Inland Counties Regional Center, Inc.

Financial Statements

June 30, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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 subject to a potential labor related class action lawsuit. 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 February 9, 2015, 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
February 9, 2015

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30, 2014	June 30, 2013
ASSETS		
Cash and cash equivalents	$ 9,599,473	$ 3,864,709
Cash - client trust funds	2,324,284	2,345,522
Contracts receivable - state of California	17,876,854	22,231,601
Receivable from Intermediate Care Facility vendors	4,874,992	4,068,415
Other receivables	187,717	124,078
Investments	736,019	683,435
Investments - Master Trust	22,814,337	20,510,392
Other assets	1,313,252	1,432,744
Due from state - accrued vacation, other leave and retirement benefits	12,979,336	11,972,699
Prepaid post-retirement medical plan expense	4,013,175	4,436,492
Property and equipment, net	273	321
TOTAL ASSETS	$ 76,719,712	$ 71,670,408

LIABILITIES AND NET ASSETS (DEFICIT)

	2014	2013
LIABILITIES		
Accounts payable	$ 28,202,987	$ 25,659,099
Accrued payroll	1,448,016	1,238,318
Due to state	3,315,691	3,789,373
Accrued vacation and other leave benefits	3,590,528	3,196,732
Obligation for post-retirement benefits	9,388,808	8,775,967
Amounts held for clients	2,326,287	2,369,504
Master Trust obligations	22,814,337	20,510,392
Deferred rent	14,633,689	12,558,383
Other liabilities	575,914	646,499
	86,296,257	78,744,267
COMMITMENTS AND CONTINGENCIES (Notes 9 and 10)		
NET ASSETS (DEFICIT)		
Unrestricted	(9,837,294)	(7,395,458)
Temporarily restricted	260,749	321,599
	(9,576,545)	(7,073,859)
TOTAL LIABILITIES AND NET DEFICIT	$ 76,719,712	$ 71,670,408

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, 2014	2013
CHANGE IN UNRESTRICTED NET DEFICIT		
SUPPORT AND REVENUE		
Contracts - state of California	$ 319,983,666	$ 301,141,901
Intermediate Care Facility supplemental services income	14,335,987	12,526,134
Interest and dividend income	127,535	130,886
Contributions and grants	280,778	195,044
Realized and unrealized gain on investments	39,421	22,913
Other income	458,904	477,524
Total Unrestricted Support and Revenue	335,226,291	314,494,402
Net assets released from restriction	99,730	148,382
Total Support and Revenue	335,326,021	314,642,784
EXPENSES		
Program Services		
Direct client services	311,839,782	293,058,100
Supporting Services		
General and administrative	25,430,778	23,708,304
Fundraising	73,980	49,642
Total Expenses	337,344,540	316,816,046
CHANGE IN UNRESTRICTED NET DEFICIT	(2,018,519)	(2,173,262)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	38,880	135,836
Net assets released from restriction	(99,730)	(148,382)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(60,850)	(12,546)
CHANGE IN NET DEFICIT BEFORE MEDICAL PLAN RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	(2,079,369)	(2,185,808)
MEDICAL PLAN RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	(423,317)	(598,216)
CHANGE IN NET DEFICIT	(2,502,686)	(2,784,024)
NET DEFICIT AT BEGINNING OF YEAR	(7,073,859)	(4,289,835)
NET DEFICIT AT END OF YEAR	($ 9,576,545)	($ 7,073,859)

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.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services	Supporting Services			
	Direct Client Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 18,901,978	$ 8,851,449		$ 8,851,449	$ 27,753,427
Employee health and retirement benefits	5,610,503	2,735,127		2,735,127	8,345,630
Payroll taxes	315,318	162,941		162,941	478,259
Total Salaries and Related Expenses	24,827,799	11,749,517		11,749,517	36,577,316
Purchase of Services					
Residential care facilities	78,108,469				78,108,469
Day program	99,369,580				99,369,580
Other purchased services	90,039,961				90,039,961
Communication		211,328		211,328	211,328
Printing		36,467		36,467	36,467
Insurance		231,121		231,121	231,121
General expenses		317,922	$ 49,642	367,564	367,564
Occupancy expenses		9,009,891		9,009,891	9,009,891
Equipment and facility maintenance		251,484		251,484	251,484
Equipment purchases		292,948		292,948	292,948
Board expenses		5,474		5,474	5,474
Staff travel	712,291	78,421		78,421	790,712
Legal fees		811,434		811,434	811,434
Accounting fees		85,220		85,220	85,220
Consultant fees		558,826		558,826	558,826
ARCA dues		68,251		68,251	68,251
TOTAL EXPENSES	$ 293,058,100	$ 23,708,304	$ 49,642	$ 23,757,946	$ 316,816,046

