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

Consolidated Financial Statements

June 30, 2019 and 2018

WINDES

AUDIT | TAX | ADVISORY

CONTENTS

Independent Auditors' Report....1-2

Consolidated Statements of Financial Position.... 3

Consolidated Statements of Activities 4

Consolidated Statements of Functional Expenses....5-6

Consolidated Statements of Cash Flows.... 7

Notes to the Consolidated Financial Statements 8-19

Supplemental Information:

Schedules of Consolidating Statements of Financial Position as of June 30, 2019 and 2018 20-21

Schedules of Consolidating Statements of Activities for the Years Ended June 30, 2019 and 2018 22-23

Schedule of Expenditures of Federal Awards for the Year Ended June 30, 2019....24

Notes to Schedule of Expenditures of Federal Awards....25

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* 26-27

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance....28-30

Schedule of Findings and Questioned Costs....31

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, 2019 and 2018, 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 auditors' 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 auditors consider 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1, during the year ended June 30, 2019, San Gabriel/Pomona Valleys Developmental Services, Inc. and Richard D. Davis Foundation for the Developmentally Disabled, Inc. adopted Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic): Presentation of Financial Statements of Not-for-Profit Entities. Our opinion is not modified with respect to this matter.

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 consolidate financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 8, 2020, 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.

Windes, Inc.

Long Beach, California
January 8, 2020

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2019	June 30, 2018
ASSETS		
Cash and cash equivalents	$ 10,598,200	$ 7,578,509
Cash – client trust funds	3,870,495	4,518,607
Contracts receivable – state of California (net of advances)	9,338,436	10,892,558
Receivable from Intermediate Care Facility vendors	3,711,572	4,004,280
Other receivables	49,006	60,096
Prepaid expenses	565,443	578,948
Due from state – accrued vacation and other leave benefits	1,565,236	1,587,893
Deposits	13,084	13,084
TOTAL ASSETS	$ 29,711,472	$ 29,233,975

LIABILITIES AND NET ASSETS

	June 30, 2019	June 30, 2018
LIABILITIES		
Accounts payable	$ 24,796,808	$ 23,605,488
Accrued salaries and payroll taxes	526,922	565,474
Retirement plan contribution payable	152,551	150,997
Accrued vacation and other leave benefits	1,565,236	1,587,893
Reserve for unemployment insurance	100,000	100,000
Unexpended client trust funds	2,493,082	3,128,818
	29,634,599	29,138,670
COMMITMENTS AND CONTINGENCIES (Notes 4 and 6)		
NET ASSETS		
Without donor restrictions	76,873	95,305
TOTAL LIABILITIES AND NET ASSETS	$ 29,711,472	$ 29,233,975

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

	For the Year Ended June 30, 2019	2018
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
SUPPORT AND REVENUE		
Contracts – state of California	$ 254,959,762	$ 241,526,749
Intermediate Care Facility supplemental services income	6,947,669	7,778,986
Contributions	12,350	6,572
Special fund-raising event, net of direct expenses of ($25,461 - 2019; $27,632 - 2018)	51,734	47,178
Interest income	155,421	33,535
Other income	37,899	39,830
Total Support and Revenue	262,164,835	249,432,850
EXPENSES		
Program Services:		
Direct client services	259,035,609	246,125,165
Supporting Services:		
General and administrative	3,147,658	3,330,340
Total Expenses	262,183,267	249,455,505
CHANGE IN NET ASSETS	(18,432)	(22,655)
NET ASSETS WITHOUT DONOR RESTRICTIONS AT BEGINNING OF YEAR	95,305	117,960
NET ASSSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	$ 76,873	$ 95,305

