

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

FOR THE YEAR ENDED JUNE 30, 2017

VALLEY MOUNTAIN REGIONAL CENTER, INC.
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Valley Mountain Regional Center, Inc. (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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 auditor considers 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, 2017, and the changes in its net assets and its cash flows for the year 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 April 2, 2018, 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.

Kemper CPA Group LLP

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Modesto, California
April 2, 2018

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017**

ASSETS

Cash and cash equivalents	\$ 11,392,587
Cash - client trust funds	7,846
Contracts receivable - State of California	2,616,243
Receivables from Intermediate Care Facility vendors	2,528,274
Due from state - accrued vacations and other employee benefits	1,956,957
Deposits and other assets	<u>109,305</u>

TOTAL ASSETS \$ 18,611,212

LIABILITIES AND NET DEFICIT

LIABILITIES

Accounts payable	\$ 16,112,390
Accrued vacation and other employee benefits	2,065,453
Retirement health care plan obligation	1,209,399
Unexpended client support	<u>7,846</u>

TOTAL LIABILITIES 19,395,088

NET DEFICIT

Unrestricted	<u>(783,876)</u>
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TOTAL LIABILITIES AND NET DEFICIT \$ 18,611,212

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

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

CHANGE IN UNRESTRICTED NET DEFICIT

SUPPORT AND REVENUE

Contracts - State of California	\$ 196,215,811
Intermediate Care Facility supplemental services income	4,334,523
Interest income	77,546
Other income	127,506
	<hr/>
Total support and revenue	200,755,386

EXPENSES

Program services:	
Direct consumer services	193,959,154
Supporting services:	
General and administrative	6,891,599
	<hr/>
Total expenses	200,850,753

**CHANGE IN NET ASSETS BEFORE HEALTH PLAN-RELATED
CHANGES OTHER THAN NET PERIODIC
POST-RETIREMENT BENEFIT COST**

(95,367)

**HEALTH PLAN-RELATED CHANGES OTHER THAN
NET PERIODIC POST-RETIREMENT BENEFIT COST**

1,583,400

CHANGE IN NET ASSETS

1,488,033

NET DEFICIT AT BEGINNING OF YEAR

(2,271,909)

NET DEFICIT AT END OF YEAR

\$ (783,876)

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, 2017**

	Program services	Supporting services	
	Program	General and administrative	Total expenses
EXPENSES			
Salaries and wages	\$ 14,992,906	\$ 1,613,829	\$ 16,606,735
Employee health and retirement benefits	6,322,743	680,738	7,003,481
Payroll taxes	221,639	23,863	245,502
Staff travel	352,738	37,978	390,716
Total salaries and related expenses	21,890,026	2,356,408	24,246,434
Purchase of services:			
Residential services	52,763,772	-	52,763,772
Day program	39,485,176	-	39,485,176
Other purchased services	79,782,840	-	79,782,840
Communication	-	188,193	188,193
General office expenses	-	556,463	556,463
Data processing expenses	-	737,379	737,379
Printing	-	21,334	21,334
Insurance	-	78,844	78,844
General expenses	-	329,776	329,776
Facility and equipment rent	-	1,619,625	1,619,625
Equipment and facility maintenance	-	446,526	446,526
Consultant fees	37,340	154,100	191,440
ARCA dues	-	66,597	66,597
Equipment purchases	-	190,071	190,071
Board expenses	-	16,573	16,573
Legal fees	-	56,762	56,762
Professional fees	-	72,892	72,892
Interest expense	-	56	56
TOTAL EXPENSES	\$ 193,959,154	\$ 6,891,599	\$ 200,850,753

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

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 1,488,033
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
(Increase) decrease in:	
Cash - client trust funds	(5)
Contracts receivable	(1,045,406)
Receivable from Intermediate Care Facility vendors	(417,918)
Due from state - accrued vacation and other employee benefits	203,018
Deposits and other assets	408,785
(Increase) decrease in:	
Accounts payable	(1,437,556)
Accrued vacation and other employee benefits	1,380
Retirement health care plan obligation	(1,387,545)
Unexpended client support	5
Net cash used in operating activities	<u>(2,187,209)</u>
 NET CHANGE IN CASH AND CASH EQUIVALENTS	 (2,187,209)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>13,579,796</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 11,392,587</u>
 SUPPLEMENTAL DISCLOSURES	
Cash payments for interest	<u>\$ 56</u>

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

VALLEY MOUNTAIN REGIONAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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% of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25 % 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 \$197,598,415 for the 2016-2017 contract year. As of June 30, 2017, actual net expenditures under the 2016-2017 contract were \$193,959,154.

