

Los Angeles County Developmental Services Foundation

Los Angeles, California

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS**

June 30, 2018 and 2017



Los Angeles County Developmental Services Foundation

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Los Angeles County Developmental Services Foundation
Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of Los Angeles County Developmental Services Foundation dba the Frank D. Lanterman Regional Center, a California nonprofit corporation (the Foundation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the 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 Foundation'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 financial statements.

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

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. The accompanying Schedules of Financial Position by Fund and Activities by Fund are also presented for the purposes of additional analysis and are 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 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 noted above is fairly stated in all material respects, in relation to the 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, 2019, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's 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 the Foundation's internal control over financial reporting and compliance.

Aiello, Goodrich & Teuscher

January 8, 2019

Aiello, Goodrich & Teuscher

An Accountancy Corporation

Redding, California

FINANCIAL SECTION

Los Angeles County Developmental Services Foundation

STATEMENTS OF FINANCIAL POSITION

June 30	2018	2017
ASSETS		
Cash and cash equivalents	\$ 6,991,635	\$ 10,022,104
Cash and cash equivalents - client trust funds	2,096,969	2,183,767
Investments	1,745,102	1,615,881
Receivable - State Regional Center contracts	37,797,548	48,628,576
Receivable - ICF providers	344,634	612,339
Other receivables	790,442	124,373
Prepaid expenses	248,370	283,339
Due from state - accrued vacation leave benefits	711,221	699,194
Deposits	119,785	119,785
TOTAL ASSETS	\$ 50,845,706	\$ 64,289,358
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 18,597,204	\$ 16,989,768
Advance - State Regional Center contracts	28,307,028	43,424,649
Accrued salaries and payroll taxes	286,747	263,217
Accrued pension	29,606	27,880
Accrued vacation leave benefits	711,221	699,194
Due to ICF supplemental services	3,646	3,646
Client trust funds liability	971,123	1,100,865
Total Liabilities	48,906,575	62,509,219
Net Assets		
Unrestricted:		
Board-designated endowment fund	1,395,760	1,268,286
Total Unrestricted	1,395,760	1,268,286
Temporarily restricted	194,029	164,258
Permanently restricted	349,342	347,595
Total Net Assets	1,939,131	1,780,139
TOTAL LIABILITIES AND NET ASSETS	\$ 50,845,706	\$ 64,289,358

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

Los Angeles County Developmental Services Foundation

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
State Regional Center contracts	\$ 187,935,082	\$ -	\$ -	\$ 187,935,082
Intermediate Care Facility supplemental services income	1,448,501	-	-	1,448,501
Intermediate Care Facility administrative fee	21,727	-	-	21,727
Interest and dividend income	48,945	182	1,747	50,874
Donations and grants	350	187,056	-	187,406
Unrealized gain (loss) on investments	101,816	-	-	101,816
Net assets released from restrictions	157,467	(157,467)	-	-
TOTAL REVENUE	189,713,888	29,771	1,747	189,745,406
EXPENSES				
Program Services				
Intake	989,141	-	-	989,141
Service coordination	16,045,553	-	-	16,045,553
Program development	1,121,407	-	-	1,121,407
Monitoring and evaluation	537,895	-	-	537,895
Clinical services	932,785	-	-	932,785
Family support	538,936	-	-	538,936
Training and development	145,407	-	-	145,407
Consumer benefits coordination	246,390	-	-	246,390
Living out of own home	47,543,029	-	-	47,543,029
Day program	29,555,241	-	-	29,555,241
Other purchased services	89,114,556	-	-	89,114,556
Total Program Services	186,770,340	-	-	186,770,340
Supporting Services				
Management and general	2,816,074	-	-	2,816,074
Total Supporting Services	2,816,074	-	-	2,816,074
TOTAL EXPENSES	189,586,414	-	-	189,586,414
Changes in Net Assets	127,474	29,771	1,747	158,992
Net Assets - Beginning of Year	1,268,286	164,258	347,595	1,780,139
Net Assets - End of Year	\$ 1,395,760	\$ 194,029	\$ 349,342	\$ 1,939,131

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

Los Angeles County Developmental Services Foundation

STATEMENTS OF ACTIVITIES

(Continued)

Year Ended June 30, 2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
State Regional Center contracts	\$ 174,609,849	\$ -	\$ -	\$ 174,609,849
Intermediate Care Facility supplemental services income	1,744,750	-	-	1,744,750
Intermediate Care Facility administrative fee	26,172	-	-	26,172
Interest and dividend income	28,953	63	1,375	30,391
Other income	601	-	-	601
Donations and grants	175	151,612	125	151,912
Unrealized gain (loss) on investments	165,364	-	-	165,364
Net assets released from restrictions	109,102	(109,102)	-	-
TOTAL REVENUE	176,684,966	42,573	1,500	176,729,039
EXPENSES				
Program Services				
Intake	951,361	-	-	951,361
Service coordination	14,525,053	-	-	14,525,053
Program development	912,147	-	-	912,147
Monitoring and evaluation	549,992	-	-	549,992
Clinical services	900,176	-	-	900,176
Family support	558,430	-	-	558,430
Training and development	150,398	-	-	150,398
Consumer benefits coordination	246,841	-	-	246,841
Living out of own home	45,546,896	-	-	45,546,896
Day program	29,139,205	-	-	29,139,205
Other purchased services	80,068,674	-	-	80,068,674
Total Program Services	173,549,173	-	-	173,549,173
Supporting Services				
Management and general	2,951,669	-	-	2,951,669
Total Supporting Services	2,951,669	-	-	2,951,669
TOTAL EXPENSES	176,500,842	-	-	176,500,842
Changes in Net Assets	184,124	42,573	1,500	228,197
Net Assets - Beginning of Year	1,084,162	121,685	346,095	1,551,942
Net Assets - End of Year	\$ 1,268,286	\$ 164,258	\$ 347,595	\$ 1,780,139