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, 2019

	Program Services	Supporting Services	
	Direct Client Services	General and Administrative	Total Expenses
Salaries	$ 19,264,102	$ 1,853,605	$ 21,117,707
Employee benefits	4,420,716	423,170	4,843,886
Payroll taxes	290,485	24,764	315,249
Total Salaries and Related Expenses	23,975,303	2,301,539	26,276,842
Purchase of services:			
Residential care facilities	76,766,206		76,766,206
Day programs	81,983,282		81,983,282
Transportation	14,296,689		14,296,689
Other purchase of services	57,278,878		57,278,878
Equipment rental	49,885	4,814	54,699
Equipment maintenance	150,874	14,558	165,432
Facility rent	2,407,350	232,288	2,639,638
Communication	191,394	18,468	209,862
General office expenses	171,516	16,550	188,066
Postage	51,419	4,962	56,381
Printing	36,022	3,476	39,498
Insurance	161,927	15,625	177,552
Legal fees		220,855	220,855
Board of Directors' expenses		11,920	11,920
Equipment purchases	228,457	22,044	250,501
Contract consultants	409,463	98,132	507,595
Travel	272,227	59,484	331,711
General expenses	531,339	51,270	582,609
Accounting fees		63,757	63,757
Dues	73,378	7,080	80,458
Bank fees and interest expense		836	836
TOTAL EXPENSES	$ 259,035,609	$ 3,147,658	$ 262,183,267

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

	Program Services	Supporting Services	
	Direct Client Services	**General and Administrative**	**Total Expenses**
Salaries	$ 18,669,473	$ 2,061,615	$ 20,731,088
Employee benefits	4,361,781	502,886	4,864,667
Payroll taxes	329,922	24,552	354,474
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		3,816	3,816
TOTAL EXPENSES	$ 246,125,165	$ 3,330,340	$ 249,455,505

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

	For the Year Ended June 30, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (18,432)	$ (22,655)
Adjustments to reconcile change in net assets to net cash from operating activities:		
(Increase) decrease in:		
Cash – client trust funds	648,112	304,150
Contracts receivable – state of California	1,554,122	(8,375,939)
Receivable from Intermediate Care Facility vendors	292,708	(90,288)
Other receivables	11,090	101,293
Prepaid expenses	13,505	(77,041)
Due from state - accrued vacation and other leave benefits	22,657	(74,042)
Deposits		(625)
Increase (decrease) in:		
Accounts payable	1,191,320	1,990,105
Accrued salaries and payroll taxes	(38,552)	24,860
Retirement plan contribution payable	1,554	56,634
Accrued vacation and other leave benefits	(22,657)	74,042
Unexpended client trust funds	(635,736)	(465,997)
Net Cash Provided By (Used In) Operating Activities	3,019,691	(6,555,503)
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,019,691	(6,555,503)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,578,509	14,134,012
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 10,598,200	$ 7,578,509

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

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 $257,591,967 for the 2018-2019 contract year and $247,824,489 for the 2017-2018 contract year. Actual net expenditures under the regional center contract for the 2018-2019 contract year was $249,670,844 and $240,105,669 for the 2017-2018 contract year as of June 30, 2019.

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 primarily clients of the San Gabriel/Pomona Regional Center. The Foundation's activities are primarily funded by donations and fund-raising events.

Recently Adopted Accounting Standard

During the fiscal year ended June 30, 2019, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic): Presentation of Financial Statements of Not-for-Profit Entities*. The main provisions include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and, recognition of underwater endowment funds as a reduction to net assets with donor restrictions. The guidance also enhances disclosures for board-designated amounts, components of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. With the adoption of the standard, the Organization updated net asset presentation in the financial statements and included additional disclosures as required. No significant reclassifications to prior-year amounts were necessary in order to adopt the new standard.

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

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The net assets of the Organization are classified and reported as described below:

> **Without Donor Restrictions** – Net assets that are not subject to donor-imposed restrictions.
>
> **With Donor Restrictions** – 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, net assets are reclassified as without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

As of June 30, 2019 and 2018, the Organization had no net assets with donor restrictions.

Contributions

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions.

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.

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

Cash and Cash Equivalents

For the purpose of the consolidated statements 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, 2019 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 funding for the ICF residents must go through the applicable ICF provider.

