



Eastern Los Angeles Regional Center

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**AUDITED FINANCIAL STATEMENTS, OTHER
FINANCIAL INFORMATION AND REPORTS REQUIRED
IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS AND OFFICE OF
MANAGEMENT AND BUDGET CIRCULAR A-133**

Years Ended June 30, 2012 and 2011

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LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Eastern Los Angeles Regional Center
for the Developmentally Disabled, Inc.
Alhambra, California

We have audited the accompanying statement of financial position of *Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc.* (the Center) as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Center as of June 30, 2011 and for the year then ended, were audited by other auditors whose report dated December 6, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc.* as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2013 on our consideration of the Center'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* and should be considered in assessing the results of our audit.

Board of Directors
Eastern Los Angeles Regional Center
for the Developmentally Disabled, Inc.

Our audit was 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Lautze & Lautze



San Francisco, California
January 23, 2013

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
STATEMENTS OF FINANCIAL POSITION**

	June 30,	
	2012	2011
ASSETS		
Cash	\$ 1,228,925	\$ 8,124,325
Cash - client trust funds	976,190	832,978
Contract receivable - State of California	43,378,430	27,699,935
Receivable from Intermediate Care Facilities	2,149,450	1,454,327
Other receivables	282,312	265,523
Prepaid expenses	186,950	176,126
Deferred costs for accrued vacation and other leave benefits	1,289,176	1,129,564
Deposits	84,680	78,868
	<u>\$ 49,576,113</u>	<u>\$ 39,761,646</u>
Total assets		
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 16,144,586	\$ 14,469,190
Contract advance	29,236,557	22,056,732
Payable to Department of Developmental Services	2,117,685	1,433,537
Accrued vacation and other leave benefits	1,289,176	1,129,564
Unexpended client support	743,491	628,066
	<u>49,531,495</u>	<u>39,717,089</u>
Total liabilities		
Commitments and contingencies		
Unrestricted net assets	44,618	44,557
	<u>\$ 49,576,113</u>	<u>\$ 39,761,646</u>
Total liabilities and net assets		

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
STATEMENTS OF ACTIVITIES**

	Years Ended June 30,	
	<u>2012</u>	<u>2011</u>
Revenue and support:		
Federal awards	\$ 79,895,411	\$ 75,410,096
Grants	79,124,313	74,371,670
Interest	30,374	46,208
Donations	1,450	808
Other income	87,932	60,731
	<u>159,139,480</u>	<u>149,889,513</u>
Expenses:		
Program services:		
Intake	1,383,277	998,732
Case management	10,035,989	10,041,266
Program development	3,001,539	2,720,183
Other client services	2,080,034	950,302
Out of home	20,531,240	20,238,300
Medical and dental	2,950,422	2,707,252
Day program	30,966,197	30,917,434
Camps and respite	9,848,234	10,339,114
Other purchased services	76,543,919	66,615,340
	<u>157,340,851</u>	<u>145,527,923</u>
Supporting services:		
General and administrative	1,798,568	4,364,069
	<u>159,139,419</u>	<u>149,891,992</u>
Change in net assets	61	(2,479)
Unrestricted net assets:		
Beginning of year	<u>44,557</u>	<u>47,036</u>
End of year	<u>\$ 44,618</u>	<u>\$ 44,557</u>

