

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**



**WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION**
Certified Public Accountants & Consultants

EXCEEDING EXPECTATIONS SINCE 1926

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Valley Mountain Regional Center, Inc.

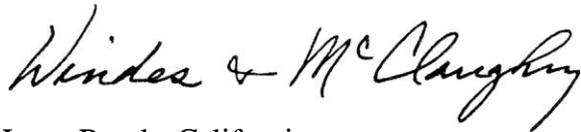
We have audited the accompanying statements of financial position of Valley Mountain Regional Center, Inc. (a California nonprofit corporation) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Valley Mountain Regional Center, Inc.'s management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Valley Mountain Regional Center, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Valley Mountain Regional Center, Inc. as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2012 on our consideration of Valley Mountain Regional Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in cursive script that reads "Windes & McCaughey". The signature is written in black ink and is positioned above the typed text.

Long Beach, California
February 6, 2012

VALLEY MOUNTAIN REGIONAL CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2011	2010
ASSETS		
Cash and cash equivalents	\$ 12,318,819	\$ 10,745,942
Cash – client trust funds	15,388	16,130
Contracts receivable – state of California		10,988,178
Due from state – accrued vacation and other employee benefits	2,913,613	2,682,029
Other receivables		10,337
Prepaid expenses		20,058
Deposits and other assets	<u>102,784</u>	<u>119,848</u>
TOTAL ASSETS	<u>\$ 15,350,604</u>	<u>\$ 24,582,522</u>

LIABILITIES AND NET DEFICIT

LIABILITIES		
Accounts payable	\$ 10,713,216	\$ 10,724,252
Contract advances – state of California	1,645,088	
Short-term borrowings		10,994,000
Accrued vacation and other employee benefits	1,263,745	1,603,914
Retirement health care plan obligation	3,666,898	3,535,038
Unexpended client support	15,388	16,130
	<u>17,304,335</u>	<u>26,873,334</u>
COMMITMENTS AND CONTINGENCIES (Notes 4, 5, and 7)		
NET DEFICIT		
Unrestricted	(<u>1,953,731</u>)	(<u>2,290,812</u>)
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 15,350,604</u>	<u>\$ 24,582,522</u>

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

VALLEY MOUNTAIN REGIONAL CENTER, INC.

STATEMENTS OF ACTIVITIES

	For the Year Ended	
	June 30,	
	<u>2011</u>	<u>2010</u>
CHANGE IN UNRESTRICTED NET DEFICIT		
SUPPORT AND REVENUE		
Contracts – state of California	\$ 138,818,249	\$ 138,933,115
Interest income	99,740	143,796
Other income	<u>31,061</u>	<u>31,572</u>
Total Support and Revenue	<u>138,949,050</u>	<u>139,108,483</u>
EXPENSES		
Program Services:		
Direct consumer services	132,377,394	131,196,781
Supporting Services:		
General and administrative	<u>6,594,050</u>	<u>7,908,112</u>
Total Expenses	<u>138,971,444</u>	<u>139,104,893</u>
CHANGE IN NET ASSETS (DEFICIT) BEFORE HEALTH PLAN RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	(22,394)	3,590
HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	<u>359,475</u>	(<u>1,050,733</u>)
CHANGE IN NET ASSETS (DEFICIT)	337,081	(1,047,143)
NET DEFICIT AT BEGINNING OF YEAR	(<u>2,290,812</u>)	(<u>1,243,669</u>)
NET DEFICIT AT END OF YEAR	<u>(\$ 1,953,731)</u>	<u>(\$ 2,290,812)</u>

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

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011**

	Program Services	Supporting Services	
	Direct Consumer Services	General and Admin- istrative	Total Expenses
Salaries	\$ 10,727,254	\$ 1,554,007	\$ 12,281,261
Employee health and retirement benefits	3,034,273	799,570	3,833,843
Payroll taxes	151,374	22,324	173,698
Staff travel	273,567	10,563	284,130
Total Salaries and Related Expenses	14,186,468	2,386,464	16,572,932
Purchase of services:			
Residential services	31,232,082		31,232,082
Day program	29,568,670		29,568,670
Other purchased services	57,209,288		57,209,288
Communication		93,051	93,051
General office expenses		503,068	503,068
Data processing expenses		626,167	626,167
Printing		32,387	32,387
Insurance		63,849	63,849
General expenses		293,405	293,405
Facility and equipment rent		1,520,189	1,520,189
Equipment and facility maintenance		532,092	532,092
Consultant fees	180,886	61,877	242,763
ARCA dues		68,761	68,761
Equipment purchases		258,677	258,677
Board expenses		10,702	10,702
Legal fees		25,312	25,312
Professional fees		64,241	64,241
Interest expense		53,808	53,808
TOTAL EXPENSES	\$ 132,377,394	\$ 6,594,050	\$ 138,971,444

