

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

FINANCIAL STATEMENTS

June 30, 2025

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
San Diego – Imperial Counties
Developmental Services, Inc.

Opinion

We have audited the accompanying financial statements of San Diego – Imperial Counties Developmental Services, Inc., a California nonprofit corporation, which comprise the statement of financial position as of June 30, 2025, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Diego – Imperial Counties Developmental Services, Inc. (the Regional Center) as of June 30, 2025, and the changes in its net deficit and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Regional Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Regional Center's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Regional Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Regional Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2026, on our consideration of the Regional Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Regional Center's internal control over financial reporting and compliance.



Long Beach, California
March 10, 2026

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2025**

ASSETS

ASSETS

Cash and cash equivalents	\$ 76,894,609
Cash and cash equivalents - client trust funds	2,285,556
Receivables - State Regional Center contracts	24,578,680
Receivables - Intermediate Care Facility providers	6,570,644
Other receivables, prepaid expenses, and other assets	1,545,284
Due from state - accrued vacation and other employee benefits	21,697,223
Due from state - rent receivable	3,612,159
Operating lease right-of-use assets	<u>40,636,836</u>

TOTAL ASSETS \$ 177,820,991

LIABILITIES AND NET DEFICIT

LIABILITIES

Accounts payable and accrued expenses	\$ 107,550,275
Accrued payroll and vacation	4,230,887
Operating lease liabilities	44,248,995
Pension plan obligation	21,035,404
Unexpended client support	<u>2,013,242</u>
	<u>179,078,803</u>

CONTINGENCIES (Note 8)

NET DEFICIT

Without donor restrictions	<u>(1,257,812)</u>
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TOTAL LIABILITIES AND NET DEFICIT \$ 177,820,991

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

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025**

REVENUE AND SUPPORT

Contracts - state of California	\$ 973,605,269
Intermediate Care Facility supplemental services income	17,517,492
Other income	<u>2,373,654</u>

TOTAL REVENUE AND SUPPORT

993,496,415

EXPENSES

Program Services:	
Direct consumer services	958,711,624
Supporting Services:	
General and administrative	<u>34,992,331</u>

Total Expenses

993,703,955

**CHANGE IN NET DEFICIT WITHOUT DONOR RESTRICTIONS
BEFORE PENSION-RELATED CHANGES OTHER THAN NET
PERIODIC PENSION COSTS**

(207,540)

**PENSION-RELATED CHANGES OTHER THAN NET PERIODIC
POST-RETIREMENT BENEFIT COSTS**

11,609,784

CHANGE IN NET DEFICIT WITHOUT DONOR RESTRICTIONS

11,402,244

NET DEFICIT WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR

(12,660,056)

NET DEFICIT WITHOUT DONOR RESTRICTIONS, END OF YEAR

\$ (1,257,812)

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

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2025**

	Program Services	Supporting Services	
	Direct Client Services	General and Administrative	Total
Salaries	\$ 61,566,132	\$ 7,470,004	\$ 69,036,136
Employee health and retirement benefits	12,128,254	1,471,558	13,599,812
Payroll taxes	893,564	108,419	1,001,983
Total Salaries and Related Expenses	74,587,950	9,049,981	83,637,931
Purchase of services			
Residential care	276,803,366	-	276,803,366
Day care and training	203,434,715	-	203,434,715
Medical programs	15,774,178	-	15,774,178
Respite service	97,670,122	-	97,670,122
Independent living costs	52,184,700	-	52,184,700
Transportation services	30,539,544	-	30,539,544
Prevention services	36,682,836	-	36,682,836
Other purchased services	170,312,392	-	170,312,392
Facility rent	-	9,606,430	9,606,430
General expenses	-	2,469,250	2,469,250
Facility maintenance	-	4,846,998	4,846,998
Equipment purchases, rental, and maintenance	-	293,784	293,784
Outside services	-	2,451,199	2,451,199
Public information and education	-	1,719,643	1,719,643
Telephone	-	369,449	369,449
Legal fees	-	565,354	565,354
Postage	-	319,250	319,250
Insurance	-	647,129	647,129
Utilities	-	1,731,072	1,731,072
Travel	721,821	70,052	791,873
Staff training	-	533,363	533,363
Accounting fees	-	67,250	67,250
ARCA dues	-	173,581	173,581
Board of directors' expenses	-	78,546	78,546
TOTAL EXPENSES	\$ 958,711,624	\$ 34,992,331	\$ 993,703,955

