

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

**CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2018 and 2017

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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.:

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of San Gabriel/Pomona Valleys Developmental Services, Inc. and Richard D. Davis Foundation for the Developmentally Disabled, Inc. (a California nonprofit corporation), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of the Richard D. Davis Foundation for the Developmentally Disabled, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of San Gabriel/Pomona Valleys Developmental Services, Inc. and Richard D. Davis Foundation for the Developmentally Disabled, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedules of consolidated statements of financial position and statements of activities are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2019, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Gabriel/Pomona Valleys Developmental Services, Inc.'s internal control over financial reporting and compliance.



Long Beach, California  
January 9, 2019

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

|  | <b>June 30,</b>      |                      |
|--|----------------------|----------------------|
|  | <b>2018</b>          | <b>2017</b>          |
| <b>ASSETS</b>  |                      |                      |
| Cash and cash equivalents                                    | \$ 7,578,509         | \$ 14,134,012        |
| Cash – client trust funds                                    | 4,518,607            | 4,822,757            |
| Contracts receivable – state of California (net of advances) | 10,892,558           | 2,516,619            |
| Receivable from Intermediate Care Facility vendors           | 4,004,280            | 3,913,992            |
| Other receivables  | 60,096               | 161,389              |
| Prepaid expenses   | 578,948              | 501,907              |
| Due from state – accrued vacation and other leave benefits   | 1,587,893            | 1,513,851            |
| Deposits   | 13,084               | 12,459               |
| <b>TOTAL ASSETS</b>  | <b>\$ 29,233,975</b> | <b>\$ 27,576,986</b> |

**LIABILITIES AND NET ASSETS**

|  |                      |                      |
|--|----------------------|----------------------|
| <b>LIABILITIES</b>                                   |                      |                      |
| Accounts payable                                     | \$ 23,605,488        | \$ 21,615,383        |
| Accrued salaries and payroll taxes                   | 565,474              | 540,614              |
| Retirement plan contribution payable                 | 150,997              | 94,363               |
| Accrued vacation and other leave benefits            | 1,587,893            | 1,513,851            |
| Reserve for unemployment insurance                   | 100,000              | 100,000              |
| Unexpended client trust funds                        | 3,128,818            | 3,594,815            |
|  | 29,138,670           | 27,459,026           |
| <b>COMMITMENTS AND CONTINGENCIES (Notes 4 and 6)</b> |                      |                      |
| <b>NET ASSETS</b>                                    |                      |                      |
| Unrestricted   | 95,305               | 117,960              |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>              | <b>\$ 29,233,975</b> | <b>\$ 27,576,986</b> |

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

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

|   | <b>For the Year Ended</b> |                          |
|---|---------------------------|--------------------------|
|   | <b>June 30,</b>           |                          |
|   | <b>2018</b>               | <b>2017</b>              |
| <b>CHANGE IN UNRESTRICTED NET ASSETS</b>  |                           |                          |
| <b>SUPPORT AND REVENUE</b>  |                           |                          |
| Contracts – state of California   | \$ 241,526,749            | \$ 226,189,430           |
| Intermediate Care Facility supplemental services income                                       | 7,778,986                 | 7,963,833                |
| Contributions   | 6,572                     | 5,327                    |
| Special fund-raising event, net of direct expenses of<br>((\$27,632 - 2018; \$27,315 - 2017)) | 47,178                    | 56,080                   |
| Interest income   | 33,535                    | 16,286                   |
| Other income  | 39,830                    | 36,759                   |
| Total Support and Revenue   | <u>249,432,850</u>        | <u>234,267,715</u>       |
| <b>EXPENSES</b>   |                           |                          |
| Program Services:   |                           |                          |
| Direct client services  | 246,125,165               | 230,941,325              |
| Supporting Services:  |                           |                          |
| General and administrative  | <u>3,330,340</u>          | <u>3,355,233</u>         |
| Total Expenses  | <u>249,455,505</u>        | <u>234,296,558</u>       |
| <b>CHANGE IN NET ASSETS</b>   | (22,655)                  | (28,843)                 |
| <b>NET ASSETS AT BEGINNING OF YEAR</b>  | <u>117,960</u>            | <u>146,803</u>           |
| <b>NET ASSETS AT END OF YEAR</b>  | <u><u>\$ 95,305</u></u>   | <u><u>\$ 117,960</u></u> |