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

Los Angeles County Developmental Services Foundation

STATEMENTS OF FUNCTIONAL EXPENSES

	Program Services									
Year Ended June 30, 2018	Intake	Service Coordination	Program Development	Monitoring and Evaluation	Clinical Services	Family Support	Training and Development	Balance Forward		
Salaries	\$ 587,436	\$ 9,629,846	\$ 666,900	\$ 316,458	\$ 553,634	\$ 376,266	\$ 80,739	\$ 12,211,279		
Employee health and retirement benefits	144,741	2,312,045	163,788	79,793	136,640	58,636	23,295	2,918,938		
Payroll taxes	10,791	172,366	12,211	5,949	10,187	4,371	1,737	217,612		
Total Salaries and Related Expenses	742,968	12,114,257	842,899	402,200	700,461	439,273	105,771	15,347,829		
Purchase of services	-	-	-	-	-	-	-	-		
Facility and equipment maintenance	1,845	29,476	2,088	1,017	1,742	748	297	37,213		
Communications	13,775	220,042	15,588	7,594	13,004	5,580	2,217	277,800		
General office expenses	23,974	382,951	27,129	13,216	22,632	9,712	3,858	483,472		
Insurance - property and earthquake	6,700	107,029	7,582	3,694	6,325	2,714	1,078	135,122		
Insurance	-	-	-	-	-	-	-	-		
Data processing	25,145	401,660	28,454	13,862	23,738	10,186	4,047	507,092		
Legal fees	10,797	172,461	12,217	5,952	10,192	4,374	1,738	217,731		
Board of Directors' expenses	-	-	-	-	-	-	-	-		
Equipment maintenance and purchases	12,062	192,674	13,649	6,650	11,387	4,886	1,941	243,249		
Contract/consulting services	60,207	960,728	68,071	33,175	56,766	24,328	9,707	1,212,982		
Travel	5,630	89,935	6,371	3,104	5,315	2,281	906	113,542		
General expenses	2,190	34,986	2,478	1,207	2,068	887	352	44,168		
Accounting fees	-	-	-	-	-	-	-	-		
Printing	4,567	72,955	5,168	2,518	4,312	1,850	735	92,105		
ARCA dues	-	-	-	-	-	-	-	-		
Facility rent	79,281	1,266,399	89,713	43,706	74,843	32,117	12,760	1,598,819		
Total	\$ 989,141	\$ 16,045,553	\$ 1,121,407	\$ 537,895	\$ 932,785	\$ 538,936	\$ 145,407	\$ 20,311,124		

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

Los Angeles County Developmental Services Foundation

STATEMENTS OF FUNCTIONAL EXPENSES

(Continued)

Year Ended June 30, 2018	Program Services						Supporting Services	
	Balance Brought Forward	Consumer Benefits Coordination	Living Out of Own Home	Day Program	Other Purchased Services	Total Program	Management and General	Total Expenses
Salaries	\$ 12,211,279	\$ 141,398	\$ -	\$ -	\$ -	\$ 12,352,677	\$ 1,649,891	\$ 14,002,568
Employee health and retirement benefits	2,918,938	37,834	-	-	-	2,956,772	399,392	3,356,164
Payroll taxes	217,612	2,821	-	-	-	220,433	29,774	250,207
Total Salaries and Related Expenses	15,347,829	182,053	-	-	-	15,529,882	2,079,057	17,608,939
Purchase of services	-	-	47,543,029	29,555,241	89,114,556	166,212,826	-	166,212,826
Facility and equipment maintenance	37,213	482	-	-	-	37,695	5,092	42,787
Communications	277,800	3,601	-	-	-	281,401	38,012	319,413
General office expenses	483,472	6,267	-	-	-	489,739	66,152	555,891
Insurance - property and earthquake	135,122	1,751	-	-	-	136,873	18,491	155,364
Insurance	-	-	-	-	-	-	21,799	21,799
Data processing	507,092	6,573	-	-	-	513,665	69,385	583,050
Legal fees	217,731	2,822	-	-	-	220,553	29,791	250,344
Board of Directors' expenses	-	-	-	-	-	-	19,275	19,275
Equipment maintenance and purchases	243,249	3,153	-	-	-	246,402	33,284	279,686
Contract/consulting services	1,212,982	15,727	-	-	-	1,228,709	60,329	1,289,038
Travel	113,542	1,472	-	-	-	115,014	15,536	130,550
General expenses	44,168	572	-	-	-	44,740	6,117	50,857
Accounting fees	-	-	-	-	-	-	54,000	54,000
Printing	92,105	1,194	-	-	-	93,299	12,602	105,901
ARCA dues	-	-	-	-	-	-	68,389	68,389
Facility rent	1,598,819	20,723	-	-	-	1,619,542	218,763	1,838,305
Total	\$ 20,311,124	\$ 246,390	\$ 47,543,029	\$ 29,555,241	\$ 89,114,556	\$ 186,770,340	\$ 2,816,074	\$ 189,586,414