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

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Direct Consumer Services</u>	<u>General and Admin- istrative</u>	<u>Total Expenses</u>
Salaries	\$ 11,296,475	\$ 1,637,835	\$ 12,934,310
Employee health and retirement benefits	2,714,205	1,293,024	4,007,229
Payroll taxes	151,160	255,990	407,150
Staff travel	<u>323,209</u>	<u>26,021</u>	<u>349,230</u>
Total Salaries and Related Expenses	14,485,049	3,212,870	17,697,919
Purchase of services:			
Residential services	31,273,030		31,273,030
Day program	28,992,105		28,992,105
Other purchased services	56,316,649		56,316,649
Communication		91,601	91,601
General office expenses		651,277	651,277
Data processing expenses		541,427	541,427
Printing		16,581	16,581
Insurance		59,405	59,405
General expenses		325,011	325,011
Facility and equipment rent		1,519,929	1,519,929
Equipment and facility maintenance		842,795	842,795
Consultant fees	129,948	164,214	294,162
ARCA dues		69,815	69,815
Equipment purchases		163,438	163,438
Board expenses		14,589	14,589
Legal fees		149,759	149,759
Professional fees		79,449	79,449
Interest expense		<u>5,952</u>	<u>5,952</u>
TOTAL EXPENSES	<u>\$ 131,196,781</u>	<u>\$ 7,908,112</u>	<u>\$ 139,104,893</u>

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

VALLEY MOUNTAIN REGIONAL CENTER, INC.

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets (deficit)	\$ 337,081	(\$ 1,047,143)
Adjustments to reconcile change in net assets (deficit) to net cash from operating activities:		
(Increase) decrease in:		
Cash – client trust funds	742	1,670
Contracts receivable – state of California	10,988,178	(10,547,542)
Due from state – accrued vacation and other employee benefits	(231,584)	(310,282)
Other receivables	10,337	(1,136)
Prepaid expenses	20,058	(413)
Deposits and other assets	17,064	17,064
Increase (decrease) in:		
Accounts payable	(11,036)	303,591
Contract advances – state of California	1,645,088	
Accrued vacation and other employee benefits	(340,169)	303,351
Retirement health care plan obligation	131,860	1,091,652
Unexpended client support	(742)	(1,670)
Net Cash Provided By (Used In) Operating Activities	12,566,877	(10,190,858)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in short-term borrowings	(10,994,000)	10,994,000
Net Cash Provided By (Used In) Financing Activities	(10,994,000)	10,994,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,572,877	803,142
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	10,745,942	9,942,800
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 12,318,819	\$ 10,745,942

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the years ended June 30, 2011 and 2010 for interest totaled \$53,807 and \$2,837, respectively.

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

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation

Valley Mountain Regional Center, Inc. (the Center) was incorporated on December 13, 1973 as a California nonprofit corporation. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State of California. In accordance with the Act, the Center provides diagnostic evaluations, client program management, and lifelong planning services for persons with developmental disabilities and their families. The areas served include San Joaquin, Stanislaus, Amador, Calaveras and Tuolumne Counties.

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

The Center contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for the developmentally disabled and their families. Under the terms of these contracts, funded expenditures are not to exceed \$140,273,990 and \$139,171,468 for the 2010-2011 and 2009-2010 contract years, respectively. As of June 30, 2011 and 2010, actual net expenditures under the 2010-2011 and 2009-2010 contracts were \$137,476,254 and \$137,544,814, respectively.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

As discussed above, the Center operates under contracts with the DDS. Contract revenue is funded on a cost reimbursement basis. The net deficit reported as of June 30, 2011 and 2010 on the statements of financial position is primarily the result of the implementation of an accounting standard regarding the reporting of the Center's post-retirement health care plan. As further discussed in Notes 1 and 5, the accounting standard required the Center to recognize as a charge to net assets the actuarial losses and prior service cost which had not yet been recognized as components of periodic plan expenses. For purposes of reporting plan expenses, the unrecognized actuarial losses and prior service costs will continue to be amortized into plan expenses over future years. Plan expenses under the post-retirement health care plan are reimbursed under the DDS contract as the Center funds the plan.

The Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of June 30, 2011 and 2010, the Center had no temporarily or permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Use of Estimates and Assumptions

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the statements of cash flows, the Center considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At June 30, 2011 and 2010 and at various times during the year, the Center maintained cash balances in its financial institutions in excess of federally insured limits. Given the current economic environment and risks in the banking industry, there is risk that these deposits may not be readily available or covered by insurance.

Support and Contracts Receivable – State of California

Support and contracts receivable – state of California is recorded on the accrual method as related expenses are incurred.

Equipment

Pursuant to the terms of the DDS contract, equipment purchases become the property of the state and, accordingly, are charged as expenses when incurred. For the years ended June 30, 2011 and 2010, equipment purchases totaled \$258,677 and \$163,438, respectively.

Accrued Vacation and Other Employee Benefits

The Center has accrued a liability and a receivable from the state for leave benefits earned, and for post-retirement health care as discussed in Note 5. However, such benefits are reimbursed under the state contract only when actually paid.

Post-Retirement Health Care Plan

The Center is required to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in the statements of financial position, with an offsetting charge or credit to net assets. Gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net period benefit cost will be recognized each year as a separate charge or credit to net assets.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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. Operating expenses are allocated to supporting services, except for consultant fees, which is allocated on a direct-cost basis.

Tax Status

The Center has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively.

The Center recognizes the financial statement benefit of tax positions, such as a filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Center is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California purposes is generally three and four years, respectively.

Subsequent Events

The Center's management has evaluated subsequent events from the statement of financial position date through February 6, 2012, the date the financial statements were available to be issued for the year ended June 30, 2011, and determined there are no other items to disclose.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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

The Center functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. The cash balances are segregated from the operating cash accounts of the Center and are restricted for client support.

NOTE 3 – Contracts Receivable (Advance) – State of California

As of June 30, 2011 and 2010, DDS had advanced the Center \$24,926,984 and \$23,780,037, respectively, under the regional center contracts. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from DDS contracts.

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Contracts receivable	\$ 23,281,896	\$ 34,768,215
Contract advances	(24,926,984)	(23,780,037)
Net contracts receivable (advance)	<u>(\$ 1,645,088)</u>	<u>\$ 10,988,178</u>

NOTE 4 – Short-Term Borrowings

At June 30, 2011, the Center had a revolving line of credit agreement with a bank, which expired July 15, 2011, whereby it could borrow up to \$14,500,000. Borrowings were secured by substantially all assets of the Center with interest payable monthly at an interest rate of 3.25% at June 30, 2011. At June 30, 2010, the outstanding balance was \$10,994,000. There was no outstanding balance as of June 30, 2011.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 – Post-Retirement Health Care Plan

The Center sponsors a post-retirement health care plan through the California Public Employees' Retirement System (PERS) for its employees. The actuarial cost method used for determining the benefit obligations is the Projected Unit Benefit Cost Method. Under this method, the actuarial present value of projected benefits is the value of benefits expected to be paid for current active employees and retirees. The Accumulated Post-Retirement Benefit Obligation (APBO) is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. The APBO equals the present value of projected benefits multiplied by a fraction equal to service to date over service at full eligibility age. The Periodic Benefit Cost is the actuarial present value of benefits attributed to one year of service. This equals the present value of benefits divided by service at expected retirement. The actuarial assumptions are summarized below:

<i>Valuation Date</i>	June 30	
<i>Economic Assumptions</i>		
	<u>2011</u>	<u>2010</u>
<i>Discount Rate</i>		
Used to determine Net Periodic Benefit Cost	5.5%	6.9%
Used to determine Benefit Obligations	5.8%	5.5%
<i>Long-term Rate of Return on Plan Assets</i>	6.75%	6.75%
<i>Annual Benefit Increases</i>	Contributions toward medical premiums are assumed to increase 4.25% per year.	
<i>Health Cost Trend</i>	Actual premium rate increases are based on the fixed CalPERS' schedule.	

The Center is required to recognize an expense each year equal to the Net Periodic Post-Retirement Benefit Cost (NPPBC). The unfunded accumulated benefit obligation for the plan upon its initial valuation was \$2,548,000, an amount which the Center elected to amortize over the average expected future service of its current employees (approximately 17 years).