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

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018**

|                                     | <u>Program<br/>Services</u>           | <u>Supporting<br/>Services</u>        |                           |
|-------------------------------------|---------------------------------------|---------------------------------------|---------------------------|
|                                     | <u>Direct<br/>Client<br/>Services</u> | <u>General and<br/>Administrative</u> | <u>Total<br/>Expenses</u> |
| Salaries                            | \$ 18,669,473                         | \$ 2,061,615                          | \$ 20,731,088             |
| Employee benefits                   | 4,361,781                             | 502,886                               | 4,864,667                 |
| Payroll taxes                       | <u>329,922</u>                        | <u>24,552</u>                         | <u>354,474</u>            |
| Total Salaries and Related Expenses | 23,361,176                            | 2,589,053                             | 25,950,229                |
| Purchase of services:               |                                       |                                       |                           |
| Residential care facilities         | 71,778,645                            |                                       | 71,778,645                |
| Day programs                        | 80,240,483                            |                                       | 80,240,483                |
| Transportation                      | 14,184,594                            |                                       | 14,184,594                |
| Other purchase of services          | 52,103,669                            |                                       | 52,103,669                |
| Equipment rental                    | 44,174                                | 4,908                                 | 49,082                    |
| Equipment maintenance               | 156,014                               | 17,335                                | 173,349                   |
| Facility rent                       | 2,370,808                             | 263,423                               | 2,634,231                 |
| Communication                       | 116,942                               | 12,994                                | 129,936                   |
| General office expenses             | 213,809                               | 23,756                                | 237,565                   |
| Postage                             | 120,902                               | 13,433                                | 134,335                   |
| Printing                            | 33,991                                | 3,777                                 | 37,768                    |
| Insurance                           | 162,960                               | 18,107                                | 181,067                   |
| Legal fees                          |                                       | 137,397                               | 137,397                   |
| Board of Directors' expenses        |                                       | 12,698                                | 12,698                    |
| Equipment purchases                 | 126,070                               | 14,008                                | 140,078                   |
| Contract consultants                | 469,422                               | 88,214                                | 557,636                   |
| Travel                              | 238,947                               | 23,243                                | 262,190                   |
| General expenses                    | 330,147                               | 36,683                                | 366,830                   |
| Accounting fees                     |                                       | 59,449                                | 59,449                    |
| Dues                                | 72,412                                | 8,046                                 | 80,458                    |
| Bank fees and interest expense      |                                       | <u>3,816</u>                          | <u>3,816</u>              |
| <b>TOTAL EXPENSES</b>               | <u>\$ 246,125,165</u>                 | <u>\$ 3,330,340</u>                   | <u>\$ 249,455,505</u>     |

