TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Tri-Counties Association for the Developmentally Disabled, Inc.:

We have audited the accompanying statements of financial position of Tri-Counties Association for the Developmentally Disabled, Inc. (a California nonprofit corporation) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tri-Counties Association for the Developmentally Disabled, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated February 1, 2013, on our consideration of Tri-Counties Association for the Developmentally Disabled, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

Windes & McClaughry

Long Beach, California
February 1, 2013

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2012	June 30, 2011
ASSETS		
Cash and cash equivalents	$ 1,985,911	$ 20,647,091
Cash - client trust funds	1,326	1,317
Contracts receivable – state of California	17,776,272	
Client receivables from government agencies	49,756	49,756
Other receivables	8,227	22,396
Prepaid expenses and deposits	106,907	106,639
Due from state – accrued vacation, sick leave and other employee benefits	7,843,744	6,779,397
TOTAL ASSETS	$ 27,772,143	$ 27,606,596

LIABILITIES AND NET DEFICIT

	2012	2011
LIABILITIES		
Accounts payable	$ 19,366,954	$ 18,206,360
Accrued payroll	226,461	456,408
Contract advances – state of California		1,801,423
Accrued vacation and sick leave	1,166,077	790,488
Due to state	2,376	95,472
Post-retirement health care plan obligation	8,088,717	6,463,176
Other liabilities	209,042	150,489
Unexpended client support	51,082	50,091
	29,110,709	28,013,907
COMMITMENTS AND CONTINGENCIES (Notes 5, 6, and 9)		
NET DEFICIT		
Unrestricted	(1,338,566)	(407,311)
	(1,338,566)	(407,311)
TOTAL LIABILITIES AND NET DEFICIT	$ 27,772,143	$ 27,606,596

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

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENTS OF ACTIVITIES

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
CHANGES IN UNRESTRICTED NET ASSETS		
Support and Revenues		
Contracts – state of California	$ 209,598,764	$ 210,834,629
Interest income	89,832	150,452
Other income	296,296	66,844
Total Support and Revenues	209,984,892	211,051,925
Net Assets Released from Restrictions		
Satisfaction of program requirements		148,313
Total Support, Revenues, and Other Support	209,984,892	211,200,238
Expenses		
Program services:		
Client services	207,595,598	208,497,146
Supporting services:		
General and administrative	2,383,767	2,705,023
Total Expenses	209,979,365	211,202,169
CHANGE IN UNRESTRICTED NET ASSETS	5,527	(1,931)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Net Assets Released from Restrictions		
Satisfaction of program requirements		(148,313)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		(148,313)
CHANGE IN NET ASSETS (DEFICIT) BEFORE HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	5,527	(150,244)
HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST- RETIREMENT BENEFIT COST	(936,782)	684,526
CHANGE IN NET ASSETS (DEFICIT)	(931,255)	534,282
NET DEFICIT AT BEGINNING OF YEAR	(407,311)	(941,593)
NET DEFICIT AT END OF YEAR	($ 1,338,566)	($ 407,311)

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

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Program Services	Supporting Services		
	Client Services	General and Admin-istrative	Total Expenses	% of Total Expenses
PURCHASE OF SERVICES				
Living out of home	$ 31,136,611		$ 31,136,611	14.83 %
Day program	58,151,635		58,151,635	27.69
Transportation	10,779,794		10,779,794	5.13
Supported living services	39,081,935		39,081,935	18.61
Behavioral services	20,535,914		20,535,914	9.78
Medical services	4,107,343		4,107,343	1.96
Respite services	9,489,088		9,489,088	4.52
Other services	12,651,942		12,651,942	6.02
	185,934,262		185,934,262	88.54
OPERATIONS				
Personnel services				
Salaries	11,899,166	$ 1,200,370	13,099,536	6.24
Benefits	4,640,701	458,533	5,099,234	2.43
Taxes	168,276	16,636	184,912	0.09
Occupancy				
Facility rent and maintenance	2,376,711	246,668	2,623,379	1.25
Office relocation	138,939	14,442	153,381	0.07
Utilities	128,652	13,372	142,024	0.07
General expense	443,109	24,289	467,398	0.22
Equipment				
Purchase, rental, and maintenance	461,674	47,976	509,650	0.24
Professional fees				
Accounting fees		52,500	52,500	0.03
Legal fees	203,031	21,104	224,135	0.11
Consultant services	33,171	168,254	201,425	0.10
Insurance	118,657	12,323	130,980	0.06
Communication				
Telephone	315,323	32,776	348,099	0.17
Postage	23,088	2,369	25,457	0.01
Travel	419,685	42,515	462,200	0.22
Training, development, and conferences	131,296	13,148	144,444	0.07
General office expense				
Office supplies	159,857	16,492	176,349	0.08
	21,661,336	2,383,767	24,045,103	11.46
TOTAL EXPENSES	$ 207,595,598	$ 2,383,767	$ 209,979,365	100.00 %