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.

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

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, 2019 and 2018, equipment purchases totaled $250,501 and $140,078, 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.

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.

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, 2019 AND 2018

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

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. In October 2019, the FASB approved a deferral of the effective date of Topic 842 until annual reporting periods beginning after December 15, 2020 (fiscal year ending June 30, 2022 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 and unconditional contributions. The updated standard will be effective for annual reporting periods beginning after December 15, 2018 (fiscal year ending June 30, 2020 for the Organization). The Organization is currently evaluating the impact of the adoption of the new standard on the financial statements.

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

Subsequent Events

The Organization's management has evaluated subsequent events from the consolidated statement of financial position date through January 8, 2020, the date the consolidated financial statements were available to be issued for the year ended June 30, 2019, and determined that there were no other items to disclose.

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:

	For the Year Ended June 30,	
	2019	**2018**
Support:		
Social Security and other client support	$ 20,643,335	$ 21,185,118
Disbursements:		
Residential Care	$ 15,999,708	$ 16,108,067
Other disbursements	4,643,627	5,077,051
	$ 20,643,335	$ 21,185,118

NOTE 3 – Contracts Receivable - 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 if 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.

As of June 30, 2019 and 2018, the DDS had advanced the Organization $64,795,941 and $37,289,372, 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:

	June 30, 2019	June 30, 2018
Contracts receivable	$ 74,104,377	$ 48,181,930
Contract advances	(64,765,941)	(37,289,372)
Net contracts receivable	$ 9,338,436	$ 10,892,558

The Organization has renewed its contract for the fiscal year ending June 30, 2020. The contract provides for initial funding of $270,833,781.

NOTE 4 – Short-Term Borrowings

The Organization has a revolving line of credit with a bank whereby it could borrow up to $32,000,000 until June 30, 2020. Interest is payable at the greater of 2.25%, or 1% below the bank's prime rate, with an effective rate of 5.50% as of June 30, 2019. There was no balance outstanding as of June 30, 2019 and 2018.

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.

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, 2019 and 2018 was \$2,596,421 and \$2,518,448, 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:

Year Ending June 30,	
2020	$ 2,628,000
2021	2,628,000
2022	2,628,000
2023	2,628,000
2024	1,752,000
	$ 12,264,000

Total facilities and office equipment rental expense for the years ended June 30, 2019 and 2018 totaled $2,694,337 and $2,683,313, 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 not be material to the consolidated financial statements at June 30, 2019 and 2018, 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 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.

NOTE 6 – Commitments and Contingencies (Continued)

Contingencies (Continued)

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, 2019 and 2018, 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.

NOTE 7 – Financial Assets and Liquidity Resources

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial Assets:	
Cash and cash equivalents	$ 10,598,200
Contracts receivable - state of California	9,338,436
Receivable from Intermediate Care Facility vendors	3,711,572
Total financial assets available within one year	$ 23,648,208

NOTE 7 – Financial Assets and Liquidity Resources (Continued)

Each regional center submits a monthly purchase of service expenditure projection to DDS, beginning in December of each fiscal year. By February 1st of each year, DDS shall allocate to all regional centers no less than one hundred percent (100%) of the enacted budget for Operations and ninety-nine percent (99%) of the enacted budget for Purchase of Service. To do this, it may be necessary to amend the Center’s contract in order to allocate funds made available from budget augmentations and to move funds among regional centers. In the event that DDS determines that a regional center has insufficient funds to meet its contractual obligations, DDS shall make best efforts to secure additional funds and/or provide the regional center with regulatory and statutory relief. The contract with DDS allows for adjustments to the Center’s allocations and for the payment of claims up to two years after the close of each fiscal year.

In addition, the Center maintains a revolving line of credit (see Note 4) to manage cash flow requirements as needed should there be delays in reimbursement for expenditures from DDS.

