Tri-Counties Association For The Developmentally Disabled, Inc.

Financial Statements

June 30, 2016 and 2015

Windes

AUDIT | TAX | ADVISORY

CONTENTS

WINDES
AUDIT | TAX | ADVISORY

www.windes.com

111 West Ocean Blvd.
Twenty-Second Floor
Long Beach, CA 90802
562.435.1191

18201 Von Karman Ave.
Suite 1060
Irvine, CA 92612
949.271.2600

601 South Figueroa St.
Suite 4950
Los Angeles, CA 90017
213.239.9745

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, 2016 and 2015, 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, 2016 and 2015, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the 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 3, 2017, on our consideration of Tri-Counties Association for the Developmentally Disabled, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tri-Counties Association for the Developmentally Disabled, Inc.'s internal control over financial reporting and compliance.

Windes, Inc.

Long Beach, California
February 3, 2017

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2016	June 30, 2015
ASSETS		
Cash and cash equivalents	$ 9,877,926	$ 2,332,460
Contracts receivable – state of California	12,130,110	23,394,296
Receivables from Intermediate Care Facility vendors	3,532,185	2,642,569
Other receivables	2,717	4,708
Prepaid expenses and deposits	185,046	286,658
Due from state – accrued vacation, sick leave and other employee benefits	5,329,446	4,985,784
Prepaid post-retirement health care plan expense	4,693,596	4,611,625
TOTAL ASSETS	$ 35,751,026	$ 38,258,100

LIABILITIES AND NET ASSETS

	2016	2015
LIABILITIES		
Accounts payable	$ 24,926,156	$ 23,800,146
Accrued payroll	514,506	385,985
Accrued vacation and sick leave	1,577,058	1,493,226
Due to state	-	2,364,447
Line of credit	-	1,800,000
Post-retirement health care plan obligation	3,752,388	3,492,558
Other liabilities	203,493	233,961
	30,973,601	33,570,323
COMMITMENTS AND CONTINGENCIES (Notes 4, 5, and 7)		
NET ASSETS		
Unrestricted	4,777,425	4,687,777
TOTAL LIABILITIES AND NET ASSETS	$ 35,751,026	$ 38,258,100

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

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENTS OF ACTIVITIES

	For the Year Ended June 30, 2016	For the Year Ended June 30, 2015
CHANGES IN UNRESTRICTED NET ASSETS		
Support and Revenues		
Contracts – state of California	$ 249,695,557	$ 236,093,408
Intermediate Care Facility supplemental services income	7,566,766	7,579,647
Interest income	77,452	70,228
Other income	300,335	312,931
Total Support and Revenues	257,640,110	244,056,214
Expenses		
Program services:		
Client services	255,084,123	241,474,444
Supporting services:		
General and administrative	2,548,310	2,556,769
Total Expenses	257,632,433	244,031,213
CHANGE IN NET ASSETS BEFORE HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	7,677	25,001
HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	81,971	2,824,031
CHANGE IN NET ASSETS	89,648	2,849,032
NET ASSETS AT BEGINNING OF YEAR	4,687,777	1,838,745
NET ASSETS AT END OF YEAR	$ 4,777,425	$ 4,687,777

