

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**



**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, 2011 and 2010, 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, 2011 and 2010, 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 29, 2012, 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 basic financial statements. The 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 basic 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 basic 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 basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Windes & McCaughey". The signature is written in dark ink and is positioned above the typed text.

Long Beach, California  
February 29, 2012

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 20,647,091	\$ 16,705,877
Cash - client trust funds	1,317	1,153
Contracts receivable – state of California		20,283,855
Client receivables from government agencies	49,756	59,324
Other receivables	22,396	63,461
Prepaid expenses and deposits	106,639	102,281
Due from state – accrued vacation and other employee benefits	6,779,397	6,046,276
<b>TOTAL ASSETS</b>	<b>\$ 27,606,596</b>	<b>\$ 43,262,227</b>

**LIABILITIES AND NET DEFICIT**

<b>LIABILITIES</b>		
Accounts payable	\$ 18,206,360	\$ 19,771,719
Accrued payroll	456,408	653,778
Contract advances – state of California	1,801,423	
Line of credit		16,401,000
Accrued vacation	790,488	794,172
Due to state	95,472	34,624
Post-retirement health care plan obligation	6,463,176	6,410,898
Other liabilities	150,489	137,629
Unexpended client support	50,091	
	<b>28,013,907</b>	<b>44,203,820</b>
<b>COMMITMENTS AND CONTINGENCIES (Notes 5, 6, and 9)</b>		
<b>NET ASSETS (DEFICIT)</b>		
Unrestricted	( 407,311)	( 1,089,906)
Temporarily restricted		148,313
	<b>( 407,311)</b>	<b>( 941,593)</b>
<b>TOTAL LIABILITIES AND NET DEFICIT</b>	<b>\$ 27,606,596</b>	<b>\$ 43,262,227</b>

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

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Contracts – state of California	\$ 210,834,629		\$ 210,834,629
Interest income	150,452		150,452
Other income	66,844		66,844
	211,051,925		211,051,925
<b>NET ASSETS RELEASED FROM RESTRICTION</b>			
	148,313	(\$ 148,313)	
Total Support and Revenue	211,200,238	( 148,313)	211,051,925
<b>EXPENSES</b>			
Program Services			
Client services	208,497,146		208,497,146
Supporting Services			
General and administrative	2,705,023		2,705,023
Total Expenses	211,202,169		211,202,169
<b>CHANGE IN NET ASSETS (DEFICIT) BEFORE HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST</b>			
	( 1,931)	( 148,313)	( 150,244)
<b>HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST- RETIREMENT BENEFIT COST</b>			
	684,526		684,526
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	682,595	( 148,313)	534,282
<b>NET ASSETS (DEFICIT) AT BEGINNING OF YEAR</b>			
	( 1,089,906)	148,313	( 941,593)
<b>NET DEFICIT AT END OF YEAR</b>	(\$ 407,311)	None	(\$ 407,311)

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

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
Contracts – state of California	\$ 212,237,848		\$ 212,237,848
Interest income	207,830		207,830
Other income	<u>166,426</u>		<u>166,426</u>
	212,612,104		212,612,104
<b>NET ASSETS RELEASED FROM RESTRICTION</b>			
	<u>103,681</u>	( \$ <u>103,681</u> )	<u>                    </u>
Total Support and Revenue	<u>212,715,785</u>	( <u>103,681</u> )	<u>212,612,104</u>
<b>EXPENSES</b>			
Program Services			
Client services	206,423,851		206,423,851
Supporting Services			
General and administrative	<u>6,279,164</u>		<u>6,279,164</u>
Total Expenses	<u>212,703,015</u>		<u>212,703,015</u>
<b>CHANGE IN NET ASSETS (DEFICIT) BEFORE HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST</b>			
	12,770	( 103,681)	( 90,911)
<b>HEALTH PLAN-RELATED CHANGES OTHER THAN NET PERIODIC POST- RETIREMENT BENEFIT COST</b>			
	<u>689,425</u>	<u>                    </u>	<u>689,425</u>
<b>CHANGE IN NET ASSETS (DEFICIT)</b>	702,195	( 103,681)	598,514
<b>NET ASSETS (DEFICIT) AT BEGINNING OF YEAR</b>			
	( <u>1,792,101</u> )	<u>251,994</u>	( <u>1,540,107</u> )
<b>NET ASSETS (DEFICIT) AT END OF YEAR</b>			
	( <u>\$ 1,089,906</u> )	<u>\$ 148,313</u>	( <u>\$ 941,593</u> )