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, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net deficit	($ 2,502,686)	($ 2,784,024)
Adjustments to reconcile change in net deficit to net cash provided by operating activities		
Depreciation	48	47
Net realized and unrealized investment gain	(39,421)	(22,913)
Dividends reinvested	(13,163)	(10,191)
(Increase) decrease in operating assets		
Cash - client trust funds	21,238	848,701
Contracts receivable - state of California	4,354,747	386,738
Receivable from Intermediate Care Facility vendors	(806,577)	(4,068,415)
Other receivables	(63,639)	257,873
Investments - Master Trust	(2,303,945)	(439,883)
Other assets	119,492	(557,238)
Due from state – accrued vacation, other leave, and retirement benefits	(1,006,637)	(918,139)
Prepaid post-retirement medical plan expense	423,317	598,216
Increase (decrease) in operating liabilities		
Accounts payable	2,543,888	2,948,821
Accrued payroll	209,698	18,255
Due to state	(473,682)	2,670,845
Accrued vacation and other leave benefits	393,796	61,406
Obligation for post-retirement benefits	612,841	856,733
Accounts held for clients	(43,217)	(853,609)
Master Trust obligations	2,303,945	439,883
Deferred rent	2,075,306	2,223,983
Other liabilities	(70,585)	127,143
Net Cash Provided By Operating Activities	5,734,764	1,784,232
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,734,764	1,784,232
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,864,709	2,080,477
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,599,473	$ 3,864,709

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

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 $317,236,161 and $298,890,912 for the 2013-2014 and 2012-2013 contract years, respectively. Actual net expenditures under the regional center contract for the 2013-2014 and 2012-2013 contracts were $313,263,795 and $298,834,901, respectively as of June 30, 2014.

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, 2014 and 2013 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, 2014 and 2013, 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 nature of any donor-imposed restrictions.

The Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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, 2014 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.

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.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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, 2014 and 2013.

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, 2014 and 2013, sensitive and nonexpendable equipment purchases totaled $394,454 and $292,984, 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.

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.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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.

Subsequent Events

The Center’s management has evaluated subsequent events from the statement of financial position date through February 9, 2015, the date the financial statements were available to be issued for the year ended June 30, 2014, and determined there are no other items to disclose.

NOTE 2 – State Contracts

As of June 30, 2014 and 2013, DDS had advanced the Center $74,149,750 and $48,709,402, 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.

	June 30, 2014	June 30, 2013
Contracts receivable	$ 92,026,604	$ 70,941,003
Contract advances	(74,149,750)	(48,709,402)
Net contracts receivable	$ 17,876,854	$ 22,231,601

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 right, 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, 2014	June 30, 2013
Vacation and other leave benefits	$ 3,590,528	$ 3,196,732
Retiree medical reimbursement plan obligation	9,388,808	8,775,967
	$ 12,979,336	$ 11,972,699

NOTE 3 – Receivable from Intermediate Care Facility Vendors

The Centers for Medicare and Medicaid Services (CMS) has approved federal financial participation in the funding of the day and transportation services related to the IRC's Intermediate Care Facility (ICF) services. The federal rules allow for only one provider of the ICF service, requiring all the Medicaid funding for the ICF resident to go through the applicable vendors. The Center receives a 1.5% administrative fee based on the funds received to cover the additional workload.

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 Operating 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,	
	2014	**2013**
Another Way program	$ 33,553	$ 108,663
Staff training	7,990	7,990
McElroy Trust	219,206	204,946
	$ 260,749	$ 321,599

NOTE 4 – Net Assets (Continued)

Unrestricted net deficit consisted of balances in the following funds:

	June 30,	
	2014	**2013**
Operating fund	($ 10,620,515)	($ 8,121,891)
Another Way program	274,186	247,203
General fund	421,417	397,345
Master Trust Endowment	87,618	81,885
	($ 9,837,294)	($ 7,395,458)

NOTE 5 – Line of Credit

The Center had a $49,200,000 operating line of credit with a bank which expired October 15, 2014. 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, 2014 and 2013. Management is currently negotiating an extension of 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. The following is a summary of the client trust operating cash activity not reported in the statements of activities:

	June 30, 2014	June 30, 2013
Social Security and other client support received	$ 19,222,842	$ 18,789,424
Residential care and other disbursements	19,266,059	19,642,823
Disbursements over support	(43,217)	(853,399)
Changes to reconcile disbursements over support to net cash for support and care activities:		
Decrease in amounts due to the Center	(50,758)	(99,488)
Increase in receivable from state and federal agencies	72,737	104,186
Decrease in cash	(21,238)	(848,701)
Cash at beginning of year	2,345,522	3,194,223
Cash at end of year	$ 2,324,284	$ 2,345,522