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

Los Angeles County Developmental Services Foundation
STATEMENTS OF FUNCTIONAL EXPENSES
(Continued)

	Program Services									
Year Ended June 30, 2017	Intake	Service Coordination	Program Development	Monitoring and Evaluation	Clinical Services	Family Support	Training and Development	Balance Forward		
Salaries	\$ 596,179	\$ 9,102,486	\$ 571,603	\$ 344,647	\$ 564,141	\$ 399,072	\$ 94,290	\$ 11,672,418		
Employee health and retirement benefits	137,797	2,103,896	132,117	79,660	130,392	61,816	21,794	2,667,472		
Payroll taxes	10,809	165,031	10,363	6,249	10,228	4,849	1,710	209,239		
Total Salaries and Related Expenses	744,785	11,371,413	714,083	430,556	704,761	465,737	117,794	14,549,129		
Purchase of services	-	-	-	-	-	-	-	-		
Facility and equipment maintenance	-	-	-	-	-	-	-	-		
Communications	13,506	206,204	12,949	7,807	12,780	6,059	2,136	261,441		
General office expenses	12,708	194,027	12,184	7,346	12,025	5,701	2,010	246,001		
Insurance - property and earthquake	6,401	97,738	6,138	3,701	6,057	2,872	1,012	123,919		
Insurance	-	-	-	-	-	-	-	-		
Data processing	11,930	182,062	11,439	6,901	11,275	5,357	1,871	230,835		
Legal fees	11,442	174,694	10,970	6,614	10,827	5,133	1,810	221,490		
Board of Directors' expenses	-	-	-	-	-	-	-	-		
Equipment maintenance and purchases	10,611	162,016	10,174	6,134	10,041	4,760	1,678	205,414		
Contract/consulting services	39,658	605,213	38,025	22,939	37,481	17,807	6,221	767,344		
Travel	5,134	78,379	4,922	2,968	4,858	2,303	812	99,376		
General expenses	12,529	191,300	12,013	7,243	11,856	5,621	1,982	242,544		
Accounting fees	-	-	-	-	-	-	-	-		
Printing	3,790	57,864	3,634	2,191	3,586	1,700	599	73,364		
ARCA dues	-	-	-	-	-	-	-	-		
Facility rent	78,867	1,204,143	75,616	45,592	74,629	35,380	12,473	1,526,700		
Total	\$ 951,361	\$ 14,525,053	\$ 912,147	\$ 549,992	\$ 900,176	\$ 558,430	\$ 150,398	\$ 18,547,557		

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

Los Angeles County Developmental Services Foundation
STATEMENTS OF FUNCTIONAL EXPENSES
(Continued)

Year Ended June 30, 2017	Program Services						Supporting Services	
	Balance Brought Forward	Consumer Benefits Coordination	Living Out of Own Home	Day Program	Other Purchased Services	Total Program	Management and General	Total Expenses
Salaries	\$ 11,672,418	\$ 154,707	\$ -	\$ -	\$ -	\$ 11,827,125	\$ 1,510,367	\$ 13,337,492
Employee health and retirement benefits	2,667,472	35,758	-	-	-	2,703,230	349,098	3,052,328
Payroll taxes	209,239	2,805	-	-	-	212,044	27,383	239,427
Total Salaries and Related Expenses	14,549,129	193,270	-	-	-	14,742,399	1,886,848	16,629,247
Purchase of services	-	-	45,546,896	29,139,205	80,068,674	154,754,775	-	154,754,775
Facility and equipment maintenance	-	-	-	-	-	-	61,107	61,107
Communications	261,441	3,505	-	-	-	264,946	34,214	299,160
General office expenses	246,001	3,298	-	-	-	249,299	32,195	281,494
Insurance - property and earthquake	123,919	1,661	-	-	-	125,580	16,218	141,798
Insurance	-	-	-	-	-	-	21,206	21,206
Data processing	230,835	3,088	-	-	-	233,923	233,923	467,846
Legal fees	221,490	2,969	-	-	-	224,459	28,986	253,445
Board of Directors' expenses	-	-	-	-	-	-	13,738	13,738
Equipment maintenance and purchases	205,414	2,754	-	-	-	208,168	26,884	235,052
Contract/consulting services	767,344	10,264	-	-	-	777,608	218,398	996,006
Travel	99,376	1,332	-	-	-	100,708	13,004	113,712
General expenses	242,544	3,251	-	-	-	245,795	31,743	277,538
Accounting fees	-	-	-	-	-	-	52,500	52,500
Printing	73,364	983	-	-	-	74,347	9,602	83,949
ARCA dues	-	-	-	-	-	-	71,301	71,301
Facility rent	1,526,700	20,466	-	-	-	1,547,166	199,802	1,746,968
Total	\$ 18,547,557	\$ 246,841	\$ 45,546,896	\$ 29,139,205	\$ 80,068,674	\$ 173,549,173	\$ 2,951,669	\$ 176,500,842