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 – Post-Retirement Health Care Plan (Continued)

The Center recognizes the post-retirement health care plan liability as the unfunded APBO in its financial statements. All previously unrecognized actuarial gains or losses are reflected in the statements of financial position. The plan items not yet recognized as a component of periodic plan expenses, but included as a separate charge to net assets, are:

	June 30,	
	2011	2010
Unamortized net transition obligation	\$ 1,780,534	\$ 1,934,028
Unamortized net gain	<u>176,140</u>	<u>382,121</u>
	<u>\$ 1,956,674</u>	<u>\$ 2,316,149</u>

The pension-related changes other than net periodic pension cost were decreases of \$359,475 and increases of \$1,050,733 for the years ended June 30, 2011 and 2010, respectively.

The following table provides a reconciliation of the changes in the plan’s benefit obligations and funded status:

Reconciliation of Benefit Obligation

	June 30,	
	2011	2010
Change in benefit obligation		
Obligation at beginning of year	\$ 3,897,116	\$ 2,443,386
Service cost	187,651	130,662
Interest cost	216,905	190,728
Assumption change (gain) loss	(226,920)	831,976
Experience loss	75,959	350,073
Benefits paid	(58,712)	(49,709)
Benefit obligation at end of year	<u>4,091,999</u>	<u>3,897,116</u>

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 – Post-Retirement Health Care Plan (Continued)

Reconciliation of Benefit Obligation (Continued)

	June 30,	
	2011	2010
Change in plan assets		
Fair value of plan assets at beginning of year	362,078	None
Employer contribution	46,500	388,108
Actual return on plan assets	75,235	(10,438)
Benefits paid	(58,712)	(15,592)
	425,101	362,078
Funded status	(3,666,898)	(3,535,038)
Net amount recognized in the statements of financial position	(\$ 3,666,898)	(\$ 3,535,038)

Net periodic post-retirement benefit cost consists of the following components:

	For the Year Ended June 30,	
	2011	2010
Service cost	\$ 187,651	\$ 130,662
Interest cost	216,905	190,728
Expected (return) on plan assets	(24,028)	
Transition cost	153,494	153,494
Recognized net actuarial (gain) loss	3,813	(11,740)
Net periodic post-retirement benefit cost	\$ 537,835	\$ 463,144

The net amount recognized as a separate charge to net assets of \$1,956,674 and \$2,316,149 as of June 30, 2011 and 2010, respectively, for prior service cost does not have an offsetting accrual from the DDS to reflect the future reimbursement of such benefits. The Center has accrued a receivable from the DDS for the balance of the accrued benefit obligation of \$1,710,224 and \$1,218,889 as of June 30, 2011 and 2010, respectively, which results in additional support to offset the net periodic post-retirement benefit cost.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 – Post-Retirement Health Care Plan (Continued)

Plan Assets

The plan’s assets are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A recent accounting standard has established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table sets forth by level, with the fair value hierarchy, the plan’s assets at fair value as of June 30, 2011:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Asset category:				
Mutual funds				
Diversified equity	\$ 309,580	\$ 309,580		
Bond fund	59,336	59,336		
Short-term bond	56,185	56,185		
	<u>56,185</u>	<u>56,185</u>		
Total	<u>\$ 425,101</u>	<u>\$ 425,101</u>	<u>None</u>	<u>None</u>

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 – Post-Retirement Health Care Plan (Continued)

Plan Assets (Continued)

The following table sets forth by level, with the fair value hierarchy, the plan’s assets at fair value as of June 30, 2010:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Asset category:				
Cash and cash equivalents	\$ 10,483	\$ 10,483		
Mutual funds				
Diversified equity	240,450	240,450		
Bond fund	56,385	56,385		
Short-term bond	54,760	54,760		
	<u>362,078</u>	<u>362,078</u>	<u>None</u>	<u>None</u>
Total	<u>\$ 362,078</u>	<u>\$ 362,078</u>	<u>None</u>	<u>None</u>

The allocation of plan assets is as follows:

	<u>June 30,</u>	
<u>Asset Category</u>	<u>2011</u>	<u>2010</u>
Interest bearing cash		2.9%
Mutual funds		
Highmark Diversified Equity	72.8%	66.4%
Highmark Bond Fund	14.0%	15.6%
Highmark Short-Term Bond Fund	13.2%	15.1%
	<u>100.0%</u>	<u>100.0%</u>

The investment objective of the plan is to provide a rate of return commensurate with a moderate degree of risk of loss of principal and return volatility. A trustee administers the plan assets and investment responsibility for the assets is assigned to outside investment managers. The assets of the plan are periodically rebalanced to remain within the desired target allocations.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 5 – Post-Retirement Health Care Plan (Continued)

Variability of Estimated APBO

Actual future costs may vary significantly from the estimates used in calculating the APBO for a variety of reasons. Retiree medical costs are especially difficult to estimate due to the uncertainty of future medical costs.

