



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

**FINANCIAL STATEMENTS**

June 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 March 5, 2016, 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  
March 5, 2016

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

**STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

	June 30,	
	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,332,460	\$ 5,587,891
Contracts receivable – state of California	23,394,296	13,294,925
Receivables from Intermediate Care Facility vendors	2,642,569	3,602,978
Other receivables	4,708	5,526
Prepaid expenses and deposits	286,658	110,983
Due from state – accrued vacation, sick leave and other employee benefits	4,985,784	7,172,304
Prepaid post-retirement health care plan expense	4,611,625	1,787,594
<b>TOTAL ASSETS</b>	<b>\$ 38,258,100</b>	<b>\$ 31,562,201</b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable	\$ 23,800,146	\$ 21,348,785
Accrued payroll	385,985	326,449
Accrued vacation and sick leave	1,493,226	1,375,237
Due to state	2,364,447	642,441
Line of credit	1,800,000	
Post-retirement health care plan obligation	3,492,558	5,797,067
Other liabilities	233,961	233,477
	33,570,323	29,723,456
<b>COMMITMENTS AND CONTINGENCIES (Notes 4, 5, and 7)</b>		
<b>NET ASSETS</b>		
Unrestricted	4,687,777	1,838,745
	4,687,777	1,838,745
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 38,258,100</b>	<b>\$ 31,562,201</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>2015</b></u>	<u><b>2014</b></u>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Support and Revenues		
Contracts – state of California	\$ 236,093,408	\$ 221,465,647
Intermediate Care Facility supplemental services income	7,579,647	7,309,874
Interest income	70,228	73,248
Other income	312,931	445,894
Total Support and Revenues	<u>244,056,214</u>	<u>229,294,663</u>
Expenses		
Program services:		
Client services	241,461,672	226,608,660
Supporting services:		
General and administrative	<u>2,569,541</u>	<u>2,693,240</u>
Total Expenses	<u>244,031,213</u>	<u>229,301,900</u>
<b>CHANGE IN NET ASSETS BEFORE HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST</b>	25,001	( 7,237)
<b>HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST</b>	<u>2,824,031</u>	<u>381,522</u>
<b>CHANGE IN NET ASSETS</b>	2,849,032	374,285
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>1,838,745</u>	<u>1,464,460</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 4,687,777</u>	<u>\$ 1,838,745</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, 2015**

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total Expenses</u>	<u>% of Total Expenses</u>
	<u>Client Services</u>	<u>General and Admin- istrative</u>		
<b>PURCHASE OF SERVICES</b>				
Living out of home	\$ 38,741,130		\$ 38,741,130	15.88 %
Day program	70,231,498		70,231,498	28.78
Transportation	12,794,750		12,794,750	5.24
Supported living services	40,333,597		40,333,597	16.53
Behavioral services	22,649,108		22,649,108	9.28
Medical services	8,469,216		8,469,216	3.47
Respite services	15,368,484		15,368,484	6.30
Other services	7,190,368		7,190,368	2.94
	<u>215,778,151</u>		<u>215,778,151</u>	<u>88.42</u>
<b>OPERATIONS</b>				
<b>Personnel services</b>				
Salaries	13,554,372	\$ 1,314,830	14,869,202	6.09
Benefits	5,586,632	592,043	6,178,675	2.53
Taxes	185,550	16,958	202,508	0.08
<b>Occupancy</b>				
Facility rent and maintenance	2,677,513	267,038	2,944,551	1.21
Office relocation	637,097	63,625	700,722	0.29
Utilities	160,701	16,049	176,750	0.07
<b>General expense</b>	457,613	27,163	484,776	0.20
<b>Equipment</b>				
Purchase, rental and maintenance	452,430	45,148	497,578	0.20
<b>Professional fees</b>				
Accounting fees		58,500	58,500	0.02
Legal fees	101,091	10,096	111,187	0.05
Consultant services	233,623	19,350	252,973	0.10
<b>Insurance</b>	149,959	14,966	164,925	0.07
<b>Communication</b>				
Telephone	372,456	37,196	409,652	0.17
Postage	80,405	8,000	88,405	0.04
<b>Travel</b>	629,223	35,824	665,047	0.27
<b>Training, development, and conferences</b>	245,161	24,127	269,288	0.11
<b>General office expense</b>				
Office supplies	159,695	15,847	175,542	0.08
<b>Interest expense</b>		2,781	2,781	0.00
	<u>25,683,521</u>	<u>2,569,541</u>	<u>28,253,062</u>	<u>11.58</u>
<b>TOTAL EXPENSES</b>	<u>\$ 241,461,672</u>	<u>\$ 2,569,541</u>	<u>\$ 244,031,213</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, 2014**

