

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL
SERVICES, INC. AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
San Gabriel/Pomona Valleys Developmental Services, Inc.
and Richard D. Davis Foundation for the
Developmentally Disabled, Inc.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of San Gabriel/Pomona Valleys Developmental Services, Inc. and Richard D. Davis Foundation for the Developmentally Disabled, Inc. (a California nonprofit corporation), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of the Richard D. Davis Foundation for the Developmentally Disabled, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of San Gabriel/Pomona Valleys Developmental Services, Inc. and Richard D. Davis Foundation 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 audit was conducted for the purpose of forming an opinion on the consolidated 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 consolidated financial statements. The accompanying consolidated statements of financial position and consolidated statements of activities are also presented for the purposes of additional analysis and are not required part of the consolidated 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated 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 January 11, 2017, on our consideration of San Gabriel/Pomona Valleys Developmental Services, 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 San Gabriel/Pomona Valleys Developmental Services, Inc.'s internal control over financial reporting and compliance.



Long Beach, California
January 11, 2017

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2016	2015
ASSETS		
Cash and cash equivalents	\$ 12,142,104	\$ 1,524,840
Cash – client trust funds	4,161,406	4,285,480
Contracts receivable – state of California (net of advances)	1,902,717	13,490,441
Receivable from Intermediate Care Facility vendors	3,184,711	1,732,217
Other receivables	123,659	145,005
Prepaid expenses	340,537	540,987
Due from state – accrued vacation and other leave benefits	1,215,732	1,271,632
Deposits	14,759	12,959
TOTAL ASSETS	\$ 23,085,625	\$ 23,003,561

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 18,341,333	\$ 18,091,234
Accrued salaries and payroll taxes	391,516	415,155
Retirement plan contribution payable	83,564	88,210
Accrued vacation and other leave benefits	1,215,732	1,271,632
Reserve for unemployment insurance	100,000	100,000
Unexpended client trust funds	2,806,677	2,904,040
	22,938,822	22,870,271
COMMITMENTS AND CONTINGENCIES (Notes 4 and 6)		
NET ASSETS		
Unrestricted	146,803	133,290
TOTAL LIABILITIES AND NET ASSETS	\$ 23,085,625	\$ 23,003,561

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

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

CONSOLIDATED STATEMENTS OF ACTIVITIES

	For the Year Ended June 30,	
	2016	2015
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contracts – state of California	\$ 199,825,083	\$ 188,641,325
Intermediate Care Facility supplemental services income	7,225,854	7,532,837
Contributions	13,180	5,988
Special fund-raising event, net of direct expenses of (\$25,930 - 2016; \$24,215 - 2015)	67,620	52,175
Interest income	10,018	8,920
Other income	43,692	41,971
Total Support and Revenue	207,185,447	196,283,216
EXPENSES		
Program Services:		
Direct client services	204,179,013	193,591,308
Supporting Services:		
General and administrative	2,992,921	2,687,836
Total Expenses	207,171,934	196,279,144
CHANGE IN NET ASSETS	13,513	4,072
NET ASSETS AT BEGINNING OF YEAR	133,290	129,218
NET ASSETS AT END OF YEAR	\$ 146,803	\$ 133,290

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

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Direct Client Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries	\$ 15,431,975	\$ 1,806,625	\$ 17,238,600
Employee benefits	3,750,961	417,808	4,168,769
Payroll taxes	<u>251,402</u>	<u>25,817</u>	<u>277,219</u>
Total Salaries and Related Expenses	19,434,338	2,250,250	21,684,588
Purchase of services:			
Residential care facilities	59,184,682		59,184,682
Day programs	65,361,920		65,361,920
Transportation	12,403,473		12,403,473
Other purchase of services	43,836,144		43,836,144
Equipment rental	41,540	4,822	46,362
Equipment maintenance	149,874	17,396	167,270
Facility rent	2,360,279	273,961	2,634,240
Communication	85,380	9,910	95,290
General office expenses	150,301	17,446	167,747
Postage	58,713	6,815	65,528
Printing	30,655	3,558	34,213
Insurance	170,264	19,763	190,027
Legal fees		100,653	100,653
Board of Directors' expenses		13,699	13,699
Equipment purchases	249,510	28,961	278,471
Contract consultants	25,262	101,863	127,125
Travel	253,979	33,442	287,421
General expenses	324,933	37,715	362,648
Accounting fees		52,909	52,909
Dues	57,766	6,705	64,471
Bank fees and interest expense		<u>13,053</u>	<u>13,053</u>
TOTAL EXPENSES	<u>\$ 204,179,013</u>	<u>\$ 2,992,921</u>	<u>\$ 207,171,934</u>

