Inland Counties Regional Center, Inc.

Financial Statements

June 30, 2015 and 2014

CONTENTS

WINDES
AUDIT | TAX | ADVISORY

www.windes.com

111 West Ocean Blvd.
Twenty-Second Floor
Long Beach, CA 90802
562.435.1191

18201 Von Karman Ave.
Suite 1060
Irvine, CA 92612
949.271.2600

601 South Figueroa St.
Suite 4950
Los Angeles, CA 90017
213.239.9745

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Inland Counties Regional Center, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Inland Counties Regional Center, Inc., a California nonprofit corporation, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inland Counties Regional Center, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 10 to the financial statements, Inland Counties Regional Center, Inc. is pursuing an administrative appeal of audit findings and request for repayment of funds to the Department of Developmental Services. The ultimate outcome of the administrative appeal process cannot presently be determined, but management is of the opinion that it will not have a material impact on the Organization's financial position. Accordingly, no provision for repayment has been made in the financial statements. Nevertheless, due to uncertainties with the appeal process, it is at least reasonably possible that management's view of the outcome will change in the near term. Our opinion is not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2016, on our consideration of Inland Counties Regional Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Inland Counties Regional Center, Inc.'s internal control over financial reporting and compliance.

Windes, Inc.

Long Beach, California
March 14, 2016

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2015	June 30, 2014
ASSETS		
Cash and cash equivalents	$ 4,662,885	$ 9,599,473
Cash - client trust funds	2,392,462	2,324,284
Contracts receivable - state of California	28,732,434	17,876,854
Receivable from Intermediate Care Facility vendors	7,097,302	4,874,992
Other receivables	119,629	187,717
Investments	747,471	736,019
Investments - Master Trust	21,540,986	22,814,337
Other assets	726,426	1,313,252
Due from state - accrued vacation, other leave and retirement benefits	15,387,320	12,979,336
Prepaid post-retirement medical plan expense	3,528,748	4,013,175
Property and equipment, net		273
TOTAL ASSETS	$ 84,935,663	$ 76,719,712

LIABILITIES AND NET ASSETS (DEFICIT)

	2015	2014
LIABILITIES		
Accounts payable	$ 32,134,901	$ 28,202,987
Accrued payroll	1,734,683	1,448,016
Due to state	4,930,295	3,315,691
Accrued vacation and other leave benefits	3,682,089	3,590,528
Obligation for post-retirement benefits	11,705,231	9,388,808
Amounts held for clients	2,392,060	2,326,287
Master Trust obligations	21,540,986	22,814,337
Deferred rent	10,452,897	14,633,689
Other liabilities	2,122,311	575,914
	90,695,453	86,296,257
COMMITMENTS AND CONTINGENCIES (Notes 9 and 10)		
NET ASSETS (DEFICIT)		
Unrestricted	(6,075,482)	(9,837,294)
Temporarily restricted	315,692	260,749
	(5,759,790)	(9,576,545)
TOTAL LIABILITIES AND NET DEFICIT	$ 84,935,663	$ 76,719,712

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

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENTS OF ACTIVITIES

	For the Year Ended June 30, 2015	2014
CHANGE IN UNRESTRICTED NET DEFICIT		
SUPPORT AND REVENUE		
Contracts - state of California	$ 359,107,038	$ 319,983,666
Intermediate Care Facility supplemental services income	18,232,266	14,335,987
Interest and dividend income	135,620	127,535
Contributions and grants	327,734	280,778
Realized and unrealized gain (loss) on investments	(6,225)	39,421
Other income	534,355	458,904
Total Unrestricted Support and Revenue	378,330,788	335,226,291
Net assets released from restriction	62,491	99,730
Total Support and Revenue	378,393,279	335,326,021
EXPENSES		
Program Services		
Direct client services	351,066,344	311,839,782
Supporting Services		
General and administrative	23,034,658	25,430,778
Fundraising	46,038	73,980
Total Expenses	374,147,040	337,344,540
INCREASE (DECREASE) IN UNRESTRICTED NET DEFICIT	4,246,239	(2,018,519)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	117,434	38,880
Net assets released from restriction	(62,491)	(99,730)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	54,943	(60,850)
CHANGE IN NET DEFICIT BEFORE MEDICAL PLAN RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	4,301,182	(2,079,369)
MEDICAL PLAN RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	(484,427)	(423,317)
CHANGE IN NET DEFICIT	3,816,755	(2,502,686)
NET DEFICIT AT BEGINNING OF YEAR	(9,576,545)	(7,073,859)
NET DEFICIT AT END OF YEAR	($ 5,759,790)	($ 9,576,545)