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

Los Angeles County Developmental Services Foundation

STATEMENTS OF CASH FLOWS

Years Ended June 30	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 158,992	\$ 228,197
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Unrealized (gain) loss on investments	(101,816)	(165,364)
Dividends reinvested	(27,055)	(19,960)
(Increase) decrease in:		
Receivable - State Regional Center contracts	10,831,028	(16,436,981)
Receivable - ICF providers	267,705	84,605
Other receivables	(666,069)	(31,546)
Prepaid expenses	34,969	130,194
Due from state - accrued vacation leave benefits	(12,027)	(71,720)
Increase (decrease) in:		
Accounts payable	1,607,436	2,312,550
Advance - State Regional Center contracts	(15,117,621)	16,209,747
Accrued salaries and payroll taxes	23,530	48,026
Accrued pension	1,726	(63,084)
Accrued vacation leave benefits	12,027	71,720
Due to ICF supplemental services	-	(172,708)
Client trust fund liability	(129,742)	(68,623)
Net Cash Provided (Used) By Operating Activities	(3,116,917)	2,055,053
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(350)	(300)
Net Cash Provided (Used) By Investing Activities	(350)	(300)
Net Increase (Decrease) in Cash	(3,117,267)	2,054,753
Cash - Beginning of Year	12,205,871	10,151,118
Cash - End of Year	\$ 9,088,604	\$ 12,205,871
COMPONENTS OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 6,991,635	\$ 10,022,104
Cash and cash equivalents - client trust funds	2,096,969	2,183,767
Total Cash and Cash Equivalents	\$ 9,088,604	\$ 12,205,871

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

Los Angeles County Developmental Services Foundation

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities Los Angeles County Developmental Services Foundation (the Foundation), was incorporated as a California not-for-profit corporation on February 27, 1979. The Foundation 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 (the State). In accordance with the Act, the Foundation, doing business as the Frank D. Lanterman Regional Center, works in partnership serving people with developmental disabilities, their families, local communities, service providers, and the government. Its mission is to enable persons with developmental disabilities to live independent, productive, and satisfying lives in their community. The Foundation also strives to lessen developmental delays in infants and young children, and minimize the risk of developmental disabilities. Among the services and support the Foundation provides or coordinates are diagnosis and assessment, individualized planning and service coordination, early intervention and prevention, the Koch-Young Resource Center, community living options, supported work and vocational programs, advocacy, training and educational opportunities, and other support services for consumers and families. The geographical area served is comprised of the Central, Hollywood-Wilshire, Pasadena, and Glendale Health Districts of Los Angeles County, which also includes the communities of La Crescenta, La Canada, Eagle Rock, and Burbank.

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

The Foundation contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for people with developmental disabilities, and their families.

Basis of Accounting The accompanying financial statements have been prepared on the accrual basis of accounting. The Foundation is reimbursed by the State for expenses incurred in operating the Foundation to the extent that the expenses are not covered by client support funds.

Financial Statement Presentation The Foundation's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under FASB ASC Topic 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets based upon the existence or absence of donor-imposed restrictions, as follows:

Los Angeles County Developmental Services Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Unrestricted Net Assets: Represents resources over which the Board of Directors has discretionary control and that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets: Represents resources whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. When a donor restriction expires, that is, when a stipulated purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

Permanently Restricted Net Assets: Represents resources whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

Fund Accounting The accounts of the Foundation are maintained in accordance with the principles of fund accounting. Under fund accounting, resources are classified for accounting and reporting considerations into funds established according to their nature and purpose.

Cash and Cash Equivalents For purposes of the statement of cash flows, the Foundation considers all highly liquid cash debt instruments with original maturities of three months or less to be cash equivalents. As required by the contract with DDS, funds received from the State are deposited into interest-bearing accounts in a bank legally authorized to do business in California, and which accounts are established solely for the operation of the Foundation. The accounts are in the name of both the Foundation and DDS, as required by DDS.

Significant Concentrations of Credit Risk Due to the unique requirements of the State and the large fluctuations in account balances the Foundation can have during the year, it is not feasible for the Foundation to diversify its cash balances among various financial institutions. Therefore, the Foundation maintains substantially all of its cash and temporary cash investments at one financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2018, cash exceeded federally insured limits by \$9,029,748. While the amount in the banks typically exceeded FDIC coverage during the year, historically the Foundation has not experienced any losses on such accounts. For these reasons, management believes it is not exposed to any significant credit risk on such accounts.

Investments Investments are recorded at fair market value based on quoted market prices (level 1) and consist of endowment funds managed by the California Community Foundation in pooled accounts consisting of equity and fixed income securities. Detail information on the makeup of these investments was not available. Unrealized gains and losses are included in the change in net assets on the statement of activities.

Prepaid Expenses Payments made to vendors for services that will benefit the Foundation for periods beyond the current fiscal year are recorded as prepaid expenses.

Los Angeles County Developmental Services Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

State Regional Center Contract Receivables and Advances Contracts receivable represent amounts due from the State for reimbursement of expenditures made by the Foundation under the annual regional center contracts. Advances represent cash advances received by the Foundation under the annual regional center contracts. Amounts receivable from the State are offset against advances payable when the State notifies the Foundation that a right of offset exists.