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2012

	Program Services				
	Intake	Case Management	Program Development	Other Client Services	Out of Home
Salaries and related expenses:					
Salaries	\$ 695,019	\$ 6,622,529	\$ 1,862,853	\$ 1,313,357	\$ -
Employee health and other benefits	71,320	773,998	214,920	151,213	-
Retirement benefits	53,117	558,788	158,915	107,891	-
Payroll taxes	51,644	522,676	147,320	109,297	-
Total salaries and related expenses	871,100	8,477,991	2,384,008	1,681,758	-
Purchase of services	-	-	-	-	20,531,240
Equipment rental	155	6,121	424	93	-
Equipment maintenance	-	-	-	-	-
Information technology	1,980	28,036	5,369	1,254	-
Facility rent	147,604	958,852	484,413	202,773	-
Communications	2,935	46,757	8,593	5,591	-
General office expense	6,635	61,237	21,673	11,815	-
Postage	2,545	67,293	9,619	6,633	-
Printing	937	23,066	8,804	2,451	-
Insurance	3,002	47,700	9,510	4,630	-
Legal fees	-	47,787	6,438	-	-
Board expenses	78	798	248	110	-
Equipment purchases	2,032	22,729	5,651	6,084	-
Consultant fees	335,121	111,954	5,306	139,600	-
Staff travel	1,554	54,476	19,024	3,499	-
ARCA dues	3,746	32,612	13,294	3,781	-
General expenses	703	16,432	15,116	2,382	-
Accounting fees	3,150	32,148	4,049	7,580	-
Restricted disbursements	-	-	-	-	-
Total expenses	<u>\$ 1,383,277</u>	<u>\$ 10,035,989</u>	<u>\$ 3,001,539</u>	<u>\$ 2,080,034</u>	<u>\$ 20,531,240</u>

Medical and Dental	Day Program	Camps and Respite	Other Purchased Services	Total Program Services	Supporting Services	Total Expenses
					General and Administrative	
\$ -	\$ -	\$ -	\$ -	\$ 10,493,758	\$ 986,311	\$ 11,480,069
-	-	-	-	1,211,451	89,461	1,300,912
-	-	-	-	878,711	87,672	966,383
-	-	-	-	830,937	63,219	894,156
-	-	-	-	13,414,857	1,226,663	14,641,520
2,950,422	30,966,197	9,848,234	76,543,919	140,840,012	-	140,840,012
-	-	-	-	6,793	1,446	8,239
-	-	-	-	-	62,382	62,382
-	-	-	-	36,639	21,274	57,913
-	-	-	-	1,793,642	172,332	1,965,974
-	-	-	-	63,876	3,858	67,734
-	-	-	-	101,360	77,031	178,391
-	-	-	-	86,090	35,523	121,613
-	-	-	-	35,258	3,646	38,904
-	-	-	-	64,842	51,770	116,612
-	-	-	-	54,225	2,113	56,338
-	-	-	-	1,234	81	1,315
-	-	-	-	36,496	7,101	43,597
-	-	-	-	591,981	53,973	645,954
-	-	-	-	78,553	4,575	83,128
-	-	-	-	53,433	3,690	57,123
-	-	-	-	34,633	4,579	39,212
-	-	-	-	46,927	65,131	112,058
-	-	-	-	-	1,400	1,400
<u>\$ 2,950,422</u>	<u>\$ 30,966,197</u>	<u>\$ 9,848,234</u>	<u>\$ 76,543,919</u>	<u>\$ 157,340,851</u>	<u>\$ 1,798,568</u>	<u>\$ 159,139,419</u>

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2011

	Program Services				
	Intake	Case Management	Program Development	Other Client Services	Out of Home
Salaries and related expenses:					
Salaries	\$ 623,787	\$ 6,187,239	\$ 1,679,176	\$ 590,820	\$ -
Employee health and other benefits	55,736	649,947	161,557	54,694	-
Retirement benefits	49,650	498,540	147,039	47,955	-
Payroll taxes	47,013	498,149	133,338	46,048	-
Total salaries and related expenses	776,186	7,833,875	2,121,110	739,517	-
Purchase of services	-	-	-	-	20,238,300
Equipment rental	332	3,307	898	316	-
Equipment maintenance	-	-	-	-	-
Information technology	2,856	28,326	7,687	2,705	-
Facility rent	122,084	1,210,929	328,638	115,632	-
Communications	6,242	61,899	16,799	5,911	-
General office expense	18,433	182,833	49,620	17,459	-
Postage	3,923	38,914	10,561	3,716	-
Printing	1,643	16,300	4,424	1,556	-
Insurance	4,355	43,198	11,724	4,125	-
Legal fees	4,363	43,261	11,741	4,131	-
Board expenses	76	755	205	72	-
Equipment purchases	4,480	44,440	12,061	4,244	-
Consultant fees	38,218	379,087	102,882	36,199	-
Staff travel	4,952	49,114	13,329	4,690	-
ARCA dues	2,661	26,400	7,165	2,521	-
General expenses	2,421	24,016	6,518	2,293	-
Accounting fees	3,771	37,404	10,151	3,572	-
Interest expense	1,736	17,208	4,670	1,643	-
Restricted disbursements	-	-	-	-	-
Total expenses	<u>\$ 998,732</u>	<u>\$ 10,041,266</u>	<u>\$ 2,720,183</u>	<u>\$ 950,302</u>	<u>\$ 20,238,300</u>

