



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

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS, OTHER  
FINANCIAL INFORMATION AND REPORTS REQUIRED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND  
OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133**

Years Ended June 30, 2014 and 2013

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## **INDEPENDENT AUDITOR'S REPORT**

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

### ***Report on the Financial Statements***

We have audited the accompanying consolidated financial statements of San Gabriel/Pomona Valleys Developmental Services, Inc. (the Center) and Richard D. Davis Foundation for the Developmentally Disabled, Inc. (the Foundation), herein collectively referred to as the Organization, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, 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 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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.

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Supplementary and Other Information***

Our audits were 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 Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying consolidating statement of financial position and consolidating statement of activities as of and for the year ended June 30, 2014, are also presented for purposes of additional analysis and are not a 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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 14, 2015, on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Lautze & Lautze

San Francisco, California  
January 14, 2015

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

	June 30,	
	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,087,075	\$ 1,218,313
Cash - client trust funds	3,583,786	3,490,976
Investment	-	60,722
Contract receivable	47,788,265	37,420,398
Prepaid expenses	466,659	680,931
Receivable from Intermediate Care Facilities - Retro	11,461	241
Receivable from Intermediate Care Facilities - Go Forward	2,574,121	2,681,889
Other receivables	170,890	79,393
Deferred costs for accrued vacation and other leave benefits	1,357,825	1,446,972
Deposits	12,459	117,238
Total assets	\$ 62,052,541	\$ 47,197,073
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 16,716,718	\$ 15,791,755
Accrued salaries and payroll taxes	832,720	730,593
Contract advance	40,705,299	26,841,282
Accrued vacation and other leave benefits	1,357,825	1,446,972
Reserve for unemployment insurance	100,000	100,000
Unexpended client trust funds	2,210,762	2,178,930
Total liabilities	61,923,324	47,089,532
 Commitments and contingencies		
Unrestricted net assets	129,217	107,541
Total liabilities and net assets	\$ 62,052,541	\$ 47,197,073

See notes to consolidated financial statements.

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

	<u>Years Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Revenue and support:		
Federal awards	\$ 90,580,871	\$ 84,478,976
Grants	85,514,859	81,558,821
Intermediate Care Facilities SPA income	7,037,181	6,160,494
Contributions	5,631	7,015
Special fundraising event, net of direct expenses of \$28,305 (\$20,211 in 2013)	62,440	42,454
Interest income	10,113	19,551
Other income	176,099	220,178
	<u>183,387,194</u>	<u>172,487,489</u>
Expenses:		
Program services:		
Direct client services	177,555,412	167,497,919
Supporting services:		
General and administrative	5,810,106	4,982,956
	<u>183,365,518</u>	<u>172,480,875</u>
Change in net assets	21,676	6,614
Unrestricted net assets:		
Beginning of year	<u>107,541</u>	<u>100,927</u>
End of year	<u>\$ 129,217</u>	<u>\$ 107,541</u>

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.  
AND RICHARD D. DAVIS FOUNDATION FOR THE DEVELOPMENTALLY DISABLED, INC.  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2014**

	Program Services	Supporting Services	Total
	Direct Client Services	General and Administrative	Expenses
Salaries and related expenses:			
Salaries	\$ 14,738,344	\$ 1,555,446	\$ 16,293,790
Employee health and retirement benefits	3,198,991	324,798	3,523,789
Payroll taxes	212,493	21,951	234,444
Total salaries and related expenses	18,149,828	1,902,195	20,052,023
Purchase of services:			
Day programs	50,909,743	-	50,909,743
Residential care facilities	48,677,539	-	48,677,539
Other purchased services	48,019,040	-	48,019,040
Transportation	11,553,392	-	11,553,392
Facility rent and maintenance	-	2,353,731	2,353,731
Equipment purchases	-	347,158	347,158
Travel	233,655	19,102	252,757
Contract consultants	12,215	164,353	176,568
Insurance	-	163,995	163,995
Communication and postage	-	163,030	163,030
Data processing	-	148,078	148,078
General office expenses	-	113,741	113,741
Legal fees	-	111,710	111,710
Accounting fees	-	64,391	64,391
Dues	-	61,762	61,762
General expenses	-	59,478	59,478
Equipment maintenance	-	57,573	57,573
Equipment rental	-	46,081	46,081
Printing	-	19,673	19,673
Board of Directors' expenses	-	12,766	12,766
Bank fees and interest expense	-	1,289	1,289
	<u>\$ 177,555,412</u>	<u>\$ 5,810,106</u>	<u>\$ 183,365,518</u>
	<u>97%</u>	<u>3%</u>	<u>100%</u>