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total Expenses</u>	<u>% of Total Expenses</u>
	<u>Client Services</u>	<u>General and Admin- istrative</u>		
<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.**

**STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,849,032	\$ 374,285
Adjustments to reconcile change in net assets to net cash from operating activities:		
Changes in post-retirement health care plan obligation	( 5,128,540)	( 419,513)
(Increase) decrease in:		
Cash - client trust funds		1,273
Contracts receivable - state of California	( 10,099,371)	1,761,555
Receivables from Intermediate Care Facility vendors	960,409	437,461
Other receivables	818	1,834
Prepaid expenses and deposits	( 175,675)	( 3,075)
Due from state - accrued vacation, sick leave and other employee benefits	2,186,520	( 137,708)
Increase (decrease) in:		
Accounts payable	2,451,361	2,055,615
Accrued payroll	59,536	( 161,839)
Accrued vacation and sick leave	117,989	175,699
Due to state	1,722,006	632,570
Other liabilities	484	14,015
Unexpended client support		( 1,273)
Net Cash Provided By (Used In) Operating Activities	( 5,055,431)	4,730,899
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in line of credit	1,800,000	
Net Cash Provided By Financing Activities	1,800,000	
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>( 3,255,431)</b>	<b>4,730,899</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>5,587,891</b>	<b>856,992</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 2,332,460</b>	<b>\$ 5,587,891</b>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid for interest totaled \$2,781 and \$2,618 during the years ended June 30, 2015 and 2014, 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, 2015 AND 2014**

**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 \$234,931,121 and \$219,737,113 for the 2014-2015 and 2013-2014 contract years, respectively. As of June 30, 2015, actual net expenditures under the 2014-2015 and 2013-2014 contracts were \$233,303,767 and \$220,508,595, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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 reported as of June 30, 2015 and 2014 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 4, an 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.

***Basis of Accounting***

The financial statements of the Center have been prepared on the accrual basis of accounting and, accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Reimbursements from the state are considered earned when a qualifying expense is incurred.

***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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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

***Financial Statement Presentation (Continued)***

**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, 2015 and 2014, the Center had no permanently restricted or temporarily restricted net assets.

***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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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

***Cash and Cash Equivalents and Concentration of Credit Risk (Continued)***

At June 30, 2015 and throughout the year, the Center maintained cash balances in its bank in excess of federally insured limits. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

***Support and Contracts Receivable – State of California***

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

***Receivable from Intermediate Care Facility Vendors***

The Centers for Medicare and Medicaid Services (CMS) approved federal financial participation in the funding of day and related transportation services purchased by the Center for consumers who reside in Intermediate Care Facilities (ICFs). CMS agreed that the day and related transportation services are part of the ICF service; however, the federal rules allow for only one provider of the ICF service. Accordingly, all the Medicaid funding for the ICF residents must go through the applicable ICF provider. 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.

***State 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, 2015 and 2014, equipment purchases totaled \$400,478 and \$565,269, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

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

*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.

*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, 2015 and 2014, the Center's ratio was 9.09% and 10.15%, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**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 March 5, 2016, the date the financial statements were available to be issued for the year ended June 30, 2015, and determined, except as disclosed in Note 8, there are no other items to disclose.



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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 2 – Contracts Receivable/Contract Advances – State of California**

The Center’s major source of revenue is from the state. Each fiscal year, the Center enters into a new contract with the state for a specified funding amount subject to budget amendments. Revenue from the state is recognized monthly when a claim for reimbursement of actual expenses is filed with the state. These reimbursement claims are paid at the state’s discretion either through direct payments to the Center or by applying the claims reimbursements against advances already made to the Center.

