

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

**COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**



**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, 2010 and 2009, 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 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, 2010 and 2009, 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 12, 2011, 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 important for 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 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 basic combined financial statements. The accompanying schedules of combined statements of financial position and of activities are also presented for the purposes of additional analysis and are not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

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

Long Beach, California  
January 12, 2011

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

**COMBINED STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,027,864	\$ 11,391,112
Cash – client trust funds	3,388,878	3,285,377
Investments	59,669	58,471
Contracts receivable – State of California	12,555,264	2,047,196
Other receivables	48,455	204,446
Prepaid expenses	357,018	329,468
Due from State – accrued vacation and sick leave benefits	1,289,080	1,222,290
Deposits	104,464	91,281
<b>TOTAL ASSETS</b>	<b>\$ 18,830,692</b>	<b>\$ 18,629,641</b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable	\$ 14,718,903	\$ 14,733,766
Accrued salaries	532,672	442,226
Accrued retirement plan contribution	57,871	56,164
Accrued vacation and sick leave benefits	1,289,080	1,222,290
Due to State of California	21,002	57,002
Unexpended client support	2,107,846	2,021,685
	18,727,374	18,533,133
<b>COMMITMENTS AND CONTINGENCIES (Note 6)</b>		
<b>NET ASSETS</b>		
Unrestricted	103,318	96,508
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 18,830,692</b>	<b>\$ 18,629,641</b>

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**

	<b>For the Year Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Contracts – State of California	\$ 156,565,594	\$ 167,301,594
Contributions	6,834	7,549
Special fund-raising event, net of direct expense (\$15,886 - 2010; \$17,147 - 2009)	29,947	36,673
Interest income	155,667	362,527
Other income	42,492	49,720
Total Support and Revenue	156,800,534	167,758,063
<b>EXPENSES</b>		
Program Services		
Direct services	151,000,417	162,155,688
Supporting Services		
General and administrative	5,793,307	5,600,784
Total Expenses	156,793,724	167,756,472
<b>CHANGE IN NET ASSETS</b>	6,810	1,591
<b>NET ASSETS AT BEGINNING OF YEAR</b>	96,508	94,917
<b>NET ASSETS AT END OF YEAR</b>	\$ 103,318	\$ 96,508

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>
<b>TOTAL EXPENSES</b>	<u><b>\$ 151,000,417</b></u>	<u><b>\$ 5,793,307</b></u>	<u><b>\$ 156,793,724</b></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, 2009**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Direct Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries	\$ 13,068,915	\$ 2,024,429	\$ 15,093,344
Employee benefits	2,585,491	450,306	3,035,797
Payroll taxes	<u>206,492</u>	<u>31,051</u>	<u>237,543</u>
Total Salaries and Related Expenses	15,860,898	2,505,786	18,366,684
Purchase of services:			
Out of home	39,221,289		39,221,289
Day programs	45,712,786		45,712,786
Transportation	12,456,945		12,456,945
Other purchase of services	48,699,641		48,699,641
Equipment rental		37,795	37,795
Equipment maintenance		219,532	219,532
Facility rent		1,769,475	1,769,475
Communication		79,315	79,315
General office expenses		64,164	64,164
Postage		80,154	80,154
Printing		27,533	27,533
Insurance		155,647	155,647
Legal fees		109,007	109,007
Board of Directors' expenses		11,624	11,624
Equipment purchases		99,500	99,500
Contract consultants	159	68,153	68,312
Travel	203,970	22,399	226,369
General expenses		149,303	149,303
Professional fees		64,290	64,290
Dues		64,192	64,192
Bank fees		38,776	38,776
Interest expense		<u>34,139</u>	<u>34,139</u>
<b>TOTAL EXPENSES</b>	<u>\$ 162,155,688</u>	<u>\$ 5,600,784</u>	<u>\$ 167,756,472</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**