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, 2017 on the statement of financial position is primarily the result of the Center's post-retirement health care plan. As further discussed in Note 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 benefit costs which amounted to \$966,011 as of June 30, 2017. 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.

Financial Statement Presentation

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.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - Summary of Significant Accounting Policies (Continued)

Accordingly, the net assets of the Center are classified and reported as described below:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

As of June 30, 2017 the Center had no temporarily or permanently restricted net assets.

Contributions

Contributions, including pledges, are recognized as income in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not included in support until the conditions are substantially met.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Permanently restricted contributions and net assets have restrictions stipulated by the donor that the corpus be invested in perpetuity and only the income be made available for operations.

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. Principal areas requiring the use of estimates is assumptions utilized for the post-retirement health care plan and the functional allocation of expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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.

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 related transportation services purchased by the Center for consumers who reside in Intermediate Care Facilities (ICFs). CMS agreed that the day and related transportation services are part of the ICF service; however, the federal rules allow for only one provider of the ICF service. Accordingly, all the Medicaid funding for the ICF residents must go through the applicable ICF provider. The Center receives a 1.5% administrative fee based on the funds received to cover the additional workload.

The DDS has directed the Center to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. The Center was directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services will be received from the ICFs. DDS advances the amount according to the state claim to the ICFs. The ICFs are then required to pass on the payments received, as well as the Center's administrative fee to the Center within 30 days of receipt of funds from the State Controller's Office.

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 year ended June 30, 2017, equipment purchases totaled \$193,292.

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.

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 are allocated on a direct-cost basis.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 1 - Summary of Significant Accounting Policies (Continued)

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.

Subsequent Events

The Center's management has evaluated subsequent events from the statements of financial position date through April 2, 2018, the date the financial statements were available to be issued for the year ended June 30, 2017 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. Since the Center is acting as an agent in processing these transactions, no revenue or expense is reflected on the statement of activities.

NOTE 3 - Contracts Receivable - State of California

The Center's major source of revenue is from the state of California. Each fiscal year, the Center enters into a new contract with the state for a specified funding amount subject to budget amendments. Revenue from the state is recognized monthly when a claim for reimbursement of actual expenses is filed with the state. These reimbursement claims are paid at the state's discretion either through direct payments to the Center or by applying the claims reimbursements against advances already made to the Center.

As of June 30, 2017, DDS had advanced the Center \$48,682,547 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.

As of June 30, 2017

Contracts receivable	\$ 51,298,790
Contract advances	<u>(48,682,547)</u>
Net Contracts Receivable	<u>\$ 2,616,243</u>

The Center revised its contract with the DDS during the fiscal year ending June 30, 2017. The contract provides for a maximum funding of \$197,598,415.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 4 - Short-Term Borrowings

The Center had a revolving line of credit agreement with a bank which is available from March 31, 2017 and expires September 29, 2017, whereby it could borrow up to a maximum \$11,750,000. Borrowings are secured by substantially all assets of the Center with interest payable monthly at the bank's reference rate plus 5% (3.25% at June 30, 2017). There was no balance outstanding as of June 30, 2017.

NOTE 5 - Post-Retirement Health Care Plan

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

The actuarial assumptions are summarized below:

<i>Valuation Date</i>	June 30, 2017
<i>Discount Rate</i>	
Used to determine Net Periodic Benefit Cost	3.7%
Used to determine Benefit Obligations	3.9%
<i>Long-term Rate of Return on Plan Assets</i>	
Used to determine Net Periodic Benefit Cost	6.25%
Used to determine Benefit Obligations	6.25%
General inflation	2.50%
<i>Annual Benefit Increases</i>	Contributions toward medical premiums are assumed to increase 3.50% per year.
<i>Health Cost Trend</i>	
Health care cost trend rate assumed for next year	6.25%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.25%
Year that the rate reaches the ultimate trend rate	2080

VALLEY MOUNTAIN REGIONAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

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).