See notes to 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  
Year Ended June 30, 2013**

	<u>Program Services</u>	<u>Supporting Services</u>	
	Direct Client Services	General and Administrative	Total Expenses
Salaries and related expenses:			
Salaries	\$ 14,363,928	\$ 1,460,896	\$ 15,824,824
Employee health and retirement benefits	2,943,271	289,723	3,232,994
Payroll taxes	208,912	20,903	229,815
	<u>17,516,111</u>	<u>1,771,522</u>	<u>19,287,633</u>
Purchase of services:			
Day programs	47,664,950	-	47,664,950
Other purchased services	47,319,836	-	47,319,836
Residential care facilities	43,434,835	-	43,434,835
Transportation	11,348,379	-	11,348,379
Facility rent and maintenance	-	1,963,886	1,963,886
Travel	196,308	20,493	216,801
Data processing	-	209,685	209,685
Equipment purchases	-	158,350	158,350
Communication and postage	-	142,644	142,644
Contract consultants	17,500	124,722	142,222
Insurance	-	136,663	136,663
General office expenses	-	89,054	89,054
Dues	-	74,697	74,697
Accounting fees	-	61,700	61,700
Legal fees	-	50,443	50,443
General expenses	-	48,157	48,157
Equipment rental	-	47,789	47,789
Equipment maintenance	-	35,834	35,834
Printing	-	19,672	19,672
Bank fees and interest expense	-	15,237	15,237
Board of Directors' expenses	-	12,408	12,408
	<u>\$ 167,497,919</u>	<u>\$ 4,982,956</u>	<u>\$ 172,480,875</u>
	<u>97%</u>	<u>3%</u>	<u>100%</u>

See notes to 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

	Years Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 21,676	\$ 6,614
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Increase) decrease in assets:		
Contract receivable	(10,367,867)	9,882,909
Prepaid expenses	214,272	(431,240)
Receivable from Intermediate Care Facilities - Retro	(11,220)	590,293
Receivable from Intermediate Care Facilities - Go Forward	107,768	(2,681,889)
Other receivables	(91,497)	20,138
Deposits	104,779	-
Increase (decrease) in liabilities:		
Accounts payable	924,963	(105,510)
Accrued salaries and payroll taxes	102,127	81,430
Payable to Department of Developmental Services	-	(586,756)
Unexpended client trust funds	31,832	(575,314)
Net cash provided (used) by operating activities	(8,963,167)	6,200,675
Cash flows from investing activities:		
Proceeds from investments	60,722	-
Purchase of investments	-	(272)
Net cash provided (used) by investing activities	60,722	(272)
Cash flows from financing activities:		
Proceeds from line of credit	1,867,193	-
Principal payments on line of credit	(1,867,193)	-
Proceeds from contract advance	40,705,299	37,176,361
Payment of contract advance	(26,841,282)	(43,389,531)
Net cash provided (used) by financing activities	13,864,017	(6,213,170)
Net increase (decrease) in cash and cash equivalents	4,961,572	(12,767)
Cash and cash equivalents:		
Beginning of year	4,709,289	4,722,056
End of year	\$ 9,670,861	\$ 4,709,289
Cash and cash equivalents	\$ 6,087,075	\$ 1,218,313
Cash - client trust funds	3,583,786	3,490,976
	\$ 9,670,861	\$ 4,709,289
Cash paid for interest	\$ 117	\$ -

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

June 30, 2014 and 2013

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Purpose and Organization**

**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 Lanterman Act) of the Welfare and Institutions Code of the State of California. In accordance with the Lanterman 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.