The Foundation considers all amounts receivable under grant contracts to be collectible; accordingly, no allowance for doubtful accounts exists.

Receivable, ICF Providers and Due to ICF Supplemental Services, DDS The Centers for Medicare and Medicaid Services (CMS) approved federal financial participation in the funding of day and transportation services for clients who reside in intermediate care facilities (ICFs). As federal rules require services provided to residents of ICFs to be coordinated by those facilities, the State of California has devised a system wherein the Foundation pays for the day program and transportation services, and then submits a statement of those costs to DDS and the ICF providers. DDS pays the ICF providers for these day and transportation services and the ICF providers reimburse the Foundation for what it has spent. The Foundation receives a 1.5% administrative fee based on the funds received to cover the additional workload. Management considers all receivables to be fully collectible.

Client Trust Funds The Foundation assumes a fiduciary relationship with certain clients who cannot manage their own finances. Client support funds are received from private and governmental sources, including the Social Security Administration and Veterans Administration. These funds are used primarily to offset clients' out-of-home placement and living costs, thereby reducing the amount expended by the Foundation. These funds are held in a separate bank account and interest earnings, if applicable, are credited to the clients' balances.

Equipment Purchase In accordance with the State Regional Center contracts, all equipment purchased with contract funds is the property of the State. The Foundation is required to maintain memorandum records of equipment purchases and dispositions. Equipment purchases are recorded as supporting or program service expenses when they are incurred.

Revenue Concentration State Regional Center contract revenue is revenue received from the State of California in accordance with the Lanterman Act. Approximately ninety-nine percent of revenue is derived from this source.

Contributions Contributions are recognized as revenue when they are received or unconditionally pledged.

Use of Estimates and Assumptions The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Los Angeles County Developmental Services Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Vacation Leave Benefits Accumulated unpaid employee vacation benefits are recognized as accrued expenses and included in liabilities. Unused benefits are payable to an employee should employment cease. However, while a corresponding receivable for these benefits has been recorded from the State, such benefits are reimbursed under State contracts only when benefits have actually been paid.

Sick leave benefits are accumulated for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the Foundation since payment of such benefits is not probable or estimable. Therefore, sick leave benefits are recorded as expenses in the period sick leave is taken.

Income Taxes The Foundation has received tax-exempt status under Section 501(c)(3) of the *Internal Revenue Code*, and Section 23701(d) of the *California Revenue and Taxation Code*, and has been classified as an organization that is not a private foundation under Section 509(a) of the *Internal Revenue Code*. Accordingly, no provision for income taxes is included in the financial statements.

The Foundation accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes and how an uncertain tax position is recognized in financial statements. The Foundation analyzes tax positions taken in previously filed returns and tax positions expected to be taken in future returns. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. The Foundation's practice is to recognize interest and penalties, if any, related to uncertain tax positions in the tax expense. There were no uncertain tax positions identified or related interest and penalties recorded as of June 30, 2018 and 2017, and the Foundation does not expect this to change significantly over the next 12 months.

Restrictions on Net Assets Permanently restricted net assets consist of an endowment fund trust to be held indefinitely. The donor has specified that 95% of the realized income added to the historic dollar value of the fund in a given year is to be used to support the Foundation's activities and the remaining 5% of the realized income is to be accumulated with the principal.

Allocation of Expenses The statements of functional expenses allocate expenses to the program and supporting service categories based on a direct cost basis for purchase of services and salaries and related expenses. In addition, expenses are allocated based on a percentage of salaries and related expenses per category to total salaries and related expenses for operating expenses.

The expenses of the Family Resource Center/Network totaling \$105,438 and \$105,439 are included in the Family Support program category for the years ended June 30, 2018 and 2017, respectively.

Subsequent Events Management has evaluated subsequent events through January 8, 2019, the date on which the financial statements were available to be issued.

Los Angeles County Developmental Services Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Recently Issued Accounting Pronouncements In May 2014 the FASB issued a new standard on revenue recognition, ASU 2014-09, *Revenue from Contracts with Customers*, with the intent of creating a new, principle-based revenue recognition framework. The ASU creates a new topic in the FASB Accounting Standards Codification, Topic 606, in addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance. The main provisions of the ASU are:

1. Establish a new control-based revenue recognition model.
2. Changes the basis for deciding when revenue is recognized over time or at a point in time.
3. Provides new and more detailed guidance on specific topics.
4. Expands and improves disclosures about revenue.

The ASU is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of this ASU on its financial statements.

In February 2016 the FASB issued ASU 2016-02, *Leases* (Topic 842). The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. The ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

In August 2016 the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, with the stated purpose of improving financial reporting by not-for-profit (NFP) entities. The main provisions of this ASU, require an NFP to: (1) present two classes of net assets on the statement financial position entitled "net assets with donor restrictions" and "net assets without donor restrictions," (2) present changes in each of the two classes of net assets on the statement of activities, (3) disclose quantitative and qualitative information surrounding liquidity and availability of resources, (4) disclose the amount and purpose of governing board designations, appropriates, and other self-imposed limits on the use of resources, (5) present expenses by both their natural classification and functional classification, (6) disclose methods used to allocate costs among program and support functions, (7) report investment return net of external and direct internal investment expenses, and 8) use the placed in service approach for reporting expirations of restrictions on gifts used to acquire or construct long-lived assets in the absence of explicit donor stipulations.