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

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2017**

|                                     | <u>Program<br/>Services</u>           | <u>Supporting<br/>Services</u>        |                           |
|-------------------------------------|---------------------------------------|---------------------------------------|---------------------------|
|                                     | <u>Direct<br/>Client<br/>Services</u> | <u>General and<br/>Administrative</u> | <u>Total<br/>Expenses</u> |
| Salaries                            | \$ 18,138,726                         | \$ 2,099,126                          | \$ 20,237,852             |
| Employee benefits                   | 4,202,855                             | 485,194                               | 4,688,049                 |
| Payroll taxes                       | 309,453                               | 26,674                                | 336,127                   |
| Total Salaries and Related Expenses | 22,651,034                            | 2,610,994                             | 25,262,028                |
| Purchase of services:               |                                       |                                       |                           |
| Residential care facilities         | 68,986,598                            |                                       | 68,986,598                |
| Day programs                        | 76,151,292                            |                                       | 76,151,292                |
| Transportation                      | 13,788,672                            |                                       | 13,788,672                |
| Other purchase of services          | 45,294,878                            |                                       | 45,294,878                |
| Equipment rental                    | 43,460                                | 4,990                                 | 48,450                    |
| Equipment maintenance               | 220,617                               | 25,333                                | 245,950                   |
| Facility rent                       | 2,362,912                             | 271,327                               | 2,634,239                 |
| Communication                       | 116,989                               | 13,434                                | 130,423                   |
| General office expenses             | 138,462                               | 15,899                                | 154,361                   |
| Postage                             | 55,484                                | 6,371                                 | 61,855                    |
| Printing                            | 29,954                                | 3,439                                 | 33,393                    |
| Insurance                           | 170,223                               | 19,546                                | 189,769                   |
| Legal fees                          |                                       | 100,423                               | 100,423                   |
| Board of Directors' expenses        |                                       | 10,169                                | 10,169                    |
| Equipment purchases                 | 293,677                               | 33,722                                | 327,399                   |
| Contract consultants                | 8,527                                 | 87,112                                | 95,639                    |
| Travel                              | 244,536                               | 29,217                                | 273,753                   |
| General expenses                    | 311,839                               | 35,808                                | 347,647                   |
| Accounting fees                     |                                       | 66,249                                | 66,249                    |
| Dues                                | 72,171                                | 8,287                                 | 80,458                    |
| Bank fees and interest expense      |                                       | 12,913                                | 12,913                    |
| <b>TOTAL EXPENSES</b>               | <u>\$ 230,941,325</u>                 | <u>\$ 3,355,233</u>                   | <u>\$ 234,296,558</u>     |

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



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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

|   | <b>For the Year Ended</b> |                      |
|---|---------------------------|----------------------|
|   | <b>June 30,</b>           |                      |
|   | <b>2018</b>               | <b>2017</b>          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                           |                      |
| Change in net assets  | \$ (22,655)               | \$ (28,843)          |
| Adjustments to reconcile change in net assets<br>to net cash from operating activities: |                           |                      |
| (Increase) decrease in:   |                           |                      |
| Cash – client trust funds   | 304,150                   | (661,351)            |
| Contracts receivable – state of California  | (8,375,939)               | (613,902)            |
| Receivable from Intermediate Care Facility vendors                                      | (90,288)                  | (729,281)            |
| Other receivables   | 101,293                   | (37,730)             |
| Prepaid expenses  | (77,041)                  | (161,370)            |
| Due from state - accrued vacation and<br>other leave benefits                           | (74,042)                  | (298,119)            |
| Deposits  | (625)                     | 2,300                |
| Increase (decrease) in:   |                           |                      |
| Accounts payable  | 1,990,105                 | 3,274,050            |
| Accrued salaries and payroll taxes  | 24,860                    | 149,098              |
| Retirement plan contribution payable  | 56,634                    | 10,799               |
| Accrued vacation and other leave benefits   | 74,042                    | 298,119              |
| Unexpended client trust funds   | (465,997)                 | 788,138              |
| Net Cash Provided By (Used In) Operating Activities                                     | <u>(6,555,503)</u>        | <u>1,991,908</u>     |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | <b>(6,555,503)</b>        | <b>1,991,908</b>     |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                                   | <u>14,134,012</u>         | <u>12,142,104</u>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | <u>\$ 7,578,509</u>       | <u>\$ 14,134,012</u> |

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 – Organization and Summary of Significant Accounting Policies**

*Organization*

San Gabriel/Pomona Valleys Developmental Services, Inc. (the Center) was incorporated on April 14, 1986 as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State of California. In accordance with the Act, the Center, under the name of 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 Center's 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. Under the terms of the contract, funded expenditures are not to exceed \$247,942,111 for the 2017-2018 contract year and \$241,099,042 for the 2016-2017 contract year. Actual net expenditures under the regional center contract for the 2017-2018 contract year was \$237,458,829 and \$227,356,662 for the 2016-2017 contract year as of June 30, 2018.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

***Basis of Accounting and Consolidation***

The consolidated financial statements have been prepared on the accrual basis of accounting and, accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Reimbursements from the state are considered earned when the qualifying expense is incurred.