**Governance**

The Lanterman Act includes governance provisions regarding the composition of the Center's Board of Directors (the Board). The Lanterman 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 percent of the governing Board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25 percent 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 Center purchases client services, shall serve as a member of the Center's Board. To comply with the Lanterman Act, the Center's Board 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.

**Mission Statement**

The Center's mission statement is as follows:

The Center works in partnership with individuals with developmental disabilities, their families and the community, to promote choice, empowerment, independence, and full integration into community life. The Center represents the community in supporting and advancing the intent and entitlement of the Lanterman Developmental Disabilities Services Act through services such as assessment, advocacy, service coordination, education, training, communication, resource development and prevention services.

Richard D. Davis Foundation for the Developmentally Disabled, Inc. (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 are categorically not within the funding policies of the Center. In regards to the Foundation's financial grants program, the recipients and their families are clients of the Center. The Foundation's activities are primarily funded by private donations and fundraising events.

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

June 30, 2014 and 2013

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Principles of Consolidation**

The Foundation is a separately incorporated, nonprofit organization in which the Center is the sole member.

The accompanying consolidated financial statements include the financial statements of the Center and the Foundation, hereafter collectively referred to as the Organization. Intercompany transactions and accounts are eliminated in the accompanying consolidated financial statements.

**State of California Contract**

The Center operates under an annual cost-reimbursement contract with the Department of Developmental Services (DDS) of the State of California under the Lanterman Act. Maximum expenditures are limited to the contract allocation plus Intermediate Care Facility State Plan Amendment (ICF SPA) income, ICF SPA administration fee, and interest earned. The Center is required to have DDS approval for certain expenses. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual issued by DDS. In the event of termination or nonrenewal of the contract, the State of California maintains the right to assume control of the Center's operation and the obligation of its liabilities.

Under the terms of these contracts, funded expenditures are not to exceed \$175,548,289, \$165,992,059, and \$164,013,865 for the 2013/14, 2012/13, and 2011/12 contract years, respectively, and are subject to budget amendments. As of June 30, 2014, actual net expenditures under the 2013/14, 2012/13, and 2011/12 contracts were \$173,624,371, \$165,326,481, and \$163,451,316, respectively.

**Basis of Accounting**

The Organization prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

**Basis of Presentation**

**Classification of Net Assets**

U.S. GAAP requires that the Organization 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 Organization are classified and reported as described below:

*Unrestricted:* Those net assets and activities which represent expendable funds for operations related to the DDS contract.

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

June 30, 2014 and 2013

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation** (Continued)

**Classification of Net Assets** (Continued)

*Temporarily Restricted:* Those net assets and activities which are donor-restricted for (a) support of specific operating activities; or (b) use in a specified future period.

*Permanently Restricted:* Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

As of June 30, 2014 and 2013, and for the years then ended, the Organization did not have any temporarily or permanently restricted net assets or activities.

**Unrestricted Net Assets**

The unrestricted net asset group is comprised of the Operating Fund and Client Trust Funds.

*Operating Fund:*

These accounts are used to record primary activities of the Center which are carried out under the DDS contract. These accounts also record the activities of the Community Placement Plan and federally-funded programs.

*Client Trust Fund:*

The Center serves as representative payee for a portion of its clients. In this fiduciary capacity, it receives social security benefits and other sources of income and makes payments on behalf of certain developmentally disabled clients who are deemed unable to administer the funds themselves. Client trust transactions are not considered revenue or expenses of the Center. The cash that is received and outstanding receivables, net of interfund liabilities, are reported as an asset and a liability, *unexpended client trust funds*, until it is distributed.

**Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

June 30, 2014 and 2013

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

The Organization considers all financial instruments with a maturity of three months or less, when purchased, to be cash equivalents.

**Contract and Other Receivables**

The majority of the Center's receivables represent or relate to the cost-reimbursement contract with DDS. Management believes that the receivables are fully collectible and, therefore, has not provided an allowance for doubtful accounts.