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

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2025**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net deficit without donor restrictions	\$ 11,402,244
Adjustments to reconcile change in net deficit without donor restrictions to net cash from operating activities:	
Increase (decrease) in:	
Receivables - State Regional Center contracts	30,899,151
Receivables - Intermediate Care Facility providers	(2,220,768)
Other receivables, prepaid expenses, and other assets	(473,071)
Due from state - accrued vacation and other employee benefits	3,436,455
Due from state - rent receivable	(247,584)
Decrease (increase) in:	
Accounts payable and accrued expenses	28,231,683
Accrued payroll and vacation	528,172
Operating lease liabilities	247,584
Pension plan obligation	(15,226,043)
Unexpended client support	<u>(1,233,781)</u>
Net Cash Provided By Operating Activities	<u>55,344,042</u>

NET CHANGE IN CASH AND CASH EQUIVALENTS 55,344,042

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 23,836,123

CASH AND CASH EQUIVALENTS, END OF YEAR \$ 79,180,165

COMPONENTS OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents	\$ 76,894,609
Cash and cash equivalents - client trust funds	<u>2,285,556</u>

Total cash and cash equivalents \$ 79,180,165

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

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

NOTE 1 – Summary of Significant Accounting Policies

Nature of Activities

San Diego – Imperial Counties Developmental Services, Inc. (the Regional Center) is a California nonprofit corporation, the primary purpose of which is to contract with the State of California Department of Developmental Services (DDS) and other governmental agencies to operate a regional center for persons with developmental disabilities and their families. The Regional 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. Contracts with the state of California (the state) and other agencies are generally renewed on an annual basis and provide a limit on expenditures and the respective contract funding. The period of expenditure reimbursement may, in some cases, extend beyond one year. Required services provided include outreach, diagnosis, assessment, counseling, prevention services, public information and education, and advocacy to persons with developmental disabilities and their families residing in San Diego and Imperial Counties.

The Act includes governance provisions regarding the composition of the Regional Center’s board of directors (the Board). 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 Board. To comply with the Act, the Board includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the Regional Center and a client service provider of the Regional Center.

The Regional Center contracts with DDS to operate a regional center for the developmentally disabled and their families. Under the terms of these contracts, funded expenditures are not to exceed \$1,013,783,524 for the 2024-2025 contract year. Amounts received from the DDS contract are recognized as revenue when the Regional Center has incurred qualifying operational expenditures per the DDS contract. Amounts received prior to incurring qualifying operational expenditures are recorded as contract advances and are included within receivables - State Regional Center contracts on the statement of financial position.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Nature of Activities (Continued)

As of June 30, 2025, actual net expenditures were \$938,902,043 under the 2024-2025 contract year. The remaining amounts on the 2024-2025 contract year where the Regional Center can be reimbursed for qualifying expenditures are approximately \$74,881,000, subject to any future budget amendments.

Contract revenue from the Regional Center's contracts with DDS is funded on a cost-reimbursement basis. The net deficit reported as of June 30, 2025 on the statement of financial position is primarily the result of the Regional Center's defined benefit pension plan. As further discussed in Note 6, accounting standards require the Regional Center to recognize actuarial gains or losses and prior service costs as a charge to net deficit. These amounts, which had not yet been recognized as components of periodic benefit costs, totaled \$(1,975,120) as of June 30, 2025. For purposes of reporting periodic benefit costs, the unrecognized actuarial losses and prior service costs will continue to be amortized into plan expenses over future years. Periodic benefit costs under the defined benefit pension plan are reimbursed under the DDS contract as the Regional Center funds the plan. Although the Regional Center expects that the plan costs will ultimately be funded over future years, plan funding will depend on continued funding by DDS.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and accordingly, revenue is 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.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with U.S. GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Principal areas requiring the use of estimates include the allocation of expenses on the statement of functional expenses and the assumptions underlying the determination of the defined benefit pension plan amounts. Actual results could vary from the estimates that were assumed in preparing the financial statements.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

The Regional Center's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-For Profit Entities*. Under FASB ASC Topic 958, the Regional Center is required to report information regarding its financial position and activities according to two classes of net deficit based upon the existence or absence of donor-imposed restrictions, as follows:

Net Deficit Without Donor Restrictions – Net deficit available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Deficit With Donor Restrictions – Net deficit subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All other donor-imposed contributions are reported as increases in net deficit with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net deficit with donor restrictions are reclassified to net deficit without donor restrictions and reported in the statement of activities as net deficit released from restrictions.

