,807,669	9.07
Medical services	6,462,833		6,462,833	2.82
Respite services	13,034,554		13,034,554	5.68
Other services	8,546,791		8,546,791	3.73
	<u>202,773,942</u>		<u>202,773,942</u>	<u>88.44</u>
<b>OPERATIONS</b>				
<b>Personnel services</b>				
Salaries	12,871,789	\$ 1,350,478	14,222,267	6.20
Benefits	5,268,117	576,594	5,844,711	2.55
Taxes	182,896	19,255	202,151	0.09
<b>Occupancy</b>				
Facility rent and maintenance	2,493,559	269,375	2,762,934	1.20
Office relocation	201,795	21,831	223,626	0.10
Utilities	150,320	16,262	166,582	0.07
<b>General expense</b>	427,218	25,815	453,033	0.20
<b>Equipment</b>				
Purchase, rental and maintenance	600,635	64,928	665,563	0.29
<b>Professional fees</b>				
Accounting fees		56,000	56,000	0.02
Legal fees	71,674	7,754	79,428	0.03
Consultant services	113,870	123,952	237,822	0.10
<b>Insurance</b>	166,682	18,022	184,704	0.08
<b>Communication</b>				
Telephone	345,748	37,405	383,153	0.17
Postage	77,546	8,357	85,903	0.04
<b>Travel</b>	547,541	61,093	608,634	0.27
<b>Training, development, and conferences</b>	170,147	17,993	188,140	0.08
<b>General office expense</b>				
Office supplies	145,181	15,508	160,689	0.07
<b>Interest expense</b>		2,618	2,618	0.00
	<u>23,834,718</u>	<u>2,693,240</u>	<u>26,527,958</u>	<u>11.56</u>
<b>TOTAL EXPENSES</b>	<u>\$ 226,608,660</u>	<u>\$ 2,693,240</u>	<u>\$ 229,301,900</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, 2013**

	<b>Program Services</b>	<b>Supporting Services</b>	<b>Total Expenses</b>	<b>% of Total Expenses</b>
	<b>Client Services</b>	<b>General and Admin- istrative</b>		
<b>PURCHASE OF SERVICES</b>				
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>
<b>OPERATIONS</b>				
<b>Personnel services</b>				
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
<b>Occupancy</b>				
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
<b>General expense</b>	627,793	49,501	677,294	0.31
<b>Equipment</b>				
Purchase, rental and maintenance	516,735	57,978	574,713	0.26
<b>Professional fees</b>				
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
<b>Insurance</b>	145,372	16,319	161,691	0.07
<b>Communication</b>				
Telephone	308,375	34,642	343,017	0.16
Postage	33,275	3,700	36,975	0.02
<b>Travel</b>	507,509	52,268	559,777	0.26
<b>Training, development, and conferences</b>	122,186	13,235	135,421	0.06
<b>General office expense</b>				
Office supplies	135,105	14,979	150,084	0.07
<b>Interest expense</b>		181	181	0.00
	<u>23,688,475</u>	<u>2,660,963</u>	<u>26,349,438</u>	<u>12.05</u>
<b>TOTAL EXPENSES</b>	<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.**

**STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 374,285	\$ 2,803,026
Adjustments to reconcile change in net assets to net cash from operating activities:		
Changes in post-retirement health care plan obligation	( 419,513)	( 3,659,731)
(Increase) decrease in:		
Cash - client trust funds	1,273	53
Contracts receivable – state of California	1,761,555	2,100,873
Receivables from Intermediate Care Facility vendors	437,461	( 3,421,520)
Client receivables from government agencies		49,756
Other receivables	1,834	867
Prepaid expenses and deposits	( 3,075)	( 1,001)
Due from state – accrued vacation and other employee benefits	( 137,708)	809,148
Increase (decrease) in:		
Accounts payable	2,055,615	( 73,784)
Accrued payroll	( 161,839)	261,827
Accrued vacation and sick leave	175,699	33,461
Due to state	632,570	7,495
Other liabilities	14,015	10,420
Unexpended client support	( 1,273)	( 49,809)
Net Cash Provided By (Used In) Operating Activities	<u>4,730,899</u>	<u>( 1,128,919)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	4,730,899	( 1,128,919)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>856,992</u>	<u>1,985,911</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 5,587,891</u>	<u>\$ 856,992</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid for interest totaled \$2,618 and \$181 during the years ended June 30, 2014 and 2013, respectively.