The consolidated 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. Any intercompany transactions and accounts are eliminated in the accompanying consolidated 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 financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the Organization are classified and reported as described below:

**Unrestricted Net Assets** – Net assets that are not subject to donor-imposed restrictions.

**Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

*Financial Statement Presentation (Continued)*

**Permanently Restricted Net Assets** – Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

As of June 30, 2018, 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 nature of any donor-imposed restrictions.

Contributions, including pledges, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

All contributions are considered to be available for unrestricted use unless specially restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted contributions and net assets have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

*Use of Estimates and Assumptions*

Management uses estimates and assumptions in preparing the consolidated 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 consolidated financial statements.

*Cash and Cash Equivalents*

For the purpose of the consolidated statement of cash flows, the Organization considers all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents. At June 30, 2018 and throughout the year, the Organization has maintained cash balances in its bank in excess of federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

*Contracts Receivable – State of California*

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

*Receivables from Intermediate Care Facility Vendors*

The Centers for Medicare and Medicaid Services (CMS) approved federal financial participation in the funding of day and related transportation services purchased by the Center for consumers who reside in Intermediate Care Facilities (ICFs). CMS agreed that the day and related transportation services are part of the ICF service; however, the federal rules allow for only one provider of the ICF service. Accordingly, all the Medicaid funding for the ICF residents must go through the applicable ICF provider.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

*Receivables from Intermediate Care Facility Vendors (Continued)*

The DDS has directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. The Center was directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICFs. DDS advances the amount according to the state claim to the ICFs. The ICFs are then required to pass on the payments received, as well as the Center's administrative fee, to the Center within 30 days of receipt of funds from the State Controller's Office. The Center receives a 1.5% administrative fee based on the funds received to cover the additional workload.

*State Equipment*

Pursuant to the terms of the contract with the DDS, equipment purchases become the property of the state and, accordingly, are charged as expense when incurred. For the years ended June 30, 2018 and 2017, equipment purchases totaled \$140,078 and \$327,399, respectively.

*Accrued Vacation and Other Leave Benefits*

The Organization has accrued a liability for vacation and other 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 consolidated statements of functional expenses allocate expenses for all funds to the program and supporting service categories based on a direct cost basis for purchase of services, salaries, and related expenses. Operating expenses are allocated based on a percentage of salaries and related expenses per category to total salaries and related expenses, except for certain expenses that are designated as program or supporting services.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 – Organization and 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 (IRC) and Section 23701(d) of the Revenue and Taxation Code.

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.

***Recently Issued Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018 (fiscal year ending June 30, 2020 for the Organization). The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, “*Leases*” (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments be recorded. The ASU is effective for the Organization’s fiscal years beginning after December 15, 2019 (fiscal year ending June 30, 2021 for the Organization). The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

***Recently Issued Accounting Pronouncements (Continued)***

In August 2016, the FASB released ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The update amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes relate to: (a) presentation of classes of net assets, (b) the presentation of underwater endowment funds and related disclosures, (c) recognition of the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) statement of functional expense, (e) disclosure of quantitative and qualitative information regarding liquidity and availability of resources; and a few smaller items. The ASU is effective for fiscal years beginning after December 15, 2017 (fiscal year ending June 30, 2019 for the Organization). The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08)*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

***Subsequent Events***

The Organization's management has evaluated subsequent events from the consolidated statement of financial position date through January 9, 2019, the date the consolidated financial statements were available to be issued for the year ended June 30, 2018, 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 CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

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. Since the Center is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying consolidated statements of activities.