The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The amendments in this update should be applied on a retrospective basis in the year that the update is first applied. Management is currently evaluating the impact of this ASU on their financial statements.

Los Angeles County Developmental Services Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

In June 2018 the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, with the intent of clarifying the definition of an exchange transaction. As a result, NFPs will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). The new guidance requires modified prospective transition. In the period of adoption, the changes will apply to new agreements entered into after the effective date, as well as the remaining portions of any agreements from prior years that have not been completed as of the effective date. However, full retrospective application can be elected, if desired. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of this ASU on their financial statements.

2. CASH – CLIENT TRUST FUNDS AND CLIENT TRUST FUND LIABILITY

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

Years Ended June 30	2018	2017
Support		
Social security and other client support	\$ 10,017,703	\$ 9,851,714
Disbursements		
Living out of own home	\$ 7,391,395	\$ 7,203,551
Other disbursements	3,209,808	3,354,433
Total Disbursements	\$ 10,601,203	\$ 10,557,984

3. LINE OF CREDIT

The Foundation had a revolving note with City National Bank whereby it could borrow up to \$21,000,000 until June 30, 2018. Interest on the outstanding balance is payable at the greater of 2.25% or 1% below the bank's prime rate. The line of credit expired on June 30, 2018. No amount was outstanding on the revolving notes as of June 30, 2018 and 2017, respectively. In June 2018, the Foundation acquired a new agreement to extend the termination date to June 30, 2019 and to increase the line of credit to \$23,000,000.

Los Angeles County Developmental Services Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. FUNDING LIMITS

The Foundation's contract is funded by the State's General Fund and federal reimbursements. The contracts specify the level and nature of the services to be provided to developmentally disabled persons. Allocated amounts are based primarily on projected client caseloads, and are subject to amendment based upon actual services provided.

Contracts are open for the current and two prior fiscal years as follows:

Fiscal Years Ended	Contract Amount	Cumulative Expenses	Unexpended Balance
June 30, 2018	\$ 188,138,208	\$ 183,915,437	\$ 4,222,771
June 30, 2017	\$ 178,541,838	\$ 175,091,116	\$ 3,450,722
June 30, 2016	\$ 155,579,259	\$ 154,120,556	\$ 1,458,703

Management monitors the unexpended balance annually to avoid overspending the contract limits. Management believes that total expenditures for each open year will not exceed the final approved State contract amount.

5. OTHER PURCHASED SERVICES

Other purchased services consisted of the following:

Years Ended June 30	2018	2017
Nonmedical services	\$ 26,026,946	\$ 23,232,390
Respite	11,819,494	10,802,388
Other authorized services	30,006,809	26,309,553
Medical care	3,119,233	3,113,286
Transportation	3,981,803	3,969,740
Prevention services	12,063,416	11,064,164
Camps	214,471	291,098
Medical equipment	98,448	115,538
Home care services	1,626,469	1,061,415
Subtotal Other Purchased Services - Regional Center Contracts	88,957,089	79,959,572
Purchased services from donation and special project funds	157,467	109,102
Total Other Purchased Services	\$ 89,114,556	\$ 80,068,674

Los Angeles County Developmental Services Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

6. ENDOWMENT

The Foundation's endowment consists of two endowment trust funds established to support the mission of the Foundation. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's endowment funds are subject to the provisions of the California Uniform Prudent Management of Institutional Funds Act (UPMIFA). Accounting standards require the Foundation to classify the portion of the donor-restricted endowment funds that are not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

The Foundation has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation classifies as permanently restricted net assets: (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent permanently restricted gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Board-designated endowment funds are reported as unrestricted net assets.

The restricted portion of the endowment funds have a donor stipulation requiring a portion of the investment income to be added to the permanent endowment to maintain its purchasing power. In accordance with the initial donor agreement, 5% of the realized investment income of the endowment funds have been added to the principal with the remainder available for board designated special projects.

The Foundation has adopted investment policies, approved by the Board of Directors, for endowment assets in order to maintain capital preservation and purchasing power of those endowment assets over the long-term and fund projects as determined by the board.

To satisfy its long-term rate-of-return objective, the Foundation invests endowment assets at the California Community Foundation, which manages fund assets to ensure the long-term growth of the fund.