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

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Direct Client Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries	\$ 15,288,041	\$ 1,625,625	\$ 16,913,666
Employee benefits	3,407,156	330,913	3,738,069
Payroll taxes	<u>252,232</u>	<u>23,205</u>	<u>275,437</u>
Total Salaries and Related Expenses	18,947,429	1,979,743	20,927,172
Purchase of services:			
Residential care facilities	55,868,063		55,868,063
Day programs	60,703,875		60,703,875
Transportation	11,632,402		11,632,402
Other purchase of services	42,480,537		42,480,537
Equipment rental	36,752	3,858	40,610
Equipment maintenance	111,537	11,708	123,245
Facility rent	2,382,725	250,120	2,632,845
Communication	66,258	6,955	73,213
General office expenses	116,153	12,193	128,346
Postage	111,001	11,652	122,653
Printing	19,401	2,037	21,438
Insurance	164,208	17,237	181,445
Legal fees		110,736	110,736
Board of Directors' expenses		11,945	11,945
Equipment purchases	315,627	33,132	348,759
Contract consultants	63,659	107,913	171,572
Travel	238,890	24,518	263,408
General expenses	276,314	29,005	305,319
Accounting fees		60,974	60,974
Dues	56,477	5,928	62,405
Bank fees and interest expense		<u>8,182</u>	<u>8,182</u>
TOTAL EXPENSES	<u>\$ 193,591,308</u>	<u>\$ 2,687,836</u>	<u>\$ 196,279,144</u>

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

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended	
	June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 13,513	\$ 4,072
Adjustments to reconcile change in net assets to net cash from operating activities:		
(Increase) decrease in:		
Cash – client trust funds	124,074	(701,692)
Contracts receivable – state of California	11,587,724	(6,428,772)
Receivable from Intermediate Care Facility vendors	(1,452,494)	853,365
Other receivables	21,346	25,885
Prepaid expenses	200,450	(74,328)
Due from state - accrued vacation and other leave benefits	55,900	86,193
Deposits	(1,800)	(500)
Increase (decrease) in:		
Accounts payable	250,099	1,395,813
Accrued salaries and payroll taxes	(23,639)	(322,744)
Retirement plan contribution payable	(4,646)	(6,611)
Accrued vacation and other leave benefits	(55,900)	(86,193)
Unexpended client trust funds	(97,363)	693,277
Net Cash Provided By (Used In) Operating Activities	<u>10,617,264</u>	<u>(4,562,235)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,617,264	(4,562,235)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,524,840</u>	<u>6,087,075</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 12,142,104</u>	<u>\$ 1,524,840</u>

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

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 – Organization and Summary of Significant Accounting Policies

Organization

San Gabriel/Pomona Valleys Developmental Services, Inc. (the Center) was incorporated on April 14, 1986 as a California nonprofit corporation. 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, under the name San Gabriel/Pomona Regional Center, provides services for persons with developmental disabilities and their families. Services include, but are not limited to, assessment, advocacy, service coordination, education, training, communication, resource development, and prevention services. The geographical area served includes the Los Angeles County health districts of Foothill, El Monte, and Pomona.

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 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 the developmentally disabled and their families. Under the terms of the contract, funded expenditures are not to exceed \$203,951,283 for the 2015-2016 contract year and \$190,625,795 for the 2014-2015 contract year. Actual net expenditures under the regional center contract for the 2015-2016 contract year was \$197,998,389 and \$188,661,451 for the 2014-2015 contract year as of June 30, 2016.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 – Organization and Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Consolidation

The consolidated financial statements 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 the qualifying expense is incurred.

The consolidated financial statements include the financial statements of San Gabriel/Pomona Valleys Developmental Services, Inc. and Richard D. Davis Foundation for the Developmentally Disabled, Inc. (Foundation), hereafter collectively referred to as the Organization. Any intercompany transactions and accounts are eliminated in the accompanying consolidated financial statements.

The Foundation is a separately incorporated, nonprofit organization in which San Gabriel/Pomona Valleys Developmental Services, Inc. is the sole member. The Foundation was formed for the primary purpose of providing financial support to developmentally disabled individuals for whom funds are not available through the regional center system or categorically not within the funding policies of the San Gabriel/Pomona Regional Center. In regards to its financial grants program, the recipients and their families are clients of the San Gabriel/Pomona Regional Center. The Foundation's activities are primarily funded by donations and fund-raising events.

Financial Statement Presentation

The Organization 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 Foundation 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 Organization 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 – Organization and Summary of Significant Accounting Policies (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, the Organization had no temporarily or permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support 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.