Cash Flow Estimates for Future Benefit Payments

The following estimated benefit payments, which reflect expected future services, as appropriate, are expected to be paid on a fiscal year basis:

For the Year Ending June 30,	
2012	\$ 76,478
2013	\$ 88,725
2014	\$ 102,102
2015	\$ 116,164
2016	\$ 131,015
2017 - 2021	\$ 915,891

NOTE 6 – Pension Plan

The Center contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the state of California. Substantially all of the Center's employees participate in PERS.

PERS uses the Entry Age Normal Cost Method to fund benefits. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire to the assumed retirement age.

The actuarial accrued liability for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for members entitled to deferred benefits, is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 6 – Pension Plan (Continued)

The excess of the total actuarial accrued liability over the actuarial value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls. All changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methodology are amortized separately over a 20-year period. Gains and losses that occur in the operation of the plan are amortized over a 30-year rolling period, which results in an amortization of about six percent of unamortized gains and losses each year. Finally, if the plan's accrued liability exceeds the actuarial value of plan assets, the annual contribution with respect to the total unfunded liability may not be less than the amount produced by a 30-year amortization of the unfunded liability.

A summary of principal actuarial assumptions used is as follows:

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Average Remaining Period	20 years as of the valuation date
Asset Valuation Method	15-year smoothed market
Investment Rate of Return	7.75% (net of administrative expense)
Projected Salary Increases	3.55% to 14.45% depending on age, service, and type of employment
Inflation	3.00%
Payroll Growth	3.25%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00% and an annual production growth of .25%

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 6 – Pension Plan (Continued)

The asset allocation shown below reflects the PERS fund in total as of June 30, 2010. The assets of the Center’s plan are part of the PERS fund and are invested accordingly.

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target</u>
Short-term investments	4.6 %	4.0%
Global fixed income	26.2	16.0
Equities	45.1	49.0
Inflation linked (ILAC)	2.5	4.0
Real estate	7.5	13.0
Alternative investments	14.1	14.0
	100.0 %	100.0 %

The Schedule of Funding Progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll.

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Unfunded Liability</u>	<u>Funded Ratios</u>		<u>Annual Covered Payroll</u>	<u>UL as a Percentage of Payroll</u>
				<u>AVA</u>	<u>Market Value</u>		
06/30/08	\$35,217,166	\$29,935,752	\$5,281,414	85.0%	85.0%	\$12,232,736	43.2%
06/30/09	\$38,986,156	\$34,078,085	\$4,908,071	87.4%	64.0%	\$12,367,315	39.7%
06/30/10	\$42,037,247	\$37,821,597	\$4,215,650	90.0%	71.5%	\$12,703,364	33.2%

Employee contributions are approximately seven percent of salaries and wages. The Center is required to contribute the remaining amount necessary to fund benefits for its employees, using the actuarial basis adopted by the PERS Board of Administration. Total retirement expense for the years ended June 30, 2011 and 2010 was \$1,317,024 and \$1,618,236, respectively.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 7 – Commitments and Contingencies

Commitments

The Center is obligated under certain operating leases for office equipment, field and main office facilities. The lease terms expire in various years through November 2019. The terms of the leases provide for payment of minimum annual rentals, insurance, and property taxes. In the event the DDS does not renew its annual support contract, the leases described above become cancelable by the Center.

Future minimum rental commitments for facilities are as follows:

For the Year Ending June 30,	
2012	\$ 1,507,784
2013	1,524,635
2014	1,450,396
2015	1,449,876
2016	1,054,188
Thereafter	<u>2,213,250</u>
	<u>\$ 9,200,129</u>

Total office equipment and facilities rental expense for the years ended June 30, 2011 and 2010 was \$1,520,189 and \$1,519,929, respectively.

Contingencies

In accordance with the terms of the contract with DDS, an audit may be performed by an authorized DDS representative. Should such audit disclose any unallowable costs, the Center may be liable to DDS for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2011 and 2010, and for the years then ended.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 7 – Commitments and Contingencies (Continued)

Contingencies (Continued)

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

The state of California is experiencing an unprecedented budget shortfall due to the severe national and state economic crisis. The DDS has undertaken numerous efforts to control costs throughout the system and is committed to preserving the entitlement services and supports. Reductions in regional center operations and purchase of services are expected for the 2011/2012 fiscal year as a result of cost control efforts and legislation enacted.