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

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

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

	Program Services	Supporting Services		
	Client Services	General and Admin- istrative	Total Expenses	% of Total Expenses
PURCHASE OF SERVICES				
Living out of home	$ 29,842,097		$ 29,842,097	14.13 %
Day program	57,827,154		57,827,154	27.38
Transportation	10,920,662		10,920,662	5.17
Supported living services	39,361,743		39,361,743	18.64
Behavioral services	24,861,681		24,861,681	11.77
Medical services	3,166,001		3,116,001	1.50
Respite services	9,032,975		9,032,975	4.27
Other services	11,404,268		11,404,268	5.40
	186,416,581		186,416,581	88.26
OPERATIONS				
Personnel services				
Salaries	12,348,225	$ 1,243,785	13,592,010	6.44
Benefits	4,644,021	597,246	5,241,267	2.48
Taxes	236,043	24,318	260,361	0.12
Occupancy				
Facility rent and maintenance	2,320,291	242,846	2,563,137	1.21
One-time facility expense	127,499	13,338	140,837	0.07
Utilities	141,447	14,797	156,244	0.07
General expense	438,946	23,040	461,986	0.22
Equipment				
Purchase, rental, and maintenance	302,513	31,626	334,139	0.16
Professional fees				
Accounting fees	58,039	6,061	64,100	0.03
Legal fees	112,361	11,755	124,116	0.06
Consultant services	27,764	287,397	315,161	0.15
Insurance	167,421	17,504	184,925	0.09
Communication				
Telephone	311,202	32,556	343,758	0.16
Postage	97,176	10,135	107,311	0.05
Travel	405,722	39,651	445,373	0.21
Training, development, and conferences	155,960	14,439	170,399	0.08
General office expense				
Office supplies	185,935	15,461	201,396	0.10
Interest expense		79,068	79,068	0.04
	22,080,565	2,705,023	24,785,588	11.74
TOTAL EXPENSES	$ 208,497,146	$ 2,705,023	$ 211,202,169	100.00 %

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

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets (deficit)	($ 931,255)	$ 534,282
Adjustments to reconcile change in net assets (deficit) to net cash from operating activities:		
(Increase) decrease in:		
Cash - client trust funds	(9)	(164)
Contracts receivable – state of California	(17,776,272)	20,283,855
Client receivables from government agencies		9,568
Other receivables	14,169	41,065
Prepaid expenses and deposits	(268)	(4,358)
Due from state – accrued vacation and other employee benefits	(1,064,347)	(733,121)
Increase (decrease) in:		
Accounts payable	1,160,594	(1,565,359)
Accrued payroll	(229,947)	(197,370)
Contract advances – state of California	(1,801,423)	1,801,423
Accrued vacation	375,589	(3,684)
Due to state	(93,096)	60,848
Post-retirement health care plan obligation	1,625,541	52,278
Other liabilities	58,553	12,860
Unexpended client support	991	50,091
Net Cash Provided By (Used In) Operating Activities	(18,661,180)	20,342,214
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in line of credit		(16,401,000)
Net Cash Used In Financing Activities		(16,401,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(18,661,180)	3,941,214
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,647,091	16,705,877
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,985,911	$20,647,091

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid for interest totaled $79,068 during the year ended June 30, 2011. There was no interest paid during 2012.

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

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 – Summary of Significant Accounting Policies

Organization and Operations

Tri-Counties Association for the Developmentally Disabled, Inc. (the Center), was incorporated on November 29, 1968 as a California not-for-profit corporation for the purpose of operating Tri-Counties Regional Center and related activities. 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 Center serves the counties of Ventura, Santa Barbara and San Luis Obispo.