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 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 statement of activities as net assets released from restrictions. Permanently restricted contributions and net assets have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
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FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 – Organization and Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing the consolidated 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 consolidated financial statements.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, the Organization considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2016 and throughout the year, the Organization has maintained cash balances in its bank in excess of federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Contracts Receivable – State of California

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

Receivables 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 – Organization and Summary of Significant Accounting Policies (Continued)

Receivables from Intermediate Care Facility Vendors (Continued)

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 expense when incurred. For the years ended June 30, 2016 and 2015, equipment purchases totaled \$278,471 and \$348,759, respectively.

Accrued Vacation and Other Leave Benefits

The Organization has accrued a liability for vacation and other leave benefits earned. However, such benefits are reimbursed under the state contract only when actually paid. The Organization has also recorded a receivable from the state for the accrued leave benefits to reflect the future reimbursement of such benefits.

Allocation of Expenses

The consolidated statements of functional expenses allocate expenses for all funds to the program and supporting service categories based on a direct cost basis for purchase of services, salaries, and related expenses. Operating expenses are allocated based on a percentage of salaries and related expenses per category to total salaries and related expenses, except for certain expenses that are designated as program or supporting services.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 – Organization and Summary of Significant Accounting Policies (Continued)

Income Taxes

The Organization 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 (IRC) and Section 23701(d) of the Revenue and Taxation Code.

The Organization 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 Organization is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California purposes is generally three and four years, respectively.

Subsequent Events

The Organization's management has evaluated subsequent events from the consolidated statement of financial position date through January 11, 2017, the date the consolidated financial statements were available to be issued for the year ended June 30, 2016, and determined that there were no other items to disclose.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
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FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

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

The Center functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. These cash balances are segregated from the operating cash accounts of the Center and are restricted for client support. Since the Center is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying consolidated statements of activities. The following is a summary of client support and expenses not reported in the consolidated statements of activities:

	For the Year Ended June 30,	
	2016	2015
Support:		
Social Security and other client support	\$ 21,190,473	\$ 20,988,312
Disbursements:		
Residential Care	\$ 16,447,217	\$ 16,517,651
Other disbursements	4,743,256	4,470,661
	\$ 21,190,473	\$ 20,988,312

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

The Organization’s major source of revenue is from the state of California. Each fiscal year, the Organization 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 Organization or by applying the claims reimbursements against advances already made to the Organization.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 3 – Contracts Receivable/Contract Advances – State of California (Continued)

As of June 30, 2016 and 2015, the DDS had advanced the Organization \$35,590,721 and \$34,483,678, respectively, under the regional center contracts. For consolidated financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from DDS as follows:

	June 30,	
	2016	2015
Contracts receivable	\$ 37,493,438	\$ 47,974,119
Contract advances	<u>(35,590,721)</u>	<u>(34,483,678)</u>
Net contracts receivable	<u>\$ 1,902,717</u>	<u>\$ 13,490,441</u>

The Organization has renewed its contract for the fiscal year ending June 30, 2017. The contract provides for initial funding of \$236,593,264.

NOTE 4 – Employee Benefit Plans

Effective July 1, 2004, the Center adopted an Internal Revenue Code (IRC) §401(a) retirement benefit savings plan (the 401(a) Plan). All employees are required to enter the 401(a) Plan immediately upon employment. Contributions to the 401(a) Plan are based on a percentage of each participant’s compensation. Employee contributions are not permitted in the 401(a) Plan.

The Center contributes to an IRC §403(b) retirement plan (the 403(b) Plan) for all eligible employees. All employees are eligible to enter the 403(b) Plan immediately upon employment. Participants can contribute up to the federal maximum limit. The Center is not required to match a participant’s contribution. The Center may make discretionary contributions to the 403(b) Plan allocated in direct proportion to the participant’s pay, up to a set percentage of the participant’s salary. Loans are permitted, subject to the terms of the 403(b) Plan document and applicant contract.

A deferred compensation plan qualified under IRC §457(b) was approved and implemented as of February 1, 2002. All employees may contribute up to the maximum defined by law. This plan has no provisions for employer contributions.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 4 – Employee Benefit Plans (Continued)

The total employer retirement expense for the years ended June 30, 2016 and 2015 was \$2,160,142 and \$1,861,934, respectively.

NOTE 5 – Short-Term Borrowings

The Organization has a revolving line of credit with a bank whereby it could borrow up to \$23,000,000 until June 30, 2016, and then up to \$38,000,000 until the earlier date of October 1, 2016 or the effective date of a state of California budget with respect to the State General Fund for the fiscal year commencing July 1, 2016, then \$23,000,000 until the maturity date of June 30, 2017. Interest is payable at the greater of 2%, or 1% below the bank's prime rate, with an effective rate of 2.5% as of June 30, 2016. There was no balance outstanding as of June 30, 2016 and 2015.

