

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**



**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.

Report on the Financial Statements

We have audited the accompanying financial statements of Valley Mountain Regional Center, Inc., a California nonprofit corporation, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 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* in considering Valley Mountain Regional Center, Inc.'s internal control over financial reporting and compliance.



Long Beach, California
December 9, 2013

VALLEY MOUNTAIN REGIONAL CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 4,397,757	\$ 8,847,844
Cash – client trust funds	7,830	7,826
Contracts receivable – state of California	4,897,435	11,689,387
Receivables from Intermediate Care Facility vendors	1,294,001	
Due from state – accrued vacation and other employee benefits	3,371,105	3,278,375
Deposits and other assets	<u>72,509</u>	<u>108,625</u>
TOTAL ASSETS	<u>\$ 14,040,637</u>	<u>\$ 23,932,057</u>

LIABILITIES AND NET DEFICIT

LIABILITIES		
Accounts payable	\$ 10,603,886	\$ 10,538,339
Short-term borrowings		10,000,000
Accrued vacation and other employee benefits	1,651,970	1,249,740
Retirement health care plan obligation	3,918,465	5,546,796
Unexpended client support	<u>7,830</u>	<u>7,826</u>
	<u>16,182,151</u>	<u>27,342,701</u>
COMMITMENTS AND CONTINGENCIES (Notes 4, 5, 6 and 7)		
NET DEFICIT		
Unrestricted	(<u>2,141,514</u>)	(<u>3,410,644</u>)
TOTAL LIABILITIES AND NET DEFICIT	<u>\$ 14,040,637</u>	<u>\$ 23,932,057</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>2013</u>	<u>2012</u>
CHANGE IN UNRESTRICTED NET DEFICIT		
SUPPORT AND REVENUE		
Contracts – state of California	\$ 141,069,409	\$ 140,836,022
Intermediate Care Facility supplemental services income	4,681,721	
Interest income	60,954	57,131
Other income	145,705	147,378
Total Support and Revenue	<u>145,957,789</u>	<u>141,040,531</u>
EXPENSES		
Program Services:		
Direct consumer services	139,733,615	134,360,417
Supporting Services:		
General and administrative	<u>6,232,189</u>	<u>6,670,662</u>
Total Expenses	<u>145,965,804</u>	<u>141,031,079</u>
CHANGE IN NET ASSETS BEFORE HEALTH PLAN RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	(8,015)	9,452
HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	<u>1,277,145</u>	<u>(1,466,365)</u>
CHANGE IN NET ASSETS (DEFICIT)	1,269,130	(1,456,913)
NET DEFICIT AT BEGINNING OF YEAR	<u>(3,410,644)</u>	<u>(1,953,731)</u>
NET DEFICIT AT END OF YEAR	<u>(\$ 2,141,514)</u>	<u>(\$ 3,410,644)</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, 2013**

	Program Services	Supporting Services	
	Direct Consumer Services	General and Admin- istrative	Total Expenses
Salaries	\$ 10,734,273	\$ 1,565,295	\$ 12,299,568
Employee health and retirement benefits	4,239,505	600,695	4,840,200
Payroll taxes	145,838	20,604	166,442
Staff travel	324,572	15,817	340,389
Total Salaries and Related Expenses	15,444,188	2,202,411	17,646,599
Purchase of services:			
Residential services	32,535,970		32,535,970
Day program	32,822,164		32,822,164
Other purchased services	58,844,533		58,844,533
Communication		85,171	85,171
General office expenses		419,804	419,804
Data processing expenses		715,694	715,694
Printing		27,033	27,033
Insurance		63,994	63,994
General expenses		324,898	324,898
Facility and equipment rent		1,588,742	1,588,742
Equipment and facility maintenance		408,182	408,182
Consultant fees	86,760	59,624	146,384
ARCA dues		73,493	73,493
Equipment purchases		129,884	129,884
Board expenses		13,479	13,479
Legal fees		49,653	49,653
Professional fees		61,000	61,000
Interest expense		9,127	9,127
TOTAL EXPENSES	\$ 139,733,615	\$ 6,232,189	\$ 145,965,804

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.