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:

Unamortized net transition obligation	\$ 859,570
Unamortized actuarial net loss	106,441
	<u>\$ 966,011</u>

The pension-related changes other than net periodic pension cost increased net assets by \$1,583,400 for the year ended June 30, 2017.

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

Service cost	\$ 307,655
Interest cost	239,072
Expected return on plan assets	(287,807)
Transition cost	153,494
Recognized net actuarial loss	8,371
	<u>\$ 420,785</u>

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

Reconciliation of Benefit Obligation

Change in benefit obligation	
Obligation at beginning of year	\$ 7,004,749
Service cost	307,655
Interest cost	239,072
Assumption change gain	(379,331)
Experience (gain) loss	(490,439)
Benefits paid	(105,800)
	<u>\$ 6,575,906</u>

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Reconciliation of Benefit Obligation (continued)

Change in plan assets	
Fair value of plan assets at beginning of year	\$ 4,407,805
Employer contributions	500,000
Actual return on plan assets	564,502
Benefits paid	<u>(105,800)</u>
Fair value of plan assets at end of year	<u>5,366,507</u>
Funded status	<u>(1,209,399)</u>
Net amount recognized in the statements of financial position	<u>\$ (1,209,399)</u>

The net amount recognized as a separate charge to net assets of \$966,011 as of June 30, 2017 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 \$243,388 as of June 30, 2017, which results in additional support to offset the net periodic post-retirement benefit cost.

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) and the lowest priority to measurements involving significant unobservable inputs (Level 3).

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.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

Plan Assets (continued)

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2017:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Asset category				
Cash and cash equivalents	\$ 64,398	\$ 64,398	\$ -	\$ -
Mutual funds				
Equity	3,649,225	3,649,225	-	-
Fixed income	1,652,884	1,652,884	-	-
Total	<u>\$ 5,366,507</u>	<u>\$ 5,366,507</u>	<u>\$ -</u>	<u>\$ -</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.

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 are expected to be paid on a fiscal year basis:

<u>For the Year Ending June 30,</u>	
2018	\$ 169,733
2019	178,183
2020	182,670
2021	208,140
2022	228,323
2023-2027	1,359,819

NOTE 6 - Retirement Plan

The Center contributes to the California Public Employees' Retirement System (CalPERS), 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 CalPERS.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 6 - Retirement Plan (Continued)

CalPERS 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 cost allocated to the current fiscal year is called the normal cost.

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.

The excess of the total actuarial accrued liability over the market 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.

The CalPERS Board of Administration adopted changes to the demographic assumptions based on the most recent experience study. The most significant of these is the improvement in post-retirement mortality acknowledging the greater life expectancies in membership and expected continued improvements. The actuarial assumptions and methods used in CalPERS public agency valuations are approved by the Board of Administration upon the recommendation of the Chief Actuary.

A summary of principal actuarial assumptions used, provided in the Annual Valuation Report prepared by the CalPERS Actuarial Office, is as follows:

Valuation Date	June 30, 2016
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Asset valuation method	Market value of assets
Actuarial assumptions	
Discount rate	7.375% (net of expenses)
Salary increases	Varies by category, entry age and duration of service
Payroll growth	3.000%
Inflation	3.000%

The asset allocation shown below, provided by the CalPERS Actuarial Office, reflects the CalPERS fund in total as of June 30, 2016. The assets of the Center's plan are part of the CalPERS fund and are invested accordingly.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 - Retirement Plan (Continued)

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target Allocation</u>
Public Equity	51.9%	51.0%
Private Equity	8.9%	10.0%
Global Fixed Income	20.3%	20.0%
Liquidity	1.5%	1.0%
Real Assets	10.8%	12.0%
Inflation Sensitive Assets	6.0%	6.0%
Other	0.5%	0.0%
	<u>100%</u>	<u>100%</u>

The Schedule of Funding Progress below, provided by the CalPERS Actuarial Office, shows the recent history of the actuarial accrued liability, the market value of assets, the funded ratio and the annual covered payroll.

