

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

**COMBINED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**



**WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION**
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

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

**COMBINED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

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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, 2009 and 2008, 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 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, 2009 and 2008, 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 13, 2010, 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.



Long Beach, California
January 13, 2010

**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,	
	2009	2008
ASSETS		
Cash and cash equivalents	\$ 11,391,112	\$ 2,561,249
Cash – client trust funds	3,285,377	3,355,851
Investments	58,471	56,812
Contracts receivable – State of California	2,047,196	11,252,834
Other receivables	204,446	147,546
Prepaid expenses	329,468	305,324
Due from State – accrued vacation and sick leave benefits	1,222,290	1,127,808
Deposits	91,281	74,044
TOTAL ASSETS	\$ 18,629,641	\$18,881,468

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 14,733,766	\$ 14,888,495
Accrued salaries	442,226	470,337
Accrued retirement plan contribution	56,164	80,089
Accrued vacation and sick leave benefits	1,222,290	1,127,808
Due to State of California	57,002	90,040
Unexpended client support	2,021,685	2,129,782
	18,533,133	18,786,551
COMMITMENTS AND CONTINGENCIES (Note 5)		
NET ASSETS		
Unrestricted	96,508	94,917
TOTAL LIABILITIES AND NET ASSETS	\$ 18,629,641	\$18,881,468

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,	
	2009	2008
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contracts – State of California	\$ 167,301,594	\$ 157,730,804
Contributions	7,549	5,988
Special fund-raising event, net of direct expense (\$17,147 - 2009; \$17,102 - 2008)	36,673	47,723
Interest income	362,527	704,591
Other income	49,720	53,576
Total Support and Revenue	<u>167,758,063</u>	<u>158,542,682</u>
EXPENSES		
Program Services		
Direct services	162,155,688	153,060,026
Support Services		
General and administrative	5,600,784	5,482,601
Total Expenses	<u>167,756,472</u>	<u>158,542,627</u>
CHANGE IN NET ASSETS	1,591	55
NET ASSETS AT BEGINNING OF YEAR	94,917	94,862
NET ASSETS AT END OF YEAR	<u>\$ 96,508</u>	<u>\$ 94,917</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>Support 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>
TOTAL EXPENSES	<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 STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Program Services</u>	<u>Support Services</u>	
	<u>Direct Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries	\$ 12,921,150	\$ 2,042,454	\$ 14,963,604
Employee benefits	2,711,925	468,534	3,180,459
Payroll taxes	<u>199,949</u>	<u>30,953</u>	<u>230,902</u>
Total Salaries and Related Expenses	15,833,024	2,541,941	18,374,965
Purchase of services:			
Out of home	38,779,369		38,779,369
Day programs	45,420,596		45,420,596
Transportation	12,350,187		12,350,187
Other purchase of services	40,435,310		40,435,310
Equipment rental		38,122	38,122
Equipment maintenance		169,197	169,197
Facility rent		1,586,050	1,586,050
Communication		101,023	101,023
General office expenses		123,667	123,667
Postage		81,162	81,162
Printing		38,304	38,304
Insurance		156,773	156,773
Legal fees		83,786	83,786
Board of Directors' expenses		12,614	12,614
Equipment purchases		65,749	65,749
Contract consultants	52,632	155,404	208,036
Travel	188,908	22,701	211,609
General expenses		162,729	162,729
Professional fees		42,800	42,800
Dues		77,114	77,114
Interest expense and bank fees		<u>23,465</u>	<u>23,465</u>
TOTAL EXPENSES	<u>\$ 153,060,026</u>	<u>\$ 5,482,601</u>	<u>\$ 158,542,627</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,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,591	\$ 55
Adjustments to reconcile change in net assets to net cash from operating activities:		
(Increase) decrease in:		
Cash - client trust funds	70,474	505,287
Contracts receivable - State of California	9,205,638	(10,536,692)
Other receivables	(56,900)	28,492
Prepaid expenses	(24,144)	31,532
Due from State - accrued vacation and sick leave benefits	(94,482)	(160,753)
Deposits	(17,237)	
Increase (decrease) in:		
Accounts payable	(154,729)	1,560,688
Accrued salaries	(28,111)	57,971
Accrued retirement plan contribution	(23,925)	(10,614)
Accrued vacation and sick leave benefits	94,482	160,753
Due to State of California	(33,038)	(89,960)
Unexpended client support	(108,097)	(598,929)
Net Cash Provided By (Used In) Operating Activities	<u>8,831,522</u>	<u>(9,052,170)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(1,659)	(2,619)
Net Cash Used In Investing Activities	<u>(1,659)</u>	<u>(2,619)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,829,863	(9,054,789)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>2,561,249</u>	<u>11,616,038</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 11,391,112</u>	<u>\$ 2,561,249</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the years ended June 30, 2009 and 2008 for interest totaled \$34,139 and \$2,067, 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, 2009 AND 2008**

