

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

**COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**



**WINDES & McCLAUGHRY
ACCOUNTANCY CORPORATION**
Certified Public Accountants & Consultants

EXCEEDING EXPECTATIONS SINCE 1926

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INDEPENDENT AUDITORS' REPORT

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

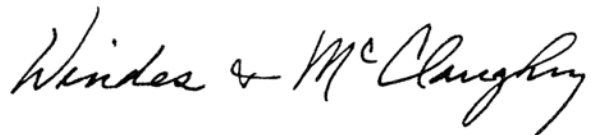
We have audited the accompanying combined statements of financial position of San Gabriel/Pomona Valleys Developmental Services, Inc. and Richard D. Davis Foundation for the Developmentally Disabled, Inc. (California nonprofit corporations) as of June 30, 2011 and 2010, and the related combined statements of activities, functional expenses, and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. The financial statements of Richard D. Davis Foundation for the Developmentally Disabled, Inc. were not audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined 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, 2011 and 2010, and the changes in their net assets and their cash flows for the years 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 11, 2012, on our consideration of San Gabriel/Pomona Valleys Developmental Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements of San Gabriel/Pomona Valleys Developmental Services, Inc. and Richard D. Davis Foundation for the Developmentally Disabled, Inc. taken as a whole. The 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 basic combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with the 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 basic combined financial statements as a whole.

A handwritten signature in cursive script that reads "Windes & McCaughey".

Long Beach, California
January 11, 2012

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

COMBINED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2011	2010
ASSETS		
Cash and cash equivalents	\$ 11,774,730	\$ 1,027,864
Cash – client trust funds	3,544,123	3,388,878
Investments	60,118	59,669
Contracts receivable – state of California	2,391,016	12,555,264
Other receivables	65,067	48,455
Prepaid expenses	337,865	357,018
Due from state – accrued vacation and sick leave benefits	1,287,648	1,289,080
Deposits	104,964	104,464
TOTAL ASSETS	\$ 19,565,531	\$ 18,830,692

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 14,863,534	\$ 14,718,903
Accrued salaries and payroll taxes	632,964	532,672
Retirement plan contribution payable	189,100	57,871
Accrued vacation and sick leave benefits	1,287,648	1,289,080
Reserve for unemployment insurance	100,000	
Due to state of California	127,704	21,002
Unexpended client support	2,254,686	2,107,846
	19,455,636	18,727,374
COMMITMENTS AND CONTINGENCIES (Note 7)		
NET ASSETS		
Unrestricted	109,895	103,318
TOTAL LIABILITIES AND NET ASSETS	\$ 19,565,531	\$ 18,830,692

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

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

COMBINED STATEMENTS OF ACTIVITIES

	For the Year Ended June 30,	
	2011	2010
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contracts – state of California	\$ 157,849,814	\$ 156,565,594
Contributions	12,747	6,834
Special fund-raising event, net of direct expenses (\$18,068 - 2011; \$15,886 - 2010)	35,582	29,947
Interest income	120,492	155,667
Other income	292,352	42,492
Total Support and Revenue	158,310,987	156,800,534
EXPENSES		
Program Services		
Direct services	152,831,148	151,000,417
Supporting Services		
General and administrative	5,473,262	5,793,307
Total Expenses	158,304,410	156,793,724
CHANGE IN NET ASSETS	6,577	6,810
NET ASSETS AT BEGINNING OF YEAR	103,318	96,508
NET ASSETS AT END OF YEAR	\$ 109,895	\$ 103,318

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

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

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Direct Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries	\$ 13,638,957	\$ 1,905,782	\$ 15,544,739
Employee benefits	2,574,110	352,651	2,926,761
Payroll taxes	<u>284,826</u>	<u>39,767</u>	<u>324,593</u>
Total Salaries and Related Expenses	16,497,893	2,298,200	18,796,093
Purchase of services:			
Out of home	39,357,391		39,357,391
Day programs	43,027,363		43,027,363
Transportation	10,807,293		10,807,293
Other purchase of services	42,958,656		42,958,656
Equipment rental		49,395	49,395
Equipment maintenance		161,186	161,186
Facility rent		1,910,382	1,910,382
Communication		83,888	83,888
General office expenses		90,831	90,831
Postage		62,602	62,602
Printing		17,276	17,276
Insurance		118,941	118,941
Legal fees		68,247	68,247
Board of Directors' expenses		12,742	12,742
Equipment purchases		50,756	50,756
Contract consultants	31	72,715	72,746
Travel	182,521	17,870	200,391
General expenses		279,368	279,368
Professional fees		59,020	59,020
Dues		65,317	65,317
Bank fees and interest expense		<u>54,526</u>	<u>54,526</u>
TOTAL EXPENSES	<u>\$ 152,831,148</u>	<u>\$ 5,473,262</u>	<u>\$ 158,304,410</u>