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, 2014 AND 2013**

**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 \$219,737,113 and \$209,752,329 for the 2013-2014 and 2012-2013 contract years, respectively. As of June 30, 2014, actual net expenditures under the 2013-2014 and 2012-2013 contracts were \$217,493,961 and \$210,051,583, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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, 2014 and 2013 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. Accordingly, the net assets of the Center are classified and reported as described below:

**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.

As of June 30, 2014 and 2013, the Center had no permanently restricted or temporarily restricted net assets.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**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, 2014 and throughout the year, the Center maintained cash balances in its bank in excess of federally insured limits.

*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, 2014 AND 2013**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

*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, 2014 and 2013, equipment purchases totaled \$565,269 and \$505,484, 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 6. 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.

*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, 2014 and 2013, the Center's ratio was 10.15% and 10.09%, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

*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.

*Subsequent Events*

The Center's management has evaluated subsequent events from the statement of financial position date through February 6, 2015, the date the financial statements were available to be issued for the year ended June 30, 2014, and determined, except as disclosed in Note 10, there are no other items to disclose.

**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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

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

As of June 30, 2014 and 2013, the DDS had advanced the Center \$52,473,015 and \$37,598,321, 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:

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
Contracts receivable	\$ 65,767,940	\$ 53,273,720
Contract advances	( 52,473,015)	( 37,598,321)
Net contracts receivable	<u>\$ 13,294,925</u>	<u>\$ 15,675,399</u>

**NOTE 4 – Receivable 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 Intermediate 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.

The DDS has directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. The Center was directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICFs. DDS advances the amount according to the state claim to the ICFs. The ICFs are then required to pass on the payments received, as well as the Center’s administrative fee, to the Center within 30 days of receipt of funds from the State Controller’s Office.

**NOTE 5 – Short-Term Borrowings**

The Center had a line of credit agreement with a bank which expired October 15, 2014, whereby it could borrow up to \$35,000,000. Borrowings were secured by substantially all assets of the Center. There was no outstanding balance at June 30, 2014 and 2013.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 6 – 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, 2014 and 2013:

*Reconciliation of Benefit Obligation*

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 7,549,944	\$ 9,615,682
Service cost	409,706	526,964
Interest cost	323,038	313,203
Actuarial gain	( 230,219)	( 2,668,251)
Benefits paid	( 234,687)	( 237,654)
Obligation at end of year	<u>7,817,782</u>	<u>7,549,944</u>
Change in plan assets		
Fair value of plan assets at beginning of year	1,714,886	1,526,965
Actual return on plan assets	<u>305,829</u>	<u>187,921</u>
Fair value of plan assets at end of year	<u>2,020,715</u>	<u>1,714,886</u>
Net amount recognized in the statements of financial position	<u>\$ 5,797,067</u>	<u>\$ 5,835,058</u>



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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 6 – Post-Retirement Health Care Plan (Continued)**

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

	<b>For the Year Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Service cost	\$ 409,706	\$ 526,964
Interest cost	323,038	313,203
Return on investments	( 305,829)	( 187,921)
Net asset loss	168,638	65,764
Amortization of gain from earlier periods	( 142,092)	( 41,650)
Amortization of unrecognized past service cost	<u>124,757</u>	<u>124,757</u>
Net periodic benefit cost	<u>\$ 578,218</u>	<u>\$ 801,117</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, 2014 and 2013, are:

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
Prior service cost	\$ 499,032	\$ 623,789
Actuarial gain	<u>( 2,286,626)</u>	<u>( 2,029,861)</u>
	<u>(\$ 1,787,594)</u>	<u>(\$ 1,406,072)</u>