As of June 30, 2025, the Regional Center had no net deficit with donor restrictions.

Fund Accounting

The accounts of the Regional Center are maintained in accordance with the principles of fund accounting. Under fund accounting, resources are classified for accounting and reporting considerations into funds established according to their nature and purpose.

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the statement of cash flows, the Regional Center considers cash on hand and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

At June 30, 2025 and throughout the year, the Regional Center has maintained cash and cash equivalent balances with a financial institution in excess of federally insured limits. The Regional Center has not experienced any losses and management believes it is not exposed to any significant credit risk on such accounts.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Receivable - State Regional Center Contracts

Contracts receivable from state and federal agencies and contract support are recorded on the accrual method as related expenses are incurred. Contracts receivable represent amounts due from the state for reimbursement of expenditures made by the Regional Center under the State Regional Center contract. Advances represent cash advances received by the Regional Center under the State Regional Center contract. Contracts receivable are presented net of cash advances received on the statement of financial position, as management believes a right of offset exists.

The Regional Center considers all outstanding amounts receivable under these contracts to be collectible, accordingly, management has determined that an allowance for credit losses is not considered necessary.

Receivables from Intermediate Care Facility Vendors

The Centers for Medicare and Medicaid Services (CMS) has approved federal financial participation in the funding of the day and transportation services purchased by the Regional Center for consumers who reside in Intermediate Care Facilities (ICF). CMS agreed that the day and related transportation services are part of ICF services; however, the federal rules allow for only one provider of ICF services. Accordingly, all the Medicaid funding for ICF residents must go through the applicable ICF provider. The Regional Center receives a 1.5% administrative fee based on the invoices submitted to DDS for the administrative work to implement the state plan amendment (SPA 07-004).

DDS has directed the Regional Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. The Regional Center is directed to reduce the amount of its 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 Regional Center's administrative fee to the Regional Center within 30 days of receipt of funds from the State Controller's Office.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Equipment

Pursuant to the terms of the DDS contract, the Regional Center's equipment purchases become the property of DDS and, accordingly, are charged as expense when incurred. The Regional Center is required to maintain memorandum records of equipment purchases and dispositions.

Prepaid Expenses

Payments made to vendors for services that will benefit the Regional Center for periods beyond the current fiscal year are recorded as other receivables, prepaid expenses, and other assets.

Client Trust Funds

The Regional Center assumes a fiduciary relationship with certain clients who cannot manage their own finances. Client support funds are received from private and governmental sources including the Social Security Administration and Veterans Administration. These funds are used primarily to offset clients' out-of-home placement and living costs, thereby reducing the amount expended by the Regional Center. These funds are held in a separate bank account and interest earnings are credited to the clients' balances.

Revenue Concentration

State Regional Center contract revenue is revenue received from the state in accordance with the Act. Approximately 99% of revenue is derived from this source.

Revenue and Revenue Recognition

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and nature of any donor-imposed restrictions.

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 their 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 as support until the conditions are substantially met.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Revenue and Revenue Recognition (Continued)

All contributions are considered to be available for unrestricted use unless specially restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as increases in net deficit with donor restrictions. When a donor's stipulated time restriction ends or purpose restriction is accomplished, net deficit with donor restrictions are reclassified to net deficit without donor restrictions and reported in the statement of activities as net deficit released from restrictions. Permanently restricted contributions have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.

A significant portion of the Regional Center's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Regional Center has incurred expenditures in compliance with specific contract or grant provisions.

Accrued Vacation and Other Employee Benefits

The Regional Center has accrued liabilities for leave benefits earned. Such liabilities are reimbursed under the DDS contract only when actually paid. The Regional Center has also recorded a receivable from DDS for the accrued benefits to reflect the future reimbursement of such expenditures.

Leasing Arrangements

The Regional Center's policy for determining its lease discount rate used for measuring lease liabilities is to use the rate implicit in the lease whenever that rate is readily determinable. If the rate implicit in the lease is not readily determinable, then the Regional Center has elected to use the risk-free discount rate, as permitted by U.S. GAAP, determined using a period comparable with that of the lease term.

The Regional Center has elected a policy to account for short-term leases, defined as any lease with a term less than 12 months, by recognizing all components of the lease payment in the statement of activities in the period in which the obligation for the payments is incurred.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Defined Benefit Pension Plan

The Regional Center recognizes the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in the statement of financial position, with an offsetting charge or credit to net deficit. 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 deficit.

