Milliman

650 California Street, Floor 17
San Francisco, CA 94108-2702
USA

Tel +1 415 403 1333
Fax +1 415 403 1334

milliman.com

July 20, 2010

Ms. Debra Roth
Chief Financial Officer
Valley Mountain Regional Center
702 N Aurora Street
Stockton, California 95202

Valley Mountain Regional Center –
ASC 715-60 (Formerly SFAS 106/158) Actuarial Valuation for the
Fiscal Year Ended June 30, 2010

Dear Ms. Roth:

I am pleased to enclose the above-titled Milliman report. The report covers postretirement health benefits provided to active and retired employees.

The purpose of this report is to provide you with the expense and financial statement disclosures required under ASC 715-60 (formerly known as SFAS 106) for the fiscal year ending June 30, 2010. A subsequent report will provide you with the ASC 715-60 expense for the fiscal year ending June 30, 2011.

	Fiscal Year Ending	
ASC 715-60 (SFAS 106) Expense	***June 30, 2010***	***June 30, 2009***
Service cost	$ 130,662	$ 122,389
Interest cost	190,728	151,361
Amortization of Initial APBO	153,494	153,494
Amortization of (gains) or losses	(11,740)	(39,136)
ASC 715-60 (SFAS 106) Expense	$ 463,144	$ 388,108

Note that the ASC 715-60 expense can be reduced by the contributions made during the fiscal year. The net expense is as follows:

	Fiscal Year Ending	
Net Expense	***June 30, 2010***	***June 30, 2009***
ASC 715-60 (SFAS 106) Expense	$ 463,144	$ 388,108
Contributions made	(422,225)	(48,000)
Net expense	$ 40,919	$ 340,108

The development of the "net postretirement benefit liability" for the last two fiscal years is as follows:

	Fiscal Year Ending	
Net Postretirement Benefit Liability	***June 30, 2010***	***June 30, 2009***
Beginning of year	$ (1,177,970)	$ (837,862)
ASC 715-60 (SFAS 106) expense	(463,144)	(388,108)
Contributions made	422,225	48,000
End of year	$ (1,218,889)	$ (1,177,970)

If you have any questions, please call me at (415) 394-3740.

Sincerely,

John R. Botsford, FSA, MAAA

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Valley Mountain Regional Center

ASC 715-60 (Formerly SFAS 106/158)
Actuarial Valuation for the
Fiscal Year Ended June 30, 2010

Prepared by:

John R. Botsford, FSA, MAAA

July 20, 2010

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Valley Mountain Regional Center –
ASC 715-60 (Formerly SFAS 106) Actuarial Valuation for the
Fiscal Year Ended June 30, 2010

At the request of Valley Mountain Regional Center, we have completed an actuarial valuation of the net periodic postretirement benefit cost and financial statement disclosures to be reported by Valley Mountain Regional Center for the fiscal year ended June 30, 2010.

Our determinations reflect the procedures and methods prescribed in the Statement of Financial Accounting Standards No. 106 – Employers' Accounting for Postretirement Benefits other than Pensions (SFAS 106), as amended by the Statement of Financial Accounting Standards No. 132 – Employers' Disclosures about Pensions and Other Postretirement Benefits (SFAS 132) , and Statement of Accounting Standards No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). In July 2009, the Financial Accounting Standard Board introduced FASB Accounting Standards Codification (ASC) to reorganize these statements into ASC 715-60.

In preparing our report, we relied on financial information, employee data, and health plan premiums furnished to us by Valley Mountain Regional Center. While Milliman has not audited the financial and census data, they have been reviewed for reasonableness and are, in our opinion, sufficient and reliable for the purposes of our calculations. If any of this information as summarized in this report is inaccurate or incomplete, the results shown could be materially affected and this report may need to be revised.

The actuarial cost method and assumptions used as well as the supporting data and principal plan provisions upon which the valuation is based are set forth in the following report. All costs, liabilities, rates of interest, and other factors under the Plan have been determined on the basis of actuarial assumptions and methods which are reasonable and consistent with our understanding of ASC 715-60 (formerly SFAS 106). All assumptions should represent a best estimate of anticipated experience under the Plan. Nevertheless, the emerging costs will vary from those presented in this report to the extent that actual experience differs from that projected by the actuarial assumptions.

Actuarial computations under ASC 715-60 (formerly Statement of Financial Accounting Standards No. 106) are for purposes of fulfilling employer accounting requirements. Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results reported herein. Accordingly, additional determinations are needed for other purposes, such as judging benefit security at termination or adequacy of funding for an on-going plan. The results of this valuation are applicable only for the current year and are intended to be used only by the Valley Mountain Regional Center for the specific purposes described herein.