Los Angeles County Developmental Services Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Changes in endowment net assets were as follows:

June 30, 2018	Unrestricted	Permanently Restricted	Total
Beginning of Year	\$ 1,268,286	\$ 347,595	\$ 1,615,881
Investment return:			
Investment income	33,194	1,747	34,941
Investment expense	(7,886)	-	(7,886)
Net appreciation	101,816	-	101,816
Total Investment Return	127,124	1,747	128,871
Contributions	350	-	350
End of Year	\$ 1,395,760	\$ 349,342	\$ 1,745,102

June 30, 2017	Unrestricted	Permanently Restricted	Total
Beginning of Year	\$ 1,084,162	\$ 346,095	\$ 1,430,257
Investment return:			
Investment income	26,123	1,375	27,498
Investment expense	(7,538)	-	(7,538)
Net appreciation	165,364	-	165,364
Total Investment Return	183,949	1,375	185,324
Contributions	175	125	300
End of Year	\$ 1,268,286	\$ 347,595	\$ 1,615,881

Los Angeles County Developmental Services Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Years Ended June 30		2018		2017
Client Assistance	\$	84,545	\$	73,444
Resource Center		7,203		5,125
Lanterman Internship		21,498		21,478
Dental Care		1,639		1,638
Infant and Toddler Programs		37,361		62,573
Other		41,783		-
Total	\$	194,029	\$	164,258

8. COMMITMENTS

The Foundation was obligated under a lease agreement for its Los Angeles facility that expired June 2018. Effective October 9, 2017, the Foundation signed a new lease agreement for its Los Angeles facility obligating them to the lease terms effective July 2018 through June 2028. The Foundation's facility lease provides for an annual adjustment of rental payments for a pro-rata share of the lessor's increase in operating costs and provides for a successive option to extend the term of the lease for a 60-month period.

The future minimum lease commitments, including the tenant allowance as of June 30, 2018, are payable as follows:

Years Ending June 30	
2019	\$ 1,924,778
2020	2,059,200
2021	2,262,463
2022	2,330,420
2023	2,398,375
2024-2028	13,117,988
Total	\$ 24,093,224

Total rental expense, including monthly parking and storage costs, for the years ended June 30, 2018 and 2017, was \$1,838,305 and \$1,746,968, respectively.

The Foundation pays for services in arrears, and at any given time the amount due to providers for services rendered is estimated. Unpaid commitments at June 30, 2018 and 2017, were approximately \$4.8 million and \$5.8 million, respectively.

Los Angeles County Developmental Services Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9. PENSION PLAN

The Foundation has a profit sharing pension plan which covers all employees. Contributions to the plan are based upon a percentage of each participant's compensation. Contributions to the plan are fully vested. Total pension expense for the years ended June 30, 2018 and 2017, was \$1,500,508 and \$1,401,688 respectively.

10. LITIGATION CLAIMS AND CONTINGENCIES

In accordance with the terms of the State of California contract, an audit may be performed by an authorized state representative. Should such audit disclose any unallowable costs, the Foundation may be liable to the State for reimbursement of such costs. In the opinion of the Foundation's management, the effect of any disallowed costs, if any, would be immaterial to the financial statements as of June 30, 2018.

The Foundation is dependent on continued funding provided by the Department of Developmental Services of the State of California to operate and provide services for its clients.

The Foundation is involved in various claims and lawsuits arising in the normal conduct of its business. The Foundation believes it has adequate defenses and insurance coverage for these actions and, thus, has made no provision in the financial statements for any material costs relating to the settlement of such claims.

11. RELATED-PARTY TRANSACTIONS

California Welfare and Institutions Code, Section 4622, requires that a minimum of 50% of the Foundation's governing board be comprised of persons with developmental disabilities or their parents or legal guardians. Program service payments were made in the normal course of business on behalf of persons with developmental disabilities that were governing board members or were related to governing board members.

12. RECLASSIFICATIONS

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. A reclassification was made to reclassify unrestricted net assets to temporarily restricted net assets due to a determination that various special project and donation fund activities were temporarily restricted.

SUPPLEMENTARY INFORMATION SECTION

Los Angeles County Developmental Services Foundation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Contract Year	Pass-Through Grant Number	Federal CFDA Number	Disbursements/ Expenditures
FEDERAL				
U.S. DEPARTMENT OF EDUCATION				
Passed Through State of California				
Department of Developmental Services -				
Special Education - Grants for Infants and Families with Disabilities (Part C)	17/18	H181A170037	84.181A	\$ 2,968,021
Total U.S. Department Of Education				2,968,021
Total Expenditures of Federal Awards				\$ 2,968,021

Purpose of Schedules

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with the Uniform Guidance and state requirements.

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grants activity of the Foundation and is presented on the accrual basis of accounting as provided by the California Department of Developmental Services. The information in this schedule is presented in accordance with the requirements the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*.

Indirect Cost Rate

The Foundation did not elect to use the 10% de minimis method for indirect costs.