**State Equipment**

Pursuant to the terms of the DDS contract, equipment purchases become the property of the State of California and, accordingly, are charged as expenses when incurred. The Center is required to track acquisitions of furniture and equipment with a cost value in excess of \$5,000 and with an estimated useful life beyond one year. For the years ended June 30, 2014 and 2013, equipment purchases in state equipment totaled approximately \$195,000 and \$88,000, respectively. The aggregated tracked state equipment at June 30, 2014 and 2013, totaled \$1,126,386 and \$980,304, respectively.

**Accrued Vacation and Other Leave Benefits**

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

**Revenue Recognition**

Revenue is recognized in the year the claim is filed with DDS. Depending on the date of service, claims are classified and charged to the appropriate contract as follows:

- Current year
- Prior year
- Second prior year

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

June 30, 2014 and 2013

1. **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions**

Contributions are recognized as revenue when they are received or unconditionally promised. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as temporarily restricted or permanently restricted support, depending upon the type of restriction.

The satisfaction of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. This occurs by increasing one class of net assets and decreasing another in the consolidated statements of activities. These transactions are reported as *net assets released from restrictions* and are reported separately from other transactions.

**Federal Grants**

The Center is a sub-recipient to DDS with regard to the following grants:

**U.S. Department of Health and Human Services**

The Medicaid Waiver grant provides funding for a broad range of medical assistance, which includes home and community based services, to certain persons of need as authorized by Title XIX of the Social Security Act of 1965. This grant also funds Targeted Case Management.

**U.S. Department of Education**

The Special Education Grants for Infants and Families with Disabilities provides funding for early intervention services for infants and toddlers, through 36 months of age, as authorized by Public Law 102-119.

**Income Taxes**

The Center and the Foundation are qualified organizations exempt from federal income taxes and state franchise taxes under §501(c)(3) of the Internal Revenue Code (IRC) and §23701d of the California Revenue and Taxation Code, respectively. Accordingly, they are exempt from federal and California income taxes and are not liable for federal unemployment taxes.

The Center and the Foundation have adopted the accounting standard on accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and requires the affirmative evaluation that is more-likely-than-not, based on the technical merits of a tax position, that an organization is entitled to economic benefits resulting from tax positions taken in income tax returns. For tax-exempt entities, favorable tax status itself is deemed to be an uncertainty, as events could potentially occur to jeopardize their tax-exempt status. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the consolidated financial statements.

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

June 30, 2014 and 2013

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes (Continued)**

The Center and the Foundation's evaluation on June 30, 2014 revealed no tax positions that would have a material impact on the consolidated financial statements. The 2010 through 2013 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2009 through 2013 tax years remain subject to examination by the California Franchise Tax Board. The Center and the Foundation do not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the consolidated financial statements.

**Concentrations of Risk**

Financial instruments, which potentially subject the Organization to a concentration of credit risk, principally consist of cash and cash equivalents, contract receivables, and receivables from vendors. The Center invests cash in interest bearing accounts, which may at times, exceed the federally-insured limit. Through its contract with DDS, the Center is reimbursed for its expenses. The ability of DDS to honor its obligations and to continue funding is dependent upon the overall economic well-being of the State of California. Although the State of California is experiencing budgetary issues, the Center has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk related to concentrations.

**Functional Allocation of Expenses**

The consolidated statements of activities and functional expenses allocate expenses for all funds to the program and supporting service categories based on a direct cost basis for purchase of services and 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 allocated on a direct cost basis.

**Recent Accounting Pronouncements**

The Financial Accounting Standards Board has issued the following Accounting Standards Update (ASU) that will be applicable in future years.

ASU 2014-09, Revenue from Contracts with Customers (Topic 606), and its international counterpart, IFRS 15, provide sweeping new, globally applicable converged guidance concerning recognition and measurement of revenue. In addition, significant additional disclosures are required about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, and will replace virtually all existing revenue guidance, including most industry-specific guidance. ASU No 2014-09 is applicable for annual reporting periods beginning after December 15, 2017. Management has not evaluated the impact of this new guidance.

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

June 30, 2014 and 2013

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reclassifications**

Certain amounts on the 2013 financial statements have been reclassified to conform to the 2014 presentation. These reclassifications have no effect on the previously reported net assets or change in net assets.