The following is a summary of client support and expenses not reported in the consolidated statements of activities:

|  | <b>For the Year Ended<br/>June 30,</b> |                      |
|--|--|----------------------|
|  | <b>2018</b>                            | <b>2017</b>          |
| Support:                                 |  |                      |
| Social Security and other client support | <u>\$ 21,185,118</u>                   | <u>\$ 20,820,281</u> |
| Disbursements:                           |  |                      |
| Residential Care                         | \$ 16,108,067                          | \$ 16,134,426        |
| Other disbursements                      | <u>5,077,051</u>                       | <u>4,685,855</u>     |
|  | <u>\$ 21,185,118</u>                   | <u>\$ 20,820,281</u> |

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

The Organization’s major source of revenue is from the state of California. Each fiscal year, the Organization enters into a new contract with the state for a specified funding amount subject to budget amendments. Revenue from the state is recognized monthly when a claim for reimbursement of actual expenses is filed with the state. These reimbursement claims are paid at the state’s discretion either through direct payments to the Organization or by applying the claims reimbursements against advances already made to the Organization.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 3 – Contracts Receivable/Contract Advances - State of California (Continued)**

As of June 30, 2018 and 2017, the DDS had advanced the Organization \$37,289,372 and \$59,415,456, respectively, under the regional center contracts. For consolidated financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from DDS as follows:

|                          | <b>June 30,</b>      |                     |
|--------------------------|----------------------|---------------------|
|                          | <b>2018</b>          | <b>2017</b>         |
| Contracts receivable     | \$ 48,181,930        | \$ 61,932,075       |
| Contract advances        | <u>(37,289,372)</u>  | <u>(59,415,456)</u> |
| Net contracts receivable | <u>\$ 10,892,558</u> | <u>\$ 2,516,619</u> |

The Organization has renewed its contract for the fiscal year ending June 30, 2019. The contract provides for initial funding of \$200,524,437.

**NOTE 4 – Short-Term Borrowings**

The Organization has a revolving line of credit with a bank whereby it could borrow up to \$30,000,000 until June 30, 2019. Interest is payable at the greater of 2.25%, or 1% below the bank's prime rate, with an effective rate of 4.00% as of June 30, 2018. There was no balance outstanding as of June 30, 2018 and 2017.

**NOTE 5 – Employee Benefit Plans**

Effective July 1, 2004, the Center adopted an Internal Revenue Code (IRC) §401(a) retirement benefit savings plan (the 401(a) Plan). All employees are required to enter the 401(a) Plan immediately upon employment. Contributions to the 401(a) Plan are based on a percentage of each participant's compensation. Employee contributions are not permitted in the 401(a) Plan.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 5 – Employee Benefit Plans (Continued)**

The Center contributes to an IRC §403(b) retirement plan (the 403(b) Plan) for all eligible employees. All employees are eligible to enter the 403(b) Plan immediately upon employment. Participants can contribute up to the federal maximum limit. The Center is not required to match a participant’s contribution. The Center may make discretionary contributions to the 403(b) Plan allocated in direct proportion to the participant’s pay, up to a set percentage of the participant’s salary. Loans are permitted, subject to the terms of the 403(b) Plan document and applicant contract.

A deferred compensation plan qualified under IRC §457(b) was approved and implemented as of February 1, 2002. All employees may contribute up to the maximum defined by law. This plan has no provisions for employer contributions.

The total employer retirement expense for the years ended June 30, 2018 and 2017 was \$2,518,448 and \$2,447,244, respectively.

**NOTE 6 – Commitments and Contingencies**

*Operating Leases*

The Organization is obligated under an operating lease agreement for its office facilities, expiring February 2024, with two options to renew for five years each.

Future minimum facilities lease commitments are as follows:

| <b>Year Ending<br/>June 30,</b> |                      |
|---------------------------------|----------------------|
| 2019                            | \$ 2,628,000         |
| 2020                            | 2,628,000            |
| 2021                            | 2,628,000            |
| 2022                            | 2,628,000            |
| 2023                            | 2,628,000            |
| Thereafter                      | <u>1,752,000</u>     |
|                                 | <u>\$ 14,892,000</u> |

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 6 – Commitments and Contingencies (Continued)**

*Operating Leases (Continued)*

Total facilities and office equipment rental expense for the years ended June 30, 2018 and 2017 totaled \$2,683,313 and \$2,682,689, respectively.