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

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

**COMBINED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Direct Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries	\$ 13,458,908	\$ 2,018,739	\$ 15,477,647
Employee benefits	2,521,380	462,141	2,983,521
Payroll taxes	<u>243,381</u>	<u>31,055</u>	<u>274,436</u>
Total Salaries and Related Expenses	16,223,669	2,511,935	18,735,604
Purchase of services:			
Out of home	38,464,041		38,464,041
Day programs	42,869,582		42,869,582
Transportation	10,800,488		10,800,488
Other purchase of services	42,454,756		42,454,756
Equipment rental		38,797	38,797
Equipment maintenance		216,238	216,238
Facility rent		1,958,423	1,958,423
Communication		101,748	101,748
General office expenses		91,538	91,538
Postage		90,371	90,371
Printing		25,195	25,195
Insurance		139,658	139,658
Legal fees		178,515	178,515
Board of Directors' expenses		11,458	11,458
Equipment purchases		42,627	42,627
Contract consultants		73,612	73,612
Travel	187,881	23,451	211,332
General expenses		112,700	112,700
Professional fees		60,939	60,939
Dues		63,390	63,390
Bank fees and interest expense		<u>52,712</u>	<u>52,712</u>
TOTAL EXPENSES	<u>\$ 151,000,417</u>	<u>\$ 5,793,307</u>	<u>\$ 156,793,724</u>

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

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

COMBINED STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 6,577	\$ 6,810
Adjustments to reconcile change in net assets to net cash from operating activities:		
(Increase) decrease in:		
Cash – client trust funds	(155,245)	(103,501)
Contracts receivable – state of California	10,164,248	(10,508,068)
Other receivables	(16,612)	155,991
Prepaid expenses	19,153	(27,550)
Due from state – accrued vacation and sick leave benefits	1,432	(66,790)
Deposits	(500)	(13,183)
Increase (decrease) in:		
Accounts payable	144,631	(14,863)
Accrued salaries and payroll taxes	100,292	90,446
Retirement plan contribution payable	131,229	1,707
Accrued vacation and sick leave benefits	(1,432)	66,790
Reserve for unemployment insurance	100,000	
Due to state of California	106,702	(36,000)
Unexpended client support	146,840	86,161
Net Cash Provided By (Used In) Operating Activities	<u>10,747,315</u>	<u>(10,362,050)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(449)	(1,198)
Net Cash Used In Investing Activities	<u>(449)</u>	<u>(1,198)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,746,866	(10,363,248)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,027,864</u>	<u>11,391,112</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 11,774,730</u>	<u>\$ 1,027,864</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the years ended June 30, 2011 and 2010 for interest totaled \$18,240 and \$264, respectively.

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

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

**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation

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

The Act includes governance provisions regarding the composition of the Center's board of directors. The Act states that the board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50% of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25% of the members of the governing board shall be persons with developmental disabilities. In addition, a member of a required advisory committee, composed of persons representing the various categories of providers from which the regional center purchases client services, shall serve as a member of the regional center board. To comply with the Act, the Center's board of directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the Center and a client service provider of the Center.

The Center contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for the developmentally disabled, and their families. Regional center contracts between the Center and DDS stipulate that funded expenditures are not to exceed \$160,326,388 and \$166,083,291 for the 2010-2011 and 2009-2010 contract years, respectively. Actual net expenditures under the regional center contracts for the 2010-2011 and 2009-2010 contracts were \$157,123,545 and \$157,352,816, respectively, as of June 30, 2011.