Milliman’s work is prepared solely for the internal business use of Valley Mountain Regional Center. Milliman’s work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman’s consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exception: Valley Mountain Regional Center may provide a copy of Milliman’s work, in its entirety, to Valley Mountain Regional Center's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman’s work for any purpose other than the intended use stated in this letter. No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, the report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Actuarial Standards of Practice of the American Academy of Actuaries. The undersigned is a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

John R. Botsford, FSA, MAAA
Consulting Actuary

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Introduction

Milliman, Inc. (Milliman) has been retained by Valley Mountain Regional Center (VMRC) to provide a ASC 715-60 (formerly SFAS 106/158) actuarial valuation of its postretirement benefit plans. In our valuation we:

- Calculate the present value of benefits attributable to past service (APBO).
- Determine the annual expense (NPPBC) under ASC 715-60 (formerly SFAS 106).
- Prepare the financial statement disclosures relating to the funded status of the plan.

Background

Retirees are eligible for retiree health benefits if they meet certain requirements relating to age and service. Appendix A provides a detailed summary of benefits.

Accounting Considerations

In December 1990, the Financial Accounting Standards Board (FASB) issued Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. This statement took effect in 1993 (1995 for plans with less than 500 participants) and requires employers to account for the cost of non-pension retirement benefits promised to retirees. Non-pension retirement benefits include health and life insurance, vision and dental benefits, and long term care benefits.

Under SFAS 106, employers must recognize an expense each year equal to the Net Periodic Postretirement Benefit Cost (NPPBC). In addition, information about the plan and the funded status of the benefits offered need to be disclosed in the financial statements.

Effective with the fiscal year ending June 30, 2007, VMRC began accounting for its postemployment benefits liability SFAS 106. VMRC elected to amortize its unfunded obligation at transition of $2,548,000 over the average expected future service of its current employees (approximately 17 years).

In September 2006, FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Effective with the fiscal year ending November 30, 2007, SFAS 158 will require employers to recognize on their financial statements an amount equal to the unfunded APBO (or funded surplus). Prior to SFAS 158, the difference between the accrued/(prepaid) benefit cost and the unfunded APBO (or funded surplus) was reported in the footnotes as an unrecognized experience gain or loss or prior service cost. Under SFAS 158, these amounts must be recognized as accumulated other comprehensive income (AOCI).

In July 2009, the Financial Accounting Standard Board introduced FASB Accounting Standards Codification (ASC) to reorganize these statements into ASC 715-60.

Assumptions

With any valuation of future benefits, assumptions of anticipated future events are required. If actual events differ from the assumptions made, the actual cost of the plan will vary as well. The following assumptions should be reviewed for appropriateness.

Discount Rate. For the disclosures of the obligations as of the end of the fiscal year, we have discounted future benefit payments back to the present using an interest rate of 5.50%. This rate was derived from the Citigroup Pension Discount Curve as of the end of June 2010 using the expected payouts from the Plan. The rate used as of the beginning of the fiscal year (used to calculate the expense for the year) was 6.90%.

Long-Term Rate of Return. The expected long-term rate of return on plan assets as of June 30, 2010 is 6.75%. Our long-term expected returns for various asset classes is shown below and includes a 2.75% long-term inflation assumption.

Asset Class	*Expected Nominal Return*	*Asset Allocation*
Domestic Equities	9.06%	66.0%
Fixed Income	5.11%	16.0%
Short-term Bond	3.85%	15.0%
Cash	3.51%	3.0%
Expected Average Return (1 yr)		7.48%
Expected Average Return (30 yrs)		6.74%
25^{th} to 75^{th} Percentile Return (30 yrs)		5.14% to 8.30%

Based on the above asset allocation, we expect a 1-year nominal rate of return of 7.48%. The average return over the next 30 years is expected to be 6.74%. The assumption of 6.75% for the long-term rate of return is within the 50^{th} to 75^{th} percentile of expected results.

Demographic Rates. The demographic assumptions (assumed rates of turnover, retirement, and mortality) are based on the rates used by the California Public Employees Retirement System (PERS) in their actuarial valuations of retirement benefits under a 2.0% @ 60 formula for miscellaneous public agency employees. VMRC's future experience should be monitored and adjustments made in future valuations as appropriate.

A complete summary of the actuarial assumptions is presented in Appendix B.

Valuation Results

The Accumulated Postretirement Benefit Obligation (APBO) as of June 30, 2010 is $3,897,116. Please see Exhibit 1 for a summary of the APBO. The Net Periodic Benefit Cost (NPBC) for the fiscal year ending June 30, 2010 is 463,144. Please see Exhibit 2 for a summary of the NPBC.

Exhibit 1. Accumulated Postretirement Benefit Obligation

The Accumulated Postretirement Benefit Obligation (APBO) is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. The APBO equals the EPBO multiplied by a fraction equal to service to date over service at full eligibility age (FEA). On and after FEA, the APBO will equal the EPBO.

