VALLEY MOUNTAIN REGIONAL CENTER, INC.

FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012 and 2011, 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, 2012 and 2011, 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 11, 2013 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 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.

Windes & McClaughry

Long Beach, California
February 11, 2013

VALLEY MOUNTAIN REGIONAL CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2012	June 30, 2011
ASSETS		
Cash and cash equivalents	$ 8,847,844	$ 12,318,819
Cash – client trust funds	7,826	15,388
Contracts receivable – state of California	11,689,387	
Due from state – accrued vacation and other employee benefits	3,278,375	2,913,613
Deposits and other assets	108,625	102,784
TOTAL ASSETS	$ 23,932,057	$ 15,350,604

LIABILITIES AND NET DEFICIT

LIABILITIES		
Accounts payable	$ 10,538,339	$ 10,713,216
Contract advances – state of California		1,645,088
Short-term borrowings	10,000,000	
Accrued vacation and other employee benefits	1,249,740	1,263,745
Retirement health care plan obligation	5,546,796	3,666,898
Unexpended client support	7,826	15,388
	27,342,701	17,304,335
COMMITMENTS AND CONTINGENCIES (Notes 4, 5, 6 and 7)		
NET DEFICIT		
Unrestricted	(3,410,644)	(1,953,731)
TOTAL LIABILITIES AND NET DEFICIT	$ 23,932,057	$ 15,350,604

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,	
	2012	**2011**
CHANGE IN UNRESTRICTED NET DEFICIT		
SUPPORT AND REVENUE		
Contracts – state of California	$ 140,836,022	$ 138,818,249
Interest income	57,131	99,740
Other income	147,378	31,061
Total Support and Revenue	141,040,531	138,949,050
EXPENSES		
Program Services:		
Direct consumer services	134,360,417	132,377,394
Supporting Services:		
General and administrative	6,670,662	6,594,050
Total Expenses	141,031,079	138,971,444
CHANGE IN NET ASSETS BEFORE HEALTH PLAN RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	9,452	(22,394)
HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	(1,466,365)	359,475
CHANGE IN NET ASSETS (DEFICIT)	(1,456,913)	337,081
NET DEFICIT AT BEGINNING OF YEAR	(1,953,731)	(2,290,812)
NET DEFICIT AT END OF YEAR	($ 3,410,644)	($ 1,953,731)

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, 2012

	Program Services	Supporting Services	
	Direct Consumer Services	General and Admin-istrative	Total Expenses
Salaries	$ 10,423,794	$ 1,576,080	$ 11,999,874
Employee health and retirement benefits	2,893,022	878,739	3,771,761
Payroll taxes	144,244	21,569	165,813
Staff travel	324,465	10,876	335,341
Total Salaries and Related Expenses	13,785,525	2,487,264	16,272,789
Purchase of services:			
Residential services	32,127,001		32,127,001
Day program	30,743,174		30,743,174
Other purchased services	57,530,539		57,530,539
Communication		77,447	77,447
General office expenses		475,832	475,832
Data processing expenses		687,734	687,734
Printing		21,994	21,994
Insurance		33,820	33,820
General expenses		299,796	299,796
Facility and equipment rent		1,587,183	1,587,183
Equipment and facility maintenance		449,689	449,689
Consultant fees	174,178	94,035	268,213
ARCA dues		64,231	64,231
Equipment purchases		239,881	239,881
Board expenses		11,785	11,785
Legal fees		82,271	82,271
Professional fees		47,759	47,759
Interest expense		9,941	9,941
TOTAL EXPENSES	$ 134,360,417	$ 6,670,662	$ 141,031,079

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.

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets (deficit)	($ 1,456,913)	$ 337,081
Adjustments to reconcile change in net assets (deficit) to net cash from operating activities:		
(Increase) decrease in:		
Cash – client trust funds	7,562	742
Contracts receivable – state of California	(11,689,387)	10,988,178
Due from state – accrued vacation and other employee benefits	(364,762)	(231,584)
Other receivables		10,337
Prepaid expenses		20,058
Deposits and other assets	(5,841)	17,064
Increase (decrease) in:		
Accounts payable	(174,877)	(11,036)
Contract advances – state of California	(1,645,088)	1,645,088
Accrued vacation and other employee benefits	(14,005)	(340,169)
Retirement health care plan obligation	1,879,898	131,860
Unexpended client support	(7,562)	(742)
Net Cash Provided By (Used In) Operating Activities	(13,470,975)	12,566,877
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in short-term borrowings	10,000,000	(10,994,000)
Net Cash Provided By (Used In) Financing Activities	10,000,000	(10,994,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,470,975)	1,572,877
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,318,819	10,745,942
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 8,847,844	$ 12,318,819

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the years ended June 30, 2012 and 2011 for interest totaled $9,941 and $53,808, respectively.