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

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Program Services	Supporting Services			
	Direct Client Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 22,065,500	$ 10,602,185		$ 10,602,185	$ 32,667,685
Employee health and retirement benefits	7,317,283	3,636,690		3,636,690	10,953,973
Payroll taxes	403,854	210,396		210,396	614,250
Total Salaries and Related Expenses	29,786,637	14,449,271		14,449,271	44,235,908
Purchase of Services					
Residential care facilities	89,974,880				89,974,880
Day program	115,513,038				115,513,038
Other purchased services	114,957,300				114,957,300
Communication		263,493		263,493	263,493
Printing		357,847		357,847	357,847
Insurance		295,599		295,599	295,599
General expenses		910,501	$ 46,038	956,539	956,539
Occupancy expenses		3,009,260		3,009,260	3,009,260
Equipment and facility maintenance		157,008		157,008	157,008
Equipment purchases		212,863		212,863	212,863
Board expenses		18,389		18,389	18,389
Staff travel	834,489	86,470		86,470	920,959
Legal fees		503,754		503,754	503,754
Legal settlement		2,027,408		2,027,408	2,027,408
Accounting fees		73,600		73,600	73,600
Consultant fees		585,523		585,523	585,523
ARCA dues		83,672		83,672	83,672
TOTAL EXPENSES	$ 351,066,344	$ 23,034,658	$ 46,038	$ 23,080,696	$ 374,147,040

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

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services	Supporting Services			
	Direct Client Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 19,933,447	$ 9,747,606		$ 9,747,606	$ 29,681,053
Employee health and retirement benefits	4,953,250	3,197,754		3,197,754	8,151,004
Payroll taxes	295,444	157,977		157,977	453,421
Total Salaries and Related Expenses	25,182,141	13,103,337		13,103,337	38,285,478
Purchase of Services					
Residential care facilities	81,900,420				81,900,420
Day program	106,964,411				106,964,411
Other purchased services	97,026,602				97,026,602
Communication		418,020		418,020	418,020
Printing		140,824		140,824	140,824
Insurance		330,463		330,463	330,463
General expenses		705,941	$ 73,980	779,921	779,921
Occupancy expenses		9,061,065		9,061,065	9,061,065
Equipment and facility maintenance		153,336		153,336	153,336
Equipment purchases		394,454		394,454	394,454
Board expenses		7,619		7,619	7,619
Staff travel	766,208	94,862		94,862	861,070
Legal fees		361,712		361,712	361,712
Accounting fees		88,326		88,326	88,326
Consultant fees		481,843		481,843	481,843
ARCA dues		88,976		88,976	88,976
TOTAL EXPENSES	$ 311,839,782	$ 25,430,778	$ 73,980	$ 25,504,758	$ 337,344,540

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

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net deficit	$ 3,816,755	($ 2,502,686)
Adjustments to reconcile change in net deficit to net cash from operating activities		
Depreciation	273	48
Net realized and unrealized investment (gain) loss	6,225	(39,421)
Dividends reinvested	(17,677)	(13,163)
(Increase) decrease in operating assets		
Cash - client trust funds	(68,178)	21,238
Contracts receivable - state of California	(10,855,580)	4,354,747
Receivable from Intermediate Care Facility vendors	(2,222,310)	(806,577)
Other receivables	68,088	(63,639)
Investments - Master Trust	1,273,351	(2,303,945)
Other assets	586,826	119,492
Due from state – accrued vacation, other leave, and retirement benefits	(2,407,984)	(1,006,637)
Prepaid post-retirement medical plan expense	484,427	423,317
Increase (decrease) in operating liabilities		
Accounts payable	3,931,914	2,543,888
Accrued payroll	286,667	209,698
Due to state	1,614,604	(473,682)
Accrued vacation and other leave benefits	91,561	393,796
Obligation for post-retirement benefits	2,316,423	612,841
Accounts held for clients	65,773	(43,217)
Master Trust obligations	(1,273,351)	2,303,945
Deferred rent	(4,180,792)	2,075,306
Other liabilities	1,546,397	(70,585)
Net Cash Provided By (Used In) Operating Activities	(4,936,588)	5,734,764
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,936,588)	5,734,764
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,599,473	3,864,709
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,662,885	$ 9,599,473

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

INLAND COUNTIES REGIONAL CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

NOTE 1 – Summary of Significant Accounting Policies

Background Information

Inland Counties Regional Center, Inc. (the Center), was incorporated on August 5, 1971 as a California not-for-profit corporation for the purpose of operating Inland Regional Center and related activities. The Center was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (Act) of the Welfare and Institutions Code of the State of California. In accordance with the Act, the Center provides diagnostic evaluations, client program management, and lifelong planning services for persons with developmental disabilities and their families. The areas served include the Counties of San Bernardino and Riverside.