As of June 30, 2015 and 2014, the DDS had advanced the Center \$42,450,220 and \$52,473,015, 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>2015</b>	<b>2014</b>
Contracts receivable	\$ 65,844,516	\$ 65,767,940
Contract advances	( 42,450,220)	( 52,473,015)
Net contracts receivable	<u>\$ 23,394,296</u>	<u>\$ 13,294,925</u>

The Center has renewed its contract with the state for the fiscal year ending June 30, 2016. The contract provides for funding of \$249,039,311 as of August 19, 2015.

**NOTE 3 – Short-Term Borrowings**

The Center had a line of credit agreement with a bank which expired September 30, 2015, whereby it could borrow up to \$35,000,000 with interest at the bank’s reference rate. Borrowings were secured by substantially all assets of the Center. There was an outstanding balance of \$1,800,000 as of June 30, 2015, which was repaid in July 2015. There was no outstanding balance as of June 30, 2014.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 4 – Post-Retirement Health Care Plan**

The Center sponsors a post-retirement health care plan through the California Public Employees' Retirement System (PERS) for its employees. The actuarial cost method used for determining the benefit obligations is the Projected Unit Benefit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current active employees and retirees. The Accumulated Post-Retirement Benefit Obligation (APBO) is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. The APBO equals the present value of projected benefits multiplied by a fraction equal to service to date over service at full eligibility age. The Net Periodic Benefit Cost is the cost of a post-retirement benefit plan for a fiscal year.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and funded status as of June 30, 2015 and 2014:

***Reconciliation of Benefit Obligation***

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 7,817,782	\$ 7,549,944
Service cost	581,915	409,706
Interest cost	332,597	323,038
Assumption change gain	( 1,566,099)	( 230,219)
Experience gain	( 1,367,516)	
Benefits paid	( 253,592)	( 234,687)
Obligation at end of year	<u>5,545,087</u>	<u>7,817,782</u>
Change in plan assets		
Fair value of plan assets at beginning of year	2,020,715	1,714,886
Actual return on plan assets	<u>31,814</u>	<u>305,829</u>
Fair value of plan assets at end of year	<u>2,052,529</u>	<u>2,020,715</u>
Net amount recognized in the statements of financial position	<u>\$ 3,492,558</u>	<u>\$ 5,797,067</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 4 – 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>	
	<u><b>2015</b></u>	<u><b>2014</b></u>
Service cost	\$ 581,915	\$ 409,706
Interest cost	332,597	323,038
Return on investments	( 31,814)	( 305,829)
Net asset gain (loss)	( 129,843)	168,638
Amortization of gain from earlier periods	( 104,498)	( 142,092)
Amortization of unrecognized past service cost	<u>124,757</u>	<u>124,757</u>
 Net periodic benefit cost	 <u><u>\$ 773,114</u></u>	 <u><u>\$ 578,218</u></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, 2015 and 2014, are:

	<b>June 30,</b>	
	<u><b>2015</b></u>	<u><b>2014</b></u>
Prior service cost	\$ 374,275	\$ 499,032
Actuarial gain	( 4,985,900)	( 2,286,626)
	<u><u>(\$ 4,611,625)</u></u>	<u><u>(\$ 1,787,594)</u></u>

The Center has accrued a receivable as of June 30, 2015 and 2014 from the DDS totaling \$3,492,558 and \$5,797,067, 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, 2015 AND 2014**

**NOTE 4 – Post-Retirement Health Care Plan (Continued)**

*Assumptions*

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

	<u>2015</u>	<u>2014</u>
Discount rate	4.50%	4.35%
General inflation	2.50%	2.35%
Long-term rate of return on plan assets	6.75%	8.00%

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

	<u>2015</u>	<u>2014</u>
Discount rate	4.50%	4.80%
General inflation	2.50%	2.80%
Long-term rate of return on plan assets	6.75%	8.00%

Assumed health care cost trends at June 30:

	<u>2015</u>	<u>2014</u>
Net Periodic Benefit Cost:		
Medical care component of the Consumer Price Index (CPI)	3.50%	4.00%
Health care cost trend rate assumed for next year	7.75%	6.60%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.50%	5.00%
Year that the rate reaches the ultimate trend rate	2070	2018

Accumulated Benefit Obligation:

Medical care component of the CPI	3.50%	4.00%
Health care cost trend rate assumed for next year	7.75%	7.00%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.50%	5.00%
Year that the rate reaches the ultimate trend rate	2070	2019

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 4 – Post-Retirement Health Care Plan (Continued)**

*Variability of Estimated APBO*

Actual future costs may vary significantly from the estimates used in calculating the APBO for a variety of reasons. Retiree medical costs are especially difficult to estimate due to the uncertainty of future medical costs.