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

**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Combination

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

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

Financial Statement Presentation

The Organization is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. As of June 30, 2011 and 2010, the Organization had no temporarily or permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

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

**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the combined financial statements. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Cash and Cash Equivalents and Concentration of Credit Risk

For the purpose of the combined statements of cash flows, the Organization considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2011 and throughout the year, the Organization has maintained cash balances in its bank in excess of federally insured limits. Given the current economic environment and risks in the banking industry, there is risk that these deposits may not be readily available or covered by insurance.

Investments

Investments consist of a certificate of deposit. The Organization accounts for certificates of deposit at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
AND RICHARD D. DAVIS FOUNDATION
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Investments (Continued)

Certificates of deposit are financial instruments that are measured at fair value on a recurring basis in the accompanying combined statements of financial position. Generally, identical instruments to certificates of deposit are not traded in active markets and, as such, fair value is based on estimates using present value or other valuation techniques such as discounted cash flows and observable inputs for similar instruments. Therefore, the certificates of deposit are classified within Level 2 of the fair value hierarchy.

Contracts Receivable – State of California

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

State Equipment

Pursuant to the terms of the contract with the DDS, equipment purchases become the property of DDS and, accordingly, are charged as expenses when incurred. For the years ended June 30, 2011 and 2010, equipment purchases totaled \$50,756 and \$42,627, respectively.

Accrued Vacation and Other Employee Benefits

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

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

**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Allocation of Expenses

The combined statements of functional expenses allocate expenses to the program and supporting service categories based on a direct-cost basis for the purchase of services expenses, and salaries and related expenses. All operating expenses are allocated to supporting services, except for contract consultants and travel, which are allocated on a direct-cost basis.

Income Taxes

The Organization has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively.

The Organization recognizes the financial statement benefit of tax positions, such as the filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Organization is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California purposes is generally three and four years, respectively.

Subsequent Events

The Organization's management has evaluated subsequent events from the combined statement of financial position date through January 11, 2012, the date the combined financial statements were available to be issued for the year ended June 30, 2011, and determined that there were no other items to disclose.

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

**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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

The Organization functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. These cash balances are segregated from the operating cash accounts of the Organization and are restricted for client support. The following is a summary of client support and expenses not reported in the combined statements of activities:

	For the Year Ended June 30,	
	2011	2010
Support:		
Social Security and other client support	\$ 19,824,486	\$ 19,987,811
Disbursements:		
Out of home	\$ 15,270,481	\$ 15,051,660
Other disbursements	4,554,005	4,936,151
	\$ 19,824,486	\$ 19,987,811

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

As of June 30, 2011 and 2010, the DDS had advanced the Organization \$28,985,865 and \$29,418,936, respectively, under the regional center contracts. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from DDS as follows:

	June 30,	
	2011	2010
Contracts receivable	\$ 31,376,881	\$ 41,974,200
Contract advances	(28,985,865)	(29,418,936)
Net contracts receivable	\$ 2,391,016	\$ 12,555,264

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 4 – Employee Benefit Plan

The Organization has a defined contribution retirement plan which covers all employees. Contributions to the plan are based upon a percentage of each participant’s compensation. Total retirement expense for the years ended June 30, 2011 and 2010 was \$1,539,568 and \$1,531,658, respectively.

NOTE 5 – Short-Term Borrowings

The Organization has a revolving note with a bank whereby it may borrow up to \$13,000,000 until June 30, 2012. Interest is payable monthly at the greater of 3% or 1% below the bank’s prime rate. No amount was outstanding on the revolving note as of June 30, 2011.

Interest expense for the years ended June 30, 2011 and 2010 was \$18,240 and \$264, respectively.

NOTE 6 – Intermediate Care Facility Billing

The Centers for Medicare and Medicaid Services (CMS) has approved federal financial participation in the funding of the day and transportation services related to the Organization’s ICF services retroactive to July 2007. The federal rules allow for only one provider of the ICF service, requiring all the Medicaid funding for the ICF resident to go through the applicable vendors. The Organization is in the process at June 30, 2011, due to the change in funding, of collecting the funding provided under the federal program from applicable vendors retroactive to July 2007, and remitting the funds to the DDS. The Organization receives a 1.5% administrative fee based on the funds received to cover the additional workload.