**2. FAIR VALUE MEASUREMENTS**

The Organization's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy that gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

*Level 1* – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

*Level 2* – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

*Level 3* – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following is a description of the valuation methodology used for assets measured at fair value.

*Certificates of deposit:* Certificates of deposit are valued at cost plus interest earned and are included in Level 2 of the fair value hierarchy.

At June 30, 2013, all of the Organization's investments consisted of certificates of deposit and were classified as Level 2. At the beginning of the year ended June 30, 2014, the Organization transferred all the funds held in certificates of deposit to cash.



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

June 30, 2014 and 2013

**3. CASH - CLIENT TRUST FUNDS**

The Center functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of the Center's clients. The following is a summary of operating cash activity:

	2014	2013
Social Security and other client support received	\$ 20,707,546	\$ 20,393,528
Residential care and other disbursements	20,639,584	20,246,755
Support over disbursements	67,962	146,773
Changes to reconcile support over disbursements to net cash provided (used) by support and cash activities:		
Increase (decrease) in amounts payable on behalf of clients	32,765	(722,097)
Increase in amounts due to the Center	(7,917)	(3,946)
Net cash provided (used) by support and cash activities	92,810	(579,270)
Cash at beginning of year	3,490,976	4,070,246
Cash at end of year	\$ 3,583,786	\$ 3,490,976

**4. CONTRACT RECEIVABLE**

Contract receivable consists of the following at June 30:

	2014	2013
Current year	\$ 46,857,235	\$ 36,508,536
Prior year	932,123	676,751
Second prior year	(1,093)	235,111
	\$ 47,788,265	\$ 37,420,398

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

June 30, 2014 and 2013

**5. INTERMEDIATE CARE FACILITIES - STATE PLAN AMENDMENT**

**Retroactive Activities**

During the year ended June 30, 2011, various legislative changes were made to the California Welfare and Institutions Code retroactive to July 1, 2007, making Intermediate Care Facility (ICF) providers responsible for providing day treatment and transportation services; and ultimately, making such services eligible for Federal Financial Participation.

Previously, such services provided to the residents were not reimbursable by Medicaid because the funds were not directly billed and received by the ICFs. The legislative changes allow for DDS to bill these services to Medicaid and capture federal funds.

Prior to the year ended June 30, 2012, the DDS directed the Center to prepare billings for these services on behalf of the ICFs for the period from July 1, 2007 to June 30, 2012. The billings included a 5.5% Quality Assurance fee for the State Department of Health Care Services (DHCS), a 1.5% administrative fee for the ICFs, and a 1.5% administration fee for the Center.

Prior to the year ended June 30, 2012, the regional centers paid the day and transportation providers and billed DDS and were reimbursed by DDS on a monthly basis. For the first five years of the ICF SPA implementation, the DDS paid the applicable amounts to the ICFs in arrears in quarterly batches. The ICFs were directed to remit to the Center the amount received less its administration fee and the Quality Assurance fee, which it must remit to DHCS. After the Center received the net payment from the ICFs, the Center was directed to remit the amount to the DDS, net of its administration fee. The DDS has instituted protocols should the ICFs not remit the net amounts due to the Center but those controls have been only partially successful.

The Center records a liability to DDS after it receives funds from the ICFs and has 30 days to pay monies to DDS once they are received. The payable to DDS is zero since the Center has paid all funds that were received from the ICFs to the DDS by June 30, 2014 and 2013. At June 30, 2014 DDS has funded approximately \$460,000 to ICFs for which the Center has not yet received.