NOTE 7 – Investments

The fair values of investments were as follows:

	June 30, 2014	June 30, 2013
Mutual funds	$ 397,011	$ 345,868
Money market funds	197,060	173,802
Certificates of deposit	82,600	64,127
Government securities	6,971	45,675
Corporate bonds	52,377	53,963
	$ 736,019	$ 683,435

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, 2014 and 2013:

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

June 30, 2013	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$ 345,868	$ 345,868		
Money market	173,802		$ 173,802	
Certificates of deposit	64,127		64,127	
Government securities	45,675		45,675	
Corporate bonds	53,963		53,963	
	$ 683,435	$ 345,868	$ 337,567	None

NOTE 7 – Investments (Continued)

Investments at fair value were held in the following:

	June 30, 2014	June 30, 2013
Unrestricted		
Another Way Fund	$ 258,391	$ 233,166
General Fund	170,804	163,438
Master Trust Endowment	87,618	81,885
	516,813	478,489
Restricted		
McElroy Trust	219,206	204,946
	$ 736,019	$ 683,435

The following schedule summarizes the investment income:

	2014	2013
Dividend income	$ 10,484	$ 10,191
Realized and unrealized gain	39,421	22,913
	$ 49,905	$ 33,104

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 the 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 $404,000 and $400,000 are included in other income for the years ended June 30, 2014 and 2013, 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, 2014 and 2013:

	June 30, 2014	June 30, 2013
Change in benefit obligation		
Benefit obligation at beginning of year	$ 11,396,000	$ 10,557,000
Service cost	299,326	318,729
Interest cost	608,950	569,800
Actuarial loss	105,850	150,072
Benefits paid	(231,126)	(199,601)
Obligation at end of year	12,179,000	11,396,000
Change in plan assets		
Fair value of plan assets at beginning of year	2,620,033	2,637,766
Actual return on plan assets	426,686	207,014
Expenses other than benefits	(25,401)	(25,146)
Benefit payments	(231,126)	(199,601)
Fair value of plan assets at end of year	2,790,192	2,620,033
Net amount recognized in the statements of financial position	$ 9,388,808	$ 8,775,967

The following table provides the components of the net periodic benefit cost for the plan for the years ended June 30, 2014 and 2013:

	June 30, 2014	June 30, 2013
Service cost	$ 299,326	$ 318,729
Interest cost	608,950	569,800
Return on assets	(426,686)	(207,014)
Net asset gain	(613,449)	(744,274)
Amortization of unrecognized past service cost	321,383	321,383
Net periodic post-retirement benefit cost	$ 189,524	$ 258,624

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, 2014 and 2013 were as follows:

	June 30, 2014	June 30, 2013
Prior-service cost	$ 2,892,319	$ 3,213,702
Net actuarial gain	(6,905,494)	(7,650,194)
	($ 4,013,175)	($ 4,436,492)

The Center has accrued a receivable from the DDS totaling $9,388,808 and $8,775,967 as of June 30, 2014 and 2013, 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 $2,892,319 at June 30, 2014 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, 2014 and 2013:

	June 30,	
	2014	**2013**
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, 2014 and 2013:

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, 2014 and 2013:

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	2023	2022

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Assumptions (Continued)

	June 30, 2014	June 30, 2013
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	2023	2022

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, 2014:

	1% Increase	1% Decrease
Effect on the accumulated post-retirement benefit obligation	$ 914,000	($ 753,000)

Contributions

The Center expects to contribute $278,000 to its post-retirement health care plan for the year ending June 30, 2014.

The expected benefits to be paid are as follows:

Year Ending June 30,	
2015	$ 278,000
2016	320,000
2017	345,000
2018	396,000
2019	439,000
2020-2024	3,549,000
	$ 5,327,000

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, 2014	June 30, 2013
Mutual funds	9 %	
Cash and cash equivalents	2	1 %
Bonds	31	36
Common stock	58	63
	100 %	100 %

The fair values of the Center's plan assets as of June 30, 2014 and 2013 were as follows:

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

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Asset Category (Continued)

June 30, 2013	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	$ 14,825	$ 14,825		
Equity securities – U.S. companies	1,659,118	1,659,118		
Corporate bonds	78,727		$ 78,727	
U.S. Government bonds	867,363		867,363	
Total assets at fair value	$ 2,620,033	$ 1,673,943	$ 946,090	None

Investments have been valued using a market approach. There have been no changes in valuation techniques.