As of June 30, 2011, amounts due from vendors and payable to the DDS are as follows:

Due from vendors	\$ 5,595,203
Due to DDS	<u>5,671,805</u>
Net payable reported in due to state of California	(\$ <u>76,602</u>)

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

**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 6 – Intermediate Care Facility Billing (Continued)

For the year ended June 30, 2011, the Organization’s activity related to the above funding was as follows:

Total billed from vendors for period ended June 30, 2008	<u>\$ 5,865,638</u>
Total amount due to DDS	\$ 5,778,954
Administrative fee recognized	<u>86,684</u>
	<u>\$ 5,865,638</u>

During the year ended June 30, 2011, the Center collected \$270,435 from vendors, of which \$107,148 was remitted to the state.

NOTE 7 – Commitments and Contingencies

Commitments

The Organization is obligated under three lease agreements, expiring February 2014, for its office facilities. The Organization is required to pay for taxes, utilities, maintenance, and insurance on the premises. In the event the DDS does not renew its annual support contract, the lease described above becomes cancelable by the Organization. In addition, the Organization is obligated under a lease for equipment.

Future minimum facilities lease commitments are as follows:

Year Ending June 30,	
2012	\$ 1,942,325
2013	2,001,311
2014	1,347,867
2015	40,316
2016	<u>16,798</u>
	<u>\$ 5,348,617</u>

Total facilities and office equipment rental expense for the years ended June 30, 2011 and 2010 were \$1,910,382 and \$49,370 and \$1,958,423 and \$38,797, respectively.

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

**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 7 – Commitments and Contingencies (Continued)

Contingencies

The Organization is dependent on continued funding provided by DDS to operate and provide services for its clients. The Center's contract with DDS provides funding for services under the Lanterman Act. In the event that the operations of the Center result in a deficit position at the end of any 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. DDS's 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 state of California is experiencing an unprecedented budget shortfall due to the severe national and state economic crisis. The DDS has undertaken numerous efforts to control costs throughout the system and is committed to preserving the entitlement services and supports. Reductions in regional center operations and purchase of services are expected for the 2011/2012 fiscal year as a result of cost control efforts and legislation enacted.

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 DDS for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2011, and for the year then ended.

The Organization has elected to finance its unemployment insurance using the prorated cost-of-benefits method. Under this method, the Center is required to reimburse the state of California for benefits paid to its former employees. At June 30, 2011, the Organization had \$100,000 in a reserve savings account to pay for any potential unemployment claims.

Legal Proceedings

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

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

**SUPPLEMENTARY INFORMATION
SCHEDULE OF COMBINED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2011**

	<u>Center</u>	<u>Foundation</u>	<u>Combined Balance</u>
ASSETS			
Cash and cash equivalents	\$ 11,725,855	\$ 48,875	\$ 11,774,730
Cash – client trust funds	3,544,123		3,544,123
Investments		60,118	60,118
Contracts receivable – state of California	2,391,016		2,391,016
Other receivables	65,067		65,067
Prepaid expenses	336,963	902	337,865
Due from state – accrued vacation and sick leave benefits	1,287,648		1,287,648
Deposits	104,964		104,964
TOTAL ASSETS	\$ 19,455,636	\$ 109,895	\$ 19,565,531
LIABILITIES			
Accounts payable	\$ 14,863,534		\$ 14,863,534
Accrued salaries and payroll taxes	632,964		632,964
Retirement plan contribution payable	189,100		189,100
Accrued vacation and sick leave benefits	1,287,648		1,287,648
Reserve for unemployment insurance	100,000		100,000
Due to state of California	127,704		127,704
Unexpended client support	2,254,686		2,254,686
	19,455,636		19,455,636
NET ASSETS			
Unrestricted	None	\$ 109,895	109,895
TOTAL LIABILITIES AND NET ASSETS	\$ 19,455,636	\$ 109,895	\$ 19,565,531