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 \$168,933,494 and \$157,192,595 for the 2008-2009 and 2007-2008 contract years, respectively. Actual net expenditures under the regional center contracts for the 2008-2009 and 2007-2008 contracts were \$166,983,388 and \$157,069,105, respectively, as of June 30, 2009.

**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, 2009 AND 2008**

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.

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.

**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, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

The Organization applies Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. As of June 30, 2009 and 2008, the Organization had no temporarily or permanently restricted net assets.

Contributions

The Organization also applies SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions.

Concentration of Credit Risk

At June 30, 2009 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 be covered by insurance.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments consist of a certificate of deposit that is carried at cost, which approximates fair value.

**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, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Contracts Receivable – State of California

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

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, 2009 and 2008, equipment purchases totaled \$99,500 and \$65,749, respectively.

Accrued Vacation and Sick Leave Benefits

The Center has accrued a liability for leave benefits earned by its employees in accordance with SFAS No. 43, *Accounting for Compensated Absences*. However, such benefits are reimbursed under the DDS contract only when actually paid. The Center has also recorded a receivable from the DDS 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.

Tax Status

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.

**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, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 requires companies to recognize the effect of income tax positions only if those positions are more likely than not of being sustained.

On December 30, 2008, FASB Staff Position FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, deferred the effective date of FIN 48 for certain nonpublic enterprises, including nonprofit entities, for annual financial statements for periods beginning on or after December 15, 2008. The deferral is to provide the FASB time to develop guidance on the application of FIN 48 by nonprofit entities, such as the Organization. As a result, the Organization has deferred the adoption of FIN 48. Management cannot determine at this time the impact, if any, FIN 48 may have on the Organization's activities.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Among other things, SFAS 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. This statement did not have a material effect on the Organization's financial statements. In connection with the adoption of SFAS 165, the Organization has evaluated subsequent events through the date financial statements were issued for the year ended June 30, 2009.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
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FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements (Continued)

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*, (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. SFAS 168 does not change GAAP and will not have a material impact on the Organization’s financial statements.

NOTE 2 – Contracts Receivable/Contract Advances – State of California

As of June 30, 2009 and 2008, the DDS had advanced the Center \$41,504,279 and \$19,564,341, 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:

	June 30,	
	2009	2008
Contracts receivable	\$ 43,551,475	\$ 30,817,175
Contract advances	(41,504,279)	(19,564,341)
Net contract receivable	<u>\$ 2,047,196</u>	<u>\$ 11,252,834</u>

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 3 – Cash - Client Trust Funds and Unexpended Client Support

The Center 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 Center and are restricted for client support. The following is a summary of client support and expenses not reported in the statements of activities:

	For the Year Ended June 30,	
	2009	2008
Support:		
Social Security and other client support	<u>\$ 19,800,358</u>	<u>\$ 18,966,923</u>
Disbursements:		
Out of home	\$ 14,566,385	\$ 14,141,786
Other disbursements	<u>5,233,973</u>	<u>4,825,137</u>
	<u>\$ 19,800,358</u>	<u>\$ 18,966,923</u>

NOTE 4 – Employee Benefit Plan

The Center 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, 2009 and 2008 was \$1,741,167 and \$1,894,573, respectively.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
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FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 5 – Commitments and Contingencies

Commitments

The Center is obligated under two lease agreements, expiring February 2014, for its office facilities. The Center 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 Center.

Future minimum facilities lease commitments are as follows:

<u>Year Ending June 30,</u>	
2010	\$ 1,643,899
2011	1,687,289
2012	1,739,766
2013	1,793,879
2014	<u>1,221,988</u>
	<u>\$ 8,086,821</u>

Total facilities and office equipment rental expense for the years ended June 30, 2009 and 2008 were \$1,769,475 and \$37,795 and \$1,586,050 and \$38,122, respectively.

Contingencies

The Center 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.

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.
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**NOTES TO THE COMBINED FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

NOTE 5 – Commitments and Contingencies (Continued)

Contingencies (Continued)

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 2009/2010 fiscal year as a result of cost control efforts and legislation enacted in July 2009.

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, 2009, and for the year then ended.