Medical and Dental	Day Program	Camps and Respite	Other Purchased Services	Total Program Services	Supporting Services	Total Expenses
					General and Administrative	
\$ -	\$ -	\$ -	\$ -	\$ 9,081,022	\$ 2,622,306	\$ 11,703,328
-	-	-	-	921,934	312,582	1,234,516
-	-	-	-	743,184	222,173	965,357
-	-	-	-	724,548	205,217	929,765
-	-	-	-	11,470,688	3,362,278	14,832,966
2,707,252	30,917,434	10,339,114	66,615,340	130,817,440	-	130,817,440
-	-	-	-	4,853	1,402	6,255
-	-	-	-	-	63,053	63,053
-	-	-	-	41,574	12,005	53,579
-	-	-	-	1,777,283	513,222	2,290,505
-	-	-	-	90,851	26,234	117,085
-	-	-	-	268,345	77,489	345,834
-	-	-	-	57,114	16,493	73,607
-	-	-	-	23,923	6,908	30,831
-	-	-	-	63,402	18,308	81,710
-	-	-	-	63,496	18,335	81,831
-	-	-	-	1,108	320	1,428
-	-	-	-	65,225	18,835	84,060
-	-	-	-	556,386	160,667	717,053
-	-	-	-	72,085	20,816	92,901
-	-	-	-	38,747	11,189	49,936
-	-	-	-	35,248	10,171	45,419
-	-	-	-	54,898	15,853	70,751
-	-	-	-	25,257	7,293	32,550
-	-	-	-	-	3,198	3,198
<u>\$ 2,707,252</u>	<u>\$ 30,917,434</u>	<u>\$ 10,339,114</u>	<u>\$ 66,615,340</u>	<u>\$ 145,527,923</u>	<u>\$ 4,364,069</u>	<u>\$ 149,891,992</u>

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 61	\$ (2,479)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Increase) decrease in assets:		
Contract receivable - State of California	(15,678,495)	8,059,145
Other receivables	(16,789)	7,401
Prepaid expenses	(10,824)	5,719
Deposits	(5,812)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,675,396	280,712
Payable to Department of Developmental Services	(10,975)	(20,790)
Unexpended client support	115,425	39,637
	(13,932,074)	8,371,824
Total adjustments		
Net cash provided (used) by operating activities	(13,932,013)	8,369,345
Cash flows from financing activities:		
Proceeds from contract advance	33,670,413	35,046,998
Payment of contract advance	(26,490,588)	(36,433,844)
	7,179,825	(1,386,846)
Net cash provided (used) by financing activities		
Net increase (decrease) in cash	(6,752,188)	6,982,499
Cash:		
Beginning of year	8,957,303	1,974,804
End of year	\$ 2,205,115	\$ 8,957,303
Cash	\$ 1,228,925	\$ 8,124,325
Cash - client trust funds	976,190	832,978
	\$ 2,205,115	\$ 8,957,303
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ -	\$ 32,550

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

Organization

Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc. (the Center), doing business as Eastern Los Angeles Regional Center, was incorporated on February 20, 1986 as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Lanterman Act) of the Welfare and Institutions Code of the State of California. In accordance with the Lanterman Act, the Center provides diagnostic evaluations, client program management and lifelong planning services for persons with developmental disabilities and their families. The Center is one of 21 regional centers within the State of California system and serves the Los Angeles County Health Districts of Northeast Los Angeles, East Los Angeles, Alhambra, and Whittier.