Los Angeles County Developmental Services Foundation

SCHEDULE OF FINANCIAL POSITION BY FUND

June 30, 2018	Regional Center	Client Trust Funds	Endowment Fund	Donation Funds	Special Project Funds	Total
ASSETS						
Cash and cash equivalents	\$ 6,819,831	\$ -	\$ -	\$ 155,029	\$ 16,775	\$ 6,991,635
Cash and cash equivalents - client trust funds	-	2,096,969	-	-	-	2,096,969
Investments	-	-	1,745,102	-	-	1,745,102
Receivable - State Regional Center contracts	37,797,548	-	-	-	-	37,797,548
Receivable - ICF providers	344,634	-	-	-	-	344,634
Interfund receivable (payable)	23,145	(23,145)	-	-	-	-
Other receivables	783,353	(15,259)	-	-	22,348	790,442
Prepaid expenses	248,370	-	-	-	-	248,370
Due from state - accrued vacation leave benefits	711,221	-	-	-	-	711,221
Deposits	119,785	-	-	-	-	119,785
TOTAL ASSETS	\$ 46,847,887	\$ 2,058,565	\$ 1,745,102	\$ 155,029	\$ 39,123	\$ 50,845,706
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	\$ 17,509,639	\$ 1,087,442	\$ -	\$ -	\$ 123	\$ 18,597,204
Advance - State Regional Center contracts	28,307,028	-	-	-	-	28,307,028
Accrued salaries and payroll taxes	286,747	-	-	-	-	286,747
Accrued pension	29,606	-	-	-	-	29,606
Accrued vacation leave benefits	711,221	-	-	-	-	711,221
Due to ICF supplemental services	3,646	-	-	-	-	3,646
Client trust funds liability	-	971,123	-	-	-	971,123
Total Liabilities	46,847,887	2,058,565	-	-	123	48,906,575
Net Assets						
Unrestricted:						
Board-designated endowment fund	-	-	1,395,760	-	-	1,395,760
Total Unrestricted	-	-	1,395,760	-	-	1,395,760
Temporarily restricted	-	-	-	155,029	39,000	194,029
Permanently restricted	-	-	349,342	-	-	349,342
Total Net Assets	-	-	1,745,102	155,029	39,000	1,939,131
TOTAL LIABILITIES AND NET ASSETS	\$ 46,847,887	\$ 2,058,565	\$ 1,745,102	\$ 155,029	\$ 39,123	\$ 50,845,706

Los Angeles County Developmental Services Foundation

SCHEDULE OF ACTIVITIES BY FUND

Year Ended June 30, 2018	Regional Center	Endowment Fund	Donation Funds	Special Project Funds	Total
REVENUE					
State Regional Center contracts	\$ 187,935,082	\$ -	\$ -	\$ -	\$ 187,935,082
Intermediate Care Facility supplemental services income	1,448,501	-	-	-	1,448,501
Intermediate Care Facility administrative fee	21,727	-	-	-	21,727
Interest and dividend income	23,637	27,055	132	50	50,874
Donations and grants	-	350	135,963	51,093	187,406
Unrealized gain (loss) on investments	-	101,816	-	-	101,816
TOTAL REVENUE	189,428,947	129,221	136,095	51,143	189,745,406
EXPENSES					
Program Services					
Intake	989,141	-	-	-	989,141
Service coordination	16,045,553	-	-	-	16,045,553
Program development	1,121,407	-	-	-	1,121,407
Monitoring and evaluation	537,895	-	-	-	537,895
Clinical services	932,785	-	-	-	932,785
Family support	538,936	-	-	-	538,936
Training and development	145,407	-	-	-	145,407
Consumer benefits coordination	246,390	-	-	-	246,390
Living out of own home	47,543,029	-	-	-	47,543,029
Day program	29,555,241	-	-	-	29,555,241
Other purchased services	88,957,089	-	81,114	76,353	89,114,556
Total Program Services	186,612,873	-	81,114	76,353	186,770,340
Supporting Services					
Management and general	2,816,074	-	-	-	2,816,074
Total Supporting Services	2,816,074	-	-	-	2,816,074
TOTAL EXPENSES	189,428,947	-	81,114	76,353	189,586,414
Changes in Net Assets	-	129,221	54,981	(25,210)	158,992
Net Assets - Beginning of Year	-	1,615,881	100,048	64,210	1,780,139
Net Assets - End of Year	\$ -	\$ 1,745,102	\$ 155,029	\$ 39,000	\$ 1,939,131

OTHER REPORTS SECTION



**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
Los Angeles County Developmental Services Foundation
Los Angeles, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Los Angeles County Developmental Services Foundation dba the Frank D. Lanterman Regional Center, a California nonprofit corporation (the Foundation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 8, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of 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.

**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**

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's 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 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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Aiello, Goodrich & Teuscher

January 8, 2019
Aiello, Goodrich & Teuscher
An Accountancy Corporation
Redding, California



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Directors
Los Angeles County Developmental Services Foundation
Los Angeles, California

Report on Compliance for the Major Federal Program

We have audited Los Angeles County Developmental Services Foundation's dba the Frank D. Lanterman Regional Center, a California nonprofit corporation (the Foundation), compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2018. The Foundation's major federal program is 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 requirements of federal statutes, regulations, and the terms and conditions of its federal award.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Foundation's major federal program 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 (CFR) 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 the Foundation'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 the major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE UNIFORM GUIDANCE**

(Continued)

Opinion on Each Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Foundation 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 the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the Foundation'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.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH THE UNIFORM GUIDANCE**

(Continued)

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.

Aiello, Goodrich & Teuscher

January 8, 2019

Aiello, Goodrich & Teuscher

An Accountancy Corporation

Redding, California

FINDINGS AND RECOMMENDATIONS SECTION

Los Angeles County Developmental Services Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2018

SECTION I

SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Is any noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No
Identification of major programs:	
CFDA No. 84.181A Special Education – Grants for Infants and Families with Disabilities (Part C)	
Threshold for distinguishing types A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II FINDINGS

FINANCIAL STATEMENTS AUDIT

None

SECTION III FINDINGS

FEDERAL AWARDS AUDIT

None

Los Angeles County Developmental Services Foundation

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2018

None