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, 2016

	Program Services	Supporting Services		
	Client Services	**General and Administrative**	**Total Expenses**	**% of Total Expenses**
PURCHASE OF SERVICES				
Living out of home	$ 42,267,005		$ 42,267,005	16.41 %
Day program	74,582,479		74,582,479	28.95
Transportation	13,977,843		13,977,843	5.43
Supported living services	44,265,197		44,265,197	17.18
Behavioral services	19,230,683		19,230,683	7.46
Medical services	8,186,956		8,186,956	3.18
Respite services	17,067,574		17,067,574	6.62
Other services	9,064,753		9,064,753	3.52
	228,642,490		228,642,490	88.75
OPERATIONS				
Personnel services				
Salaries	14,255,832	$ 1,327,009	15,582,841	6.05
Benefits	5,708,690	578,912	6,287,602	2.44
Taxes	199,932	17,908	217,840	0.08
Occupancy				
Facility rent and maintenance	2,943,956	281,280	3,225,236	1.25
Office relocation	254,452	24,344	278,796	0.11
Utilities	207,372	19,840	227,212	0.09
General expense	452,567	24,974	477,541	0.19
Equipment				
Purchase, rental and maintenance	624,960	59,769	684,729	0.27
Professional fees				
Accounting fees	-	67,200	67,200	0.03
Legal fees	51,385	4,916	56,301	0.02
Consultant services	190,141	14,737	204,878	0.08
Insurance	147,482	14,100	161,582	0.06
Communication				
Telephone	392,880	37,588	430,468	0.17
Postage	57,954	5,377	63,331	0.02
Travel	627,784	38,297	666,081	0.26
Training, development, and conferences	162,740	14,235	176,975	0.06
General office expense				
Office supplies	163,506	15,549	179,055	0.07
Interest expense	-	2,275	2,275	0.00
	26,441,633	2,548,310	28,989,943	11.25
TOTAL EXPENSES	$ 255,084,123	$ 2,548,310	$ 257,632,433	100.00 %

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

	Program Services	Supporting Services		
	Client Services	**General and Administrative**	**Total Expenses**	**% of Total Expenses**
PURCHASE OF SERVICES				
Living out of home	$ 38,741,130		$ 38,741,130	15.88 %
Day program	70,377,799		70,377,799	28.84
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
	215,924,452		215,924,452	88.48
OPERATIONS				
Personnel services				
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
Occupancy				
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
General expense	457,613	27,163	484,776	0.20
Equipment				
Purchase, rental and maintenance	452,430	45,148	497,578	0.20
Professional fees				
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
Insurance	149,959	14,966	164,925	0.07
Communication				
Telephone	372,456	37,196	409,652	0.17
Postage	80,405	8,000	88,405	0.04
Travel	629,223	35,824	665,047	0.27
Training, development, and conferences	111,632	11,355	122,987	0.05
General office expense				
Office supplies	159,695	15,847	175,542	0.08
Interest expense	-	2,781	2,781	0.00
	25,549,992	2,556,769	28,106,761	11.52
TOTAL EXPENSES	$ 241,474,444	$ 2,556,769	$ 244,031,213	100.00 %

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

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 89,648	$ 2,849,032
Adjustments to reconcile change in net assets to net cash from operating activities:		
Changes in post-retirement health care plan obligation	177,859	(5,128,540)
(Increase) decrease in:		
Contracts receivable – state of California	11,264,186	(10,099,371)
Receivables from Intermediate Care Facility vendors	(889,616)	960,409
Other receivables	1,991	818
Prepaid expenses and deposits	101,612	(175,675)
Due from state – accrued vacation, sick leave and other employee benefits	(343,662)	2,186,520
Increase (decrease) in:		
Accounts payable	1,126,010	2,451,361
Accrued payroll	128,521	59,536
Accrued vacation and sick leave	83,832	117,989
Due to state	(2,364,447)	1,722,006
Other liabilities	(30,468)	484
Net Cash Provided By (Used In) Operating Activities	9,345,466	(5,055,431)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(1,800,000)	1,800,000
Net Cash Provided By (Used In) Financing Activities	(1,800,000)	1,800,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,545,466	(3,255,431)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,332,460	5,587,891
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,877,926	$ 2,332,460

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest totaled $2,275 and $2,781 during the years ended June 30, 2016 and 2015, 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, 2016 AND 2015

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 $252,319,620 and $234,931,121 for the 2015-2016 and 2014-2015 contract years, respectively. As of June 30, 2016, actual net expenditures under the 2015-2016 and 2014-2015 contracts were $246,277,353 and $234,977,073, respectively.

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, 2016 and 2015 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.

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, 2016 and 2015, the Center had no permanently restricted or temporarily restricted net assets.

Contributions

Contributions, including pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not included in support until the conditions are substantially met.

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.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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, 2016 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, 2016 and 2015, equipment purchases totaled $581,289 and $400,478, respectively.

TRI-COUNTIES ASSOCIATION FOR THE DEVELOPMENTALLY DISABLED, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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 4. 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, which is 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, 2016 and 2015, the Center's ratio was 8.79% and 9.09%, respectively.