Allocation of Expenses

The statement of functional expenses presents expenses for all funds that are allocated to expenses to the program and supporting service categories based on a direct-cost basis for purchase of services, including salaries and related expenses. Operating expenses are allocated to supporting services, except for travel, which is allocated on a direct-cost basis.

Income Taxes

The Regional 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 California Revenue and Taxation Code. Tax-exempt status is generally granted to nonprofit entities organized for charitable or mutual benefit purposes.

The Regional Center accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes and how an uncertain tax position is recognized in financial statements. The Regional Center analyzes tax positions taken in previously filed returns and tax positions expected to be taken in future returns. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. The Regional Center's practice is to recognize interest and penalties related to uncertain tax positions in the tax expense. There were no uncertain tax positions identified or related interest and penalties recorded as of June 30, 2025.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Subsequent Events

Subsequent to year end, the Regional Center has signed renewal contracts and amendments with DDS allowing for funding of \$1,081,605,714 for claim year 2025-2026, subject to future amendments.

The Regional Center’s management has evaluated subsequent events from the statement of financial position date through March 10, 2026, the date at which the financial statements were available to be issued for the year ended June 30, 2025.

NOTE 2 – Liquidity and Availability

Financial assets available for purchase of client service and operation expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Financial Assets:	
Cash and cash equivalents	\$ 76,894,609
Receivables – State Regional Center contracts	24,578,680
Receivables – Intermediate Care Facility providers	<u>6,570,644</u>
	108,043,933
Less: Amount of net deficit subject to restricted spending for a specific purpose	<u>(346,718)</u>
Total financial assets available within one year	<u>\$ 107,697,215</u>

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 2 – Liquidity and Availability (Continued)

The Regional Center, along with other regional centers, submit a monthly purchase of service expenditure projection to DDS, beginning in December of each fiscal year. By February 1st of each year, DDS allocates to all regional centers no less than one hundred percent (100%) of the enacted budget for operations and ninety-nine percent (99%) of the enacted budget for purchase of service. To do this, it may be necessary to amend the Regional Center's contract in order to allocate funds made available from budget augmentations and to move funds among regional centers. In the event that DDS determines that a regional center has insufficient funds to meet its contractual obligations, DDS shall make best efforts to secure additional funds and/or provide the regional center with regulatory and statutory relief. The contract with DDS allows for adjustments to the Regional Center's allocation and for the payment of claims up to two years after the close of each fiscal year.

NOTE 3 – Cash and Cash Equivalents - Client Trust Funds

The Regional Center functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of its clients. These cash balances are segregated from the operating cash accounts of the Regional Center and are restricted for client support. Since the Regional Center is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying statement of activities. The following is a summary of operating activity not reported in the statement of activities for the year ended June 30, 2025:

Support:	
Social Security and other client support received	\$ <u>22,764,498</u>
Disbursements:	
Residential care	\$ 17,134,151
Money management	3,649,179
Other disbursements	<u>1,981,168</u>
	\$ <u>22,764,498</u>

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 4 – Contracts Receivable from State

The Regional Center’s primary source of revenue is from the state. Subject to renewal, the Regional Center entered a five-year contract with DDS that is subject to annual appropriations by the state. The Regional Center completed its fifth year of its five-year contract with DDS that started fiscal year ended June 30, 2021. Revenue from the state is recognized monthly when a claim (invoice) for reimbursement of actual expenses is submitted to DDS for payment. These claims are paid at the state’s discretion either through a direct payment to the Regional Center or by offsetting the claim against the cash advances received by the Regional Center from the state.

As of June 30, 2025, DDS advanced the Regional Center \$235,952,618 under the State Regional Center contracts. For financial statement presentation, to the extent there are claims receivable, the following claims receivable have been offset by the advances from DDS:

	<u>June 30,</u>	
	<u>2025</u>	<u>2024</u>
Contracts receivable	\$ 260,531,298	\$ 232,896,905
Contract advances	<u>(235,952,618)</u>	<u>(177,419,074)</u>
Net contracts receivable	<u>\$ 24,578,680</u>	<u>\$ 55,477,831</u>

NOTE 5 – Line of Credit

The Regional Center had a revolving line of credit agreement with a bank whereby it could borrow up to \$80,000,000. Borrowings were secured by substantially all assets of the Regional Center with interest payable monthly at an interest rate of 7.25% at June 30, 2025. The agreement expired in October 2025 and was not renewed. There were no amounts outstanding at June 30, 2025.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 6 – Defined Benefit Pension Plan

Effective July 1, 2004, the Regional Center adopted a defined benefit pension plan to provide retirement benefits for all employees. The benefits under the plan are funded in accordance with the Regional Center's contracts with insurance companies. The Regional Center is required to make contributions to the plan, after employee contributions to the retirement plan of 6.2%, which is necessary to purchase the contracts that fund the retirement benefits.