See Accompanying Independent Auditors' Report

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

**SUPPLEMENTARY INFORMATION
SCHEDULE OF COMBINED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

	<u>Center</u>	<u>Foundation</u>	<u>Combined Balance</u>
CHANGE IN UNRESTRICTED NET ASSETS			
SUPPORT AND REVENUE			
Contracts – state of California	\$ 157,849,814		\$ 157,849,814
Contributions		\$ 12,747	12,747
Special fund-raising event, net		35,582	35,582
Interest income	120,014	478	120,492
Other income	<u>292,352</u>		<u>292,352</u>
Total Support and Revenue	<u>158,262,180</u>	<u>48,807</u>	<u>158,310,987</u>
EXPENSES			
Program Services			
Direct services	152,795,356	35,792	152,831,148
Supporting Services			
General and administrative	<u>5,466,824</u>	<u>6,438</u>	<u>5,473,262</u>
Total Expenses	<u>158,262,180</u>	<u>42,230</u>	<u>158,304,410</u>
CHANGE IN NET ASSETS	None	6,577	6,577
NET ASSETS AT BEGINNING OF YEAR	<u>None</u>	<u>103,318</u>	<u>103,318</u>
NET ASSETS AT END OF YEAR	<u>None</u>	<u>\$ 109,895</u>	<u>\$ 109,895</u>

See Accompanying Independent Auditors' Report

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass-Through Grantor/ Grant Title	Federal CFDA Number	Grant Identification Number	Grant Expenditures
U.S. Department of Education			
Passed through State of California Department of Developmental Services			
Early Intervention Services (IDEA) Cluster:			
Special Education – Grants for Infants and Families	84.181	H181A100037	<u>\$ 1,419,953</u>

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of San Gabriel/Pomona Valleys Developmental Services, Inc. and is prepared based on state contract allocations. 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 basic combined financial statements.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the combined financial statements of San Gabriel/Pomona Valleys Developmental Services, Inc. and Richard D. Davis Foundation for the Developmentally Disabled, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated January 11, 2012. 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. The financial statements of Richard D. Davis Foundation for the Developmentally Disabled, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered San Gabriel/Pomona Valleys Developmental Services, Inc.'s (the Organization) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Gabriel/Pomona Valleys Developmental Services, Inc.'s internal control 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Gabriel/Pomona Valleys Developmental Services, Inc.'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, others within the Organization, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Winder & McCaughey".

Long Beach, California
January 11, 2012



**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**

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

Compliance

We have audited San Gabriel/Pomona Valleys Developmental Services, Inc.'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 San Gabriel/Pomona Valleys Developmental Services, Inc.'s major federal programs for the year ended June 30, 2011. San Gabriel/Pomona Valleys Developmental Services, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of San Gabriel/Pomona Valleys Developmental Services, Inc.'s management. Our responsibility is to express an opinion on San Gabriel/Pomona Valleys Developmental Services, Inc.'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 San Gabriel/Pomona Valleys Developmental Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of San Gabriel/Pomona Valleys Developmental Services, Inc.'s compliance with those requirements.

In our opinion, San Gabriel/Pomona Valleys Developmental Services, Inc. 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, 2011.

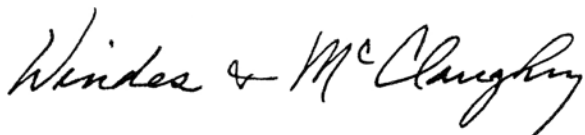
Internal Control Over Compliance

Management of San Gabriel/Pomona Valleys Developmental Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered San Gabriel/Pomona Valleys Developmental Services, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 of the effectiveness of San Gabriel/Pomona Valleys Developmental Services, Inc.'s internal control over compliance.

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

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 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, others within the Organization, and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.



Long Beach, California
January 11, 2012

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued – Unqualified

Internal control over financial reporting

1. Material weakness(es) identified? – No
2. Significant deficiencies identified that are not considered to be material weaknesses? – None reported
3. Noncompliance material to financial statements noted? – No

Federal awards

Internal control over major programs

1. Material weakness(es) identified? – No
2. Significant deficiencies identified that are not considered to be material weakness(es)? – None reported
3. Type of auditors’ report issued on compliance for major programs? – Unqualified
4. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? – No
5. Identification of major programs: Early Intervention Services (IDEA) Cluster – Special Education – Grants for Infants and Families CFDA #84.181
6. Dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
7. Auditee qualified as low-risk auditee? – Yes

SECTION II – FINANCIAL STATEMENTS FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None