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

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 $140,582,991 and $140,273,990 for the 2011-2012 and 2010-2011 contract years, respectively. As of June 30, 2012 and 2011, actual net expenditures under the 2011-2012 and 2010-2011 contracts were $139,677,103 and $138,233,511, respectively.

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, 2012 and 2011 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, 2012 and 2011, 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 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.

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, 2012 and 2011 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.

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, 2012 and 2011, equipment purchases totaled $239,881 and $258,677, 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.

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 statements of financial position date through February 11, 2013, the date the financial statements were available to be issued for the year ended June 30, 2012, and determined there are no other items to disclose.

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, 2012 and 2011, DDS had advanced the Center $24,693,884 and $24,926,984, 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.

	June 30,	
	2012	2011
Contracts receivable	$ 36,383,271	$ 23,281,896
Contract advances	(24,693,884)	(24,926,984)
Net contracts receivable (advance)	$ 11,689,387	($ 1,645,088)

NOTE 4 – Short-Term Borrowings

At June 30, 2012, the Center had a revolving line of credit agreement with a bank, which expired September 28, 2012, whereby it could borrow up to $22,350,000. Borrowings were secured by substantially all assets of the Center with interest payable monthly at an interest rate of 3.25% at June 30, 2012. At June 30, 2012, the outstanding balance was $10,000,000. There was no outstanding amount as of June 30, 2011.

Subsequent to year-end, the Center extended the agreement, which will allow the Center to borrow up to $21,000,000 through October 15, 2013. Borrowings are secured by substantially all assets of the Center with interest payable monthly at an interest rate equal to the lender's reference rate.

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:

Valuation Date June 30

Economic Assumptions

	2012	2011
Discount Rate		
Used to determine Net Periodic Benefit Cost	5.8%	5.5%
Used to determine Benefit Obligations	4.4%	5.8%
Long-term Rate of Return on Plan Assets		
Used to determine Net Periodic Benefit cost	6.75%	6.75%
Used to determine Benefit Obligations	6.25%	6.75%
General inflation	2.50%	2.50%

Annual Benefit Increases Contributions toward medical premiums are assumed to increase 4.25% per year.

Health Cost Trend 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. 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).

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,	
	2012	2011
Unamortized net transition obligation	$ 1,627,040	$ 1,780,534
Unamortized actuarial net loss	1,795,999	176,140
	$ 3,423,039	$ 1,956,674

The pension-related changes other than net periodic pension cost were decreases of $1,466,365 and $359,475 for the years ended June 30, 2012 and 2011, 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,	
	2012	2011
Change in benefit obligation		
Obligation at beginning of year	$ 4,091,999	$ 3,897,116
Service cost	163,952	187,651
Interest cost	247,748	216,905
Assumption change (gain) loss	1,368,517	(226,920)
Experience loss	210,886	75,959
Benefits paid	(62,729)	(58,712)
Benefit obligation at end of year	6,020,373	4,091,999

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

Reconciliation of Benefit Obligation (Continued)

	June 30, 2012	June 30, 2011
Change in plan assets		
Fair value of plan assets at beginning of year	$ 425,101	$ 362,078
Employer contributions	121,000	46,500
Actual return (loss) on plan assets	(9,795)	75,235
Benefits paid	(62,729)	(58,712)
Fair value of plan assets at end of year	473,577	425,101
Funded status	(5,546,796)	(3,666,898)
Net amount recognized in the statements of financial position	($ 5,546,796)	($ 3,666,898)

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

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
Service cost	$ 163,952	$ 187,651
Interest cost	247,748	216,905
Expected return on plan assets	(30,661)	(24,028)
Transition cost	153,494	153,494
Recognized net actuarial loss		3,813
Net periodic post-retirement benefit cost	$ 534,533	$ 537,835

The net amount recognized as a separate charge to net assets of $3,423,039 and $1,956,674 as of June 30, 2012 and 2011, respectively, for prior service cost and unamortized net actuarial loss 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 $2,123,757 and $1,710,224 as of June 30, 2012 and 2011, respectively, which results in additional support to offset the net periodic post-retirement benefit cost.