The Center has accrued a receivable as of June 30, 2014 and 2013 from the DDS totaling \$5,797,067 and \$5,835,058, 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, 2014 AND 2013**

**NOTE 6 – Post-Retirement Health Care Plan (Continued)**

*Assumptions*

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

	<u>2014</u>	<u>2013</u>
Discount rate	4.35 %	4.80 %
General inflation	2.35 %	2.80 %
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>2014</u>	<u>2013</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 %

Assumed health care cost trends at June 30:

	<u>2014</u>	<u>2013</u>
Net Periodic Benefit Cost:		
Health care cost trend rate assumed for next year	6.60 %	6.53 %
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

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 %	5.00 %
Year that the rate reaches the ultimate trend rate	2019	2018

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 6 – 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, 2014:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on the accumulated post-retirement benefit obligation	\$ 1,376,959	(\$ 1,104,327)

*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, 2014 AND 2013**

**NOTE 6 – 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, 2014:

	<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	\$ 204,847	\$ 204,847		
Common stocks	91,793	91,793		
Mutual funds/ETFs – equities	1,283,665	1,283,665		
Mutual funds/ETFs – fixed income	407,323	407,323		
Mutual funds/ETFs – balanced	<u>33,087</u>	<u>33,087</u>		
Total	<u>\$ 2,020,715</u>	<u>\$ 2,020,715</u>	<u>None</u>	<u>None</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 6 – 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>

*Plan Asset Allocations*

Weighted-average asset allocations at June 30, 2014 were as follows:

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target</u>
Cash equivalents *	10%	5%
Fixed income	20%	20%
Equity	70%	75%

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 6 – Post-Retirement Health Care Plan (Continued)**

*Plan Asset Allocations (Continued)*

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%

\* 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>	
2015	\$ 272,000
2016	\$ 285,000
2017	\$ 313,000
2018	\$ 339,000
2019	\$ 371,000
Years 2020 – 2024	\$ 2,078,000

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 7 – 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 annual cost associated with one year of service accrual expressed as a percentage of total active payroll; and 2) Past Service Cost or Accrued Liability – the current value of the benefit for all credited past service of current members which is expressed as a lump sum dollar amount.

To communicate the total cost, the Past Service Cost is converted to a percent of payroll which requires a specific amortization period, and the employer rate will vary depending on the amortization period used.

On April 17, 2013, the CalPERS Board of Administration approved a change in the CalPERS amortization and smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will no longer use an actuarial value of assets and will employ an amortization and rate smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate phased in over a 5-year period.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect, requiring that a public employer's contribution to a defined benefit plan, in combination with employee contribution to that defined benefit plan, shall not be less than the normal cost rate.

In 2014, CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. Relatively modest changes to the current asset allocation were adopted that will reduce the expected volatility of returns. CalPERS also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these is mortality improvement to acknowledge greater life expectancies.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 7 – Retirement Plan (Continued)**

A summary of principal actuarial assumptions used are as follows:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Asset Valuation Method	Market value
Actuarial Assumptions (used for all plans)	
Discount Rate	7.50% (net of administrative expense)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
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, 2013. 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>
Global equity	51.2 %	47.0 %
Private equity	12.0	12.0
Global fixed income	16.8	19.0
Liquidity	4.0	2.0
Real assets	9.6	14.0
Inflation sensitive assets	3.6	6.0
Absolute return strategy	2.8	0.0
	<u>100.0 %</u>	<u>100.0 %</u>



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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 7 – 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.