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

SUPPLEMENTAL SCHEDULE OF
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

	Center	Foundation	Consolidated Balance
ASSETS			
Cash and cash equivalents	$ 10,522,323	$ 75,877	$ 10,598,200
Cash – client trust funds	3,870,495		3,870,495
Contracts receivable – state of California, net	9,338,436		9,338,436
Receivable from Intermediate Care Facility vendors	3,711,572		3,711,572
Other receivables	48,306	700	49,006
Prepaid expenses	565,147	296	565,443
Due from state - accrued vacation and other leave benefits	1,565,236		1,565,236
Deposits	13,084		13,084
TOTAL ASSETS	$ 29,634,599	$ 76,873	$ 29,711,472
LIABILITIES			
Accounts payable	$ 24,796,808		$ 24,796,808
Accrued salaries and payroll taxes	526,922		526,922
Retirement plan contribution payable	152,551		152,551
Accrued vacation and other leave benefits	1,565,236		1,565,236
Reserve for unemployment insurance	100,000		100,000
Unexpended client trust funds	2,493,082		2,493,082
	29,634,599	None	29,634,599
NET ASSETS			
Without donor restrictions	None	76,873	76,873
TOTAL LIABILITIES AND NET ASSETS	$ 29,634,599	$ 76,873	$ 29,711,472

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

**SUPPLEMENTAL SCHEDULE OF
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018**

	Center	Foundation	Consolidated Balance
ASSETS			
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 other leave benefits	1,587,893		1,587,893
Deposits	13,084		13,084
TOTAL ASSETS	$ 29,128,670	$ 105,305	$ 29,233,975
LIABILITIES			
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
	29,128,670	10,000	29,138,670
NET ASSETS			
Without donor restrictions	None	95,305	95,305
TOTAL LIABILITIES AND NET ASSETS	$ 29,128,670	$ 105,305	$ 29,233,975

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

SUPPLEMENTAL SCHEDULE OF
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Center	Foundation	Consolidated Balance
CHANGE IN NET ASSETS WITHOUT RESTRICTIONS			
SUPPORT AND REVENUE			
Contracts – state of California	$ 254,959,762		$ 254,959,762
Intermediate Care Facility supplemental services income	6,947,669		6,947,669
Contributions		$ 12,350	12,350
Special fund-raising event, net of expenses		51,734	51,734
Interest income	155,376	45	155,421
Other income	37,899		37,899
Total Support and Revenue	262,100,706	64,129	262,164,835
EXPENSES			
Program Services:			
Direct client services	258,956,746	78,863	259,035,609
Supporting Services:			
General and administrative	3,143,960	3,698	3,147,658
Total Expenses	262,100,706	82,561	262,183,267
CHANGE IN NET ASSETS	None	(18,432)	(18,432)
NET ASSETS WITHOUT DONOR RESTRICTIONS AT BEGINNING OF YEAR	None	95,305	95,305
NET ASSSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	None	$ 76,873	$ 76,873

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

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

	Center	Foundation	Consolidated Balance
CHANGE IN NET ASSETS WITHOUT RESTRICTIONS			
SUPPORT AND REVENUE			
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
EXPENSES			
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
CHANGE IN NET ASSETS	None	(22,655)	(22,655)
NET ASSETS WITHOUT DONOR RESTRICTIONS AT BEGINNING OF YEAR	None	117,960	117,960
NET ASSSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	None	$ 95,305	$ 95,305

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, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant Identification Number	Grant Expenditures
U.S. Department of Education Passed through State of California Department of Developmental Services			
Special Education - Grants for Infants and Families with Disabilities	84.181	H181A180037	$ 2,604,296
U.S. Corporation for National Community Service Passed through State of California Department of Developmental Services			
Foster Grandparent Program	94.011	16SFPCA002	310,681
			$ 2,914,977

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

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, 2019. 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.

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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, 2019, 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 8, 2020. 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 Developmentally 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.

Windes, Inc.

Long Beach, California
January 8, 2020

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, 2019. 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, 2019.

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.

Windes, Inc.

Long Beach, California
January 8, 2020

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, 2019

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