The Act includes governance provisions regarding the composition of the Center's board of directors. The Act states that the board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50 percent of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25 percent of the members of the governing board shall be persons with developmental disabilities. In addition, a member of a required advisory committee, composed of persons representing the various categories of providers from which the Center purchases client services, shall serve as a member of the regional center board. To comply with the Act, the Center's board of directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the Center and a client service provider of the Center.

The Center contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for the developmentally disabled and their families. Under the terms of these contracts, funded expenditures are not to exceed $358,372,136 and $317,236,161 for the 2014-2015 and 2013-2014 contract years, respectively. Actual net expenditures under the regional center contract for the 2014-2015 and 2013-2014 contracts were $352,381,411 and $316,238,629, respectively as of June 30, 2015.

As discussed above, the Center operates under contracts with the DDS. Contract revenue is funded on a cost reimbursement basis. The net deficit reported as of June 30, 2015 and 2014 on the statements of financial position is primarily the result of deferred rent. For long-term leases with escalating rental expense, accounting standards require the Center to recognize the total rental expense evenly over the life of the lease. Deferred rent represents the difference between the cash paid and the rental expense recognized since inception of the lease. Rental expenditures are reimbursed under the DDS contract as they are paid.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation

The Center reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, the net assets of the Center are classified and reported as described below:

> **Unrestricted Net Assets –** Net assets that are not subject to donor-imposed restrictions.
>
> **Temporarily Restricted Net Assets –** Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.
>
> **Permanently Restricted Net Assets –** Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

As of June 30, 2015 and 2014, the Center had no permanently restricted net assets.

Contributions

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

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

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

Use of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Concentration of Credit Risk

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

At June 30, 2015 and at various times during the year, the Center maintained cash balances in its financial institutions in excess of federally insured limits.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities, except for the Master Trust investments as described in Note 8.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Contracts receivable and contract support from the state of California are recorded on the accrual method as related expenses are incurred. Receivable from Intermediate Care Facility vendors and supplemental services income are recorded on the accrual method as related expenses are incurred.

Other Receivables

Other receivables primarily consists of client support receivables and loans and vendor receivables. Other receivables and loans are recorded when support or loans are granted to clients and when vendor audits are complete and overpayments have been determined. Other receivables and loans are presented on the statements of financial position net of the allowance for doubtful accounts and are written off when they are determined to be uncollectible. Management determined there was no allowance necessary as of June 30, 2015 and 2014.

Property and Equipment

Pursuant to the terms of the DDS contract, equipment purchases become the property of the state and, accordingly, are charged as expenses when incurred. For the years ended June 30, 2015 and 2014, sensitive and nonexpendable equipment purchases totaled $212,863 and $394,454, respectively. Equipment owned by the Center is stated at cost and is depreciated on the straight-line method over the estimated useful life of ten years.

The state requires all sensitive and nonexpendable equipment to be tagged and reported annually. Sensitive equipment is defined as having a normal useful life of greater than one year, costing less than $5,000, and being highly desirable or susceptible to theft. Nonexpendable equipment is defined as having a useful life of greater than one year and costing more than $5,000.

Accrued Vacation and Other Leave Benefits

The Center has accrued a liability and a receivable from the state for leave benefits earned, and for post-retirement health care as discussed in Note 9. However, such benefits are reimbursed under the state contract only when actually paid.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Post-Retirement Medical Reimbursement 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.

Deferred Rent

The Center leases office facilities under a lease agreement that is subject to scheduled increases of rental payments. The scheduled rent increases are amortized evenly over the life of the lease. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease.

Allocation of Functional Expenses

Salaries and related expenses, purchase of services, and travel expenses are allocated to the program and supporting services categories on a direct-cost basis. All other operating expenses are allocated to the supporting services category.

Tax Status

The Center has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code, respectively.

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

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Center's management has evaluated subsequent events from the statement of financial position date through March 14, 2016, the date the financial statements were available to be issued for the year ended June 30, 2015, and, except as noted below, determined there are no other items to disclose.

As disclosed in Note 10, the lease agreement with the California Housing Foundation for the Center's office facilities was amended in August 2015. The lease term was extended to end June 30, 2045 with reduced monthly base rent.