*Contingencies*

**Funding**

In accordance with the terms of the DDS contract, an audit may be performed by an authorized DDS representative. Should such 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 consolidated financial statements at June 30, 2018 and 2017, and for the years then ended.

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 DDS determines that the Center has insufficient funds to meet its contractual obligations, the DDS shall make best efforts to secure additional funds and/or provide the Center with regulatory and statutory relief.

**Unemployment Insurance**

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, 2018 and 2017, 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.**

**SUPPLEMENTAL INFORMATION  
SCHEDULE OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2018**

|   | <u>Center</u>        | <u>Foundation</u> | <u>Consolidated<br/>Balance</u> |
|---|----------------------|-------------------|---------------------------------|
| <b>ASSETS</b>   |                      |                   |                                 |
| Cash and cash equivalents                                     | \$ 7,481,704         | \$ 96,805         | \$ 7,578,509                    |
| Cash – client trust funds                                     | 4,518,607            |                   | 4,518,607                       |
| Contracts receivable – state of California, net               | 10,892,558           |                   | 10,892,558                      |
| Receivable from Intermediate Care                             |                      |                   |                                 |
| Facility vendors  | 4,004,280            |                   | 4,004,280                       |
| Other receivables   | 52,596               | 7,500             | 60,096                          |
| Prepaid expenses  | 577,948              | 1,000             | 578,948                         |
| Due from state - accrued vacation and<br>other leave benefits | 1,587,893            |                   | 1,587,893                       |
| Deposits  | 13,084               |                   | 13,084                          |
| <b>TOTAL ASSETS</b>   | <u>\$ 29,128,670</u> | <u>\$ 105,305</u> | <u>\$ 29,233,975</u>            |
| <b>LIABILITIES</b>  |                      |                   |                                 |
| Accounts payable  | \$ 23,595,488        | \$ 10,000         | \$ 23,605,488                   |
| Accrued salaries and payroll taxes                            | 565,474              |                   | 565,474                         |
| Retirement plan contribution payable                          | 150,997              |                   | 150,997                         |
| Accrued vacation and other leave benefits                     | 1,587,893            |                   | 1,587,893                       |
| Reserve for unemployment insurance                            | 100,000              |                   | 100,000                         |
| Unexpended client trust funds                                 | 3,128,818            |                   | 3,128,818                       |
|   | <u>29,128,670</u>    | <u>10,000</u>     | <u>29,138,670</u>               |
| <b>NET ASSETS</b>   |                      |                   |                                 |
| Unrestricted  | <u>None</u>          | <u>95,305</u>     | <u>95,305</u>                   |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                       | <u>\$ 29,128,670</u> | <u>\$ 105,305</u> | <u>\$ 29,233,975</u>            |

