



**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, 2012 and 2011

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LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

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 statement of financial position 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, as of June 30, 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The combined financial statements of the Organization as of June 30, 2011 and for the year ended then ended, were audited by other auditors whose report dated January 11, 2012, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of *San Gabriel/Pomona Valleys Developmental Services, Inc.* and *Richard D. Davis Foundation for the Developmentally Disabled, Inc.* as of June 30, 2012, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2013, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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, 2012, 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 audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Lautze & Lautze



San Francisco, California
January 9, 2013

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

	June 30,	
	2012	2011
ASSETS		
Cash and cash equivalents	\$ 651,810	\$ 11,774,730
Cash - client trust funds	4,070,246	3,544,123
Investment	60,450	60,118
Contract receivable	47,303,307	31,376,881
Prepaid expenses	249,691	354,800
Receivable from Intermediate Care Facilities	606,565	5,595,203
Other receivables	99,531	65,067
Deferred costs for accrued vacation and other leave benefits	1,409,255	1,287,648
Deposits	117,238	104,964
Total assets	\$ 54,568,093	\$ 54,163,534
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 15,897,265	\$ 14,914,636
Accrued salaries and payroll taxes	649,163	649,899
Retirement plan contribution payable	-	189,100
Contract advance	33,054,452	28,985,865
Accrued vacation and other leave benefits	1,409,255	1,287,648
Reserve for unemployment insurance	100,000	100,000
Payable to Department of Developmental Services	602,787	5,671,805
Unexpended client trust funds	2,754,244	2,254,686
Total liabilities	54,467,166	54,053,639
Commitments and contingencies		
Unrestricted net assets	100,927	109,895
Total liabilities and net assets	\$ 54,568,093	\$ 54,163,534

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>2012</u>	<u>2011</u>
Revenue and support:		
Federal awards	\$ 81,245,217	\$ 78,319,821
Grants	82,607,993	79,529,993
Contributions	11,870	12,747
Special fundraising event, net of direct expenses of \$18,103 (\$18,068 in 2011)	29,537	35,582
Interest income	86,045	120,492
Other income	<u>140,859</u>	<u>292,352</u>
Total revenue and support	<u>164,121,521</u>	<u>158,310,987</u>
Expenses:		
Program services:		
Direct client services	159,121,683	152,882,913
Supporting services:		
General and administrative	<u>5,008,806</u>	<u>5,421,497</u>
Total expenses	<u>164,130,489</u>	<u>158,304,410</u>
Change in net assets	(8,968)	6,577
Unrestricted net assets:		
Beginning of year	<u>109,895</u>	<u>103,318</u>
End of year	<u>\$ 100,927</u>	<u>\$ 109,895</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, 2012**

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Total Expenses</u>
	<u>Direct Client Services</u>	<u>General and Administrative</u>	
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>
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>