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 regional 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 individuals with developmental disabilities and their families. Under the terms of these contracts, funded expenditures are not to exceed $206,986,522 and $213,025,336 for the 2011-2012 and 2010-2011 contract years, respectively. As of June 30, 2012, actual net expenditures under the 2011-2012 and 2010-2011 contracts were $206,430,683 and $209,817,423, respectively.

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Organization and Operations (Continued)

As discussed above, the Center operates under contracts with the DDS. Contract revenue is funded on a cost reimbursement basis. The net asset deficit reported as of June 30, 2012 and 2011 on the statements of financial position is primarily the result of the implementation of an accounting standard regarding the reporting of the Center's post-retirement health care plan. As further discussed in Notes 1 and 5, the accounting standard required the Center to recognize as a charge to net assets the actuarial losses and prior service cost that 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.

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. As of June 30, 2012 and 2011, the Center had no permanently restricted or temporarily 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. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents and Concentration of Credit Risk

For the purpose of the statements of cash flows, the Center considers all highly liquid debt instruments with maturity of three months or less when purchased to be cash equivalents.

At June 30, 2012 and throughout the year, the Center maintained cash balances in its bank in excess of federally insured limits. Given the current economic environment and risks in the banking industry, there is risk that these deposits may not be readily available or covered by insurance.

Support and Contracts Receivable – State of California

Contracts receivable and contract support are recorded on the accrual method as related expenses are incurred.

Equipment

Pursuant to the terms of the contract with the DDS, equipment purchases become the property of the state and, accordingly, are charged as expenses when incurred. For the years ended June 30, 2012 and 2011, equipment purchases totaled $437,571 and $245,772, respectively.

Accrued Vacation and Other Employee Benefits

The Center has accrued a liability for leave benefits earned and for post-retirement health care as discussed in Note 5. However, such benefits are reimbursed under the contract with the DDS only when actually paid. The Center has also recorded a receivable from the DDS for the accrued benefits to reflect the future reimbursement of such benefits.

Post-Retirement Health Care Plan

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

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Allocation of Expenses

The statements of functional expenses allocate expenses to the program and supporting service categories based on both a direct-cost basis for purchase of services and salaries and related expenses. Operating expenses are based on a percentage of salaries per category to total salaries and related expenses, except for travel and contract consulting expenses, which are allocated on a direct-cost basis. Trailer Bill Language enacted March 24, 2011 requires that all contracts between the Department of Developmental Services and the regional centers require that not more than 15% of all funds appropriated through the regional center's operations budget be spent on administrative costs. The Center is using an agreed upon model to allocate expenses. For fiscal years ending June 30, 2012 and 2011, the Center's ratio was 9.91% and 10.91%, respectively.

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

Subsequent Events

The Center's management has evaluated subsequent events from the statement of financial position date through February 1, 2013, the date the financial statements were available to be issued for the year ended June 30, 2012, and determined there are no other items to disclose.

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

The Center functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. The cash balances are segregated from the operating cash accounts of the Center and are restricted for client support. In August 2008, a significant portion of the client trust fund and unexpended client support was transferred to an unrelated third-party management service.

NOTE 3 – Contracts Receivable/Contract Advances – State of California

As of June 30, 2012 and 2011, the DDS had advanced the Center $40,901,605 and $41,709,371, respectively, under the contracts with the DDS. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from the DDS as follows:

	June 30,	
	2012	2011
Contracts receivable	$ 58,677,877	$ 39,907,948
Contract advances	(40,901,605)	(41,709,371)
Net contracts receivable (contract advances)	$ 17,776,272	($ 1,801,423)

NOTE 4 – Short-Term Borrowings

The Center had a line of credit agreement with a bank which expired September 28, 2012, whereby it could borrow up to $32,900,000. Borrowings were secured by substantially all assets of the Center with interest payable monthly at the bank's reference rate plus 5%. There was no outstanding balance at June 30, 2012.

Subsequent to June 30, 2012, the Center entered into a $33,600,000 line of credit agreement with a financial institution in order to provide operating funds in the event additional funds are needed while waiting for claims to be processed. The line is available for drawing from October 26, 2012 to October 15, 2013.

NOTE 5 – Post-Retirement Health Care Plan

The Center has a noncontributory post-retirement health care plan for its employees. The Center uses a June 30 measurement date for its plan.