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

**SUPPLEMENTAL INFORMATION  
SCHEDULE OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2017**

|   | Center               | Foundation        | Consolidated<br>Balance |
|---|----------------------|-------------------|-------------------------|
| <b>ASSETS</b>   |                      |                   |                         |
| Cash and cash equivalents                                     | \$ 14,017,127        | \$ 116,885        | \$ 14,134,012           |
| Cash – client trust funds                                     | 4,822,757            |                   | 4,822,757               |
| Contracts receivable – state of California, net               | 2,516,619            |                   | 2,516,619               |
| Receivable from Intermediate Care                             |                      |                   |                         |
| Facility vendors  | 3,913,992            |                   | 3,913,992               |
| Other receivables   | 161,389              |                   | 161,389                 |
| Prepaid expenses  | 500,832              | 1,075             | 501,907                 |
| Due from state - accrued vacation and<br>other leave benefits | 1,513,851            |                   | 1,513,851               |
| Deposits  | 12,459               |                   | 12,459                  |
| <b>TOTAL ASSETS</b>   | <b>\$ 27,459,026</b> | <b>\$ 117,960</b> | <b>\$ 27,576,986</b>    |
| <b>LIABILITIES</b>  |                      |                   |                         |
| Accounts payable  | \$ 21,615,383        |                   | \$ 21,615,383           |
| Accrued salaries and payroll taxes                            | 540,614              |                   | 540,614                 |
| Retirement plan contribution payable                          | 94,363               |                   | 94,363                  |
| Accrued vacation and other leave benefits                     | 1,513,851            |                   | 1,513,851               |
| Reserve for unemployment insurance                            | 100,000              |                   | 100,000                 |
| Unexpended client trust funds                                 | 3,594,815            |                   | 3,594,815               |
|   | 27,459,026           |                   | 27,459,026              |
| <b>NET ASSETS</b>   |                      |                   |                         |
| Unrestricted  | None                 | \$ 117,960        | 117,960                 |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                       | <b>\$ 27,459,026</b> | <b>\$ 117,960</b> | <b>\$ 27,576,986</b>    |

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

**SUPPLEMENTAL INFORMATION  
SCHEDULE OF CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

|   | <b>Center</b>  | <b>Foundation</b> | <b>Consolidated<br/>Balance</b> |
|---|----------------|-------------------|---------------------------------|
| <b>CHANGE IN UNRESTRICTED NET ASSETS</b>    |                |                   |                                 |
| <b>SUPPORT AND REVENUE</b>                  |                |                   |                                 |
| Contracts – state of California             | \$ 241,526,749 |                   | \$ 241,526,749                  |
| Intermediate Care Facility                  |                |                   |                                 |
| supplemental services income                | 7,778,986      |                   | 7,778,986                       |
| Contributions                               |                | \$ 6,572          | 6,572                           |
| Special fund-raising event, net of expenses |                | 47,178            | 47,178                          |
| Interest income                             | 33,481         | 54                | 33,535                          |
| Other income                                | 39,830         |                   | 39,830                          |
| Total Support and Revenue                   | 249,379,046    | 53,804            | 249,432,850                     |
| <b>EXPENSES</b>                             |                |                   |                                 |
| Program Services:                           |                |                   |                                 |
| Direct client services                      | 246,052,218    | 72,947            | 246,125,165                     |
| Supporting Services:                        |                |                   |                                 |
| General and administrative                  | 3,326,828      | 3,512             | 3,330,340                       |
| Total Expenses                              | 249,379,046    | 76,459            | 249,455,505                     |
| <b>CHANGE IN NET ASSETS</b>                 | None           | (22,655)          | (22,655)                        |
| <b>NET ASSETS AT BEGINNING OF YEAR</b>      | None           | 117,960           | 117,960                         |
| <b>NET ASSETS AT END OF YEAR</b>            | None           | \$ 95,305         | \$ 95,305                       |

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

**SUPPLEMENTAL INFORMATION  
SCHEDULE OF CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

|  | <b>Center</b>  | <b>Foundation</b> | <b>Consolidated<br/>Balance</b> |
|--|----------------|-------------------|---------------------------------|
| <b>CHANGE IN UNRESTRICTED NET ASSETS</b>                   |                |                   |                                 |
| <b>SUPPORT AND REVENUE</b>                                 |                |                   |                                 |
| Contracts – state of California                            | \$ 226,189,430 |                   | \$ 226,189,430                  |
| Intermediate Care Facility<br>supplemental services income | 7,963,833      |                   | 7,963,833                       |
| Contributions  |                | \$ 5,327          | 5,327                           |
| Special fund-raising event, net of expenses                |                | 56,080            | 56,080                          |
| Interest income  | 16,220         | 66                | 16,286                          |
| Other income   | 36,759         |                   | 36,759                          |
| Total Support and Revenue                                  | 234,206,242    | 61,473            | 234,267,715                     |
| <b>EXPENSES</b>  |                |                   |                                 |
| Program Services:  |                |                   |                                 |
| Direct client services                                     | 230,854,700    | 86,625            | 230,941,325                     |
| Supporting Services:                                       |                |                   |                                 |
| General and administrative                                 | 3,351,542      | 3,691             | 3,355,233                       |
| Total Expenses   | 234,206,242    | 90,316            | 234,296,558                     |
| <b>CHANGE IN NET ASSETS</b>                                | None           | (28,843)          | (28,843)                        |
| <b>NET ASSETS AT BEGINNING OF YEAR</b>                     | None           | 146,803           | 146,803                         |
| <b>NET ASSETS AT END OF YEAR</b>                           | None           | \$ 117,960        | \$ 117,960                      |