NOTE 6 – Commitments and Contingencies

Operating Leases

The Organization is obligated under an operating lease agreement for its office facilities, expiring February 2024, with two options to renew for five years each. The Organization is required to pay for taxes, utilities, maintenance, and insurance on the premises.

Future minimum facilities lease commitments are as follows:

Years ending June 30,	
2017	\$ 2,628,000
2018	2,628,000
2019	2,628,000
2020	2,628,000
2021	2,628,000
Thereafter	<u>7,008,000</u>
	<u>\$ 20,148,000</u>

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 6 – Commitments and Contingencies (Continued)

Operating Leases (Continued)

Total facilities and office equipment rental expense for the years ended June 30, 2016 and 2015 totaled \$2,680,602 and \$2,673,455, respectively.

Contingencies

Funding

In accordance with the terms of the DDS contract, an audit may be performed by an authorized DDS representative. Should such audit disclose any unallowable costs, the Center may be liable to 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 consolidated financial statements at June 30, 2016 and 2015, and for the years then ended.

The Organization is dependent on continued funding provided by DDS to operate and provide services for its clients. The Center's contract with DDS provides funding for services under the Lanterman Act. In the event that the DDS determines that the Center has insufficient funds to meet its contractual obligations, the DDS shall make best efforts to secure additional funds and/or provide the Center with regulatory and statutory relief.

Unemployment Insurance

The Organization 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 for benefits paid to its former employees. At June 30, 2016 and 2015, the Organization had \$100,000 in a reserve savings account to pay for any potential unemployment claims.

Legal Proceedings

The Organization is subject to various legal proceedings and claims arising in the ordinary course of its business. While the ultimate outcome of these matters is difficult to predict, management believes that the ultimate resolution of these matters will not have a material adverse effect on the Organization's financial position or activities.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**SUPPLEMENTAL INFORMATION
SCHEDULE OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016**

	Center	Foundation	Consolidated Balance
ASSETS			
Cash and cash equivalents	\$ 11,995,301	\$ 146,803	\$ 12,142,104
Cash – client trust funds	4,161,406		4,161,406
Contracts receivable – state of California Receivable from Intermediate Care	1,902,717		1,902,717
Facility vendors	3,184,711		3,184,711
Other receivables	123,659		123,659
Prepaid expenses	340,537		340,537
Due from state - accrued vacation and other leave benefits	1,215,732		1,215,732
Deposits	14,759		14,759
TOTAL ASSETS	\$ 22,938,822	\$ 146,803	\$ 23,085,625
LIABILITIES			
Accounts payable	\$ 18,341,333		\$ 18,341,333
Accrued salaries and payroll taxes	391,516		391,516
Retirement plan contribution payable	83,564		83,564
Accrued vacation and other leave benefits	1,215,732		1,215,732
Reserve for unemployment insurance	100,000		100,000
Unexpended client trust funds	2,806,677		2,806,677
	22,938,822		22,938,822
NET ASSETS			
Unrestricted	None	\$ 146,803	146,803
TOTAL LIABILITIES AND NET ASSETS	\$ 22,938,822	\$ 146,803	\$ 23,085,625

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**SUPPLEMENTAL INFORMATION
SCHEDULE OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015**

	Center	Foundation	Consolidated Balance
ASSETS			
Cash and cash equivalents	\$ 1,391,550	\$ 133,290	\$ 1,524,840
Cash – client trust funds	4,285,480		4,285,480
Contracts receivable – state of California Receivable from Intermediate Care	13,490,441		13,490,441
Facility vendors	1,732,217		1,732,217
Other receivables	145,005		145,005
Prepaid expenses	540,987		540,987
Due from state - accrued vacation and other leave benefits	1,271,632		1,271,632
Deposits	12,959		12,959
TOTAL ASSETS	\$ 22,870,271	\$ 133,290	\$ 23,003,561
LIABILITIES			
Accounts payable	\$ 18,091,234		\$ 18,091,234
Accrued salaries and payroll taxes	415,155		415,155
Retirement plan contribution payable	88,210		88,210
Accrued vacation and other leave benefits	1,271,632		1,271,632
Reserve for unemployment insurance	100,000		100,000
Unexpended client trust funds	2,904,040		2,904,040
	22,870,271		22,870,271
NET ASSETS			
Unrestricted	None	\$ 133,290	133,290
TOTAL LIABILITIES AND NET ASSETS	\$ 22,870,271	\$ 133,290	\$ 23,003,561