Tax Status

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

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Tax Status (Continued)

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

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the current-year financial statement presentation.

Subsequent Events

The Center's management has evaluated subsequent events from the statement of financial position date through February 3, 2017, the date the financial statements were available to be issued for the year ended June 30, 2016, and determined, except as disclosed in Note 8, there were no other items to disclose.

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.

NOTE 2 – Contracts Receivable/Contract Advances – State of California (Continued)

As of June 30, 2016 and 2015, the DDS had advanced the Center $44,027,955 and $42,450,220, respectively, under the contracts with the DDS. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from the DDS as follows:

	June 30,	
	2016	**2015**
Contracts receivable	$ 56,158,065	$ 65,844,516
Contract advances	(44,027,955)	(42,450,220)
Net contracts receivable	$ 12,130,110	$ 23,394,296

The Center has renewed its contract with the state for the fiscal year ending June 30, 2017. The contract provides for funding of $281,830,477 as of December 2016.

NOTE 3 – Short-Term Borrowings

The Center had a line of credit agreement with a bank which expired September 30, 2016, whereby it could borrow up to $21,500,000 with interest at the bank's reference rate. Borrowings were secured by substantially all assets of the Center. There was no outstanding balance as of June 30, 2016. The center had an outstanding balance of $1,800,000 as of June 30, 2015, which was repaid during the year.

NOTE 4 – Post-Retirement Health Care Plan

The Center sponsors a post-retirement health care plan through the California Public Employees' Retirement System (CalPERS) 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.

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

The following tables provide a reconciliation of the changes in the plan's benefit obligations and funded status as of June 30, 2016 and 2015:

Reconciliation of Benefit Obligation

	June 30,	
	2016	**2015**
Change in benefit obligation		
Benefit obligation at beginning of year	$ 5,545,087	$ 7,817,782
Service cost	443,734	581,915
Interest cost	284,990	332,597
Assumption change gain	(494,326)	(1,566,099)
Experience gain	156,897	(1,367,516)
Benefits paid	(163,084)	(253,592)
Obligation at end of year	5,773,298	5,545,087
Change in plan assets		
Fair value of plan assets at beginning of year	2,052,529	2,020,715
Actual return on plan assets	(31,619)	31,814
Fair value of plan assets at end of year	2,020,910	2,052,529
Net amount recognized in the statements of financial position	$ 3,752,388	$ 3,492,558

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

	For the Year Ended June 30,	
	2016	**2015**
Service cost	$ 443,734	$ 581,915
Interest cost	284,990	332,597
Return on investments	31,619	(31,814)
Net asset gain (loss)	(170,165)	(129,843)
Amortization of gain from earlier periods	(210,050)	(104,498)
Amortization of unrecognized past service cost	124,757	124,757
Net periodic benefit cost	$ 504,885	$ 773,114

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

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, 2016 and 2015, are:

	June 30, 2016	June 30, 2015
Prior service cost	$ 249,518	$ 374,275
Actuarial gain	(4,943,114)	(4,985,900)
	$ (4,693,596)	$ (4,611,625)

The Center has accrued a receivable as of June 30, 2016 and 2015 from the DDS totaling $3,752,388 and $3,492,558, 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.

Assumptions

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

	2016	2015
Discount rate	4.00%	4.50%
General inflation	2.50%	2.50%
Long-term rate of return on plan assets	6.75%	6.75%

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

	2016	2015
Discount rate	4.50%	4.50%
General inflation	2.50%	2.50%
Long-term rate of return on plan assets	6.75%	6.75%

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

Assumptions (Continued)

Assumed health care cost trends at June 30:

	2016	2015
Net Periodic Benefit Cost:		
Medical care component of the Consumer Price Index (CPI)	3.50%	3.50%
Health care cost trend rate assumed for next year	6.25%	7.75%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2071	2070
Accumulated Benefit Obligation:		
Medical care component of the CPI	3.50%	3.50%
Health care cost trend rate assumed for next year	6.25%	7.75%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2071	2070

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.

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

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.

