



**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, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

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 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, 2013 and 2012, 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.

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 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 auditors' 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.

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, 2013 and 2012, 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, 2013, 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. Such 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, such 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 31, 2014, 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 31, 2014

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

	June 30,	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 1,218,313	\$ 651,810
Cash - client trust funds	3,490,976	4,070,246
Investment	60,722	60,450
Contract receivable	37,420,398	47,303,307
Prepaid expenses	680,931	249,691
Receivable from Intermediate Care Facilities	2,698,161	606,565
Other receivables	79,393	99,531
Deferred costs for accrued vacation and other leave benefits	1,446,972	1,409,255
Deposits	117,238	117,238
Total assets	\$ 47,213,104	\$ 54,568,093
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 15,791,755	\$ 15,897,265
Accrued salaries and payroll taxes	730,593	649,163
Contract advance	26,841,282	33,054,452
Accrued vacation and other leave benefits	1,446,972	1,409,255
Reserve for unemployment insurance	100,000	100,000
Payable to Department of Developmental Services	16,031	602,787
Unexpended client trust funds	2,178,930	2,754,244
Total liabilities	47,105,563	54,467,166
Commitments and contingencies		
Unrestricted net assets	107,541	100,927
Total liabilities and net assets	\$ 47,213,104	\$ 54,568,093

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>2013</u>	<u>2012</u>
Revenue and support:		
Federal awards	\$ 84,478,976	\$ 73,584,744
Grants	87,719,315	90,268,466
Contributions	7,015	11,870
Special fundraising event, net of direct expenses of \$20,211 (\$18,103 in 2012)	42,454	29,537
Interest income	19,551	86,045
Other income	<u>220,178</u>	<u>140,859</u>
Total revenue and support	<u>172,487,489</u>	<u>164,121,521</u>
Expenses:		
Program services:		
Direct client services	167,497,919	159,121,683
Supporting services:		
General and administrative	<u>4,982,956</u>	<u>5,008,806</u>
Total expenses	<u>172,480,875</u>	<u>164,130,489</u>
Change in net assets	6,614	(8,968)
Unrestricted net assets:		
Beginning of year	<u>100,927</u>	<u>109,895</u>
End of year	<u>\$ 107,541</u>	<u>\$ 100,927</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, 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 STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012**

	<u>Program Services</u>	<u>Supporting Services</u>	
	Direct Client Services	General and Administrative	Total Expenses
Salaries and related expenses:			
Salaries	\$ 13,856,018	\$ 1,439,440	\$ 15,295,458
Employee health and retirement benefits	2,453,868	251,960	2,705,828
Payroll taxes	196,996	20,594	217,590
	<u>16,506,882</u>	<u>1,711,994</u>	<u>18,218,876</u>
Total salaries and related expenses			
Purchase of services:			
Other purchased services	47,269,022	-	47,269,022
Day programs	44,263,979	-	44,263,979
Residential care facilities	39,795,587	-	39,795,587
Transportation	11,026,151	-	11,026,151
Facility rent and maintenance	-	2,031,077	2,031,077
Travel	190,708	18,607	209,315
Equipment purchases	-	180,380	180,380
Data processing	-	154,534	154,534
Communication and postage	-	142,290	142,290
General office expenses	-	121,182	121,182
Insurance	-	120,893	120,893
General expenses	70,316	49,821	120,137
Legal fees	-	107,235	107,235
Contract consultants	(962)	74,039	73,077
Dues	-	61,805	61,805
Equipment maintenance	-	61,632	61,632
Accounting fees	-	58,900	58,900
Equipment rental	-	47,831	47,831
Bank fees and interest expense	-	29,721	29,721
Printing	-	18,507	18,507
Board of Directors' expenses	-	18,358	18,358
	<u>\$ 159,121,683</u>	<u>\$ 5,008,806</u>	<u>\$ 164,130,489</u>
	<u>97%</u>	<u>3%</u>	<u>100%</u>