*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, 2015 AND 2014**

**NOTE 4 – 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, 2015:

	<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	\$ 32,641	\$ 32,641		
Common stocks	36,600	36,600		
Mutual funds/ETFs – equities	1,417,681	1,417,681		
Mutual funds/ETFs – fixed income	<u>565,607</u>	<u>565,607</u>		
Total	<u>\$ 2,052,529</u>	<u>\$ 2,052,529</u>	<u>None</u>	<u>None</u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 4 – 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>

***Plan Asset Allocations***

The allocation of plan assets at June 30, 2015 were as follows:

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target</u>
Cash equivalents *	2%	5%
Fixed income	27%	20%
Equity	71%	75%



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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 4 – Post-Retirement Health Care Plan (Continued)**

***Plan Asset Allocations (Continued)***

The allocation of plan assets 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%

\* 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>	
2016	\$ 166,270
2017	\$ 195,474
2018	\$ 201,002
2019	\$ 209,175
2020	\$ 218,622
Years 2021 – 2025	\$ 1,251,160

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 5 – Retirement Plan**

The Center contributes to the California Public Employees' Retirement System (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 the improvement in post-retirement mortality to acknowledge greater life expectancies.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 5 – Retirement Plan (Continued)**

Also effective with the 2014 Actuarial Valuation provided by the PERS Actuarial Office, Government Accounting Standards Board (GASB) Statement No. 27 has been replaced with GASB 68 for financial statement reporting purposes. GASB 68 outlines a different approach to the recognition and calculation of pension obligations. The Center reports under accounting principles generally accepted in the United States of America, not GASB; thus, the following tables for the schedule of changes in net pension liability and related ratios and pension expense under GASB 68 are presented for informational purposes only.

**Schedule of Changes in Net Pension Liability and Related Ratios  
During the Measurement Period**

Measurement Period	FY 2013-14
<b>Total Pension Liability</b>	
Service Cost	\$ 2,515,904
Interest	5,444,506
Benefit Payments, Including Refunds of Employee Contributions	( 2,531,251)
Net Change in Total Pension Liability	5,429,159
Total Pension Liability - Beginning	<u>72,601,087</u>
Total Pension Liability - Ending	<u>\$ 78,030,246</u>
<b>Plan Fiduciary Net Position</b>	
Contributions - Employer	\$ 2,882,028
Contributions - Employee	1,107,756
Net Investment Income (1)	9,814,586
Benefit Payments, Including Refunds of Employee Contributions	( 2,531,251)
Net Change in Fiduciary Net Position	11,273,119
Plan Fiduciary Net Position - Beginning (2)	<u>56,209,118</u>
Plan Fiduciary Net Position - Ending	<u>\$ 67,482,237</u>
<b>Plan Net Pension Liability - Ending</b>	<u>\$ 10,548,009</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	86.48%
<b>Covered-Employee Payroll</b>	\$ 14,134,294
<b>Plan Net Pension Liability as Percentage of Covered-Employee Payroll</b>	74.63%

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 5 – Retirement Plan (Continued)**

**Pension Expense for Measurement Period Ended June 30, 2014**

<b>Description</b>	
Service Cost	\$ 2,515,904
Interest	5,444,506
Contributions - Employee	( 1,107,756)
Projected Earnings on Pension Plan Investments	( 4,225,782)
Recognized Differences Between Projected and Actual Earning on Plan Investments (3)	( <u>1,117,761</u> )
<b>Total Pension Expense</b>	<b>\$ <u>1,509,111</u></b>

Notes to Schedules:

- (1) The fiduciary net position includes receivables for employee service buybacks, deficiency reserves, fiduciary self-insurance and OPEB expense.
- (2) Net of administrative expenses.
- (3) Deferred Outflows/(Inflows) of Resources.