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**

	<b>Program Services</b>	<b>Supporting Services</b>	<b>Total Expenses</b>	<b>% of Total Expenses</b>
	<b>Client Services</b>	<b>General and Admin- istrative</b>		
<b>PURCHASE OF SERVICES</b>				
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		3,166,001	1.50
Respite services	9,032,975		9,032,975	4.27
Other services	11,404,268		11,404,268	5.40
	<u>186,416,581</u>		<u>186,416,581</u>	<u>88.26</u>
<b>OPERATIONS</b>				
<b>Personnel services</b>				
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
<b>Occupancy</b>				
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
<b>General expense</b>	438,946	23,040	461,986	0.22
<b>Equipment</b>				
Purchase, rental, and maintenance	302,513	31,626	334,139	0.16
<b>Professional fees</b>				
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
<b>Insurance</b>	167,421	17,504	184,925	0.09
<b>Communication</b>				
Telephone	311,202	32,556	343,758	0.16
Postage	97,176	10,135	107,311	0.05
<b>Travel</b>	405,722	39,651	445,373	0.21
<b>Training, development, and conferences</b>	155,960	14,439	170,399	0.08
<b>General office expense</b>				
Office supplies	185,935	15,461	201,396	0.10
<b>Interest expense</b>				
	79,068	79,068	79,068	0.04
	<u>22,080,565</u>	<u>2,705,023</u>	<u>24,785,588</u>	<u>11.74</u>
<b>TOTAL EXPENSES</b>	<u>\$ 208,497,146</u>	<u>\$ 2,705,023</u>	<u>\$ 211,202,169</u>	<u>100.00 %</u>

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, 2010**

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total Expenses</b>	<b>% of Total Expenses</b>
	<b>Client Services</b>	<b>General and Admin- istrative</b>		<b>Total Expenses</b>	<b>% of Total Expenses</b>
<b>PURCHASE OF SERVICES</b>					
Living out of home	\$ 28,062,432			\$ 28,062,432	13.19%
Day program	56,745,994			56,745,994	26.68
Transportation	10,645,166			10,645,166	5.00
Supported living services	39,487,419			39,487,419	18.57
Behavioral services	26,248,354			26,248,354	12.34
Medical services	3,857,671			3,857,671	1.81
Respite services	9,616,554			9,616,554	4.52
Other services	13,189,383			13,189,383	6.20
	<u>187,852,973</u>			<u>187,852,973</u>	<u>88.31</u>
<b>OPERATIONS</b>					
<b>Personnel services</b>					
Salaries	10,154,961	\$ 3,186,105		13,341,066	6.27
Benefits	4,020,485	1,513,087		5,533,572	2.60
Taxes	137,176	88,328		225,504	0.11
<b>Occupancy</b>					
Facility rent and maintenance	1,884,028	603,774		2,487,802	1.17
One-time facility expense	95,803	31,419		127,222	0.06
Utilities	139,757	45,834		185,591	0.09
<b>General expense</b>	293,554	25,493		319,047	0.15
<b>Equipment</b>					
Purchase, rental, and maintenance	421,116	137,774		558,890	0.26
<b>Professional fees</b>					
Accounting fees	44,153	14,447		58,600	0.03
Legal fees	221,025	72,486		293,511	0.14
Consultant services	28,405	280,981		309,386	0.15
<b>Insurance</b>	72,054	23,597		95,651	0.05
<b>Communication</b>					
Telephone	286,344	93,759		380,103	0.18
Postage	84,958	27,764		112,722	0.05
<b>Travel</b>	411,361	52,347		463,708	0.22
<b>Training, development, and conferences</b>	118,832	32,795		151,627	0.07
<b>General office expense</b>					
Office supplies	156,866	42,896		199,762	0.09
<b>Interest expense</b>		6,278		6,278	0.00
	<u>18,570,878</u>	<u>6,279,164</u>		<u>24,850,042</u>	<u>11.69</u>
<b>TOTAL EXPENSES</b>	<u>\$ 206,423,851</u>	<u>\$ 6,279,164</u>		<u>\$ 212,703,015</u>	<u>100.00%</u>