	<b>For the Year Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 6,810	\$ 1,591
Adjustments to reconcile change in net assets to net cash from operating activities:		
(Increase) decrease in:		
Cash – client trust funds	( 103,501)	70,474
Contracts receivable – State of California	( 10,508,068)	9,205,638
Other receivables	155,991	( 56,900)
Prepaid expenses	( 27,550)	( 24,144)
Due from State – accrued vacation and sick leave benefits	( 66,790)	( 94,482)
Deposits	( 13,183)	( 17,237)
Increase (decrease) in:		
Accounts payable	( 14,863)	( 154,729)
Accrued salaries	90,446	( 28,111)
Accrued retirement plan contribution	1,707	( 23,925)
Accrued vacation and sick leave benefits	66,790	94,482
Due to State of California	( 36,000)	( 33,038)
Unexpended client support	86,161	( 108,097)
Net Cash Provided By (Used In) Operating Activities	( 10,362,050)	8,831,522
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	( 1,198)	( 1,659)
Net Cash Used In Investing Activities	( 1,198)	( 1,659)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	( 10,363,248)	8,829,863
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	11,391,112	2,561,249
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 1,027,864	\$ 11,391,112

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the years ended June 30, 2010 and 2009 for interest totaled \$264 and \$34,139, 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, 2010 AND 2009**

**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 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 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 \$166,042,151 and \$168,933,494 for the 2009-2010 and 2008-2009 contract years, respectively. Actual net expenditures under the regional center contracts for the 2009-2010 and 2008-2009 contracts were \$156,276,664 and \$167,146,144, respectively, as of June 30, 2010.

**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, 2010 AND 2009**

**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. The Foundation changed its name during the fiscal year ended June 30, 2009 from the San Gabriel/Pomona Valleys Foundation for the Developmentally Disabled, Inc. to the Richard D. Davis Foundation for the Developmentally Disabled, Inc. 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, 2010 and 2009, 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, 2010 AND 2009**

**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 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 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, 2010 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. A recent accounting standard has 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  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**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 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, 2010 and 2009, equipment purchases totaled \$42,627 and \$99,500, 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.

*Allocation of Expenses*

The 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.

**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, 2010 AND 2009**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

*Income Taxes*

The Organization has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code 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 12, 2011, the date the combined financial statements were available to be issued for the year ended June 30, 2010, and determined that there were no other items to disclose.

**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 statements of activities:

	<b>For the Year Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Support:		
Social Security and other client support	<u>\$ 19,987,811</u>	<u>\$ 19,800,358</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, 2010 AND 2009**

**NOTE 2 – Cash - Client Trust Funds and Unexpended Client Support (Continued)**

	<b>For the Year Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Disbursements:		
Out of home	\$ 15,051,660	\$ 14,566,385
Other disbursements	4,936,151	5,233,973
	<u>\$ 19,987,811</u>	<u>\$ 19,800,358</u>

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

As of June 30, 2010 and 2009, the DDS had advanced the Organization \$29,418,936 and \$41,504,279, 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 the State as follows:

	<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>
Contracts receivable	\$ 41,974,200	\$ 43,551,475
Contract advances	( 29,418,936)	( 41,504,279)
Net contract receivable	<u>\$ 12,555,264</u>	<u>\$ 2,047,196</u>

**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, 2010 and 2009 was \$1,531,658 and \$1,741,167, respectively.



**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 5 – Short-Term Borrowings**

The Organization has a revolving note with a bank whereby it may borrow up to \$33,000,000 until June 30, 2011. Subsequent to June 30, 2010, the agreement was amended to allow borrowings up to \$33,000,000 until the earlier date of December 31, 2010 or the effective date of the State of California budget with respect to the State General Fund for the fiscal year commencing July 1, 2010, then \$13,000,000 until the maturity date of June 30, 2011. 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, 2010.

Interest expense for the years ended June 30, 2010 and 2009 was \$264 and \$34,139, respectively.

**NOTE 6 – Commitments and Contingencies**

***Commitments***

The Organization is obligated under two 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.