Valuation Date	Accrued Liability	Actuarial Value of Assets*	Unfunded Liability (UL)	Funded Ratios	Annual Covered Payroll	UL as a Percentage of Payroll
06/30/10	\$ 53,912,919	\$ 47,400,031	\$ 6,512,888	87.9%	\$ 12,607,755	51.7%
06/30/11	\$ 58,622,350	\$ 52,797,562	\$ 5,824,788	90.1%	\$ 12,454,822	46.8%
06/30/12	\$ 63,059,354	\$ 56,724,611	\$ 6,334,743	90.0%	\$ 12,604,375	50.3%
06/30/13	\$ 68,375,145	\$ 55,931,794	\$ 12,443,351	81.8%	\$ 13,722,616	90.7%

\*Beginning with the June 30, 2013 valuation, Actuarial Value of Assets equals Market Value of Assets per CalPERS Direct Rate Smoothing Policy.

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.

Total retirement expense for the years ended June 30, 2014 and 2013 was \$2,860,583 and \$2,722,007, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 8 – 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, the Center owed the Housing Corporation \$295,927 under operating contracts which is included in accounts payable at June 30, 2013. During the years ended June 30, 2014 and 2013, the Center provided funding to the Housing Corporation of \$215,927 and \$334,917, respectively.

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

	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Current assets	\$ 526,025	\$ 551,907
Property, buildings, and equipment	3,123,948	3,050,609
Other assets	<u>20,373</u>	<u>14,783</u>
	<u><b>\$ 3,670,346</b></u>	<u><b>\$ 3,617,299</b></u>
Current liabilities	\$ 79,943	\$ 16,603
Long-term liabilities	2,014,294	2,036,491
Net assets	<u>1,576,109</u>	<u>1,564,205</u>
	<u><b>\$ 3,670,346</b></u>	<u><b>\$ 3,617,299</b></u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 8 – Related-Party Transactions (Continued)**

	<b>For the Year Ended June 30,</b>	
	<b>2014 (Unaudited)</b>	<b>2013 (Unaudited)</b>
Revenue and support	\$ 582,761	\$ 928,900
Expenses	<u>570,860</u>	<u>460,453</u>
Change in net assets	<u>\$ 11,901</u>	<u>\$ 468,447</u>

**NOTE 9 – 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 March 2021. 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, 2014:

<b>For the Year Ending June 30,</b>	
2015	\$ 2,592,862
2016	2,515,859
2017	2,559,629
2018	2,003,422
2019	460,984
Thereafter	<u>614,008</u>
	<u>\$ 10,746,764</u>

The facilities rental expense for the years ended June 30, 2014 and 2013 was \$2,744,871 and \$2,626,667, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 9 – Commitments and Contingencies (Continued)**

*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, 2014 and 2013, and for the years then ended.

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, 2014, 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.

The Center retains approximately 58% of its labor force through Service Employees International Union Local 721; however, approximately 83% 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 were generally effective through December 31, 2014 and are in the process of renegotiation.

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 \$233,477 and \$219,462 in a reserve trust account to pay for any potential unemployment claims at June 30, 2014 and 2013, 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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 10 – Subsequent Events**

In October 2014, the Center entered into a revolving line of credit agreement with a bank whereby it can borrow up to \$35,000,000 through September 30, 2015 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, 2014**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Education Passed through State of California Department of Developmental Services</b>			
Special Education – Grants for Infants and Families	84.181	HD099020	\$ 2,300,723
<b>U.S. Corporation for National and Community Service Passed through State of California Department of Developmental Services</b>			
Foster Grandparent Program	94.011	HD099020	<u>195,801</u>
			<u>\$ 2,496,524</u>

**Note to Schedule of Expenditures of Federal Awards**

***Basis of Presentation***

The Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of Tri-Counties Association for the Developmentally Disabled, Inc. and is prepared based on state contract budget allocations. Expenditures reported on the Schedule are reported on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of 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, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 6, 2015.

### **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 Tri-Counties Association for the Developmentally Disabled, Inc.'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. 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 Tri-Counties Association for the Developmentally Disabled, Inc.'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 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.



Long Beach, California  
February 6, 2015



## 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, 2014. 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, 2014.

### **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.

*Winder, Inc.*

Long Beach, California

February 6, 2015

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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? – None reported
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: 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

**SECTION II – FINDINGS – FINANCIAL STATEMENTS AUDIT**

None

**SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None