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

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended June 30,</b>	
	<u><b>2011</b></u>	<u><b>2010</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets (deficit)	\$ 534,282	\$ 598,514
Adjustments to reconcile change in net assets (deficit) to net cash from operating activities:		
(Increase) decrease in:		
Cash - client trust funds	( 164)	2,063
Contracts receivable – state of California	20,283,855	( 14,997,279)
Client receivables from government agencies	9,568	28,267
Other receivables	41,065	466,214
Prepaid expenses and deposits	( 4,358)	( 19,627)
Due from state – accrued vacation and other employee benefits	( 733,121)	( 824,780)
Increase (decrease) in:		
Accounts payable	( 1,565,359)	380,679
Accrued payroll	( 197,370)	85,405
Contract advances – state of California	1,801,423	
Accrued vacation	( 3,684)	( 17,499)
Due to state	60,848	( 218,716)
Post-retirement health care plan obligation	52,278	152,854
Other liabilities	12,860	55,946
Unexpended client support	50,091	
Net Cash Provided By (Used In) Operating Activities	<u>20,342,214</u>	<u>( 14,307,959)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in line of credit	( 16,401,000)	16,401,000
Net Cash Provided By (Used In) Financing Activities	<u>( 16,401,000)</u>	<u>16,401,000</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	3,941,214	2,093,041
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>16,705,877</u>	<u>14,612,836</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$20,647,091</u>	<u>\$16,705,877</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid for interest totaled \$79,068 and \$6,278 during the years ended June 30, 2011 and 2010, respectively.

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, 2011 AND 2010**

**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 \$213,025,336 and \$211,451,963 for the 2010-2011 and 2009-2010 contract years, respectively. As of June 30, 2011, actual net expenditures under the 2010-2011 and 2009-2010 contracts were \$208,553,486 and \$211,037,660, respectively.

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**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, 2011 and 2010 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, 2011 and 2010, the Center had no permanently restricted net assets.

*Contributions*

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or 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.

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**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, 2011 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, 2011 and 2010, equipment purchases totaled \$245,772 and \$505,447, 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.

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**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 year ending June 30, 2011, the Center's ratio was 10.91%.

*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 29, 2012, the date the financial statements were available to be issued for the year ended June 30, 2011, and determined there are no other items to disclose.

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**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 unexpected client support was transferred to an unrelated third-party management service.

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

As of June 30, 2011 and 2010, the DDS had advanced the Center \$41,709,371 and \$32,978,855, 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:

	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
Contracts receivable	\$ 39,907,948	\$ 53,262,710
Contract advances	( 41,709,371)	( 32,978,855)
Net contracts receivable (contract advances)	( <u>\$ 1,801,423</u> )	<u>\$ 20,283,855</u>

**NOTE 4 – Short-Term Borrowings**

The Center had a revolving line of credit agreement with a bank which expired August 15, 2011, whereby it could borrow up to \$7,650,000. Borrowings were secured by substantially all assets of the Center with interest payable monthly at an interest rate of 3.25% at June 30, 2011. There was no outstanding balance at June 30, 2011.

Subsequent to June 30, 2011, the Center entered into a \$32,900,000 line of credit agreement with a financial institution in order to provide operating funds in the event the state budget is not approved or additional funds are needed while waiting for claims to be processed. The line is available for drawing from October 7, 2011 to September 28, 2012.

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**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, 2011 and 2010:

***Reconciliation of Benefit Obligation***

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 7,627,265	\$ 7,337,057
Service cost	598,282	588,445
Interest cost	388,595	408,822
Actuarial gain	( 331,588)	( 513,635)
Benefits paid	( 227,521)	( 193,424)
Obligation at end of year	<u>8,055,033</u>	<u>7,627,265</u>
Change in plan assets		
Fair value of plan assets at beginning of year	1,216,367	1,079,013
Employer contribution	50,000	
Actual return on plan assets	<u>325,490</u>	<u>137,354</u>
Fair value of plan assets at end of year	<u>1,591,857</u>	<u>1,216,367</u>
Net amount recognized in the statements of financial position	<u>(\$ 6,463,176)</u>	<u>(\$ 6,410,898)</u>



**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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

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

	<b>For the Year Ended June 30,</b>	
	<u><b>2011</b></u>	<u><b>2010</b></u>
Service cost	\$ 598,282	\$ 588,445
Interest cost	388,595	408,822
Return on investments	( 325,490)	( 137,354)
Net asset gain	228,181	51,033
Amortization of unrecognized past service cost	<u>124,757</u>	<u>124,757</u>
Net periodic benefit cost	<u><u>\$ 1,014,325</u></u>	<u><u>\$ 1,035,703</u></u>

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, 2011 and 2010 are:

	<b>June 30,</b>	
	<u><b>2011</b></u>	<u><b>2010</b></u>
Prior service cost	\$ 873,303	\$ 998,060
Actuarial (gain) loss	<u>( 399,035)</u>	<u>160,734</u>
	<u><u>\$ 474,268</u></u>	<u><u>\$ 1,158,794</u></u>

The Center has accrued a receivable as of June 30, 2011 and 2010 from the DDS totaling \$5,988,909 and \$5,252,104, 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.