Governance

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

Mission Statement

The Center's mission statement is as follows:

Eastern Los Angeles Regional Center is committed to serving individuals with developmental disabilities and their families by promoting partnerships which empower them to achieve meaningful and fulfilling lifestyles in their community.

State of California Contract

The Center operates under an annual cost-reimbursement contract with the Department of Developmental Services (DDS) of the State of California under the Lanterman Act. Maximum expenditures under the contract are limited to the contract amount plus interest earned. The Center is required to have DDS approval for certain expenses. The Center is required to maintain accounting records in accordance with the Regional Center Fiscal Manual issued by DDS. In the event of termination or nonrenewal of the contract, the State of California maintains the right to assume control of the Center's operation and the obligation of its liabilities.

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State of California Contract (Continued)

Under the terms of these contracts, funded expenditures are not to exceed \$156,586,918, \$154,270,105 and \$146,897,342 for the 2011/12, 2010/11 and 2009/10 contract years, respectively, and are subject to budget amendments. As of June 30, 2012, actual net expenditures under the 2011/12, 2010/11 and 2009/10 contracts were \$155,004,245, \$150,191,410 and \$144,961,796, respectively.

Basis of Accounting

The Center prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

Classification of Net Assets

Accounting principles generally accepted in the United States of America require that the Center report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the Center are classified and reported as described below:

Unrestricted: Those net assets and activities which represent expendable funds for operations related to the DDS contract.

Temporarily Restricted: Those net assets and activities which are donor-restricted for (a) support of specific operating activities; or (b) use in a specified future period.

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

As of June 30, 2012 and 2011 for the years then ended, the Center did not have any temporarily or permanently restricted net assets or activities.

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Unrestricted Net Assets

The unrestricted net asset group is comprised of the Operating, Client Trust, and Donation Funds.

Operating Fund:

These accounts are used to record primary activities of the Center which are carried out under the DDS contract. These accounts also record the activities of the Community Placement Plan (CPP) and Federally-funded programs.

Client Trust Fund:

The Center serves as representative payee for a portion of its clients. In this fiduciary capacity, it receives social security benefits and other sources of income and makes payments on behalf of certain developmentally disabled clients who are deemed unable to administer the funds themselves. Client trust transactions are not considered revenue or expenses of the Center. The cash that is received and outstanding receivables, net of interfund liabilities, are reported as assets and a liability, *unexpended client support*, until it is distributed.

Donation Fund:

The Donation Fund is used to record solicited and unsolicited support received by the Center for the benefit of its clients.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contract and Other Receivables

The majority of the Center's receivables represents or relates to the cost-reimbursement contract with DDS. Management believes that the receivables are fully collectible and, therefore, has not provided an allowance for doubtful accounts.

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Equipment

Pursuant to the terms of the DDS contract, equipment purchases become the property of the State of California and, accordingly, are charged as expenses when incurred. This departure from accounting principles generally accepted in the United States of America does not have a material impact on the financial statements.

The Center is required to track acquisitions of furniture and equipment with a cost or value in excess of \$5,000 and with an estimated life beyond one year. For the years ended June 30, 2012 and 2011, equipment purchases totaled \$43,597 and \$84,060, respectively. The aggregated capitalized in state equipment at June 30, 2012 and 2011 totaled \$793,454 and \$785,105, respectively.

Accrued Vacation and Other Leave Benefits

The Center has accrued a liability for accrued vacation and other leave benefits earned. However, such benefits are reimbursed under the DDS contract only when actually paid. The Center has also recorded deferred costs for accrued vacation and other leave benefits to reflect the future reimbursement of such benefit payments.

Revenue Recognition

Revenue and expenses are recognized in the year the claim is filed with DDS. Depending on the date of service, claims are classified and charged to the appropriate contract as follows:

- Current year
- Prior year
- Second prior year

Contributions

The Center recognizes all contributions in the year of receipt, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as temporarily restricted or permanently restricted support, depending upon the type of restriction.