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. The Center has a "stop loss" insurance policy in effect to cover claims in excess of \$50,000, up to a limit of \$250,000 for each policy period.

Legal Proceedings

The Center 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 in the Center's financial position or activities.

NOTE 6 – Subsequent Event

Subsequent to year-end, the Center secured a line of credit with a bank whereby it may borrow up to \$33,000,000 at the bank's prime rate. This line of credit agreement was entered on July 1, 2009 and matured on October 1, 2009.

**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, 2009**

	<u>Center</u>	<u>Foundation</u>	<u>Combined Balance</u>
ASSETS			
Cash and cash equivalents	\$ 11,353,786	\$ 37,326	\$ 11,391,112
Cash - client trust funds	3,285,377		3,285,377
Investments		58,471	58,471
Contracts receivable - State of California	2,047,196		2,047,196
Other receivables	204,435	11	204,446
Prepaid expenses	328,768	700	329,468
Due from State - accrued vacation and sick leave benefits	1,222,290		1,222,290
Deposits	<u>91,281</u>		<u>91,281</u>
TOTAL ASSETS	<u>\$ 18,533,133</u>	<u>\$ 96,508</u>	<u>\$ 18,629,641</u>
LIABILITIES			
Accounts payable	\$ 14,733,766		\$ 14,733,766
Accrued salaries	442,226		442,226
Accrued retirement plan contribution	56,164		56,164
Accrued vacation and sick leave benefits	1,222,290		1,222,290
Due to State of California	57,002		57,002
Unexpended client support	<u>2,021,685</u>		<u>2,021,685</u>
	<u>18,533,133</u>		<u>18,533,133</u>
NET ASSETS			
Unrestricted	<u>None</u>	<u>\$ 96,508</u>	<u>96,508</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,533,133</u>	<u>\$ 96,508</u>	<u>\$ 18,629,641</u>

**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, 2009**

	<u>Center</u>	<u>Foundation</u>	<u>Combined Balance</u>
CHANGE IN UNRESTRICTED NET ASSETS			
SUPPORT AND REVENUE			
Contracts – State of California	\$ 167,301,594		\$ 167,301,594
Contributions		\$ 7,549	7,549
Special fund-raising event, net		36,673	36,673
Interest income	360,825	1,702	362,527
Other income	49,720		49,720
Total Support and Revenue	<u>167,712,139</u>	<u>45,924</u>	<u>167,758,063</u>
EXPENSES			
Program Services			
Direct services	162,116,180	39,508	162,155,688
Supporting Services			
General and administrative	5,595,959	4,825	5,600,784
Total Expenses	<u>167,712,139</u>	<u>44,333</u>	<u>167,756,472</u>
CHANGE IN NET ASSETS	None	1,591	1,591
NET ASSETS AT BEGINNING OF YEAR	<u>None</u>	<u>94,917</u>	<u>94,917</u>
NET ASSETS AT END OF YEAR	<u>None</u>	<u>\$ 96,508</u>	<u>\$ 96,508</u>

**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, 2009**

<u>Federal Grantor/ Pass-Through Grantor/ Grant Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Grant Expenditures</u>
U.S. Department of Health and Human Services Passed through State of California Department of Developmental Services			
Medical Assistance Program (Medicaid; Title XIX)	93.778	HD049017	\$ <u>46,718,373</u>
U.S. Department of Education/ Passed through State of California Department of Developmental Services			
<i>Special Education – Grants for Infants and Families with Disabilities</i>			
Early Intervention Services	84.181	HD049017	3,021,042
Family Resource Center Network	84.181	HD049017	102,384
<i>Rehabilitation Services – Vocational Rehabilitation Grants to States</i>	84.126	HD049017	60,674
<i>ARRA – Special Education – Grants for Infants and Families, Recovery Act</i>	84.393	HD049017	<u>1,002,365</u> <u>4,186,465</u>
			<u>\$ 50,904,838</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 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, 2009, and have issued our report thereon dated January 13, 2010. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.



Long Beach, California
January 13, 2010



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO 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 the compliance of San Gabriel/Pomona Valleys Developmental Services, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 are applicable to each of its major federal programs for the year ended June 30, 2009.

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, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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 that might be 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.

Wendes & McClaughry

Long Beach, California
January 13, 2010

**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, 2009**

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: Medical Assistance Program, (Medicaid; Title XIX), CFDA #93.778 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 \$1,527,145.
7. Auditee qualified as low-risk auditee? - Yes

SECTION II - FINANCIAL STATEMENTS FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None