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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

*Assumptions*

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

	<u>2011</u>	<u>2010</u>
Discount rate	5.65 %	5.50 %
General inflation	2.65 %	2.50 %
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:

	<u>2011</u>	<u>2010</u>
Discount rate	5.50 %	6.25 %
General inflation	2.50 %	3.25 %
Long-term rate of return on plan assets	8.00 %	8.00 %

Assumed health care cost trends at June 30:

	<u>2011</u>	<u>2010</u>
Net Periodic Benefit Cost:		
Health care cost trend rate assumed for next year	7.30 %	6.90 %
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.50 %	5.25 %
Year that the rate reaches the ultimate trend rate	2015	2014

Accumulated Benefit Obligation:

Health care cost trend rate assumed for next year	8.00 %	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

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**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, 2011:

	<u>1% Increase</u>	<u>1% Decrease</u>
Effect on the accumulated post-retirement benefit obligation	\$ 1,459,272	(\$ 1,169,576)

*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.

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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

*Plan Assets (Continued)*

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

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Asset category:				
Cash 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	<u>299,199</u>	<u>299,199</u>		
Total	<u>\$ 1,591,857</u>	<u>\$ 1,591,857</u>	<u>None</u>	<u>None</u>

The following table sets forth by level, with the fair value hierarchy, the plan's assets at fair value as of June 30, 2010:

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Asset category:				
Cash and cash equivalents	\$ 56,762	\$ 56,762		
Common stocks – materials	68,877	68,877		
Mutual funds – equities	839,396	839,396		
Mutual funds – bonds	<u>251,332</u>	<u>251,332</u>		
Total	<u>\$ 1,216,367</u>	<u>\$ 1,216,367</u>	<u>None</u>	<u>None</u>

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

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

***Plan Asset Allocations***

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

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

Weighted-average asset allocations at June 30, 2010 were as follows:

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target</u>
Cash equivalents *	5%	5%
Fixed income	20%	20%
Equity	75%	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:

<u>For the Year Ending June 30,</u>	
2012	\$ 283,000
2013	307,000
2014	324,000
2015	392,000
2016	436,000
Years 2017 – 2021	<u>2,739,000</u>
	<u>\$ 4,481,000</u>

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**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, 2011 AND 2010**

**NOTE 6 – Retirement Plan (Continued)**

A summary of principal actuarial assumptions used are as follows:

Valuation Date	June 30, 2010
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Average Remaining Period	12 years as of the valuation date
Asset Valuation Method	15-year smoothed market
Actuarial Assumptions (used for all plans)	
Investment Rate of Return	7.75 % (net of administrative expense)
Projected Salary Increases	Annual increases vary by category, entry age, and duration of service
Inflation	3.00 %
Payroll Growth	3.25 %
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 3.00 % and an annual production growth of 0.25 %

The asset allocation shown below reflects the PERS fund in total as of June 30, 2010. The assets of the Center’s plan are part of the PERS fund and are invested accordingly.

<u>Asset Class</u>	<u>Current Allocation</u>	<u>Target</u>
Short-term investments	4.6 %	4.0 %
Global fixed income	26.2	16.0
Equities	45.1	49.0
Inflation linked	2.5	4.0
Real estate	7.5	13.0
Alternative investments	<u>14.1</u>	<u>14.0</u>
	<u>100.0 %</u>	<u>100.0 %</u>

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**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.

<u>Valuation Date</u>	<u>Accrued Liability</u>	<u>Actuarial Value of Assets (AVA)</u>	<u>Unfunded Liability (UL)</u>	<u>Funded Ratios</u>		<u>Annual Covered Payroll</u>	<u>UL as a Percentage of Payroll</u>
				<u>AVA</u>	<u>Market Value</u>		
06/30/06	\$37,563,989	\$28,676,140	\$8,887,849	76.3%	80.6%	\$12,156,754	73.1%
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%

Employee contributions are approximately 5% of salary and wages. 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.