The Center experienced an act of terror on December 2, 2015. The Center's actions in response to this tragic event continue. The impact resulting from this event and the Center's subsequent actions are not fully known at this time but are not considered to have a material effect on the Center's financial condition.

NOTE 2 – State Contracts

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

As of June 30, 2015 and 2014, DDS had advanced the Center $62,111,546 and $74,149,750, respectively, under the regional center contracts. For financial statement presentation, to the extent there are claims receivable, these claims have been offset against the advances from the state as follows:

	June 30,	
	2015	**2014**
Contracts receivable	$ 90,843,980	$ 92,026,604
Contract advances	(62,111,546)	(74,149,750)
Net contracts receivable	$ 28,732,434	$ 17,876,854

NOTE 2 – State Contracts (Continued)

The Center has renewed its contract with the state for the fiscal year ending June 30, 2016. The contract provides for initial funding of $390,588,025.

In addition, the Center has accrued receivables from the state for expenses that will be settled in cash in future years. These expenses are required to be recognized as liabilities under generally accepted accounting principles; however, such benefits are reimbursed by the state contract only when actually paid. These expenses relate to accrued vacation and other leave benefits and the obligation for post-retirement benefits.

The Center's contract with DDS includes various fiscal provisions, which provide that the state of California retains all rights, title, and interest to the funds provided by DDS and that funds received from DDS may only be used for the purpose of satisfying claims against or expenses of the Center incurred pursuant to and in the performance of its contract with DDS.

Due from state – accrued vacation, other leave and retirement benefits consisted of the following:

	June 30,	
	2015	**2014**
Vacation and other leave benefits	$ 3,682,089	$ 3,590,528
Retiree medical reimbursement plan obligation	11,705,231	9,388,808
	$ 15,387,320	$ 12,979,336

NOTE 3 – Receivable from Intermediate Care Facility Vendors

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

NOTE 3 – Receivable from Intermediate Care Facility Vendors (Continued)

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

NOTE 4 – Net Assets

The Center uses fund accounting to maintain accountability for various activities. The state contracts are accounted for in the Regional Center Fund.

The unrestricted net assets of each fund are generally available for use within that activity. Grants or contributions received with donor stipulations that limit the use of the donated assets are considered temporarily restricted.

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2015	**2014**
Another Way program	$ 86,509	$ 33,553
Staff training	7,990	7,990
McElroy Trust	221,193	219,206
	$ 315,692	$ 260,749

Unrestricted net deficit consisted of balances in the following funds:

	June 30,	
	2015	**2014**
Regional Center fund	($ 6,946,062)	($ 10,620,515)
Another Way program	345,252	274,186
General fund	436,282	421,417
Master Trust fund	89,046	87,618
	($ 6,075,482)	($ 9,837,294)

NOTE 5 – Line of Credit

The Center had a $49,200,000 operating line of credit with a bank which expired September 30, 2015. The interest rate was fixed at 3.25%. Amounts borrowed on the line of credit were secured by all assets of the Center. There was no balance outstanding as of June 30, 2015 and 2014. Management is currently negotiating an extension on the line of credit.

NOTE 6 – Cash Client Trust Funds

The Center functions as custodian for receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. The cash balances are segregated from the operating cash accounts of the Center and are restricted for client support. Since the Center is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying statement of activities. The following is a summary of the client trust operating cash activity:

	June 30,	
	2015	2014
Social Security and other client support received	$ 18,466,722	$ 19,222,842
Residential care and other disbursements	18,400,948	19,266,059
Disbursements (over) under support	65,774	(43,217)
Changes to reconcile support over disbursement (disbursements over support) to net cash for support and care activities:		
Increase (decrease) in amounts due to the Center	24,452	(50,758)
Increase (decrease) in receivable from state and federal agencies	(22,048)	72,737
Increase (decrease) in cash	68,178	(21,238)
Cash at beginning of year	2,324,284	2,345,522
Cash at end of year	$ 2,392,462	$ 2,324,284

NOTE 7 – Investments

The fair values of investments were as follows:

	June 30, 2015	June 30, 2014
Mutual funds	$ 451,065	$ 397,011
Money market funds	215,436	197,060
Certificates of deposit	30,099	82,600
Government securities	35,299	6,971
Corporate bonds	15,572	52,377
	$ 747,471	$ 736,019

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting principles generally accepted in the United States of America establish 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement in its entirety. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 7 – Investments (Continued)

The following table sets forth by level, with the fair value hierarchy, the Center's investments at fair value as of June 30, 2015 and 2014:

June 30, 2015	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$ 451,065	$ 451,065		
Money market	215,436		$ 215,436	
Certificates of deposit	30,099		30,099	
Government securities	35,299		35,299	
Corporate bonds	15,572		15,572	
	$ 747,471	$ 451,065	$ 296,406	None

June 30, 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$ 397,011	$ 397,011		
Money market	197,060		$ 197,060	
Certificates of deposit	82,600		82,600	
Government securities	6,971		6,971	
Corporate bonds	52,377		52,377	
	$ 736,019	$ 397,011	$ 339,008	None

NOTE 7 – Investments (Continued)

Investments at fair value were held as follows:

	June 30, 2015	June 30, 2014
Unrestricted		
Another Way Fund	$ 264,922	$ 258,391
General Fund	172,310	170,804
Master Trust Fund	89,046	87,618
	526,278	516,813
Restricted		
McElroy Trust Fund	221,193	219,206
	$ 747,471	$ 736,019

The following schedule summarizes the investment income:

	2015	2014
Dividend income	$ 18,205	$ 10,484
Realized and unrealized gain (loss)	(6,225)	39,421
	$ 11,980	$ 49,905

NOTE 8 – Master Trust Program

Master Trust of California (Master Trust) was established in 1978 to receive property from individuals or other entities (trustors) to be administered for the benefit of specified developmentally disabled persons (beneficiaries). Property is admitted as a separate trust into Master Trust upon approval of Inland Counties Regional Center, Inc. Trustee through the Master Trust of California Trust Committee; then by direction of a court order, or the execution of a Joinder and Trust Agreement by a Trustor.

Distributions from a trust are made in accordance with the direction of the Master Trust of California Trust Committee. Termination of a Trust Agreement will occur upon the death of the beneficiary, depletion of the trust assets, according to court order, or according to the trust document.

NOTE 8 – Master Trust Program (Continued)

Assets and obligations of the program are shown on the statements of financial position. Operating activities such as capital additions and distributions are not shown in the statements of activities as the Center is only acting as an agency for the beneficiaries. Operating activities such as trustee fees and administrative support services were included in other income and general administrative expense, respectively, in the statements of activities. Trustee fees and administrative support services income of $446,215 and $404,000 are included in other income for the years ended June 30, 2015 and 2014, respectively.

NOTE 9 – Employee Retirement Benefits

Post-Retirement Benefits Other Than Pensions

The Center instituted an unfunded Retiree Medical Reimbursement Plan (RMR Plan) and related trust, effective July 1, 1988. The RMR Plan was established to provide reimbursement of medical expenses for the medical care of each participant, up to their maximum yearly allowance, of the RMR Plan, the participant's spouse, and the participant's dependents. An employee of the Center who meets certain age and length of service requirements becomes a participant of the RMR Plan upon separation from service. During the year ended June 30, 2006, investments valued at $2,471,390 were placed in a trust for the RMR Plan from funds set aside in previous years. The RMR Plan trust was funded by contributions received from the State of California contract.

The Center has the right to amend or revoke the RMR Plan at any time. The Center uses a June 30 measurement date.

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Reconciliation of Benefit Obligations

The following tables provide a reconciliation of the changes in the plan's benefit obligations and a statement of the funded status as of June 30, 2015 and 2014:

	June 30, 2015	June 30, 2014
Change in benefit obligation		
Benefit obligation at beginning of year	$ 12,179,000	$ 11,396,000
Service cost	332,849	299,326
Interest cost	713,150	608,950
Actuarial loss	1,337,024	105,850
Benefits paid	(299,023)	(231,126)
Obligation at end of year	14,263,000	12,179,000
Change in plan assets		
Fair value of plan assets at beginning of year	2,790,192	2,620,033
Actual return on plan assets	103,989	426,686
Expenses other than benefits	(37,389)	(25,401)
Benefit payments	(299,023)	(231,126)
Fair value of plan assets at end of year	2,557,769	2,790,192
Net amount recognized in the statements of financial position	$ 11,705,231	$ 9,388,808

The following table provides the components of the net periodic benefit cost for the plan for the years ended June 30, 2015 and 2014:

	June 30, 2015	June 30, 2014
Service cost	$ 332,849	$ 299,326
Interest cost	713,150	608,950
Return on assets	(103,989)	(426,686)
Net asset (gain) loss	568,603	(613,449)
Amortization of unrecognized past service cost	321,383	321,383
Net periodic post-retirement benefit cost	$ 1,831,996	$ 189,524

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Reconciliation of Benefit Obligations (Continued)

Amounts not recognized in net periodic post-retirement benefit cost as of June 30, 2015 and 2014 were as follows:

	June 30, 2015	June 30, 2014
Prior-service cost	$ 2,570,936	$ 2,892,319
Net actuarial gain	(6,099,684)	(6,905,494)
	($ 3,528,748)	($ 4,013,175)

The Center has accrued a receivable from the DDS totaling $11,705,231 and $9,388,808 as of June 30, 2015 and 2014, 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, other leave and retirement benefits on the statements of financial position.