**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,	
	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 6,614	\$ (8,968)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Increase) decrease in assets:		
Contract receivable	9,882,909	(15,926,426)
Prepaid expenses	(431,240)	105,109
Receivable from Intermediate Care Facilities	(2,091,596)	4,988,638
Other receivables	20,138	(34,464)
Deposits	-	(12,274)
Increase (decrease) in liabilities:		
Accounts payable	(105,510)	982,629
Accrued salaries and payroll taxes	81,430	(736)
Retirement plan contribution payable	-	(189,100)
Payable to Department of Developmental Services	(586,756)	(5,069,018)
Unexpended client trust funds	(575,314)	499,558
	<u>6,200,675</u>	<u>(14,665,052)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Purchase of investments	(272)	(332)
	<u>(272)</u>	<u>(332)</u>
Net cash used by investing activities		
Cash flows from financing activities:		
Proceeds from contract advance	37,176,361	37,128,737
Payment of contract advance	(43,389,531)	(33,060,150)
	<u>(6,213,170)</u>	<u>4,068,587</u>
Net cash provided (used) by financing activities		
Net decrease in cash and cash equivalents	(12,767)	(10,596,797)
Cash and cash equivalents:		
Beginning of year	4,722,056	15,318,853
	<u>4,722,056</u>	<u>15,318,853</u>
End of year	\$ 4,709,289	\$ 4,722,056
	<u>\$ 4,709,289</u>	<u>\$ 4,722,056</u>
Cash and cash equivalents	\$ 1,218,313	\$ 651,810
Cash - client trust funds	3,490,976	4,070,246
	<u>\$ 4,709,289</u>	<u>\$ 4,722,056</u>
Cash paid for interest	\$ -	\$ 61
	<u>\$ -</u>	<u>\$ 61</u>

See notes to 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, 2013 and 2012

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.

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, 2013 and 2012

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 under the contract are limited to the contract plus 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 \$165,352,061, \$163,990,825, and \$160,400,428 for the 2012/13, 2011/12, and 2010/11 contract years, respectively, and are subject to budget amendments. As of June 30, 2013, actual net expenditures under the 2012/13, 2011/12, and 2010/11 contracts were \$164,092,560, \$162,454,901, and \$157,696,644, respectively.

Basis of Accounting

The Organization prepares its 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, 2013 and 2012

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, 2013 and 2012, 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, 2013 and 2012

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, 2013 and 2012, equipment purchases in state equipment totaled approximately \$88,000 and \$121,000, respectively. The aggregated tracked state equipment at June 30, 2013 and 2012 totaled \$980,304 and \$892,469, 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, 2013 and 2012

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

Contributions

The Organization recognizes all contributions in the year of receipt, regardless of compliance with restrictions. 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 under §501(c)(3) of the Internal Revenue Code (IRC) and franchise taxes under §23701d of the California Revenue and Taxation Code. 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, 2013 and 2012

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

Income Taxes (Continued)

The Center and the Foundation's evaluation on June 30, 2013 revealed no tax positions that would have a material impact on the consolidated financial statements. The 2009 through 2012 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2008 through 2012 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.

Reclassifications

Certain amounts in the consolidated 2012 financial statements have been reclassified to conform to the 2013 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

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

June 30, 2013 and 2012

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.

Fixed Income Securities: The fair value of fixed income securities is estimated using recently executed transactions or market price quotations (where observable). These securities are classified within Level 2 of the fair value hierarchy.

At June 30, 2013 and 2012, all of the Organization's investments are in fixed income securities – certificates of deposit and are classified as Level 2.

The Organization's policy is to recognize transfers in and transfers out as of the actual date of the event or change in circumstance that caused the transfer. The Organization had no transfers into or out of levels of the fair value hierarchy during the years ended June 30, 2013 and 2012.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION FOR THE DEVELOPMENTALLY DISABLED, INC.**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

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:

	<u>2013</u>	<u>2012</u>
Social Security and other client support received	\$ 20,393,528	\$ 20,134,958
Residential care and other disbursements	<u>20,246,755</u>	<u>20,323,468</u>
Support over (under) disbursements	146,773	(188,510)
Changes to reconcile support over (under) disbursements to net cash provided (used) by support and cash activities:		
Increase (decrease) in amounts payable on behalf of clients	(722,097)	715,263
Increase in amounts due to the Center	<u>(3,946)</u>	<u>(630)</u>
Net cash provided (used) by support and cash activities	(579,270)	526,123
Cash at beginning of year	<u>4,070,246</u>	<u>3,544,123</u>
Cash at end of year	<u><u>\$ 3,490,976</u></u>	<u><u>\$ 4,070,246</u></u>

4. CONTRACT RECEIVABLE

Contract receivable consists of the following at June 30:

	<u>2013</u>	<u>2012</u>
Current year	\$ 36,508,536	\$ 45,585,035
Prior year	676,751	243,915
Second prior year	<u>235,111</u>	<u>1,474,357</u>
	<u><u>\$ 37,420,398</u></u>	<u><u>\$ 47,303,307</u></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, 2013 and 2012

5. INTERMEDIATE CARE FACILITIES - STATE PLAN AMENDMENT

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 reimbursement under California's Home and Community Based Services Program, which is funded by the Medicaid Waiver grant (Medicaid).