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, 2011**

	Program Services	Supporting Services	Total
	Direct Client Services	General and Administrative	Expenses
Salaries and related expenses:			
Salaries	\$ 13,638,957	\$ 1,905,782	\$ 15,544,739
Employee health and retirement benefits	2,664,570	363,952	3,028,522
Payroll taxes	196,071	26,761	222,832
Total salaries and related expenses	16,499,598	2,296,495	18,796,093
Purchase of services:			
Other purchased services	42,958,656	-	42,958,656
Day programs	43,028,596	-	43,028,596
Residential care facilities	39,357,391	-	39,357,391
Transportation	10,807,293	-	10,807,293
Facility rent and maintenance	-	1,948,654	1,948,654
Travel	182,521	17,870	200,391
Equipment purchases	-	50,059	50,059
Data processing	-	150,179	150,179
Communication and postage	-	155,094	155,094
General office expenses	-	74,960	74,960
Insurance	-	118,941	118,941
General expenses	48,827	151,443	200,270
Legal fees	-	68,247	68,247
Contract consultants	31	77,485	77,516
Dues	-	65,317	65,317
Equipment maintenance	-	55,028	55,028
Accounting fees	-	59,020	59,020
Equipment rental	-	49,395	49,395
Bank fees and interest expense	-	54,526	54,526
Printing	-	16,042	16,042
Board of Directors' expenses	-	12,742	12,742
	<u>\$ 152,882,913</u>	<u>\$ 5,421,497</u>	<u>\$ 158,304,410</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,	
	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (8,968)	\$ 6,577
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Increase) decrease in assets:		
Contract receivable	(15,926,426)	10,597,319
Prepaid expenses	105,109	19,153
Receivable from Intermediate Care Facilities	4,988,638	-
Other receivables	(34,464)	(16,612)
Deposits	(12,274)	(500)
Increase (decrease) in liabilities:		
Accounts payable	982,629	144,631
Accrued salaries and payroll taxes	(736)	100,292
Retirement plan contribution payable	(189,100)	131,229
Reserve for unemployment insurance	-	100,000
Payable to Department of Developmental Services	(5,069,018)	106,702
Unexpended client trust funds	499,558	146,840
	(14,665,052)	11,335,631
Net cash provided (used) by operating activities		
Cash flows from investing activities:		
Purchase of investments	(332)	(449)
	(332)	(449)
Net cash used by investing activities		
Cash flows from financing activities:		
Proceeds from line of credit	-	9,475,832
Principal payments on line of credit	-	(9,475,832)
Proceeds from contract advance	37,128,737	34,183,037
Payment of contract advance	(33,060,150)	(34,616,108)
	4,068,587	(433,071)
Net cash provided (used) by financing activities		
Net increase (decrease) in cash and cash equivalents	(10,596,797)	10,902,111
Cash and cash equivalents:		
Beginning of year	15,318,853	4,416,742
End of year	\$ 4,722,056	\$ 15,318,853
Cash and cash equivalents	\$ 651,810	\$ 11,774,730
Cash - client trust funds	4,070,246	3,544,123
	\$ 4,722,056	\$ 15,318,853
Cash paid for interest	\$ 61	\$ 18,240

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, 2012 and 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

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

The Act includes governance provisions regarding the composition of the Center's Board of Directors (the Board). The Act states that the Board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50 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 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.

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 its financial grants program, the recipients and their families are clients of the Center. The Foundation's activities are primarily funded by donations and fundraising events.

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.

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

June 30, 2012 and 2011

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

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 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 \$161,181,354, \$160,400,428, and \$166,083,291 for the 2011/12, 2010/11, and 2009/10 contract years, respectively, and are subject to budget amendments. As of June 30, 2012, actual net expenditures under the 2011/12, 2010/11, 2009/10 contracts were \$146,845,198, \$157,266,482, and \$159,267,866, 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.

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, 2012 and 2011 and for the years then ended, the Organization did not have any temporarily or permanently restricted net assets or activities.

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

June 30, 2012 and 2011

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

Basis of Presentation (Continued)

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 (CPP) 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.

Use of 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.

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.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION FOR THE DEVELOPMENTALLY DISABLED, INC.**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

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. This departure from accounting principles generally accepted in the United States of America does not have a material impact on the consolidated financial statements. 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, 2012 and 2011, equipment purchases in state equipment totaled approximately \$121,000 and \$51,000, respectively. The aggregated capitalized state equipment at June 30, 2012 and 2011 totaled \$892,469 and \$802,460, respectively.

Accrued Vacation and Other Leave Benefits

The Center has accrued a liability for accrued 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

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 statement of activities. These transactions are reported as *net assets released from restrictions* and are reported separately from other transactions.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION FOR THE DEVELOPMENTALLY DISABLED, INC.**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

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

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 age 3, 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.

The Center's and the Foundation's evaluation on June 30, 2012 revealed no tax positions that would have a material impact on the consolidated financial statements. The 2008 through 2011 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2007 through 2011 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.

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

June 30, 2012 and 2011

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

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

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. ASU 2011-04 provides guidance which is expected to result in common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards (IFRS). It changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for ASU 2011-04 to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. ASU No. 2011-04 is to be applied prospectively and is effective for annual periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Organization's consolidated financial statements and disclosures.