The following tables provide a reconciliation of the changes in the plan's benefit obligations and funded status as of June 30, 2012 and 2011:

Reconciliation of Benefit Obligation

	June 30, 2012	June 30, 2011
Change in benefit obligation		
Benefit obligation at beginning of year	$ 8,055,033	$ 7,627,265
Service cost	545,907	598,282
Interest cost	407,985	388,595
Actuarial loss (gain)	836,181	(331,588)
Benefits paid	(229,424)	(227,521)
Obligation at end of year	9,615,682	8,055,033
Change in plan assets		
Fair value of plan assets at beginning of year	1,591,857	1,216,367
Employer contribution		50,000
Actual return on plan assets	(64,892)	325,490
Fair value of plan assets at end of year	1,526,965	1,591,857
Net amount recognized in the statements of financial position	($ 8,088,717)	($ 6,463,176)

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

The following table provides the components of the net periodic benefit cost for the plan:

	For the Year Ended June 30, 2012	For the Year Ended June 30, 2011
Service cost	$ 545,907	$ 598,282
Interest cost	407,985	388,595
Return on investments	64,892	(325,490)
Net asset (gain) loss	(192,241)	228,181
Amortization of (gain) loss from earlier periods	(33,117)	
Amortization of unrecognized past service cost	124,757	124,757
Net periodic benefit cost	$ 918,183	$ 1,014,325

The plan items not yet recognized as a component of periodic plan expenses, but included as a separate charge to net assets at June 30, 2012 and 2011, are:

	June 30, 2012	June 30, 2011
Prior service cost	$ 748,546	$ 873,303
Actuarial (gain) loss	662,504	(399,035)
	$ 1,411,050	$ 474,268

The Center has accrued a receivable as of June 30, 2012 and 2011 from the DDS totaling $6,677,667 and $5,988,909, respectively, representing the portion of the post-retirement health care plan obligation which has been recognized as plan expense. The receivables are included in due from state-accrued vacation and other employee benefits in the statements of financial position.

The accumulated benefit obligation as of July 1, 2000 of $2,245,630 is being considered an unrecognized prior service cost and is being amortized on a straight-line basis over 18 years.

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

Assumptions

Weighted-average assumptions used to determine benefit obligations at June 30:

	2012	2011
Discount rate	4.15%	5.65%
General inflation	2.15%	2.65%
Long-term rate of return on plan assets	8.00%	8.00%

Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30:

	2012	2011
Discount rate	5.65%	5.50%
General inflation	2.65%	2.50%
Long-term rate of return on plan assets	8.00%	8.00%

Assumed health care cost trends at June 30:

	2012	2011
Net Periodic Benefit Cost:		
Health care cost trend rate assumed for next year	7.33%	7.30%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.65%	4.50%
Year that the rate reaches the ultimate trend rate	2016	2015
Accumulated Benefit Obligation:		
Health care cost trend rate assumed for next year	7.00%	8.00%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.65%	4.65%
Year that the rate reaches the ultimate trend rate	2017	2016

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

Assumptions (Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A 1% change in assumed health care cost trend rates would have the following effects for the year ended June 30, 2012:

	1% Increase	1% Decrease
Effect on the accumulated post-retirement benefit obligation	$ 1,951,606	($ 1,531,448)

Plan Assets

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

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

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

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 and cash equivalents	$ 67,371	$ 67,371		
Common stocks – materials	66,409	66,409		
Mutual funds – equities	1,117,422	1,117,422		
Mutual funds – bonds	275,763	275,763		
Total	$ 1,526,965	$ 1,526,965	None	None

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

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset category:				
Cash and cash equivalents	$ 42,413	$ 42,413		
Common stocks – materials	90,474	90,474		
Mutual funds – equities	1,159,771	1,159,771		
Mutual funds – bonds	299,199	299,199		
Total	$ 1,591,857	$ 1,591,857	None	None

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

Plan Asset Allocations

Weighted–average asset allocations at June 30, 2012 were as follows:

Asset Class	Current Allocation	Target
Cash equivalents *	4%	5%
Fixed income	18%	20%
Equity	78%	75%

Weighted–average asset allocations at June 30, 2011 were as follows:

Asset Class	Current Allocation	Target
Cash equivalents *	3%	5%
Fixed income	19%	20%
Equity	78%	75%

* Included in fixed income target with variance of +/- 10% in accordance with the Center's investment policy.