The Center's activity related to retro funding was as follows as of June 30:

	<u>2014</u>	<u>2013</u>
Beginning receivable balance	\$ 241	\$ 606,565
Retro billings processed by DDS		
Ended June 30, 2010	1,949,948	-
Ended June 30, 2011	-	6,068,047
Ended June 30, 2012	463,953	-
Amount remitted by vendors	(2,402,681)	(5,886,550)
DDS offsets	-	(787,821)
	<u>                    </u>	<u>                    </u>
Total receivable from ICFs	<u>\$ 11,461</u>	<u>\$ 241</u>

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

June 30, 2014 and 2013

**5. INTERMEDIATE CARE FACILITIES - STATE PLAN AMENDMENT (CONTINUED)**

**Go-Forward Activities**

Effective July 1, 2012, DDS directed the Center to prepare billings for these services on behalf of the ICFs and submit separate state claim reports on behalf of the ICFs for these services after paying the day and transportation providers directly for their services. The Center's regular state claim to DDS does not include the amount paid for such services. Reimbursement for these services will be received from the ICFs. DDS pays to the ICFs the amount according to the claims prepared by the Center on behalf of 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.

The Center's activity related to go forward funding was as follows as of June 30:

	2014	2013
Beginning receivable balance	\$ 2,681,889	\$ -
Billing processed for year:		
Ended June 30, 2013	525,869	6,252,904
Ended June 30, 2014	5,950,107	-
Amount remitted by vendors	(6,583,744)	(3,571,015)
 Total receivable from ICFs	 \$ 2,574,121	 \$ 2,681,889

**6. LINE OF CREDIT**

The Center has an unsecured, revolving line of credit with City National Bank whereby it may borrow up to \$17,000,000 through June 30, 2014, then up to \$35,000,000 until the earlier date of October 1, 2014 or the effective date of a State of California budget with respect to the State General Fund for the fiscal year commencing July 1, 2014, then \$17,000,000 until the maturity date of June 30, 2015. Interest is payable monthly at the greater of 2.25% or the bank's prime rate less 1% per annum, 2.25% at June 30, 2014.

There was no outstanding balance on the line of credit at June 30, 2014 and 2013.

**7. CONTRACT ADVANCE**

The contract advance balance represents monies DDS advances to the Center at the beginning of each fiscal year to provide interest-free working capital. DDS uses its discretion in determining the balance on a month-to-month basis. If DDS so chooses, the advance can be paid by off-setting claim reimbursements partially or in full or require the Center to make a payment.

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

June 30, 2014 and 2013

**8. EMPLOYEE BENEFIT PLANS**

Effective July 1, 2004, the Center adopted an IRC §401(a) retirement benefit savings plan (the 401(a) Plan). All employees are required to enter the 401(a) Plan immediately upon employment. 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.

The total employer retirement expense for the years ended June 30, 2014 and 2013, was \$1,778,074 and \$1,674,928, respectively.

**9. OPERATING LEASES**

During the year ended June 30, 2013, the Center entered into a lease agreement for its new Pomona office space commencing from March 1, 2014 through February 29, 2024 with two options to renew for five years each. The Center is required to pay the state taxes, utilities (telephone and data only), maintenance, and insurance for the premises. The Center was obligated under various operating leases for its previous office space, which expired February 2014. In addition, the Center is obligated under multiple leases for equipment expiring through February 2016. All leases are operating leases. Rent expense for the years ended June 30, 2014 and 2013, was \$2,353,731 and \$1,963,886, respectively.

Future minimum lease payments under non-cancelable operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2014, are as follows:

2015	\$ 2,724,730
2016	2,654,877
2017	2,628,000
2018	2,628,000
2019	2,628,000
Thereafter	<u>12,264,000</u>
	<u>\$ 25,527,607</u>

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

June 30, 2014 and 2013

**10. COMMITMENTS AND CONTINGENCIES**

**Litigation**

The Center is currently a defendant in several litigious actions, in addition to threats of litigation arising out of the normal course of operations. The Center intends to vigorously defend its position. These matters have been referred to the Center's attorneys and/or insurance carriers. In management's opinion, a material unfavorable outcome is remote.

**Funding**

The majority of the Center's funding is provided under annual grants and contracts with federal and California agencies. If a significant reduction in the level of funding provided by these governmental agencies were to occur, it may have an effect on the Center's programs and activities.