The following table sets forth the plan's funded status as of June 30, 2025:

Change in benefit obligation:	
Beginning of year	\$ 179,604,140
Service cost	6,939,791
Interest cost	9,489,540
Actuarial gain	(6,717,666)
Benefits paid	<u>(6,790,583)</u>
End of year	<u>182,525,222</u>
Change in plan assets:	
Beginning of year	143,342,693
Actual return on plan assets	14,255,689
Employer and employee contribution	10,682,019
Benefits paid	<u>(6,790,583)</u>
End of year	<u>161,489,818</u>
Net amount recognized in the statement of financial position	<u>\$ 21,035,404</u>

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 6 – Defined Benefit Pension Plan (Continued)

Net periodic postretirement benefit cost for the year ended June 30, 2025 consists of the following components:

Service cost	\$ 6,939,791
Interest cost	9,489,540
Expected return on plan assets	<u>(9,363,571)</u>
Net periodic benefit cost of financial position	<u>\$ 7,065,760</u>

All previously unrecognized actuarial gains or losses are reflected in the statement of financial position. The plan items not yet recognized as a component of periodic plan expenses but included as a separate charge to net deficit as of June 30, 2025, unamortized net loss of \$1,975,120.

The above net amounts recognized as a separate charge to net deficit do not have an offsetting accrual from DDS to reflect the future reimbursement of such benefits. The Regional Center has accrued a receivable from DDS for the balance of the accrued benefit obligation of \$19,060,284 as of June 30, 2025, representing the portion of the accrued benefit obligation which has been recognized as plan expense.

The accumulated benefit obligation was \$145,608,176 at June 30, 2025. There was no unamortized net transition obligation as of June 30, 2025.

Assumptions

Weighted-average assumptions used to determine benefit obligations as of June 30, 2025 were as follows:

Discount rate	5.58%
Rate of compensation increase	4.50%

Weighted-average assumptions used to determine net periodic benefit cost as of June 30, 2025 were as follows:

Discount rate	5.58%
Expected long-term return on plan assets	6.50%
Rate of compensation increase	4.50%

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 6 – Defined Benefit Pension Plan (Continued)

Assumptions (Continued)

Weighted-average asset allocations at year-end were as follows:

<u>Asset Category</u>	<u>Target Allocation</u>
Equity securities	56%
Debt securities	40%
Insurance company general account	4%
	<u>100%</u>

The investment objective of the plan is to provide a rate of return commensurate with a moderate degree of risk of loss of principal and return volatility. The pension plan assets are invested in a Group Annuity Contract through Minnesota Life Insurance Company. Investment responsibility for the assets is assigned to an Investment Policy Committee of the Board. The assets of the plan are periodically rebalanced to remain within the desired target allocations.

Historical rates of return for individual asset classes and future estimated returns are used to develop expected rates of return. These rates of return are applied to the plan's investment policy to determine a range of expected returns.

All investments are measured within the fair value hierarchy at level 1 where quoted prices are measured by observable active markets for identical assets.

The salary increase assumption is based on several factors which include, but are not limited to, employee productivity, promotions, the employer's expectations of future increases, historical trends, expected inflation, and survey results.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 6 – Defined Benefit Pension Plan (Continued)

Estimated Future Benefit Payments

The following estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid on a fiscal year basis:

<u>Year Ending June 30,</u>	
2026	\$ 6,492,635
2027	6,732,231
2028	7,009,820
2029	7,462,828
2030	7,803,007
2031-2035	<u>43,910,164</u>
	<u>\$ 79,410,685</u>

Contributions

The Regional Center expects to contribute at least the minimum funding requirement to this plan in the fiscal year ended 2025. In addition, it may contribute additional amounts not yet determined.

NOTE 7 – Lease Arrangements

The Regional Center leases facilities and certain equipment under operating leases expiring in various years through June 2035. These leases, which may be renewed for periods up to five years, generally require the lessee to pay all maintenance, insurance, and property taxes and contain a termination clause in the event the annual contract between DDS and the Regional Center is not renewed. Several leases are subject to periodic adjustment based on price indices or cost increases.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 7 – Lease Arrangements (Continued)

While all of the agreements provide for minimum lease payments, some include payments adjusted for inflation or for variable payments based on a percentage of sales over contractual levels. Variable payments are not determinable at the lease commencement and are not included in the measurement of the lease assets and liabilities. The lease agreements do not include any material residual value guarantees or restrictive covenants.