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

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset category:				
Cash and cash equivalents	$ 51,807	$ 51,807		
Common stocks	42,360	42,630		
Mutual funds/ETFs – equities	1,357,953	1,357,953		
Mutual funds/ETFs – fixed income	568,790	568,790		
Total	$ 2,020,910	$ 2,020,910	None	None

TRI-COUNTIES ASSOCIATION FOR THE DEVELOPMENTALLY DISABLED, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

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:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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	565,607	565,607		
Total	$ 2,052,529	$ 2,052,529	None	None

Plan Asset Allocations

The allocation of plan assets at June 30, 2016 were as follows:

Asset Class	Current Allocation	Target
Cash equivalents *	3%	5%
Fixed income	28%	20%
Equity	69%	75%

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

Plan Asset Allocations (Continued)

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

Asset Class	Current Allocation	Target
Cash equivalents *	2%	5%
Fixed income	27%	20%
Equity	71%	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:

For the Year Ending June 30,	
2017	$ 178,269
2018	$ 179,664
2019	$ 184,787
2020	$ 189,052
2021	$ 190,155
Years 2022 – 2026	$ 1,165,485

NOTE 5 – Retirement Plan

The Center contributes to the California Public Employees' Retirement System (CalPERS), 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 CalPERS .

The actuarial calculations generated by CalPERS 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.

The CalPERS 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, 2016 AND 2015

NOTE 5 – Retirement Plan (Continued)

Also effective with the 2014 Actuarial Valuation provided by the CalPERS 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 2015-16	FY 2014-15
Total Pension Liability		
Service Cost	$ 2,409,739	$ 2,379,010
Interest	6,139,335	5,807,775
Change of Assumptions		(1,447,454)
Difference between Expected and Actual Experience	(869,500)	(419,690)
Benefit Payments, Including Refunds of Employee Contributions	(3,129,082)	(2,867,965)
Net Change in Total Pension Liability	4,550,492	3,451,676
Total Pension Liability - Beginning	81,481,922	78,030,246
Total Pension Liability - Ending	$ 86,032,414	$ 81,481,922
Plan Fiduciary Net Position		
Contributions - Employer	$ 3,204,195	$ 3,099,657
Contributions - Employee	1,120,735	1,120,921
Net Investment Income	367,368	1,499,334
Benefit Payments, Including Refunds of Employee Contributions	(3,129,082)	(2,867,965)
Administrative Expense	(42,817)	(79,211)
Net Change in Fiduciary Net Position	1,520,399	2,772,736
Plan Fiduciary Net Position - Beginning	70,254,973	67,482,237
Plan Fiduciary Net Position - Ending (1)	$ 71,775,372	$ 70,254,973
Plan Net Pension Liability - Ending	$ 14,257,042	$ 11,226,949
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.43%	86.22%
Covered-Employee Payroll	$ 15,148,920	$ 14,369,473
Plan Net Pension Liability as Percentage of Covered-Employee Payroll	94.11%	78.13%

NOTE 5 – Retirement Plan (Continued)

Pension Expense for Measurement Periods Ended June 30, 2016 and 2015

Description	2016	2015
Service Cost	$ 2,409,739	$ 2,379,010
Interest	6,139,335	5,807,775
Recognized Changes of Assumptions	(301,553)	(301,553)
Recognized Differences between Expected and Actual Experience	(272,435)	(87,435)
Contributions - Employee	(1,120,735)	(1,120,921)
Projected Earnings on Pension Plan Investments	(5,385,370)	(5,167,284)
Recognized Differences Between Projected and Actual Earnings on Plan Investments (2)	619,429	(384,171)
Administrative Expenses	42,817	79,211
Total Pension Expense	$ 2,131,227	$ 1,204,632

Notes to Schedules:
(1) The fiduciary net position includes deficiency reserves, fiduciary self-insurance and OPEB expense.
(2) Recognized 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, 2016
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%

NOTE 5 – Retirement Plan (Continued)

The asset allocation shown below reflects the CalPERS fund in total as of June 30, 2015. The assets of the Center's plan are part of the CalPERS fund and are invested accordingly.