STATEMENTS OF CASH FLOWS

	For the Year Ended	
	June 30,	
	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets (deficit)	\$ 1,269,130	(\$ 1,456,913)
Adjustments to reconcile change in net assets (deficit) to net cash from operating activities:		
(Increase) decrease in:		
Cash – client trust funds	(4)	7,562
Contracts receivable – state of California	6,791,952	(11,689,387)
Receivable from Intermediate Care Facility vendors	(1,294,001)	
Due from state – accrued vacation and other employee benefits	(92,730)	(364,762)
Deposits and other assets	36,116	(5,841)
Increase (decrease) in:		
Accounts payable	65,547	(174,877)
Contract advances – state of California		(1,645,088)
Accrued vacation and other employee benefits	402,230	(14,005)
Retirement health care plan obligation	(1,628,331)	1,879,898
Unexpended client support	<u>4</u>	<u>(7,562)</u>
Net Cash Provided By (Used In) Operating Activities	<u>5,549,913</u>	<u>(13,470,975)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in short-term borrowings	(10,000,000)	10,000,000
Net Cash Provided By (Used In) Financing Activities	<u>(10,000,000)</u>	<u>10,000,000</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,450,087)	(3,470,975)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>8,847,844</u>	<u>12,318,819</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,397,757</u>	<u>\$ 8,847,844</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the years ended June 30, 2013 and 2012 for interest totaled \$9,127 and \$9,941, respectively.

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

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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 \$140,812,943 and \$140,956,827 for the 2012-2013 and 2011-2012 contract years, respectively. As of June 30, 2013, actual net expenditures under the 2012-2013 and 2011-2012 contracts were \$139,672,681 and \$140,592,864, respectively.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 2013 and 2012 on the statements of financial position is primarily the result of the Center's post-retirement health care plan. As further discussed in Notes 1 and 5, an 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. Although the Center expects that the plan costs will ultimately be funded over future years, plan funding will depend on continued funding by the DDS.

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, 2013 and 2012, 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.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 2013 and 2012 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.

Receivables from Intermediate Care Facility Vendors

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 Immediate Care Facility (ICF) services. 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 receives a 1.5% administrative fee based on the funds received to cover the additional workload.

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, 2013 and 2012, equipment purchases totaled \$129,884 and \$239,881, 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.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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.

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 December 9, 2013, the date the financial statements were available to be issued for the year ended June 30, 2013, and determined there are no other items to disclose.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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 – State of California

As of June 30, 2013 and 2012, DDS had advanced the Center \$24,763,530 and \$24,693,884, 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>2013</u>	<u>2012</u>
Contracts receivable	\$ 29,660,965	\$ 36,383,271
Contract advances	(24,763,530)	(24,693,884)
Net contracts receivable	<u>\$ 4,897,435</u>	<u>\$ 11,689,387</u>

NOTE 4 – Short-Term Borrowings

At June 30, 2013, the Center had a revolving line of credit agreement with a bank, which expired October 15, 2013, whereby it could borrow up to \$21,000,000. Borrowings were secured by substantially all assets of the Center with interest payable monthly at an interest rate of 3.25% at June 30, 2013. There was no balance outstanding as of June 30, 2013. At June 30, 2012, the outstanding balance was \$10,000,000.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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

	2013	2012
<i>Discount Rate</i>		
Used to determine Net Periodic Benefit Cost	4.4%	5.8%
Used to determine Benefit Obligations	5.0%	4.4%
 <i>Long-term Rate of Return on Plan Assets</i>		
Used to determine Net Periodic Benefit cost	6.25%	6.75%
Used to determine Benefit Obligations	6.25%	6.25%
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).

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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,	
	2013	2012
Unamortized net transition obligation	\$ 1,473,546	\$ 1,627,040
Unamortized actuarial net loss	672,348	1,795,999
	\$ 2,145,894	\$ 3,423,039

The pension-related changes other than net periodic pension cost increased (decreased) net assets by \$1,277,145 and (\$1,466,365) for the years ended June 30, 2013 and 2012, 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,	
	2013	2012
Change in benefit obligation		
Obligation at beginning of year	\$ 6,020,373	\$ 4,091,999
Service cost	229,723	163,952
Interest cost	240,286	247,748
Assumption change (gain) loss	(573,379)	1,368,517
Experience (gain) loss	(520,809)	210,886
Benefits paid	(77,016)	(62,729)
Benefit obligation at end of year	5,319,178	6,020,373

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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

Reconciliation of Benefit Obligation (Continued)

	June 30,	
	<u>2013</u>	<u>2012</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 473,577	\$ 425,101
Employer contributions	964,540	121,000
Actual return (loss) on plan assets	39,612	(9,795)
Benefits paid	(77,016)	(62,729)
	<u>1,400,713</u>	<u>473,577</u>
Funded status	(3,918,465)	(5,546,796)
Net amount recognized in the statements of financial position	(\$ 3,918,465)	(\$ 5,546,796)