ASC 715-60 (SFAS 106) requires the FEA to be the earliest retirement age. For VMRC, this would be age 50 with 5 years of service.

	June 30, 2010	*June 30, 2009*
Retired participants	$ 966,252	$ 764,059
Fully eligible active participants	1,730,933	962,677
Other active participants	1,199,931	716,650
Total	$ 3,897,116	$ 2,443,386

Exhibit 2. Reconciliation of Assets

In January 1, 2010, VMRC established an irrevocable trust (OPEB Trust) to fund its Postretirement Benefits Other Than Pensions. The Market Value of Plan assets is as follows:

	For the Fiscal Year Ending	
	June 30, 2010	***June 30, 2009***
Change in Plan Assets		
Market Value at beginning of year	$ 0	$ 0
Actual return on plan assets	(10,438)	0
Employer contributions *	388,108	0
Benefits paid *	(15,592)	0
Market Value at end of year	$ 362,078	$ 0

* *Reflects only contributions and benefit payments that were made to, or paid from, the trust.*

The allocation of plan assets is as follows:

	As of the Fiscal Year Ending	
	June 30, 2010	***June 30, 2009***
Interest Bearing Cash	2.9%	0%
Highmark Bond Fund	15.6%	0%
Highmark Diversified Equity	66.4%	0%
Highmark Short Term Bond Fund	15.1%	0%
Total	100.0%	0%

Exhibit 3. Net Periodic Postretirement Benefit Cost

The Net Periodic Postretirement Benefit Cost (NPPBC) is defined by ASC 715-60 (formerly SFAS 106) as the cost of a postretirement benefit plan for a fiscal year.

	NPBC for the Fiscal Year Ending	
	June 30, 2010	***June 30, 2009***
Service cost	$ 130,662	$ 122,389
Interest cost	190,728	151,361
Expected (return) on plan assets	0	0
Transition amount	153,494	153,494
Amortization of prior service cost	0	0
Recognized net actuarial (gains) and losses	(11,740)	(39,136)
Net periodic benefit cost/(income)	$ 463,144	$ 388,108

Exhibit 4. Financial Statement Disclosures

ASC 715-60 (formerly SFAS 106) requires disclosures about the funded status of the plan. The following schedule reconciles the funded status of the plan with the net postretirement benefit liability recognized in the statement of financial position.

	For the Fiscal Year Ending	
	June 30, 2010	***June 30, 2009***
Change in benefit obligation		
Beginning of year	$ 2,443,386	$ 2,821,347
Service cost	130,662	122,389
Interest cost	190,728	151,361
Assumption change (gain) or loss	831,976	0
Experience (gain) or loss	350,073	(603,711)
Benefits paid	(49,709)	(48,000)
End of year	$ 3,897,116	$ 2,443,386
Plan assets	$ 362,078	$ 0
Amounts recognized		
Funded status	$ (3,535,038)	$ (2,443,386)
Unrecognized actuarial (gain) or loss	382,121	(822,106)
Unrecognized prior service cost	0	0
Unrecognized net initial (asset)/obligation	1,934,028	2,087,522
Prepaid/(accrued) benefit cost	$ (1,218,889)	$ (1,177,970)
Less accumulated other comprehensive income	(2,316,149)	(1,265,416)
Net amount recognized	$ (3,535,038)	$ (2,443,386)

Exhibit 5. Reconciliation of Financial Statement Disclosures

The items in the financial statement disclosure have been reconciled with the prior year's values as follows:

	Fiscal Year Ending June 30, 2010
Unrecognized transition obligation	
Beginning of year	$ 2,087,522
Amortization amount	(153,494)
End of year	$ 1,934,028
Unrecognized prior service cost	
Beginning of year	$ 0
Amortization amount	0
End of year	$ 0
Unrecognized net (gain) or loss	
Beginning of year	$ (822,106)
Experience (gain) or loss	350,073
Asset (gain) or loss	10,438
Amortization amount	11,740
Assumption change	831,976
End of year	$ 382,121
Net postretirement benefit asset or (liability)	
Beginning of year	$ (1,177,970)
Net periodic postretirement benefit cost	(463,144)
Employer contribution	422,225
End of year	$ (1,218,889)
Accumulated other comprehensive income (AOCI)	
Beginning of year	$ 1,265,416
Increase / (decrease) in AOCI	1,050,733
End of year	$ 2,316,149

Exhibit 6. 10 Year Projection of Expected Benefit Payments

The following table shows annual expected benefit payments for the next 10 years.