Asset Class	Current Allocation	Target Allocation
Global equity	53.8 %	51.0 %
Private equity	9.6	10.0
Global fixed income	17.6	20.0
Liquidity	2.5	1.0
Real assets	10.5	12.0
Inflation sensitive assets	5.2	6.0
Other	.8	0.0
	100.0 %	100.0 %

Employee contributions to the CalPERS retirement plans are a percentage of salary and wages. The Center has three retirement plans with CalPERS 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.

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 CalPERS Board of Administration. The employer rate is determined using this actuarial basis and is reflected in the annual valuation report completed by CalPERS actuarial staff.

Total retirement expense, including any excess contributions, for the years ended June 30, 2016 and 2015 was $3,152,190 and $3,274,097, 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, 2016 and 2015, the Center provided funding to the Housing Corporation of $1,344,760 and $1,426,402, 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.

NOTE 7 – Commitments and Contingencies (Continued)

Lease Commitments (Continued)

The following is a schedule of future minimum lease payments required as of June 30, 2016:

For the Year Ending June 30,	
2017	$ 2,606,842
2018	2,012,096
2019	469,660
2020	369,850
2021	248,496
	$ 5,706,944

The facilities rental expense for the years ended June 30, 2016 and 2015 was $3,014,407 and $2,855,108, 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, 2016 and 2015, 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 2014-2015 contract year, the state shall make its best effort to secure additional funding and/or provide the Center with regulatory and statutory relief.

NOTE 7 – Commitments and Contingencies (Continued)

Contingencies (Continued)

The Center retains approximately 52% of its labor force through Service Employees International Union Local 721; however, approximately 84% of the Center's labor force is subject to a collective bargaining agreement. As such, renegotiation of such an agreement could expose the Center to an increase in hourly costs and work stoppages. The current 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 $203,493 and $233,961 in a reserve trust account to pay for any potential unemployment claims at June 30, 2016 and 2015, respectively.

The Center is involved in various issues requiring legal consultation 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 issues.

NOTE 8 – Subsequent Events

In February 2017, the Center entered into a revolving line of credit with a bank whereby it can borrow up to $25,000,000 through January 31, 2018 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, 2016

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U.S. Department of Education Passed through State of California Department of Developmental Services			
Special Education – Grants for Infants and Families	84.181	H181A150037	$ 804,586
U.S. Corporation for National and Community Service Passed through State of California Department of Developmental Services			
Foster Grandparent Program	94.011	13GXPCA001	193,034
			$ 997,620

See accompanying notes to schedule of expenditures of federal awards.

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2016

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Tri-Counties Association for the Developmentally Disabled, Inc. under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Tri-Counties Association for the Developmentally Disabled, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of Tri-Counties Association for the Developmentally Disabled, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting and based on state contract budget allocations. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

Tri-Counties Association for the Developmentally Disabled, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

WINDES
AUDIT | TAX | ADVISORY

www.windes.com

111 West Ocean Blvd.
Twenty-Second Floor
Long Beach, CA 90802
562.435.1191

18201 Von Karman Ave.
Suite 1060
Irvine, CA 92612
949.271.2600

601 South Figueroa St.
Suite 4950
Los Angeles, CA 90017
213.239.9745

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, 2016, 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 3, 2017.

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.

Windes, Inc.

Long Beach, California
February 3, 2017

WINDES
AUDIT | TAX | ADVISORY

www.windes.com

111 West Ocean Blvd.
Twenty-Second Floor
Long Beach, CA 90802
562.435.1191

18201 Von Karman Ave.
Suite 1060
Irvine, CA 92612
949.271.2600

601 South Figueroa St.
Suite 4950
Los Angeles, CA 90017
213.239.9745

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Windes, Inc.

Long Beach, California
February 3, 2017

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued – Unmodified

Internal control over financial reporting:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Noncompliance material to financial statements noted? – No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Type of auditors' report issued on compliance for major programs – Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? – No

Identification of major programs: Special Education – Grants for Infants and Families, CFDA #84.181

Dollar threshold used to distinguish between Type A and Type B programs was $750,000.

Auditee qualified as low-risk auditee? – Yes

FINDINGS – FINANCIAL STATEMENTS AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None