Cash Flows

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

For the Year Ending June 30,	
2013	$ 259,000
2014	286,000
2015	341,000
2016	377,000
2017	441,000
Years 2018 – 2022	2,557,000
	$ 4,261,000

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 6 – Retirement Plan

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

The actuarial calculations generated by PERS are based on a number of assumptions about very long-term demographic and economic behavior. Unless these assumptions (terminations, deaths, disabilities, retirements, salary growth, and investment return) are exactly realized each year, there will be differences on a year-to-year basis.

PERS actuarial calculation determines plan cost as the sum of two pieces: 1) Normal Cost - the future annual premiums excluding any surplus or unfunded liability; and 2) Past Service Cost - the current value of the benefit for all credited past service of current members.

Under the Normal Cost 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.

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. If the plan's accrued liability exceeds the actuarial value of 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.

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

NOTE 6 – Retirement Plan (Continued)

A summary of principal actuarial assumptions used are as follows:

Valuation Date	June 30, 2011
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Average Remaining Period	11 years as of the valuation date
Asset Valuation Method	15-year smoothed market
Actuarial Assumptions (used for all plans)	
Investment Rate of Return	7.50% (net of administrative expense)
Projected Salary Increases	Annual increases vary by category, entry age, and duration of service
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 0.25%

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

Asset Class	**Current Allocation**
Short-term investments	3.3 %
Domestic equity	23.5
International equity	25.2
Domestic debt	20.6
International debt	1.6
Inflation linked	3.4
Real estate	8.0
Alternative investments	14.4
	100.0 %

NOTE 6 – Retirement Plan (Continued)

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

Valuation Date	Accrued Liability	Actuarial Value of Assets (AVA)	Unfunded Liability (UL)	Funded Ratios AVA	Funded Ratios Market Value	Annual Covered Payroll	UL as a Percentage of Payroll
06/30/07	$42,022,961	$34,018,702	$8,004,259	81.0%	92.9%	$12,149,729	65.9%
06/30/08	$46,515,600	$39,074,471	$7,441,129	84.0%	84.5%	$13,104,693	56.8%
06/30/09	$50,592,735	$43,399,285	$7,193,450	85.8%	62.7%	$13,484,056	53.3%
06/30/10	$53,912,919	$47,400,031	$6,512,888	87.9%	69.7%	$12,607,755	51.7%
06/30/11	$58,622,350	$52,797,562	$5,824,788	90.1%	81.5%	$12,454,822	46.8%

Employee contributions were approximately 5% of salary and wages and, effective July 2011, the Center changed employee contributions to 6%. The Center has two retirement plans with PERS to which it contributes an additional percentage to fund the remaining employee contributions. One is a 3%-at-age-60 formula which was discontinued as of December 31, 2005. All employees hired on or before this date participate in this plan. All employees hired on or after January 1, 2006 participate in a 2%-at-age-60 plan. The total required employee contributions are 7% for the 2%-at-age-60 plan and 8% for the 3%-at-age-60 plan; however, employees contribute 5% and the Center contributes the balance.

In addition, 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. The employer rate is determined using the actuarial basis adopted by the PERS Board of Administration.

A change was adopted by the CalPERS Board in June 2009 to temporarily modify the method of determining the actuarial value of assets and amortizing gains and losses in order to phase in the impact of the 24% investment loss experienced by CalPERS in fiscal year 2008-2009. This modification was implemented for the valuations as of June 30, 2009 through June 30, 2011.

NOTE 6 – Retirement Plan (Continued)

The CalPERS Board adopted updated economic assumptions to be used beginning with the June 30, 2011 valuation. The price inflation assumption was lowered from 3.00% to 2.75%. Lowering the price inflation had a direct impact on the investment return and the overall payroll growth assumptions. As a result, CalPERS revised the assumption for investment return from 7.75% to 7.50% and the assumption for overall payroll growth from 3.25% to 3.00%.

Total retirement expense for the years ended June 30, 2012 and 2011 was $2,270,290 and $2,328,661, respectively.