PERS Retirement Plan

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

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

On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization rate and smoothing policies. Prior to this change, CalPERS employed an amortization and smoothing policy, which spread investment returns over a 15-year period while experience gains and losses were amortized over a rolling 30-year period. Beginning with the June 30, 2013 valuations that set the fiscal 2015-16 rates, CalPERS will employ an amortization and smoothing policy that will spread rate increases or decreases over a 5-year period, and will amortize all experience gains and losses over a fixed 30-year period. CalPERS will no longer use an actuarial value of assets and will use the market value of assets.

A summary of principal actuarial assumptions used are as follows:

Valuation Date	June 30, 2013
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	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

NOTE 9 – Employee Retirement Benefits (Continued)

PERS Retirement Plan (Continued)

The asset allocation shown below reflects the PERS fund in total as of June 30, 2013. The assets of the Center's plan are part of the PERS fund and are invested accordingly.

Asset Class	Current Allocation	Target Allocation
Global equity	51.2%	47.0%
Private equity	12.0	12.0
Global fixed income	16.8	19.0
Liquidity	4.0	2.0
Real assets	9.6	14.0
Inflation sensitive assets	3.6	6.0
Absolute return strategy	2.8	0.0
	100.0%	100.0%

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

Valuation Date	Accrued Liability	Market Value of Assets (MVA)	Unfunded Liability (UL)	Funded Ratios Market Value	Annual Covered Payroll	UL as a Percentage of Payroll
06/30/10	$104,874,107	$ 77,591,277	$ 27,282,830	74.0%	$ 28,454,656	95.9%
06/30/11	$111,772,150	$ 96,402,365	$ 15,369,785	86.2%	$ 28,326,045	54.3%
06/30/12	$118,631,847	$ 97,903,684	$ 20,728,163	82.5%	$ 27,169,218	76.3%
06/30/13	$127,273,578	$111,991,214	$ 15,282,364	88.0%	$ 28,628,075	53.4%

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 10.140% of annual covered payroll for the year ended June 30, 2014.

Total retirement expense for the years ended June 30, 2014 and 2013 was $3,605,016 and $4,393,151, 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.

NOTE 10 – Commitments and Contingencies (Continued)

Commitments (Continued)

Future minimum facilities lease commitments are as follows:

Year Ending June 30,	
2015	$ 5,395,442
2016	5,552,506
2017	5,256,556
2018	5,321,909
2019	5,481,566
Thereafter	174,214,120
	$ 201,222,099

Rental expense for office facilities for the years ended June 30, 2014 and 2013 was $9,061,065 and $9,009,891, respectively.

Rent expense consisted of the following for the years ended June 30, 2014 and 2013:

	June 30,	
	2014	2013
Minimum lease payments	$ 5,266,324	$ 5,116,553
Common area maintenance	1,719,435	1,669,355
	6,985,759	6,785,908
Increase in deferred rent payable	2,075,306	2,223,983
	$ 9,061,065	$ 9,009,891

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 draft audit report on December 2, 2013. 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 has been working to address these findings and providing additional supporting documentation to DDS before the final report is issued in connection with the audit period of July 1, 2010 through June 30, 2012. 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. Should a system-wide deficit occur, DDS is required to report to the governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. DDS's recommendations are subsequently reviewed by the governor and the Legislature and a decision is made with regard to specific actions.

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, 2014 and 2013, the trust fund balance was approximately $576,000 and $647,000, 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)

Wage and Hour Class Action Lawsuit

The Center is subject to a class action lawsuit alleging wage and hour violations. The Plaintiffs seek to represent two subclasses of the Center's employees: (1) the Alternative Work Week Schedule (AWS) class and (2) the Consumer Service Coordinator (CSC) class. The Plaintiffs have filed this action on behalf of the Center's approximately 500 non-exempt employees and alleges six causes of action: (1) alternative work week violations, on behalf of the AWS sub-class, (2) failure to pay overtime compensation, on behalf of the CSC sub-class, (3) unlawful compensating time policy, on behalf of the CSC sub-class, (4) failure to provide wages when due, on behalf of both classes, (5) failure to provide accurate itemized statements, on behalf of both classes, and (6) unfair competition, on behalf of both classes. The class period extends from August 10, 2007 to present. The Center's management realizes that an unfavorable judgment could be significant to the Center. Due to the potential for a significant unfavorable judgment should the Plaintiffs prevail, the Center's financial position could be materially impacted. However, management intends to vigorously defend its position and the class action has not yet been certified. As a result of the Center's Motion for Summary Adjudication, the first cause of action alleging alternative work week violations has been dismissed. Management has not provided for any loss in the financial statements for the settlement of the above lawsuit as no assessment of potential liabilities has been determined with respect to the remaining causes of action.

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.

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 $7,000,000 and $6,800,000 for the years ended June 30, 2014 and 2013, respectively.

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 June 30, 2014, the Center has advanced the Foundation $150,000, which has not been forgiven.