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Market Value of Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>
6/30/2012	\$ 49,530,945	\$ 38,310,475	\$ 11,220,470	77.3%	\$ 11,712,245
6/30/2013	\$ 52,437,661	\$ 44,354,135	\$ 8,083,526	84.6%	\$ 11,411,033
6/30/2014	\$ 57,742,574	\$ 53,308,443	\$ 4,434,131	92.3%	\$ 11,559,134
6/30/2015	\$ 61,576,364	\$ 55,675,521	\$ 5,900,843	90.4%	\$ 12,158,358
6/30/2016	\$ 68,123,000	\$ 56,860,517	\$ 11,262,483	83.5%	\$ 13,401,286

Employee contributions are approximately 7% 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 CalPERS Board of Administration.

Total retirement expense for the year ended June 30, 2017 \$3,457,243.

NOTE 7 - Credit Risk, Commitments and Contingencies

Credit Risks

At June 30, 2017 and at various times during the year, the Center maintained cash balances in its financial institutions in excess of federally insured limits. As of June 30, 2017, the uninsured portion of the cash balance was \$11,238,555.

VALLEY MOUNTAIN REGIONAL CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

NOTE 7 - Credit Risk, Commitments and Contingencies (Continued)

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,	
2018	\$ 1,291,209
2019	827,376
2020	827,376
2021	413,688
	<hr/>
	\$ 3,359,649

Total office equipment and facilities rental expense for the year ended June 30, 2017 was \$1,619,625.

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, 2017, and for the year then ended.

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. In the event that the state determines that the Center has insufficient funds to meet its contractual obligations, the state shall make its best efforts to secure additional funding and/or provide the Center with regulatory relief.

The Center retains approximately 84% 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 on October 12, 2015 and covers the period through October 31, 2018.

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.

SUPPLEMENTARY INFORMATION

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

<u>Federal Grantor/Pass Through Grantor Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education			
Passed through State of California			
Department of Developmental Services			
Special Education - Grants for Infants and Families	84.181	H181A150037	\$ 3,579,340
U.S. Corporation for National and Community Service			
Passed through State of California			
Department of Developmental Services			
Foster Grandparents/Senior Companion Cluster			
Foster Grandparent Program	94.011	13GXPCA001	\$ 158,483
Total Federal Awards			\$ 3,737,823

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Valley Mountain Regional Center, Inc. under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Valley Mountain Regional Center, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of Valley Mountain Regional Center, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting and based on state contract budget allocations. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

Valley Mountain Regional Center, Inc. has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



INDEPENDENT AUDITOR'S 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
Valley Mountain Regional Center, Inc.
Modesto, California

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, 2017, 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 April 2, 2018.

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.

Kemper CPA Group LLP

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Modesto, California
April 2, 2018



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

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

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 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, 2017. Valley Mountain Regional Center, Inc.'s major federal programs are identified in the summary of auditor's 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.

Auditor's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Kemper CPA Group LLP

Kemper CPA Group LLP
Certified Public Accountants and Consultants

Modesto, California
April 2, 2018

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Summary of Audit Results

Financial Statements

Type of auditor's report:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency identified that are not considered to be material weakness(es)?	No
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No
Identification of major programs:	
CFDA #84.181 Special Education - Grants for Infants and Families	
Dollar threshold used to distinguish between Type A and Type B programs was	\$750,000
Auditee qualified as low-risk auditee?	Yes

FINDINGS - FINANCIAL STATEMENTS AUDIT None

**FINDINGS AND QUESTIONED COSTS -
MAJOR FEDERAL AWARD PROGRAMS AUDIT** None

VALLEY MOUNTAIN REGIONAL CENTER, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

CURRENT YEAR:

I. Financial Statement Audit

None

II. Major Federal Awards Program Audit

None

STATUS OF PRIOR YEAR:

I. Financial Statement Audit

None

II. Major Federal Awards Program Audit

None