The Center retains approximately 75 percent of its labor force through Social Services Union Local 1021, Service Employees International Union. This labor force is subject to a collective bargaining agreement and, as such, renegotiation of such agreement could expose the Center to an increase in hourly costs and work stoppages. The agreement expired in September 2011 and an extension was granted through November 2011, while management negotiates with the Union on a new agreement.

The Center is involved in various claims and lawsuits arising in the normal conduct of its 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.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

NOTE 8 – Intermediate Care Facility Billing

The Centers for Medicare and Medicaid Services (CMS) has approved federal financial participation in the funding of the day and transportation services related to the Center’s ICF services retroactive to July 2007. The federal rules allow for only one provider of the ICF service, requiring all the Medicaid funding for the ICF resident to go through the applicable vendors. The Center is in the process at June 30, 2011, due to the change in funding, of collecting the funding provided under the federal program from applicable vendors retroactive to July 2007, and remitting the funds to the DDS. The Center receives a 1.5% administrative fee based on the funds received to cover the additional workload.

As of June 30, 2011, the Center’s activity related to the above funding was as follows:

Total billed from vendors for years ended June 30, 2008 and 2009	<u>\$ 9,302,395</u>
Total amount due to state	\$ 9,162,859
Administrative fee	<u>139,536</u>
	<u>\$ 9,302,395</u>

During the year ended June 30, 2011, the Center collected \$1,159,941 from vendors, of which \$1,142,542 was remitted to the state as of June 30, 2011. Administrative fee income of \$17,399 was recognized in other income for the year ended June 30, 2011.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/ Pass-Through Grantor/ Grant Title	Federal CFDA Number	Grant Identification Number	Federal Expenditures
U.S. Department of Education			
Passed through State of California Department of Developmental Services			
Early Intervention Services (IDEA) Cluster:			
Special Education – Grants for Infants and Families	84.181	H181A100037	\$ 1,405,988
U.S. Corporation for National and Community Service			
Pass through State of California Department of Developmental Services			
Foster Grandparent program	94.011	HD099021	134,578
			\$ 1,540,566

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Valley Mountain Regional Center, Inc. and is presented based on state contract budget allocations. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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

To the Board of Directors of
Valley Mountain Regional Center, Inc.

We have audited the financial statements of Valley Mountain Regional Center, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated February 6, 2012. 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

In planning and performing our audit, we considered Valley Mountain Regional Center, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Mountain Regional Center, Inc.'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.

Compliance and Other Matters

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

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

A handwritten signature in cursive script that reads "Windes & McCaughey".

Long Beach, California

February 6, 2012



**WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION**

Certified Public Accountants & Consultants

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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**

To the Board of Directors of
Valley Mountain Regional Center, Inc.

Compliance

We have audited Valley Mountain Regional Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Valley Mountain Regional Center, Inc.'s major federal programs for the year ended June 30, 2011. Valley Mountain Regional Center, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Valley Mountain Regional Center, Inc.'s management. Our responsibility is to express an opinion on Valley Mountain Regional Center, Inc.'s compliance based on our audit.

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

In our opinion, Valley Mountain Regional Center, Inc. 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, 2011.

Internal Control Over Compliance

Management of Valley Mountain Regional Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Valley Mountain Regional Center, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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 Valley Mountain Regional Center, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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, others within the organization and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Long Beach, California
February 6, 2012

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued – Unqualified

Internal control over financial reporting

1. Material weakness(es) identified? – No
2. Significant deficiencies identified that are not considered to be material weaknesses? – None reported
3. Noncompliance material to financial statements noted? – No

Federal Awards

Internal control over major programs

1. Material weakness(es) identified? – No
2. Significant deficiencies identified that are not considered to be material weakness(es)? – None reported
3. Type of auditors’ report issued on compliance for major programs? – Unqualified
4. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? – No
5. Identification of major program: Early Intervention Services (IDEA) Cluster – Special Education – Grants for Infants and Families, CFDA #84.181
6. Dollar threshold used to distinguish between type A and type B programs was \$300,000.
7. Auditee qualified as low-risk auditee? – Yes

SECTION II – FINANCIAL STATEMENTS FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None