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.

During the years ended June 30, 2012 and 2011, DDS directed the Center to prepare billings for these services on behalf of the ICFs for the period from July 1, 2009 to June 30, 2011 and July 1, 2007 to June 30, 2009, respectively. 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.

During the years ended June 30, 2012 and 2011, DDS advanced the amounts billed to the ICFs. The ICFs were directed to remit to the Center the amount billed 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 DDS, net of its administration fee. DDS has instituted protocols should the ICFs not remit the net amounts due to the Center.

Effective July 1, 2012, DDS directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services in addition to paying the ICF directly for their 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.

The activity from ICFs is as follows:

	<u>2013</u>	<u>2012</u>
Beginning balance	\$ 606,565	\$ 5,595,203
Total billed from vendors for years:		
Ended June 30, 2008 and 2009	-	6,841,027
Ended June 30, 2011 and 2013	12,336,982	
Amount remitted by vendors	(9,457,565)	(11,829,665)
DDS offsets	<u>(787,821)</u>	<u>-</u>
Total receivable from ICFs	<u>\$ 2,698,161</u>	<u>\$ 606,565</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, 2013 and 2012

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

The activity for the related payable to DDS is as follows:

	2013	2012
Beginning balance	\$ 602,787	\$ 5,671,805
Total billed due to DDS	5,992,919	552,725
Amount remitted to DDS	(5,791,854)	(5,621,743)
DDS offsets	(787,821)	-
Total payable to DDS	\$ 16,031	\$ 602,787

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 until June 30, 2013, then up to \$35,000,000 until the earlier date of October 1, 2013 or the effective date of a State of California budget with respect to the State General Fund for the fiscal year commencing July 1, 2013, then \$17,000,000 until the maturity date of June 30, 2014. Interest is payable monthly at the greater of 2.25% (2.00% prior to April 19, 2013) or the bank's prime rate less 1%. The Center did not use this line of credit during the years ended June 30, 2013 and 2012.

On July 9, 2013, the Center drew \$1,867,193 from this line of credit and the full amount was repaid on July 10, 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.

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.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION FOR THE DEVELOPMENTALLY DISABLED, INC.**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

8. EMPLOYEE BENEFIT PLANS (CONTINUED)

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, 2013 and 2012 was \$1,674,928 and \$1,355,551, respectively.

9. OPERATING LEASES

The Center is obligated under various operating leases for its office space expiring through February 2014. 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. All leases are operating leases. Only the existing Pomona office lease that expires on February 2014 has a rent escalation clause based on changes in the Consumer Price Index or contract stipulated annual rate increase. The Center is required to pay the taxes, utilities, maintenance, and insurance for the premises. In addition, the Center is obligated under multiple leases for equipment expiring through February 2016. Rent expense, not including the deferred rent, for the years ended June 30, 2013 and 2012 was \$1,963,886 and \$2,031,077, respectively.

Future minimum lease payments under noncancelable operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2013 are as follows:

2014	\$ 2,283,427
2015	2,724,730
2016	2,654,877
2017	2,628,000
2018	2,628,000
Thereafter	<u>41,172,000</u>
	<u><u>\$ 54,091,034</u></u>

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.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION FOR THE DEVELOPMENTALLY DISABLED, INC.**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2013 and 2012

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2013 and 2012, 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, 2013 and 2012, 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 31, 2014, 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, 2013

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

June 30, 2013

	<u>Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
ASSETS				
Cash and cash equivalents	\$ 1,172,496	\$ 45,817	\$ -	\$ 1,218,313
Cash - client trust funds	3,490,976	-	-	3,490,976
Investment	-	60,722	-	60,722
Contract receivable	37,420,398	-	-	37,420,398
Prepaid expenses	679,929	1,002	-	680,931
Receivable from Intermediate Care Facilities	2,698,161	-	-	2,698,161
Other receivables	79,393	-	-	79,393
Deferred costs for accrued vacation and other leave benefits	1,446,972	-	-	1,446,972
Deposits	117,238	-	-	117,238
	<u>47,105,563</u>	<u>107,541</u>	<u>-</u>	<u>47,213,104</u>
Total assets	<u>\$ 47,105,563</u>	<u>\$ 107,541</u>	<u>\$ -</u>	<u>\$ 47,213,104</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	\$ 15,791,755	\$ -	\$ -	\$ 15,791,755
Accrued salaries and payroll taxes	730,593	-	-	730,593
Contract advance	26,841,282	-	-	26,841,282
Accrued vacation and other leave benefits	1,446,972	-	-	1,446,972
Reserve for unemployment insurance	100,000	-	-	100,000
Payable to Department of Developmental Services	16,031	-	-	16,031
Unexpended client trust funds	2,178,930	-	-	2,178,930
	<u>47,105,563</u>	<u>-</u>	<u>-</u>	<u>47,105,563</u>
Total liabilities	<u>47,105,563</u>	<u>-</u>	<u>-</u>	<u>47,105,563</u>
Unrestricted net assets	<u>-</u>	<u>107,541</u>	<u>-</u>	<u>107,541</u>
Total liabilities and net assets	<u>\$ 47,105,563</u>	<u>\$ 107,541</u>	<u>\$ -</u>	<u>\$ 47,213,104</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, 2013