A summary of principal actuarial assumptions used, provided in the Annual Valuation Report prepared by the PERS Actuarial Office, are as follows:

Valuation date	June 30, 2014
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Asset valuation method	Market value of assets
Actuarial assumptions	
Discount rate	7.50% (net of expenses)
Inflation	2.75%
Salary increases	Varies by entry age and service
Payroll growth	3.00%

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 5 – Retirement Plan (Continued)**

The asset allocation shown below reflects the PERS fund in total as of June 30, 2014. 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	52.5 %	50.0 %
Private equity	10.4	14.0
Global fixed income	19.5	17.0
Liquidity	3.0	4.0
Real assets	9.8	11.0
Inflation sensitive assets	3.3	4.0
Absolute return strategy	1.5	0.0
	<u>100.0 %</u>	<u>100.0 %</u>

The Schedule of Funding Progress below, provided by the PERS Actuarial Office, shows the recent history of the actuarial accrued liability, the market value of assets, the funded ratio and the annual covered payroll.

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Market Value of Assets</u>	<u>Unfunded Liability (UL)</u>	<u>Funded Ratios</u>	<u>Annual Covered Payroll</u>
06/30/11	\$ 58,622,350	\$ 47,789,692	\$ 10,832,658	81.5%	\$ 12,454,822
06/30/12	\$ 63,059,354	\$ 48,272,890	\$ 14,786,464	76.6%	\$ 12,604,375
06/30/13	\$ 68,375,145	\$ 55,931,794	\$ 12,443,351	81.8%	\$ 13,722,616
06/30/14	\$ 77,610,556	\$ 67,373,666	\$ 10,236,890	86.8%	\$ 13,950,945

Employee contributions to the PERS retirement plans are a percentage of salary and wages. The Center has three retirement plans with PERS to which it contributes an amount above the employees’ contributions, ranging from 1% 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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 5 – Retirement Plan (Continued)**

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, including any excess contributions, for the years ended June 30, 2015 and 2014 was \$3,274,097 and \$2,860,583, respectively.

**NOTE 6 – 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 had 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 until June 2015. In June 2015, the Housing Corporation's bylaws were amended so that the Center no longer has the power to designate the directors of the Housing Corporation. 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. During the years ended June 30, 2015 and 2014, the Center provided funding to the Housing Corporation of \$1,426,402 and \$215,927, respectively.

**NOTE 7 – Commitments and Contingencies**

***Lease Commitments***

The Center has entered into various leases for office facilities. The lease terms expire at various dates through February 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.

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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 7 – Commitments and Contingencies (Continued)**

*Lease Commitments (Continued)*

The following is a schedule of future minimum lease payments required as of June 30, 2015:

<b>For the Year Ending June 30,</b>	
2016	\$ 2,678,682
2017	2,606,847
2018	2,012,102
2019	469,660
2020	369,850
Thereafter	<u>248,496</u>
	<u>\$ 8,385,637</u>

The facilities rental expense for the years ended June 30, 2015 and 2014 was \$2,855,108 and \$2,744,871, 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, 2015 and 2014, 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 state determines 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 funding and/or provide the Center with regulatory and statutory relief.



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

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014**

**NOTE 7 – Commitments and Contingencies (Continued)**

*Contingencies (Continued)*

The Center retains approximately 59% of its labor force through Service Employees International Union Local 721; however, approximately 82% 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 collective bargaining agreement is effective through December 31, 2018.

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 \$233,961 and \$233,477 in a reserve trust account to pay for any potential unemployment claims at June 30, 2015 and 2014, 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 8 – Subsequent Events**

In October 2015, the Center entered into a revolving line of credit agreement with a bank whereby it can borrow up to \$21,500,000 through September 30, 2016 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, 2015**

<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	H181A140037	\$ 2,390,457
<b>U.S. Corporation for National and Community Service Passed through State of California Department of Developmental Services</b>			
Foster Grandparent Program	94.011	13GXPCA001	<u>195,801</u>
			<u>\$ 2,586,258</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, 2015, 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 March 5, 2016.

**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  
March 5, 2016

**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, 2015. 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, 2015.

### **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  
March 5, 2016



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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**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