The unrecognized prior-service costs of $2,570,936 at June 30, 2015 are being amortized on a straight-line basis over the remaining nine years.

Estimated amounts to be amortized into net period benefit cost during the following year is as follows:

Prior service cost	$ 321,383

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Assumptions

Weighted-average assumptions used to determine benefit obligations at June 30, 2015 and 2014:

	June 30,	
	2015	**2014**
Discount rate	5.00%	5.00%
General inflation	2.50%	2.50%
Long-term rate of return on plan assets	5.00%	5.00%

Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30, 2015 and 2014:

Discount rate	5.00%	5.00%
General inflation	2.50%	2.50%
Long-term rate of return on plan assets	5.00%	5.00%

Assumed health care cost trend at June 30, 2015 and 2014:

Net Periodic Benefit Cost:

Health care cost trend rate assumed for next year	9.50%	9.50%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2024	2023

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Assumptions (Continued)

	June 30, 2015	June 30, 2014
Accumulated Post-Retirement Benefit Obligation:		
Health care cost trend rate assumed for next year	9.50%	9.50%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2024	2023

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, 2015:

	1% Increase	1% Decrease
Effect on the accumulated post-retirement benefit obligation	$ 1,008,000	($ 830,000)

Contributions

The Center expects to contribute $654,000 to its post-retirement health care plan for the year ending June 30, 2015.

The expected benefits to be paid are as follows:

Year Ending June 30,	
2016	$ 654,000
2017	704,000
2018	804,000
2019	899,000
2020	986,000
2021-2025	5,356,000
	$ 9,403,000

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Asset Category

Assets held in trust are invested in a balanced account with income and growth investment objectives. The objective is to produce reasonable current income and long-term capital growth. Percentages for each asset category will vary based on the trust needs, contributions, and on market conditions. Uninvested cash balances are held in a money market account.

The percentages of the fair value of total plan assets held in trust were as follows:

	June 30, 2015	June 30, 2014
Cash and cash equivalents	2 %	2 %
Mutual funds	8 %	9 %
Bonds	36 %	31 %
Common stock	54 %	58 %
	100 %	100 %

The fair values of the Center's plan assets as of June 30, 2015 and 2014 were as follows:

June 30, 2015	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 42,407	$ 42,407		
Mutual funds	214,976	214,976		
Equity securities – U.S. companies	1,391,666	1,391,666		
Corporate bonds	599,370		$ 599,370	
U.S. Government bonds	309,350		309,350	
Total assets at fair value	$ 2,557,769	$ 1,649,049	$ 908,720	None

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Asset Category (Continued)

June 30, 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 51,575	$ 51,575		
Mutual funds	239,026	239,026		
Equity securities – U.S. companies	1,635,353	1,635,353		
Corporate bonds	589,477		$ 589,477	
U.S. Government bonds	274,761		274,761	
Total assets at fair value	$ 2,790,192	$ 1,925,954	$ 864,238	None

PERS Retirement Plan

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

CalPERS uses the Entry Age Normal Cost Method to fund benefits. Under this method, projected benefits are determined for all members and the associated liabilities are spread in a manner that produces level annual cost as a percent of pay in each year from the age of hire to the assumed retirement age. The cost allocated to the current fiscal year is called the normal cost.

The actuarial accrued liability for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for members currently receiving benefits, for active members beyond the assumed retirement age, and for members entitled to deferred benefits, is equal to the present value of the benefits expected to be paid. No normal costs are applicable for these participants.

NOTE 9 – Employee Retirement Benefits (Continued)

PERS Retirement Plan (Continued)

The excess of the total actuarial accrued liability over the market value of plan assets is called the unfunded actuarial accrued liability. Funding requirements are determined by adding the normal cost and an amortization of the unfunded liability as a level percentage of assumed future payrolls.

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

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

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Asset Valuation Method	Market value
Actuarial Assumptions	
Discount Rate	7.5% (net of administrative expenses)
Projected Salary Increases	Varies by age and service
Inflation	2.75%
Payroll Growth	3.00%

NOTE 9 – Employee Retirement Benefits (Continued)

PERS Retirement Plan (Continued)

The asset allocation shown below, provided by the CalPERS Actuarial Office, reflects the CalPERS fund in total as of June 30, 2014. The assets of the Center's plan are part of the CalPERS fund and are invested accordingly.