The satisfaction of a donor-imposed restriction on a contribution is recognized in the period in which the restriction expires. This occurs by increasing one class of net assets and decreasing another in the statement of activities. These transactions are reported as *net assets released from restrictions* and are reported separately from other transactions.

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Grants

The Center is a sub-recipient to DDS with regard to the following grants:

U.S. Department of Health and Human Services

The Medicaid Waiver grant provides funding for a broad range of medical assistance, which includes home and community based services, to certain persons of need as authorized by Title XIX of the Social Security Act of 1965. This grant also funds Targeted Case Management.

U.S. Department of Education

The Special Education Grants for Infants and Families with Disabilities provides funding for early intervention services for infants and toddlers, through age 3, as authorized by Public Law 102-119.

Income Taxes

The Center is a qualified organization exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code (IRC) and state franchise taxes under §23701d of the California Revenue and Taxation Code. Accordingly, it is exempt from federal and California income taxes and is not liable for federal unemployment taxes.

The Center has adopted the accounting standard on accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return and requires the affirmative evaluation that is more-likely-than-not, based on the technical merits of a tax position, that an organization is entitled to economic benefits resulting from tax positions taken in income tax returns. For tax-exempt entities, favorable tax status itself is deemed to be an uncertainty, as events could potentially occur to jeopardize their tax-exempt status. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

The Center's evaluation on June 30, 2012 revealed no tax positions that would have a material impact on the financial statements. The 2008 through 2011 tax years remain subject to examination by the Internal Revenue Service. In addition, the 2007 through 2011 tax years remain subject to examination by the California Franchise Tax Board. The Center does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

Concentrations of Risk

Financial instruments, which potentially subject the Center to concentrations of credit risk, principally consist of cash, contract receivables, and receivables from vendors. The Center invests cash in bank deposit accounts which, at times, may exceed the federally-insured limit. Through its contract with DDS, the Center is reimbursed for its expenses. The ability of DDS to honor its obligations and to continue funding, is dependent upon the overall economic well-being of the State of California. Although the State of California is experiencing budgetary issues, the Center has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk.

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The statements of functional expenses allocate expenses for all funds to the program and supporting service categories based on a direct cost basis for purchases 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.

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

2. CASH – CLIENT TRUST FUNDS AND UNEXPENDED CLIENT SUPPORT

The Center functions as the custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of a portion of the Center’s clients. The following is a summary of operating activity not reported in the statements of activities:

	2012	2011
Support:		
Social Security and other client support	\$ 6,570,021	\$ 6,468,412
Disbursements:		
Living out of home	\$ 4,804,254	\$ 4,772,697
Other disbursements	1,765,767	1,695,715
	\$ 6,570,021	\$ 6,468,412

3. CONTRACT RECEIVABLE

Contract receivable (payable) consists of the following at June 30:

	2012	2011
Current year	\$ 41,243,486	\$ 27,558,716
Prior year	1,135,065	141,261
Second prior year	999,879	(42)
	\$ 43,378,430	\$ 27,699,935

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

4. INTERMEDIATE CARE FACILITIES - STATE PLAN AMENDMENT

During the year ended June 30, 2011, various legislative changes were made to the California Welfare and Institutions Code retroactive to July 1, 2007, making Intermediate Care Facility (ICF) providers responsible for providing day treatment and transportation services; and ultimately, making such services eligible for reimbursement under California's Home and Community Based Services (HCBS) Program, which is funded by the Medicaid Waiver grant (Medicaid).

Previously, such services provided to the residents were not reimbursable by Medicaid because the funds were not directly billed and received by the ICFs. The legislative changes allow for DDS to bill these services to Medicaid and capture federal funds.

During the years ended June 30, 2012 and 2011, DDS directed the Center to prepare billings for these services on behalf of the ICFs for the period from July 1, 2009 to June 30, 2011 and July 1, 2007 to June 30, 2009, respectively. The billings included a 5.5% Quality Assurance fee for the State Department of Health Care Services (DHCS), a 1.5% administrative fee for the ICFs and a 1.5% administration fee for the Center.