Total retirement expense for the years ended June 30, 2011 and 2010 was \$2,328,661 and \$2,530,205, respectively.



**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 7 – Temporarily Restricted Net Assets**

During the year ended June 30, 2009 and prior, the Center received a private grant to be used for specific purposes as stated by the grantor. As of June 30, 2010, temporarily restricted net assets available for the private grant were \$148,313. There were no temporarily restricted net assets as of June 30, 2011.

**NOTE 8 – 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, 2010, the Center owed the Housing Corporation \$124,650 under operating contracts. This amount is included in accounts payable at June 30, 2010. During the year ended June 30, 2010, the Housing Corporation recognized \$520,095 in revenue earned under the contracts.

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 8 – Related-Party Transactions (Continued)**

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

	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	<b>( Unaudited)</b>
Current assets	\$ 199,320	\$ 40,391
Receivable from the Center		124,650
Property, buildings, and equipment	1,526,975	1,035,360
Other assets	8,128	1,070
	<b>\$ 1,734,423</b>	<b>\$ 1,201,471</b>
Current liabilities	\$ 107,707	\$ 1,470
Notes payable	955,952	620,499
Unrestricted net assets	670,764	579,502
	<b>\$ 1,734,423</b>	<b>\$ 1,201,471</b>
	<b>For the Year Ended</b>	
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	<b>( Unaudited)</b>
Revenue and support	\$ 279,021	\$ 557,388
Expenses	187,759	157,405
Change in unrestricted net assets	<b>\$ 91,262</b>	<b>\$ 399,983</b>

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**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.

The following is a schedule of future minimum lease payments required as of June 30, 2011:

<b>For the Year Ending June 30,</b>	
2012	\$ 2,042,513
2013	1,924,048
2014	1,536,902
2015	1,457,383
2016	1,345,304
Thereafter	<u>2,414,560</u>
	<u>\$ 10,720,710</u>

The facilities rental expense for the years ended June 30, 2011 and 2010 was \$2,471,903 and \$2,455,184, 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.

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 9 – Commitments and Contingencies (Continued)**

*Contract Commitment (Continued)*

The following is a schedule of future payments required as of June 30, 2011:

<u>For the Year Ending June 30,</u>	
2012	\$ 1,304,912
2013	1,304,912
2014	1,304,912
2015	1,304,912
2016	1,304,912
Thereafter	<u>5,219,646</u>
	<u>\$ 11,744,206</u>

The expense for the years ended June 30, 2011 and 2010 was \$683,695 and \$652,455, 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, 2011 and 2010, and for the years then ended.

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.

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011 AND 2010**

**NOTE 9 – Commitments and Contingencies (Continued)**

*Contingencies (Continued)*

The state of California is experiencing an unprecedented budget shortfall due to the severe national and state economic crisis. The DDS has undertaken numerous efforts to control costs throughout the system and is committed to preserving the entitlement services and supports. Reductions in regional center operations and purchase of services are expected for the 2011/2012 fiscal year as a result of cost control efforts and legislation enacted.

The Center retains approximately 48% of its labor force through Service Employees International Union Local 721; however, approximately 79% of the Center's labor force is subject to a collective bargaining agreement. This labor force is subject to collective bargaining agreements and, as such, renegotiation of such agreements 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 \$150,489 and \$137,629 in a reserve trust account to pay for any potential unemployment claims at June 30, 2011 and 2010, 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, 2011**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Education</b>			
<b>Passed through State of</b>			
<b>California Department of</b>			
<b>Developmental Services</b>			
<b>Early Intervention Services (IDEA) Cluster:</b>			
Special Education – Grants for Infants and Families	84.181	H181A100037	\$ 2,217,768
<b>U.S. Corporation for National and Community</b>			
<b>Service Passed through State of California</b>			
<b>Department of Developmental Services</b>			
Foster Grandparent Program	94.011	HD099020	<u>166,486</u>
			<u>\$ 2,384,254</u>

***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.



**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, 2011, and have issued our report thereon dated February 29, 2012. 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**

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 above.

## 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 29, 2012.

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.

A handwritten signature in cursive script that reads "Windes & McCaughey".

Long Beach, California  
February 29, 2012





**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, 2011. 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, 2011.

## 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.



Long Beach, California  
February 29, 2012

**TRI-COUNTIES ASSOCIATION  
FOR THE DEVELOPMENTALLY DISABLED, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

**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