The component of operating lease expense that is included in expenses in the statement of activities is as follows for the year ended June 30, 2025:

Operating lease costs	<u>\$ 6,016,256</u>
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The following summarizes the cash flow information related to leases for the year ended June 30, 2025:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 5,768,671
Noncash investing and financing activity:	
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 7,302,098

The weighted-average remaining lease term and discount rate for operating leases as of June 30, 2025 were as follows:

Weighted-average remaining lease term	7.65 years
Weighted-average discount rate	3.29%

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 7 – Lease Arrangements (Continued)

The maturities of operating lease liabilities as of June 30, 2025 are as follows:

Year Ending June 30,		
2026	\$	6,165,333
2027		6,409,582
2028		6,632,535
2029		6,824,945
2030		6,236,093
Thereafter		18,189,198
Total minimum lease payments		50,457,686
Less amount representing interest		(6,208,691)
Present value of minimum lease payments	\$	44,248,995

NOTE 8 – Contingencies

Contingencies

In accordance with the terms of the DDS contract, an audit may be performed by an authorized state representative. Should such audit disclose any unallowable costs, the Regional Center may be liable to the state for reimbursement of such costs. In the opinion of the Regional Center’s management, the effect of any disallowed costs would be immaterial to the financial statements as of June 30, 2025, and for the year then ended.

The Regional Center is dependent on continued funding provided by DDS to operate and provide services for its clients. In the event that the operations of the Regional Center result in a deficit position at the end of any contract year, DDS may reallocate surplus funds within the state system to supplement the Regional Center’s funding. Should a system-wide deficit occur, DDS is required to report to the governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. DDS’s recommendations are subsequently reviewed by the governor and the State Legislature, and a decision is made with regard to specific actions.

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2025

NOTE 8 – Contingencies (Continued)

Contingencies (Continued)

The Regional Center has elected to self-insure its unemployment insurance. The Regional Center is required to reimburse the state for benefits paid to its former employees. In addition, the Regional Center has elected to self-insure a portion of its employee benefits based on actual costs of dental services performed.

Legal Proceedings

The Regional Center is subject to various legal proceedings and claims arising in the ordinary course of operations. The Regional 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.

SUPPLEMENTARY INFORMATION

**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
San Diego – Imperial Counties
Developmental Services, 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 San Diego – Imperial Counties Developmental Services, Inc. (the Regional Center), which comprise the statement of financial position as of June 30, 2025, 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 10, 2026.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Regional Center's financial statements are free from material misstatement, we performed tests of its with certain provisions of laws, regulations, contracts, grant agreements, and 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 Regional Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Regional Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Long Beach, California
March 10, 2026

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

To the Board of Directors of
San Diego – Imperial Counties
Developmental Services, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited San Diego – Imperial Counties Developmental Services, Inc.'s (the Regional Center) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Regional Center's major federal programs for the year ended June 30, 2025. The Regional Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Regional Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2025.

Basis of Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Regional Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Regional Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Regional Center's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Regional Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Regional Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Regional Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Regional Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Regional Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.



Long Beach, California
March 10, 2026

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025

<u>Federal Grantor/ Pass-Through Grantor/ Grant Title</u>	<u>Federal Assistance Listing</u>	<u>Grant Identification Number</u>	<u>Grant Expenditures</u>
U.S. Department of Education, Office of Special Education and Rehabilitative Services Passed through State of California Department of Developmental Services Special Education – Grants for Infants and Families with Disabilities (Part C)	84.181A	H181A220037	<u>\$ 2,013,479</u>

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2025**

NOTE A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of San Diego - Imperial Counties Developmental Services, Inc. (the Regional Center) under programs of the federal government for the year ended June 30, 2025. The information in the 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 the Regional Center, it is not intended to, and does not, present the financial position, changes in net deficit without donor restrictions, or cash flows of the Regional Center.

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

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

SAN DIEGO - IMPERIAL COUNTIES DEVELOPMENTAL SERVICES, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

The independent auditors' report expresses an unmodified opinion on whether the financial statements of San Diego – Imperial Counties Developmental Services, Inc. (the Regional Center) were prepared in accordance with generally accepted accounting principles.

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 with Disabilities (Part C), CFDA #84.181A

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

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