The Center's contract with DDS provides funding for services under the Lanterman Act. In the event that the operations of the Center result in a deficit position at the end of the contract year, DDS may reallocate surplus funds within the State of California system to supplement the 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. The DDS recommendations are subsequently reviewed by the Governor and the Legislature and a decision is made with regard to specific actions, including the possible suspension of the entitlement.

The Center's revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies. In accordance with the terms of the DDS contract, an audit may be performed by an authorized DDS representative. Should such an audit disclose any unallowable costs, the Center may be liable to the State of California for reimbursement of such costs. In the opinion of the Center's management, the effect of any unallowable costs would be immaterial to the consolidated financial statements as of June 30, 2014 and 2013, and for the years then ended.

**Unemployment Insurance**

The Center has elected to finance its unemployment insurance using the prorated cost-of-benefits method. Under this method, the Center is required to reimburse the State of California for benefits paid to its former employees. At June 30, 2014 and 2013, the Organization had \$100,000 in a reserve savings account to pay for any potential unemployment claims.

**11. SUBSEQUENT EVENTS**

The Organization has evaluated all subsequent events through January 14, 2015, the date the consolidated financial statements were available to be issued.

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

**SUPPLEMENTARY FINANCIAL INFORMATION**

As of and for the Year Ended June 30, 2014

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

June 30, 2014

	<u>Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,958,795	\$ 128,280	\$ -	\$ 6,087,075
Cash - client trust funds	3,583,786	-	-	3,583,786
Contract receivable	47,788,265	-	-	47,788,265
Prepaid expenses	465,722	937	-	466,659
Receivable from Intermediate Care Facilities - Retro	11,461	-	-	11,461
Receivable from Intermediate Care Facilities - Go Forward	2,574,121	-	-	2,574,121
Other receivables	170,890	-	-	170,890
Deferred costs for accrued vacation and other leave benefits	1,357,825	-	-	1,357,825
Deposits	12,459	-	-	12,459
	<u>61,923,324</u>	<u>129,217</u>	<u>-</u>	<u>62,052,541</u>
Total assets	<u>\$ 61,923,324</u>	<u>\$ 129,217</u>	<u>\$ -</u>	<u>\$ 62,052,541</u>
<b>LIABILITIES AND NET ASSETS</b>				
Liabilities:				
Accounts payable	\$ 16,716,718	\$ -	\$ -	\$ 16,716,718
Accrued salaries and payroll taxes	832,720	-	-	832,720
Contract advance	40,705,299	-	-	40,705,299
Accrued vacation and other leave benefits	1,357,825	-	-	1,357,825
Reserve for unemployment insurance	100,000	-	-	100,000
Unexpended client trust funds	2,210,762	-	-	2,210,762
	<u>61,923,324</u>	<u>-</u>	<u>-</u>	<u>61,923,324</u>
Total liabilities	<u>61,923,324</u>	<u>-</u>	<u>-</u>	<u>61,923,324</u>
Unrestricted net assets	<u>-</u>	<u>129,217</u>	<u>-</u>	<u>129,217</u>
Total liabilities and net assets	<u>\$ 61,923,324</u>	<u>\$ 129,217</u>	<u>\$ -</u>	<u>\$ 62,052,541</u>

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

Year Ended June 30, 2014

	<u>Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Revenue and support:				
Federal awards	\$ 90,580,871	\$ -	\$ -	\$ 90,580,871
Grants	85,514,859	-	-	85,514,859
Intermediate Care Facilities SPA income	7,037,181	-	-	7,037,181
Contributions	-	5,631	-	5,631
Special fundraising event, net of direct expenses of \$28,305	-	62,440	-	62,440
Interest income	10,086	27	-	10,113
Other income	175,074	1,025	-	176,099
	<u>183,318,071</u>	<u>69,123</u>	<u>-</u>	<u>183,387,194</u>
Total revenue and support				
Expenses:				
Program services:				
Direct client services	177,515,035	40,377	-	177,555,412
Supporting services:				
General and administrative	<u>5,803,036</u>	<u>7,070</u>	<u>-</u>	<u>5,810,106</u>
	<u>183,318,071</u>	<u>47,447</u>	<u>-</u>	<u>183,365,518</u>
Total expenses				
Change in net assets	-	21,676	-	21,676
Unrestricted net assets:				
Beginning of year	<u>-</u>	<u>107,541</u>	<u>-</u>	<u>107,541</u>
End of year	<u>\$ -</u>	<u>\$ 129,217</u>	<u>\$ -</u>	<u>\$ 129,217</u>