Asset Class	Current Allocation	Target Allocation
Global equity	52.5%	50.0%
Private equity	10.4	14.0
Global fixed income	19.5	17.0
Liquidity	3.0	4.0
Real assets	9.8	11.0
Inflation sensitive assets	3.3	4.0
Absolute return strategy	1.5	0.0
	100.0%	100.0%

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

Valuation Date	Accrued Liability	Market Value of Assets	Unfunded Liability	Funded Ratios Market Value	Annual Covered Payroll
06/30/11	$111,772,150	$ 96,402,365	$ 15,369,785	86.2%	$ 28,326,045
06/30/12	$118,631,847	$ 97,903,684	$ 20,728,163	82.5%	$ 27,169,218
06/30/13	$127,273,578	$111,991,214	$ 15,282,364	88.0%	$ 28,628,075
06/30/14	$144,838,710	$133,216,438	$ 11,622,272	92.0%	$ 30,900,775

NOTE 9 – Employee Retirement Benefits (Continued)

PERS Retirement Plan (Continued)

The Center has two retirement plans with CalPERS. One plan is a 2%-at-age-55 formula which closed as of December 31, 2012. All employees hired prior to January 1, 2013 participate in this plan. The second plan is a 2%-at-age-62 formula which was established by the Public Employees' Pension Reform Act of 2013 (PEPRA) and all employees hired on or after January 1, 2013 participate in this plan. The total required employee contributions are 2% of earnings for the 2%-at-age-55 plan and 6.25% of earnings for the 2%-at-age-62 plan. The Center is required to contribute at an actuarially determined rate, which was 9.953% of annual covered payroll for the year ended June 30, 2015.

Total retirement expense for the years ended June 30, 2015 and 2014 was $4,159,072 and $3,605,016, respectively.

NOTE 10 – Commitments and Contingencies

Commitments

The Center is obligated under various operating leases for its office facilities, which expire at various dates through July 2041. The terms of the leases provide for payment of minimum annual rentals, with fixed increases in annual rents. In addition, the leases provide for adjustments relating to changes in property taxes and other operating expenses.

In November 2007, the Center entered into an operating lease agreement with California Housing Foundation to lease office facilities. California Housing Foundation issued revenue bonds to finance the purchase of land and the construction of an office building complex and committed the lease revenue from the Center for repayment of the bonds. The lease term is 32 years and began on September 1, 2009.

Subsequent to the year ended June 30, 2015, the agreement was amended to extend the lease term to end June 30, 2045, and reduce the monthly base rent.

NOTE 10 – Commitments and Contingencies (Continued)

Commitments (Continued)

Future minimum facilities lease commitments are as follows:

Year Ending June 30,	
2016	$ 5,240,006
2017	4,835,496
2018	4,852,623
2019	4,961,807
2020	5,073,448
Thereafter	159,862,080
	$ 184,825,460

Rental expense for office facilities for the years ended June 30, 2015 and 2014 was $3,009,260 and $9,061,065, respectively.

Rent expense consisted of the following for the years ended June 30, 2015 and 2014:

	June 30, 2015	June 30, 2014
Minimum lease payments	$ 5,419,034	$ 5,266,324
Common area maintenance	1,771,018	1,719,435
	7,190,052	6,985,759
Increase (decrease) in deferred rent payable	(4,180,792)	2,075,306
	$ 3,009,260	$ 9,061,065

NOTE 10 – Commitments and Contingencies (Continued)

Contingencies

DDS Audit

In accordance with the terms of the DDS contract, an audit may be performed by an authorized state representative. DDS conducted a fiscal compliance audit of the Center for the period of July 1, 2008 through June 30, 2010. It issued its final audit report on October 21, 2011. DDS also conducted a fiscal compliance audit of the Center for the period of July 1, 2010 through June 30, 2012. It issued its final audit report on July 15, 2014. DDS found multiple alleged deficiencies and noncompliance with the statutes and regulations and issued various findings and recommendations that the Center should repay to DDS various amounts in a combined total of approximately $12,400,000. The Center is continuing to pursue its administrative appeal of the DDS findings and recommendations. It is premature to state if any amount will have to be repaid to DDS. The Center has complied with, or is in the process of complying with, other findings and recommendations that are not being appealed and that have no direct fiscal impact on the Center. As such, provisions for the repayment have not been recorded on the statement of financial position.