Reclassifications

Certain amounts in the combined 2011 financial statements have been reclassified to conform to the 2012 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, 2012 and 2011

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, 2012 and 2011, 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, 2012 and 2011.

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

June 30, 2012 and 2011

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>2012</u>	<u>2011</u>
Social Security and other client support received	\$ 20,134,958	\$ 19,677,664
Residential care and other disbursements	<u>20,323,468</u>	<u>19,824,486</u>
Support under disbursements	(188,510)	(146,822)
Changes to reconcile support under disbursements to net cash provided by (used in) support and cash activities:		
Increase in amounts payable on behalf of clients	715,263	298,770
(Increase) decrease in amounts due to the Center	<u>(630)</u>	<u>3,297</u>
Net cash provided by support and cash activities	526,123	155,245
Cash at beginning year	<u>3,544,123</u>	<u>3,388,878</u>
Cash at end of year	<u><u>\$ 4,070,246</u></u>	<u><u>\$ 3,544,123</u></u>

4. CONTRACT RECEIVABLE

Contract receivable consists of the following at June 30:

	<u>2012</u>	<u>2011</u>
Current year	\$ 45,585,035	\$ 31,232,002
Prior year	243,915	112,815
Second prior year	<u>1,474,357</u>	<u>32,064</u>
	<u><u>\$ 47,303,307</u></u>	<u><u>\$ 31,376,881</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, 2012 and 2011

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 (HCBS) 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 ICF's. 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 Organization to prepare billings for these services on behalf of the ICF's 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 ICF's and a 1.5% administration fee for the Organization.

During the years ended June 30, 2012 and 2011, DDS advanced the amounts billed to the ICF's. The ICF's are 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 receives the net payment from the ICF's, the Center is directed to remit the amount to DDS, net of its administration fee. DDS has instituted protocols should the ICF's not remit the net amounts due to the Center.

	2012	2011
Beginning balance	\$ 5,595,203	\$ -
Total billed from vendors for years ended June 30, 2008 and 2009	6,841,027	5,865,638
Amount remitted by vendors	(11,829,665)	(270,435)
Total receivable from ICF	\$ 606,565	\$ 5,595,203
Payable to DDS	\$ 602,787	\$ 5,671,805
Amount remitted by vendors but unpaid to DDS at June 30,	-	(159,229)
Deferred administrative fee	3,778	82,627
	\$ 606,565	\$ 5,595,203

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

June 30, 2012 and 2011

6. LINE OF CREDIT

The Center has an unsecured, revolving line of credit with City National Bank whereby it may borrow up to \$33,000,000 (\$13,000,000 for the year ended June 30, 2011) until the maturity date of June 30, 2013. Interest is payable monthly at the greater of 2% (3% prior to April 19, 2012) or the bank's prime rate less 1%. The Center did not use this line of credit during the year ended June 30, 2012. The Center borrowed and repaid \$9,475,832 from this line of credit during the year ended June 30, 2011. There was no outstanding balance on the line of credit at June 30, 2011.

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.

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, 2012 and 2011 was \$1,355,551 and \$1,539,568, respectively.

9. OPERATING LEASES

The Center is obligated under various operating leases for its office space expiring through February 2014. All leases are operating leases and contain rent escalation clauses based on changes in the Consumer Price Index or contract stipulated annual rate increases. The Center is required to pay for taxes, utilities, maintenance, and insurance on 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, 2012 and 2011 was \$2,053,957 and \$1,959,752, respectively.

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

June 30, 2012 and 2011

9. OPERATING LEASES (CONTINUED)

Future minimum lease payments under noncancelable operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2012 are as follows:

2013	\$ 1,982,118
2014	1,407,427
2015	96,730
2016	<u>26,877</u>
	<u>\$ 3,513,152</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.

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 revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies.

The Center's contract with DDS provides funding for services under the 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.