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

	For the Year Ended June 30,	
	<u>2013</u>	<u>2012</u>
Service cost	\$ 229,723	\$ 163,952
Interest cost	240,286	247,748
Expected return on plan assets	(57,334)	(30,661)
Transition cost	153,494	153,494
Recognized net actuarial loss	<u>47,185</u>	<u> </u>
Net periodic post-retirement benefit cost	<u>\$ 613,354</u>	<u>\$ 534,533</u>

The net amount recognized as a separate charge to net assets of \$2,145,894 and \$3,423,039 as of June 30, 2013 and 2012, 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 \$1,772,571 and \$2,123,757 as of June 30, 2013 and 2012, 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, 2013 AND 2012**

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, 2013:

	<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	\$ 939,784	\$ 939,784		
Mutual funds				
Diversified equity	338,892	338,892		
Bond fund	64,168	64,168		
Short-term bond	<u>57,869</u>	<u>57,869</u>		
 Total	 <u>\$ 1,400,713</u>	 <u>\$ 1,400,713</u>	 <u>None</u>	 <u>None</u>

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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, 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	<u>\$ 473,577</u>	<u>\$ 473,577</u>	<u>None</u>	<u>None</u>

The allocation of plan assets is as follows:

Asset Category	June 30,		Target Allocation
	2013	2012	
Interest bearing cash	67%	12%	5%
Mutual funds			
Highmark Diversified Equity	24%	62%	67%
Highmark Bond Fund	5%	14%	15%
Highmark Short-Term Bond Fund	4%	12%	13%
	<u>100%</u>	<u>100%</u>	<u>100%</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, 2013 AND 2012**

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,	
2014	\$ 94,602
2015	\$ 108,674
2016	\$ 123,576
2017	\$ 140,165
2018	\$ 157,957
2019 - 2023	\$ 1,089,109

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, 2013 AND 2012**

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, 2012
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Average Remaining Period	16 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%

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 6 – Pension Plan (Continued)

The asset allocation shown below reflects the PERS fund in total as of June 30, 2012. 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 Allocation</u>
Cash equivalents	3.2 %	4.0 %
Public equity	48.3	50.0
Private equity	14.5	14.0
Fixed income	18.2	17.0
Inflation assets	3.0	4.0
Real assets	10.6	11.0
Absolute Return Strategy	2.2	0.0
	<u>100.0 %</u>	<u>100.0 %</u>

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 (UL)</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>		
06/30/09	\$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%
06/30/12	\$49,530,945	\$45,044,659	\$4,486,286	90.9%	77.3%	\$11,712,245	38.3%

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, 2013 and 2012 was \$1,187,593 and \$1,294,747, respectively.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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.

Future minimum rental commitments for facilities are as follows:

For the Year Ending June 30,	
2014	\$ 1,544,067
2015	1,468,610
2016	1,467,876
2017	1,485,876
2018	1,506,126
Thereafter	<u>3,082,336</u>
	<u>\$ 10,554,891</u>

Total office equipment and facilities rental expense for the years ended June 30, 2013 and 2012 was \$1,588,742 and \$1,587,183, 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, 2013 and 2012, and for the years then ended.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

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.

The Center retains approximately 83 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.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

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	\$ 1,439,344
U.S. Corporation for National and Community Service			
Pass through State of California Department of Developmental Services			
Foster Grandparent program	94.011	HD099021	152,968
			\$ 1,592,312

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.



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Valley Mountain Regional Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 9, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Valley Mountain Regional Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Valley Mountain Regional Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

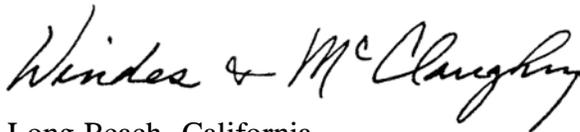
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Long Beach, California
December 9, 2013



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Valley Mountain Regional Center, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Valley Mountain Regional Center, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Valley Mountain Regional Center, Inc. complied, in all material respects, with the types of 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, 2013.

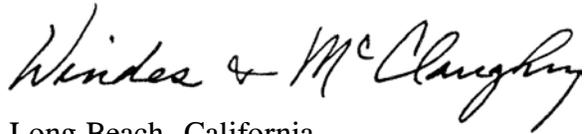
Report on Internal Control over Compliance

Management of Valley Mountain Regional Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Valley Mountain Regional Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, reading "Windes & McCaughey". The signature is written in a cursive, flowing style.

Long Beach, California
December 9, 2013

VALLEY MOUNTAIN REGIONAL CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued – Unmodified

Internal control over financial reporting

1. Material weakness(es) identified? – No
2. Significant deficiencies identified? – 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? – None reported
3. Type of auditors’ report issued on compliance for major programs? – Unmodified
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 – FINDINGS – FINANCIAL STATEMENTS AUDIT

None

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None