**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

| <u>Federal Grantor/<br/>Pass-Through Grantor/<br/>Program or Cluster Title</u>   | <u>Federal<br/>CFDA<br/>Number</u> | <u>Grant<br/>Identification<br/>Number</u> | <u>Grant<br/>Expenditures</u> |
|--|------------------------------------|--|-------------------------------|
| <b>U.S. Department of Education<br/>Passed through State of<br/>California Department of<br/>Developmental Services</b>                    |                                    |  |                               |
| Special Education - Grants for Infants<br>and Families with Disabilities   | 84.181                             | H181A170037                                | \$ 2,208,963                  |
| <b>U.S. Corporation for National<br/>Community Service Passed through<br/>State of California Department of<br/>Developmental Services</b> |                                    |  |                               |
| Foster Grandparent Program   | 94.011                             | 16SFPCA002                                 | <u>243,555</u>                |
|  |                                    |  | <u>\$ 2,452,518</u>           |

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of San Gabriel/Pomona Valleys Developmental Services, Inc. under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of San Gabriel/Pomona Valleys Developmental Services, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of San Gabriel/Pomona Valleys Developmental Services, Inc.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting and based on state contract budget allocations. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C - INDIRECT COST RATE**

San Gabriel/Pomona Valleys Developmental Services, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of San Gabriel/Pomona Valleys Developmental Services, Inc. (a California nonprofit corporation), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 9, 2019. The financial statements of Richard D. Davis Foundation for the Developmentally Disabled, Inc. were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Richard D. Davis Foundation for the Developmental Disabled, Inc.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered San Gabriel/Pomona Valleys Developmental Services, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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. Accordingly, we do not express an opinion on the effectiveness of San Gabriel/Pomona Valleys Developmental Services, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of a deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether San Gabriel/Pomona Valleys Developmental Services, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Long Beach, California  
January 9, 2019

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited San Gabriel/Pomona Valleys Developmental Services, Inc.'s compliance with the types of compliance requirements described in the *OMB 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, 2018. 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.

***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of San Gabriel/Pomona Valleys Developmental Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of San Gabriel/Pomona Valleys Developmental Services, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, San Gabriel/Pomona Valleys Developmental Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2018.

### **Report on 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 types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered San Gabriel/Pomona Valleys Developmental Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Winder, Inc.*

Long Beach, California  
January 9, 2019

**SAN GABRIEL/POMONA VALLEYS DEVELOPMENTAL SERVICES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

The auditors' report expresses an unmodified opinion on whether the consolidated financial statements of San Gabriel/Pomona Valleys Developmental Services, Inc. and Richard D. Davis Foundation for the Developmentally Disabled, Inc. were prepared in accordance with generally accepted accounting principles.

Internal control over financial reporting:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Noncompliance material to consolidated financial statements noted? – No

**Federal awards**

Internal control over major programs:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Type of auditors' report issued on compliance for major programs? – Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? – No

Identification of major programs:

Special Education – Grants for Infants and Families with Disabilities CFDA #84.181

Dollar threshold used to distinguish between Type A and Type B programs was \$750,000.

Auditee qualified as low-risk auditee? – Yes

**FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None