During the years ended June 30, 2012 and 2011, DDS advanced the amounts billed to the ICFs. The ICFs are directed to remit to the Center the amount billed less its administration fee and the Quality Assurance fee, which it must remit to DHCS. After the Center receives the net payment from the ICFs, the Center is directed to remit the amount to DDS, net of its administration fee. DDS has instituted protocols should the ICFs not remit the net amounts due to the Center.

The Center's activity related to the above funding was as follows as of June 30:

	2012	2011
Beginning balance	\$ 1,454,327	\$ -
Total billed from vendors for years ended June 30, 2008 through 2009	-	1,558,707
Total billed from vendors for years ended June 30, 2010 and 2011	2,101,656	-
Amounts remitted by vendors and forwarded to DDS	(1,406,533)	(104,380)
Receivable from ICFs	\$ 2,149,450	\$ 1,454,327
Payable to DDS	\$ 2,117,685	\$ 1,433,537
Deferred administrative fee	31,765	20,790
	\$ 2,149,450	\$ 1,454,327

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

5. LINE OF CREDIT

The Center has a revolving line of credit with City National Bank, expiring June 30, 2013, for a maximum borrowing amount of \$11,000,000 until June 30, 2012, then \$34,000,000 until the earlier date of October 1, 2012 or the effective date of a State of California budget with respect to the State General Fund for the fiscal year commencing July 1, 2012, then \$12,000,000 until the maturity date of June 30, 2013. Interest is payable monthly at the greater of 2.00% (3.50% prior to April 19, 2012) or 1.00% below the bank's prime rate. The line of credit is unsecured and requires the Center to comply with certain reporting covenants. The Center did not use this line of credit during the years ended June 30, 2012 and 2011.

6. PENSION PLAN

The Center has a money purchase pension plan which has been restated, effective April 1, 2005. The plan is available for all employees who have been continuously employed for one year and have worked at least 1,000 hours. The Center contributes 9% of the participants' eligible compensation, with no required contribution from participants. A participant vests in employer contributions at the rate of 20% for each year of service, with 100% vesting after five years. The total pension expense for the years ended June 30, 2012 and 2011 was \$966,383 and \$965,357, respectively.

The Center has a retirement plan pursuant to §403(b) of the Internal Revenue Code. Eligible employees are full-time employees who have completed one month of service. All eligible employees may make voluntary contributions by salary reduction to the plan, up to the limit allowed by law.

7. CONTRACT ADVANCE

The contract advance balance represents monies DDS advances to the Center at the beginning of each fiscal year to provide interest-free working capital. DDS uses its discretion in determining the balance on a month-to-month basis. If DDS so chooses, the advance can be paid by offsetting claim reimbursements partially or in full.

8. OPERATING LEASES

The Center leases its office facilities in Alhambra and Whittier under operating leases expiring at various dates through July 1, 2016. The terms of these leases provide for payment of minimum annual rentals, which are adjusted annually for the greater of the increase in the Los Angeles/Orange County Cost of Living Index, or the increase in the Center's operating expenses. These leases generally require the Center to pay for its share of the facilities' annual direct expenses including maintenance, insurance, janitorial, and gardening expenses. The Center's share of direct expenses ranges between 7% - 12% for the premises. Rent expense for the years ended June 30, 2012 and 2011, was \$1,965,974 and \$2,290,505, respectively.

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

8. OPERATING LEASES (CONTINUED)

Future obligations on leases in effect at June 30 are as follows:

2013	\$ 2,007,941
2014	2,030,708
2015	1,953,626
2016	2,011,432
2017	<u>167,690</u>
	<u><u>\$ 8,171,397</u></u>

9. COMMITMENTS AND CONTINGENCIES

Litigation

The Center is currently a defendant in several litigious actions, in addition to threats of litigation arising out of the normal course of operations. The Center's management believes it has adequate defenses and insurance coverage for these actions and, thus, has made no provision in the financial statements for any costs relating to the settlement of such claims. These matters have been referred to the Center's attorneys and/or insurance carriers. In management's opinion, a material unfavorable outcome is remote.