	<u>Center</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated Total</u>
Revenue and support:				
Federal awards	\$ 84,478,976	\$ -	\$ -	\$ 84,478,976
Grants	87,719,315	-	-	87,719,315
Contributions	750	6,265	-	7,015
Special fundraising event, net of direct expenses of \$20,211	-	42,454	-	42,454
Interest income	19,262	289	-	19,551
Other income	219,613	565	-	220,178
	<u>172,437,916</u>	<u>49,573</u>	<u>-</u>	<u>172,487,489</u>
Expenses:				
Program services:				
Direct client services	167,459,455	38,464	-	167,497,919
Supporting services:				
General and administrative	<u>4,978,461</u>	<u>4,495</u>	<u>-</u>	<u>4,982,956</u>
	<u>172,437,916</u>	<u>42,959</u>	<u>-</u>	<u>172,480,875</u>
Change in net assets	-	6,614	-	6,614
Unrestricted net assets:				
Beginning of year	<u>-</u>	<u>100,927</u>	<u>-</u>	<u>100,927</u>
End of year	<u>\$ -</u>	<u>\$ 107,541</u>	<u>\$ -</u>	<u>\$ 107,541</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, 2013

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	\$ 73,725,096 *
■ Targeted Case Management	93.778	HD099018	<u>9,348,621 *</u>
			83,073,717
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	HD099018	<u>1,405,259</u>
			<u>\$ 84,478,976</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.



LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

**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**

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, 2013, 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 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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.

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 31, 2014



LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

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

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, 2013. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of 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, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying *Schedule of Findings and Questioned Costs* as item 2013-1. Our opinion on each major federal program is not modified which respect to this matter.

The Center's response to the noncompliance finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 may exist that were not identified. 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.

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

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 31, 2014



SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2013

SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2013

SECTION I - SUMMARY OF THE AUDITORS' RESULTS

- Auditors' 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:
 - Auditors' 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: Yes.
 - 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: \$2,534,369.
- Auditee qualifies as low-risk: No.

SECTION II - FINANCIAL STATEMENT FINDINGS

- None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- See 2013-1 on pages 31-32.

SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2013

2013-1 DOCUMENTATION FOR MEDICAID WAIVER ELIGIBILITY

FEDERAL AWARD PROGRAM

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Medical Assistance Program (Medicaid; Title XIX)

CRITERIA

There are a number of requirements to be qualified as Medicaid waiver consumer. One of which is to have on file a Consumer Choice Form that should be signed by the consumer or parent and a representative of the Center.

CONDITION

One consumer file is missing the Consumer Choice Form.

QUESTIONED COSTS

The monetary effect of this finding is undeterminable.

CONTEXT

Based on our testing of forty randomly selected consumer files from a population of 3,552, it came to our attention that one file was missing documentation that is required to determine consumer eligibility.

EFFECT

The file that is missing the required form may need to be disqualified for the Medicaid waiver.

CAUSE

The condition is a result of an oversight in maintaining and monitoring of the consumer file.

SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended June 30, 2013

2013-1 DOCUMENTATION FOR MEDICAID WAIVER ELIGIBILITY (Continued)

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.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

We agree with the finding stating that one consumer file was missing the Consumer Choice Form. The cause of the missing statement was the failure of the parent(s) of this five year old consumer to return the form to the Center despite repeated prompts of the service coordinator. The repeated attempts to obtain the signed form have been recorded in the client's chart. The service coordinator is continuing her efforts to make contact and obtain the missing statement for our files.

We are committed to following all Medicaid waiver requirements, including the obtaining and filing of parent choice statement. We will continue our efforts to meet all requirements. In the event of encountering specific difficulties, we have been consulting Department of Developmental Services Staff to assure continued Medicaid Waiver eligibility. When the substantial requirements have not been met, we decertify the case retroactively at the time of the yearly certification review.

SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2013

There were no prior year findings or questioned costs.