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. Accounting standards have 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, 2012:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset category:				
Cash	$ 57,767	$ 57,767		
Mutual funds				
Diversified equity	294,940	294,940		
Bond fund	63,475	63,475		
Short-term bond	57,395	57,395		
Total	$ 473,577	$ 473,577	None	None

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, 2011:

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

The allocation of plan assets is as follows:

	June 30,		Target
	2012	2011	Allocation
Asset Category			
Interest bearing cash	12%		5%
Mutual funds			
Highmark Diversified Equity	62%	73%	67%
Highmark Bond Fund	14%	14%	15%
Highmark Short-Term Bond Fund	12%	13%	13%
	100%	100%	100%

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.

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,	
2013	$ 90,682
2014	$ 105,900
2015	$ 121,457
2016	$ 137,702
2017	$ 155,318
2018 - 2022	$ 1,076,042

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.

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, 2011
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Average Remaining Period	23 years as of the valuation date
Asset Valuation Method	15-year smoothed market
Discount Rate	7.50% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of .25%

NOTE 6 – Pension Plan (Continued)

The asset allocation shown below reflects the PERS fund in total as of June 30, 2011. The assets of the Center's plan are part of the PERS fund and are invested accordingly.

Asset Class	Current Allocation
Short-term investments	3.3 %
Domestic equity	23.5
International equity	25.2
Domestic debt	20.6
International debt	1.6
Inflation linked	3.4
Real estate	8.0
Alternative investments	14.4
	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.

Valuation Date	Accrued Liability	Actuarial Value of Assets (AVA)	Unfunded Liability (UL)	Funded Ratios AVA	Funded Ratios Market Value	Annual Covered Payroll	UL as a Percentage of Payroll
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%
06/30/11	$46,292,604	$41,608,522	$4,684,082	89.9%	81.2%	$12,271,433	38.2%

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, 2012 and 2011 was $1,294,747 and $1,317,024, respectively.

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 February 2021. 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. Subsequent to year-end, the Center extended its lease on the main office facilities to expire in February 2021.

Future minimum rental commitments for facilities are as follows:

For the Year Ending June 30,	
2013	$ 1,524,632
2014	1,450,396
2015	1,449,876
2016	1,467,876
2017	1,485,876
Thereafter	4,588,462
	$ 11,967,118

Total office equipment and facilities rental expense for the years ended June 30, 2012 and 2011 was $1,587,183 and $1,520,189, 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, 2012 and 2011, and for the years then ended.

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 2012/2013 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 was renewed March 13, 2012 and covers the period from October 1, 2011 through June 30, 2014.

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.

NOTE 8 – Intermediate Care Facility (ICF) 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, 2012, 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, 2012, the Center's activity related to the above funding was as follows:

Total billed from vendors for years ended June 30, 2008 and 2009	$ 9,302,395
Total amount due to DDS	$ 9,162,859
Administrative fee	139,536
	$ 9,302,395

During the year ended June 30, 2012, the Center collected $8,265,708 from vendors, of which $8,142,454 was remitted to the state as of June 30, 2012. Administrative fee income of $123,254 was recognized in other income for the year ended June 30, 2012.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

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	HD099021	$ 1,436,080
U.S. Corporation for National and Community Service			
Pass through State of California Department of Developmental Services			
Foster Grandparent program	94.011	HD099021	140,318
			$ 1,576,398

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 financial statements.

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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, 2012, and have issued our report thereon dated February 11, 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 Valley Mountain Regional Center, Inc. is responsible for establishing and maintaining effective 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 previously.

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.

Windes & McClaughry

Long Beach, California
February 11, 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

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, 2012. 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, 2012.

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.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Organization's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the Organization's compliance but not to provide an opinion on the effectiveness of the Organization's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Windes & McClaughry

Long Beach, California
February 11, 2013

VALLEY MOUNTAIN REGIONAL CENTER, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

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