Fiscal Year	*Expected Payment*
2010-2011	$ 70,990
2011-2012	81,961
2012-2013	93,864
2013-2014	106,868
2014-2015	120,401
2015/16 – 2019/20 Aggregate	$ 832,455

Appendix A. Summary of Benefits

The following description of retiree health benefits is intended to be only a brief summary. For details, reference should be made to Summary Plan Descriptions, Plan Documents, and employee booklets.

Eligibility

Retirees are eligible if they retire on or after age 50 with 5 years of service with the Valley Mountain Regional Center.

Benefits

Retirees are eligible to receive coverage under CalPERS medical plans for life. Surviving spouses of retirees continue coverage for the life of the surviving spouse.

VMRC contributes a portion of the CalPERS monthly health premium for the retirees according to the following schedule:

Calendar Year	*Bargaining Unit Retirees*			*Non-Barg Retirees*
	Retiree	*Retiree +1*	*Retiree & 2+*	
2009	$92.00	$153.75	$202.50	$218.75
2010	$98.00	$164.50	n/a	$234.50

Future annual increases (per year):

We have assumed that the above VMRC paid benefits will increase each year at the same rate as medical CPI. We have assumed that medical CPI will increase by 4.25% per year.

Appendix B. Actuarial Cost Method and Assumptions

The actuarial cost method used for determining the benefit obligations is the Projected Unit Benefit Cost Method. The actuarial assumptions are summarized below.

Measurement Date June 30

Economic Assumptions

Discount Rate

6.90% per year (expense for FYE June 30, 2010)
5.50% per year (disclosures for FYE June 30, 2010)
6.75% per year (long term rate of return on plan assets)

Annual Benefit Increases

VMRC contributions toward medical premiums are assumed to increase at 4.25% per year.

Demographic Assumptions

Demographic assumptions regarding retirement and turnover are based on statistics taken from reports for California PERS under a "2.0% @ 60" benefit schedule. Below is a summary of the assumed rates for retirement and turnover.

Retirement

Age	***2.0% at 60 with 20 years of service*** ***Males / Females***
50	1.65%
51	1.13%
52	1.78%
53	2.00%
54	2.11%
55	3.83%
56	3.48%
57	4.00%
58	5.05%
59	6.46%
60	11.87%
61	12.12%
62	24.26%
63	24.36%
64	18.75%
65	33.39%
70	23.25%
75	100.00%

Appendix B. Actuarial Cost Method and Assumptions (continued)

Demographic Assumptions (continued)

Withdrawal

Sample probabilities of terminating within one year for an employee *with five years of service* are shown below for selected ages:

Entry Age	*Males / Females*
30	6.27%
35	5.57%
40	4.88%
45	1.55%
50	1.29%
55	1.04%

Mortality

Sample probabilities of active employees becoming deceased due to different causes within one year are shown below for selected ages:

Age	*Male*	*Female*
25	0.03%	0.01%
30	0.04%	0.02%
35	0.05%	0.03%
40	0.08%	0.05%
45	0.11%	0.07%
50	0.16%	0.10%

Disability

Sample probabilities of active employees becoming disabled for selected ages:

Age	*Male*	*Female*
25	0.02%	0.02%
30	0.02%	0.04%
35	0.08%	0.10%
40	0.15%	0.16%
45	0.24%	0.23%
50	0.37%	0.35%

Retiree Mortality

Rates used by California PERS in their actuarial valuations of retirement benefits.

Appendix B. Actuarial Cost Method and Assumptions (continued)

Other Assumptions

Marital Status	60% of active employees are assumed to be married at retirement and 50% of active employees who are married at retirement are assumed to elect coverage for their spouses. For current retirees, actual spouse enrollment was valued.
Spouse Age	Female spouses are assumed to be three years younger than male spouses.
Election Upon Retirement	100% of non-bargained employees are assumed to elect CalPERS Health Plan coverage at retirement. 50% of bargained employees are assumed to elect CalPERS Health Plan coverage at retirement.

Appendix C. Summary of Participant Data

The following census of participants as of June 30, 2009, was used in the actuarial valuation and provided by the Valley Mountain Regional Center.

Covered Active Employees

Age	*Males*	*Females*	*Total*
Under 25	0	5	5
25 – 29	3	26	29
30 – 34	8	47	55
35 – 39	4	38	42
40 – 44	4	30	34
45 – 49	6	18	24
50 – 54	6	31	37
55 – 59	6	18	24
60 – 64	4	16	20
65 – 69	1	3	4
70 & Over	0	0	0
Total	42	232	274

Current Retirees

Age	*Males*	*Females*	*Total*
Under 55	0	0	0
55 – 59	1	1	2
60 – 64	2	6	8
65 – 69	0	6	6
70 – 74	1	6	7
75 – 79	0	1	1
80 – 84	0	0	0
85 & Over	0	1	1
Total	4	21	25