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**SUPPLEMENTAL INFORMATION
SCHEDULE OF CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	Center	Foundation	Consolidated Balance
CHANGE IN UNRESTRICTED NET ASSETS			
SUPPORT AND REVENUE			
Contracts – state of California	\$ 199,825,083		\$ 199,825,083
Intermediate Care Facility supplemental services income	7,225,854		7,225,854
Contributions		\$ 13,180	13,180
Special fund-raising event, net		67,620	67,620
Interest income	9,943	75	10,018
Other income	43,692		43,692
Total Support and Revenue	207,104,572	80,875	207,185,447
EXPENSES			
Program Services:			
Direct client services	204,116,011	63,002	204,179,013
Supporting Services:			
General and administrative	2,988,561	4,360	2,992,921
Total Expenses	207,104,572	67,362	207,171,934
CHANGE IN NET ASSETS	None	13,513	13,513
NET ASSETS AT BEGINNING OF YEAR	None	133,290	133,290
NET ASSETS AT END OF YEAR	None	\$ 146,803	\$ 146,803

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**SUPPLEMENTAL INFORMATION
SCHEDULE OF CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

	Center	Foundation	Consolidated Balance
CHANGE IN UNRESTRICTED NET ASSETS			
SUPPORT AND REVENUE			
Contracts – state of California	\$ 188,641,325		\$ 188,641,325
Intermediate Care Facility supplemental services income	7,532,837		7,532,837
Contributions		\$ 5,988	5,988
Special fund-raising event, net		52,175	52,175
Interest income	8,848	72	8,920
Other income	41,971		41,971
Total Support and Revenue	196,224,981	58,235	196,283,216
EXPENSES			
Program Services:			
Direct client services	193,541,808	49,500	193,591,308
Supporting Services:			
General and administrative	2,683,173	4,663	2,687,836
Total Expenses	196,224,981	54,163	196,279,144
CHANGE IN NET ASSETS	None	4,072	4,072
NET ASSETS AT BEGINNING OF YEAR	None	129,218	129,218
NET ASSETS AT END OF YEAR	None	\$ 133,290	\$ 133,290

SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.

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

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Grant Expenditures</u>
U.S. Department of Education Passed through State of California Department of Developmental Services			
Special Education - Grants for Infants and Families	84.181	H181A150037	\$ 2,094,710
U.S. Corporation for National Community Service Passed through State of California Department of Developmental Services			
Foster Grandparent Program	94.011	13GXPCA001	<u>194,484</u>
			<u>\$ 2,289,194</u>

See accompanying notes to schedule of expenditures of federal awards.

SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, 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 San Gabriel/Pomona Valleys Developmental Services, 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 San Gabriel/Pomona Valleys Developmental Services, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of San Gabriel/Pomona Valleys Developmental Services, 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

San Gabriel/Pomona Valleys Developmental Services, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**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 Gabriel/Pomona Valleys Developmental Services, Inc.

We have audited the consolidated financial statements of San Gabriel/Pomona Valleys Developmental Services, Inc. (a California nonprofit corporation), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 11, 2017. We conducted our audit 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 Richard D. Davis Foundation for the Developmentally Disabled, Inc. were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Richard D. Davis Foundation for the Developmental Disabled, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered San Gabriel/Pomona Valleys Developmental Services, 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Gabriel/Pomona Valleys Developmental Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of San Gabriel/Pomona Valleys Developmental Services, 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 consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of a 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 San Gabriel/Pomona Valleys Developmental Services, Inc.'s consolidated 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 consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Long Beach, California
January 11, 2017

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
San Gabriel/Pomona Valleys Developmental Services, Inc.

Report on Compliance for Each Major Federal Program

We have audited San Gabriel/Pomona Valleys Developmental Services, 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 San Gabriel/Pomona Valleys Developmental Services, Inc.'s major federal programs for the year ended June 30, 2016. San Gabriel/Pomona Valleys Developmental Services, 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 San Gabriel/Pomona Valleys Developmental Services, 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative 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 San Gabriel/Pomona Valleys Developmental Services, 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 San Gabriel/Pomona Valleys Developmental Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, San Gabriel/Pomona Valleys Developmental Services, 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 years ended June 30, 2016.

Report on Internal Control over Compliance

Management of San Gabriel/Pomona Valleys Developmental Services, 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 San Gabriel/Pomona Valleys Developmental Services, 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 San Gabriel/Pomona Valleys Developmental Services, 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.

Winder, Inc.

Long Beach, California
January 11, 2017

SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, 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 consolidated 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