NOTE 7 – Related-Party Transactions

In June 2008, the Center established a nonprofit housing corporation, Tri-Counties Community Housing Corporation (the Housing Corporation) for the acquisition of and retention of housing in perpetuity for persons served by the Center. The Center and the Housing Corporation do not share common board directors. However, the Center has the power to designate each and all of the directors on the Housing Corporation's Board of Directors, or revoke a designation with or without cause. Under the housing guidelines established by the DDS, the Center obtained start-up funding under the Community Placement Plan and then, through a contract with the Housing Corporation, provided those funds to the Housing Corporation for the purchase of housing. At June 30, 2012, the Center owed the Housing Corporation $80,000 under operating contracts. This amount is included in accounts payable at June 30, 2012. During the year ended June 30, 2012, the Housing Corporation recognized $256,635 in revenue earned under the contracts.

NOTE 7 – Related-Party Transactions (Continued)

Summarized unaudited financial information for the Housing Corporation is as follows:

	June 30,	
	2012 (Unaudited)	2011 (Unaudited)
Current assets	$ 324,394	$ 300,021
Property, buildings, and equipment	2,346,402	1,494,634
Other assets	19,824	
	$ 2,690,620	$ 1,794,655
Current liabilities	$ 12,599	$ 5,787
Notes payable	1,635,884	955,484
Unrestricted net assets	1,042,137	833,384
	$ 2,690,620	$ 1,794,655

	For the Year Ended June 30,	
	2012 (Unaudited)	2011 (Unaudited)
Revenue and support	$ 523,051	$ 279,021
Expenses	314,298	187,759
Change in unrestricted net assets	$ 208,753	$ 91,262

NOTE 8 – Intermediate Care Facility Billing

The Centers for Medicare and Medicaid Services (CMS) approved federal financial participation in the funding of the day and transportation services related to the Center's Intermediate Care Facility (ICF) services retroactive to July 2007. The federal rules allow for only one provider of the ICF service, requiring all the Medicaid funding for the ICF residents to go through the applicable vendors. The Center is in the process at June 30, 2012, due to the change in funding, of collecting the funding provided under the federal program from applicable vendors retroactive to July 2007, and remitting the funds to the DDS. The Center receives a 1.5% administrative fee based on the funds received to cover the additional workload.

During the year ended June 30, 2012, the Center billed $11,002,887 from vendors which was remitted to the state prior to June 30, 2012, less the Center's administrative fee. Administrative fee income of $165,043 was recognized in other income for the year ended June 30, 2012.

NOTE 9 – Commitments and Contingencies

Lease Commitments

The Center has entered into various leases for office facilities. The lease terms range from five to ten-and-one-half years, expiring at various dates through June 30, 2018. Certain leases contain provisions for renewal options and for increasing rent due to increased expenses, taxes, and cost of living. In addition, the Center is required to pay for insurance on certain premises.

NOTE 9 – Commitments and Contingencies (Continued)

Lease Commitments (Continued)

The following is a schedule of future minimum lease payments required as of June 30, 2012:

For the Year Ending June 30,	
2013	$ 2,504,393
2014	2,058,822
2015	1,992,819
2016	1,849,991
2017	1,849,991
Thereafter	1,254,438
	$ 11,510,454

The facilities rental expense for the years ended June 30, 2012 and 2011 was $2,616,155 and $2,471,903, respectively.

Contract Commitment

In January 2010, the Center entered into a contract agreement with a service provider to provide residential treatment services through June 30, 2020 along with two other regional centers. The agreement renews on an annual basis thereafter, unless canceled in accordance with a termination clause defined in the agreement. The agreement also provides for a funding contingency, where if funding under the Center's contract with the DDS is not adequate to pay for services under the agreement, the Center may cancel the agreement and fund other services as deemed necessary. The Center's maximum future payments under the agreement are approximately $1.3 million per year.

NOTE 9 – Commitments and Contingencies (Continued)

Contract Commitment (Continued)

The following is a schedule of future payments required as of June 30, 2012:

For the Year Ending June 30,	
2013	$ 1,304,912
2014	1,304,912
2015	1,304,912
2016	1,304,912
2017	1,304,912
Thereafter	3,914,735
	$ 10,439,292

Total amounts paid under the agreement for the years ended June 30, 2012 and 2011 was $1,191,923 and $683,695, respectively.