Future minimum facilities lease commitments are as follows:

<b>Year Ending June 30,</b>	
2011	\$ 1,687,289
2012	1,739,766
2013	1,793,879
2014	<u>1,221,988</u>
	<u>\$ 6,442,922</u>

Total facilities and office equipment rental expense for the years ended June 30, 2010 and 2009 were \$1,958,423 and \$38,797 and \$1,769,475 and \$37,795, respectively.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.  
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2010 AND 2009**

**NOTE 6 – 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 2010/2011 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 state representative. Should such an audit disclose any unallowable costs, the Center may be liable to the State 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, 2010, 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.

*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, 2010**

	<u>Center</u>	<u>Foundation</u>	<u>Combined Balance</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 984,936	\$ 42,928	\$ 1,027,864
Cash – client trust funds	3,388,878		3,388,878
Investments		59,669	59,669
Contracts receivable – State of California	12,555,264		12,555,264
Other receivables	48,455		48,455
Prepaid expenses	356,297	721	357,018
Due from State – accrued vacation and sick leave benefits	1,289,080		1,289,080
Deposits	104,464		104,464
<b>TOTAL ASSETS</b>	<b>\$18,727,374</b>	<b>\$ 103,318</b>	<b>\$18,830,692</b>
<b>LIABILITIES</b>			
Accounts payable	\$14,718,903		\$14,718,903
Accrued salaries	532,672		532,672
Accrued retirement plan contribution	57,871		57,871
Accrued vacation and sick leave benefits	1,289,080		1,289,080
Due to State of California	21,002		21,002
Unexpended client support	2,107,846		2,107,846
	<b>18,727,374</b>		<b>18,727,374</b>
<b>NET ASSETS</b>			
Unrestricted	None	\$ 103,318	103,318
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$18,727,374</b>	<b>\$ 103,318</b>	<b>\$18,830,692</b>

**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, 2010**

	<u>Center</u>	<u>Foundation</u>	<u>Combined Balance</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>			
<b>SUPPORT AND REVENUE</b>			
Contracts – State of California	\$ 156,565,594		\$ 156,565,594
Contributions		\$ 6,834	6,834
Special fund-raising event, net		29,947	29,947
Interest income	154,420	1,247	155,667
Other income	42,492		42,492
Total Support and Revenue	156,762,506	38,028	156,800,534
<b>EXPENSES</b>			
<b>Program Services</b>			
Direct services	150,973,466	26,951	151,000,417
<b>Supporting Services</b>			
General and administrative	5,789,040	4,267	5,793,307
Total Expenses	156,762,506	31,218	156,793,724
<b>CHANGE IN NET ASSETS</b>	None	6,810	6,810
<b>NET ASSETS AT BEGINNING OF YEAR</b>	None	96,508	96,508
<b>NET ASSETS AT END OF YEAR</b>	None	\$ 103,318	\$ 103,318

**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, 2010**

<u>Federal Grantor/ Pass-Through Grantor/ Grant Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Grant Expenditures</u>
<b>U.S. Department of Education</b>			
<b>Passed through State of California Department of Developmental Services</b>			
<b>Early Intervention Services (IDEA) Cluster:</b>			
Special Education – Grants for Infants and Families	84.181	H181A090037	\$ 1,492,808
ARRA – Special Education – Grants for Infants and Families, Recovery Act	84.393	H393A090037A	<u>1,482,726</u>
			<u>\$ 2,975,534</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  
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, 2010, and have issued our report thereon dated January 12, 2011. 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 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 "Windes & McCaughey".

Long Beach, California  
January 12, 2011



**WINDES & MCCLAUGHRY**  
**ACCOUNTANCY CORPORATION**  
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**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, 2010. 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 on 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 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, 2010.

### **Internal Control Over Compliance**

The 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 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 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 12, 2011

**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, 2010**

**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, and ARRA – Special Education – Grants for Infants and Families, Recovery Act CFDA #84.393
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