Funding

The majority of the Center's funding is provided under annual grants and contracts with federal and California agencies. If a significant reduction in the level of funding provided by these governmental agencies were to occur, it may have an effect on the Center's programs and activities. The Center's revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies.

The Center's contract with DDS provides funding for services under the Lanterman Act. In the event that the operations of the Center result in a deficit position at the end of the contract year, DDS may reallocate surplus funds within the State of California system to supplement the Center's funding. Should a system-wide deficit occur, DDS is required to report to the Governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. The DDS recommendations are subsequently reviewed by the Governor and the Legislature and a decision is made with regard to specific actions, including the possible suspension of the entitlement.

In accordance with the terms of the DDS contract, an audit may be performed by an authorized DDS representative. Should such an audit disclose any unallowable costs, the Center may be liable to the State of California for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements as of June 30, 2012 and 2011, and for the years then ended.

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
NOTES TO FINANCIAL STATEMENTS**

June 30, 2012 and 2011

10. SUBSEQUENT EVENTS

The Center has evaluated all subsequent events through January 23, 2013, the date the financial statements were available to be issued.

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.**

SUPPLEMENTARY FINANCIAL INFORMATION

Year Ended June 30, 2012

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Disbursements/ Expenditures
Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services passed-through the State of California Department of Developmental Services:			
■ Medical Assistance Program (Medicaid; Title XIX)	93.778	HD099004	\$ 67,695,381 *
■ Targeted Case Management	93.778	HD099004	<u>11,282,668 *</u>
			78,978,049
Office of Special Education and Rehabilitative Services of the U.S. Department of Education passed-through the State of California Department of Developmental Services:			
Early Intervention Services:			
■ Special Education - Grants for Infants and Families	84.181	HD099004	<u>917,362</u>
			<u>\$ 79,895,411</u>

* Major program.

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Center and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non -Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



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CPAs & FINANCIAL ADVISORS

**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**

Board of Directors
Eastern Los Angeles Regional Center
for the Developmentally Disabled, Inc.
Alhambra, California

We have audited the financial statements of *Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc.* (the Center) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 23, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Eastern Los Angeles Regional Center
for the Developmentally Disabled, Inc.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, the federal awarding agencies, and pass-through entity and is not intended to be and should not be used by anyone other than these specified parties.

Lautze & Lautze



San Francisco, California
January 23, 2013



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Eastern Los Angeles Regional Center
for the Developmentally Disabled, Inc.
Alhambra, California

Compliance

We have audited *Eastern Los Angeles Regional Center for the Developmentally Disabled, Inc.'s* (the Center) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2012. The Center's major federal programs are identified in the summary of auditors' results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Center's compliance with those requirements.

In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Board of Directors
Eastern Los Angeles Regional Center
for the Developmentally Disabled, Inc.

Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Directors, management, federal awarding agencies, and pass-through entity and is not intended to be and should not be used by anyone other than these specified parties.

Lautze & Lautze

San Francisco, California
January 23, 2013

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

SECTION I - SUMMARY OF THE AUDITORS' RESULTS

- Auditors' report on financial statements: Unqualified.
- Internal control over financial reporting:
 - Material weaknesses identified: No.
 - Significant deficiencies identified that are not considered to be material weaknesses: None reported.
 - Noncompliance material to financial statements noted: No.
- Federal awards - internal control over major programs:
 - Auditors' report on compliance for major programs: Unqualified.
 - Material weaknesses identified: No.
 - Significant deficiencies identified that are not considered to be a material weakness: None reported.
 - Any audit findings identified that are required to be reported in accordance with Section 510(a) of Circular A-133: No.
 - Major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.778	Medical Assistance Program (Medicaid; Title XIX)
93.778	Targeted Case Management

- Dollar threshold used to distinguish between Type A and Type B programs: \$2,396,862.
- Auditee qualifies as low-risk: No.

SECTION II - FINANCIAL STATEMENT FINDINGS

- None reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- None reported.

**EASTERN LOS ANGELES REGIONAL CENTER
FOR THE DEVELOPMENTALLY DISABLED, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2012**

There were no prior year findings or questioned costs.