DDS Funding

The Center is dependent on continued funding provided by the DDS to operate and provide services for its clients. The Center's contract with DDS provides funding for services under the Lanterman Act. In the event that the operations of the Center result in a deficit position at the end of any contract year, DDS may reallocate surplus funds within the state of California system to supplement the Center's funding. In the event that the state determines that the Center has insufficient funds to meet its contracted obligations, the state shall make its best efforts to secure additional funding and/or provide the Center with regulatory relief.

NOTE 10 – Commitments and Contingencies (Continued)

Contingencies (Continued)

Unemployment Insurance

The Center has elected to self-insure its unemployment insurance. The Center is required to reimburse the state of California for benefits paid to its former employees. A trust fund is maintained to fund any reimbursements. As of June 30, 2015 and 2014, the trust fund balance was approximately $622,000 and $576,000, respectively, which is included in other assets on the statements of financial position.

Landlord Settlement Agreements

The Center ceased paying rent on vacated office facilities and, in September 2010, the two landlords filed separate complaints for breach of contract. The Center entered into confidential settlement agreements with the landlords of the two vacated facilities during the fiscal year ended June 30, 2011. Unrestricted net assets were expended in the settlements, and the Center has certain obligations in the future pursuant to the settlement agreement involving the building referred to as Brier II ("Brier II Settlement Agreement"). Payments made pursuant to the Brier II Settlement Agreement cannot be claimed for reimbursement from the state under the DDS contract unless the state provides specific funding for this purpose. If specific funding is not provided by the state, the amount of any payments to be made, if any, is determined by the specific provisions of the Brier II Settlement Agreement. Management is of the opinion that since the state has not provided specific funding, and it otherwise has not met any of the requirements of the Brier II Settlement Agreement, that no amounts are due to the landlords at this time.

On December 8, 2014, the landlord for Brier II filed an action against the Center seeking payment of the amounts it claims are owed under the Brier II Settlement Agreement totaling approximately $421,000 plus interest, special damages and punitive damages. The Center denies that it owes any money and intends to vigorously defend against these allegations. The Center believes, based upon its current knowledge and after consultation with counsel, that the current pending litigation involving the Brier II Settlement Agreement will not have a material adverse effect on the Center's financial condition. However, litigation can be unpredictable and, in light of the uncertainties involved in such proceedings, there is no assurance of the ultimate outcome of this matter.

NOTE 10 – Commitments and Contingencies (Continued)

Contingencies (Continued)

Other Litigation

The Center is involved as a defendant in other various matters of litigation arising in the normal course of its business. The Center accrues for potential liability arising from proceedings when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated. In view of the inherent difficulty of predicting the outcome of legal proceedings, the Center cannot state what will be the eventual outcomes of the currently pending matters, the timing of their ultimate resolution or the eventual losses, fines, penalties or impact related to those matters. The Center believes, based upon its current knowledge, after consultation with counsel, that the legal proceedings currently pending against it should not have a material adverse effect on the Center's financial condition. The Center notes, however, that in light of the uncertainties involved in such proceedings, there is no assurance of the ultimate resolution of these matters.

During the year ended June 30, 2015, the Center entered into a legal settlement related to a litigation with a former employee for $2,000,000. Terms of the settlement call for four annual payments of $500,000. As of June 30, 2015, the Center owed $1,500,000, which is included in other liabilities on the statement of financial position. The final annual payment is due on August 18, 2018.

NOTE 11 – Transactions with Affiliated Organization

California Housing Foundation (Foundation or CHF) was formed by members of the Center's board of trustees for the purpose of providing support services for consumers of the Center. The Foundation and the Center have no common board members. The Foundation provides residential facilities for occupancy by persons with developmental disabilities. The Foundation also provided independent living support grants to consumers of the Center using CHF's own funds from their operations.

The Center entered into an operating lease agreement with the Foundation in November 2007, as discussed in Note 10. Lease and common area maintenance payments made to the Foundation amounted to approximately $6,600,000 and $6,400,000 for the years ended June 30, 2015 and 2014, respectively.

NOTE 11 – Transactions with Affiliated Organization (Continued)

Community Placement Plan Loans

The Center entered into multiple contracts with the Foundation to provide advance funding for the purchases of homes to be used as residential facilities for its consumers. The advances are secured by promissory notes, which will be forgiven, without interest, upon the completion of the residential facilities. In the event that the contract is breached, the Foundation would be responsible to repay the Center the total amount of the advance with interest at a rate equal to ten percent. During the year ended June 30, 2015, the Center had advanced the Foundation $250,000, for a total of $400,000, which has not been forgiven.