Contingencies

In accordance with the terms of the contract with the DDS, an audit may be performed by an authorized DDS representative. Should such audit disclose any unallowable costs, the Center may be liable to the DDS for reimbursement of such costs. In the opinion of the Center's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2012 and 2011, and for the years then ended.

NOTE 9 – Commitments and Contingencies (Continued)

Contingencies (Continued)

The Center is dependent on continued funding provided by the DDS to operate and provide services for its clients. The Center's contract with the DDS provides funding for services under the Lanterman Act. In the event that the Center has insufficient funds to meet its contractual obligations, the state shall make its best effort to secure additional funds and/or provide the Center with regulatory and statutory relief. Should a system-wide deficit occur, the 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. The 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 has been experiencing an unprecedented budget shortfall due to the severe national and state economic crisis. The DDS has undertaken numerous efforts to control costs throughout the system and is committed to preserving the entitlement services and supports. Reductions in regional center operations and purchase of services occurred in the 2011/2012 fiscal year as a result of cost control efforts and legislation enacted.

The Center retains approximately 50% of its labor force through Service Employees International Union Local 721; however, approximately 85% of the Center's labor force is subject to a collective bargaining agreement. As such, renegotiation of such an agreement could expose the Center to an increase in hourly costs and work stoppages. The current agreements are generally effective through December 31, 2014.

The Center has elected to finance its unemployment insurance using the prorated cost-of-benefits method. Under this method, the Center is required to reimburse the State of California Employment Development Department for benefits paid to certain former employees. The Center had $209,042 and $150,489 in a reserve trust account to pay for any potential unemployment claims at June 30, 2012 and 2011, respectively.

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.

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

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

Federal Grantor/ Pass-Through Grantor/ Program 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	HD099020	$ 2,378,835
U.S. Corporation for National and Community Service Passed through State of California Department of Developmental Services			
Foster Grandparent Program	94.011	HD099020	171,621
			$ 2,550,456

Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Tri-Counties Association for the Developmentally Disabled, Inc. and is prepared based on state contract budget allocations. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

To the Board of Directors of
Tri-Counties Association for the Developmentally Disabled, Inc.

We have audited the financial statements of Tri-Counties Association for the Developmentally Disabled, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated February 1, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Tri-Counties Association for the Developmentally Disabled, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Tri-Counties Association for the Developmentally Disabled, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tri-Counties Association for the Developmentally Disabled, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Tri-Counties Association for the Developmentally Disabled, Inc. in a separate letter dated February 1, 2013.

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

Windes & McClaughry

Long Beach, California
February 1, 2013

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Tri-Counties Association for the Developmentally Disabled, Inc.

Compliance

We have audited Tri-Counties Association for the Developmentally Disabled, 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 Tri-Counties Association for the Developmentally Disabled, Inc.'s major federal programs for the year ended June 30, 2012. Tri-Counties Association for the Developmentally Disabled, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Tri-Counties Association for the Developmentally Disabled, Inc.'s management. Our responsibility is to express an opinion on Tri-Counties Association for the Developmentally Disabled, Inc.'s compliance based on our audit.

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

In our opinion, Tri-Counties Association for the Developmentally Disabled, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Tri-Counties Association for the Developmentally Disabled, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Tri-Counties Association for the Developmentally Disabled, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Tri-Counties Association for the Developmentally Disabled, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Windes & McClaughry

Long Beach, California
February 1, 2013

TRI-COUNTIES ASSOCIATION
FOR THE DEVELOPMENTALLY DISABLED, INC.

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

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued – Unqualified

Internal control over financial reporting

1. Material weakness(es) identified? – No

2. Significant deficiencies identified that are not considered to be material weakness(es)? – None reported

3. Noncompliance material to financial statements noted? – No

Federal Awards

Internal control over major programs

1. Material weakness(es) identified? – No

2. Significant deficiencies identified that are not considered to be material weakness(es)? – None reported

3. Type of auditors' report issued on compliance for major programs? – Unqualified

4. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? – No

5. Identification of major programs: Early Intervention Services (IDEA) Cluster – Special Education – Grants for Infants and Families, CFDA #84.181

6. Dollar threshold used to distinguish between Type A and Type B programs was $300,000.

7. Auditee qualified as low-risk auditee? – Yes

SECTION II – FINANCIAL STATEMENTS FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None