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, 2012 and 2011, and for the years then ended.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION FOR THE DEVELOPMENTALLY DISABLED, INC.**
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Unemployment Insurance (Continued)

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, 2012 and 2011, 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 9, 2013, 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

Year Ended June 30, 2012

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

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2012

	Center	Foundation	Eliminations	Consolidated Total
ASSETS				
Cash and cash equivalents	\$ 611,812	\$ 39,998	\$ -	\$ 651,810
Cash - client trust funds	4,070,246	-	-	4,070,246
Investment	-	60,450	-	60,450
Contract receivable	47,303,307	-	-	47,303,307
Prepaid expenses	249,212	479	-	249,691
Receivable from Intermediate Care Facilities	606,565	-	-	606,565
Other receivables	99,531	-	-	99,531
Deferred costs for accrued vacation and other leave benefits	1,409,255	-	-	1,409,255
Deposits	117,238	-	-	117,238
	<u>54,467,166</u>	<u>100,927</u>	<u>-</u>	<u>54,568,093</u>
Total assets	<u>\$ 54,467,166</u>	<u>\$ 100,927</u>	<u>\$ -</u>	<u>\$ 54,568,093</u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	\$ 15,897,265	\$ -	\$ -	\$ 15,897,265
Accrued salaries and payroll taxes	649,163	-	-	649,163
Contract advance	33,054,452	-	-	33,054,452
Accrued vacation and other leave benefits	1,409,255	-	-	1,409,255
Reserve for unemployment insurance	100,000	-	-	100,000
Payable to Department of Developmental Services	602,787	-	-	602,787
Unexpended client trust funds	2,754,244	-	-	2,754,244
	<u>54,467,166</u>	<u>-</u>	<u>-</u>	<u>54,467,166</u>
Total liabilities	54,467,166	-	-	54,467,166
Unrestricted net assets	-	100,927	-	100,927
	<u>-</u>	<u>100,927</u>	<u>-</u>	<u>100,927</u>
Total liabilities and net assets	<u>\$ 54,467,166</u>	<u>\$ 100,927</u>	<u>\$ -</u>	<u>\$ 54,568,093</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, 2012

	Center	Foundation	Eliminations	Consolidated Total
Revenue and support:				
Federal awards	\$ 81,245,217	\$ -	\$ -	\$ 81,245,217
Grants	82,607,993	-	-	82,607,993
Contributions	819	11,051	-	11,870
Special fundraising event, net of direct expenses of \$18,103	-	29,537	-	29,537
Interest income	85,690	355	-	86,045
Other income	140,806	53	-	140,859
	<u>164,080,525</u>	<u>40,996</u>	<u>-</u>	<u>164,121,521</u>
Total revenue and support				
Expenses:				
Program services:				
Direct client services	159,076,188	45,495	-	159,121,683
Supporting services:				
General and administrative	5,004,337	4,469	-	5,008,806
	<u>164,080,525</u>	<u>49,964</u>	<u>-</u>	<u>164,130,489</u>
Total expenses				
Change in net assets	-	(8,968)	-	(8,968)
Unrestricted net assets:				
Beginning of year	-	109,895	-	109,895
End of year	<u>\$ -</u>	<u>\$ 100,927</u>	<u>\$ -</u>	<u>\$ 100,927</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, 2012

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	\$ 64,171,677 *
■ Targeted Case Management	93.778	HD099018	<u>15,668,281</u> *
			79,839,958
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>\$ 81,245,217</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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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 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 as of and for the year ended June 30, 2012, and have issued our report thereon dated January 9, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures 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 Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 Organization's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entity and is not intended to be and should not be used by anyone other than these specified parties.

Lautze & Lautze



San Francisco, California
January 9, 2013



LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited *San Gabriel/Pomona Valleys Developmental Services, Inc.'s* (the Center's) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (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, 2012. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the 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, 2012.

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

Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the federal awarding agencies, and pass-through entity and is not intended to be and should not be used by anyone other than these specified parties.

Lautze & Lautze

San Francisco, California
January 9, 2013

SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

SECTION I - SUMMARY OF THE AUDITORS' RESULTS

- Auditors' report on consolidated financial statements: Unqualified.
- 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: Unqualified.
 - 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: \$2,437,357.
 - Auditee qualifies as low-risk: No.

SECTION II - FINANCIAL STATEMENT FINDINGS

- None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- None reported.

SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2012

There were no prior year findings or questioned costs.