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

Year Ended June 30, 2014

Federal Grantor/ Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Disbursements/ Expenditures
Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services passed-through the State of California Department of Developmental Services:			
■ Medical Assistance Program (Medicaid; Title XIX)	93.778	HD099018	\$ 81,360,165 *
■ Targeted Case Management	93.778	HD099018	<u>7,758,757</u> *
			89,118,922
Office of Special Education and Rehabilitative Services of the U.S. Department of Education passed-through the State of California Department of Developmental Services:			
■ Special Education - Grants for Infants and Families	84.181	H181A130135	<u>1,461,949</u>
			<u>\$ 90,580,871</u>

\* Major program

**Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.



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**INDEPENDENT AUDITOR'S 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  
San Gabriel/Pomona Valleys Developmental Services, Inc.  
and Richard D. Davis Foundation for the Developmentally Disabled, Inc.  
Pomona, California

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 consolidated financial statements of *San Gabriel/Pomona Valleys Developmental Services, Inc.* (the Center) and *Richard D. Davis Foundation for the Developmentally Disabled, Inc.* (the Foundation), herein collectively referred to as the Organization, which comprise the consolidated statement of financial position as of June 30, 2014, 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 14, 2015.

***Internal Control over Financial Reporting***

In planning and performing our audit of the consolidated financial statements, we considered the Center'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 the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Lautze & Lautze

San Francisco, California  
January 14, 2015



LAUTZE & LAUTZE  
CPAs & FINANCIAL ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors  
San Gabriel/Pomona Valleys Developmental Services, Inc.  
Pomona, California

***Report on Compliance for Each Major Federal Program***

We have audited *San Gabriel/Pomona Valleys Developmental Services, Inc.'s* (the Center's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2014. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center'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 the Center's compliance.

Board of Directors  
San Gabriel/Pomona Valleys Developmental Services, Inc.

***Opinion on Each Major Federal Program***

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

***Report on Internal Control over Compliance***

Management of the Center 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 the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Lautze & Lautze

San Francisco, California  
January 14, 2015

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2014

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 Year Ended June 30, 2014

**SECTION I - SUMMARY OF THE AUDITOR'S RESULTS**

- Auditor's report on consolidated financial statements: Unmodified.
- Internal control over financial reporting:
  - Material weaknesses identified: No.
  - Significant deficiencies identified that are not considered to be material weaknesses: None reported.
  - Noncompliance material to consolidated financial statements noted: No.
- Federal awards - internal control over major programs:
  - Auditor's report on compliance for major programs: Unmodified.
  - Material weaknesses identified: No.
  - Significant deficiencies identified that are not considered to be a material weakness: None reported.
  - Any audit findings identified that are required to be reported in accordance with Section 510(a) of Circular A-133: No.
  - Major programs:
 

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Medical Assistance Program (Medicaid; Title XIX)
93.778	Targeted Case Management
  - Dollar threshold used to distinguish between Type A and Type B programs: \$2,717,426.
  - Auditee qualifies as low-risk: Yes.

**SECTION II - FINANCIAL STATEMENT FINDINGS**

- None reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

- There were no current year findings or questioned costs.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.**  
**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
Year Ended June 30, 2014

**2013-1 DOCUMENTATION FOR MEDICAID WAIVER ELIGIBILITY**

**FEDERAL AWARD PROGRAM**

CFDA: 93.778  
Program: Medical Assistance Program (Medicaid; Title XIX)

**CONDITION**

One consumer file is missing the Consumer Choice Form.

**RECOMMENDATION**

The Center has a system in place to ensure that all of the required documents are prepared, signed and filed. Accordingly, we recommend that management continue training on file requirements and improve the monitoring and follow up of documentation missing from files.

**CURRENT STATUS**

This finding was resolved during the year ended June 30, 2014.