HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

INLAND COUNTIES REGIONAL CENTER, INC.

FINANCIAL STATEMENTS
and
ADDITIONAL INFORMATION

JUNE 30, 2019

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HARRINGTON GROUP
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Inland Counties Regional Center, Inc. (a nonprofit organization) which comprise the Statement of Financial Position as of June 30, 2019, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Prior Period Financial Statements

The financial statements of Inland Counties Regional Center, Inc. as of June 30, 2018, were audited by other auditors whose report dated March 19, 2019, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2020, on our consideration of Inland Counties Regional Center, Inc.'s internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Inland Counties Regional Center, Inc.'s 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.

Harrington Group

Pasadena, California
March 9, 2020

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENT OF FINANCIAL POSITION
June 30, 2019
With comparative totals at June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2019	As Restated 2018
ASSETS				
Cash and cash equivalents (Note 2)	$ 29,285,982	$ 240,852	**$ 29,526,834**	$ 24,803,471
Cash held for clients - restricted cash (Note 4)	1,895,061		**1,895,061**	1,793,134
Contracts receivable - State of California, net (Note 5)	16,993,090		**16,993,090**	16,722,037
Receivable from Intermediate Care Facility Vendors (Note 6)	7,880,748		**7,880,748**	7,645,609
Other receivables (Note 2)	1,307,783		**1,307,783**	492,028
Investments (Note 7)	542,055		**542,055**	561,001
Investments - restricted for Master Trust (Note 8)	23,097,728		**23,097,728**	22,254,140
Deposits and prepaid expenses	1,729,029		**1,729,029**	1,592,769
Receivable from the State of California for vacation and sick leave benefits	5,372,435		**5,372,435**	4,644,385
Receivable from the State of California - pension benefit obligation (Note 10)	35,811,795		**35,811,795**	33,169,649
Receivable from the State of California - post-retirement benefits other than pension obligation (Note 11)	9,061,137		**9,061,137**	7,807,568
TOTAL ASSETS	$ 132,976,843	$ 240,852	**$ 133,217,695**	$ 121,485,791
LIABILITIES AND NET ASSETS (DEFICIT)				
LIABILITIES				
Accounts payable	$ 49,983,501	$ -	**$ 49,983,501**	$ 43,548,588
Accrued payroll	1,257,034		**1,257,034**	1,157,776
Due to state	4,506,913		**4,506,913**	3,314,737
Accrued vacation and sick leave benefits	5,372,435		**5,372,435**	4,644,385
Amounts held for clients	1,849,360		**1,849,360**	1,763,324
Master Trust obligations	23,097,728		**23,097,728**	22,254,140
Pension benefit obligations (Note 10)	35,811,795		**35,811,795**	33,169,649
Post-retirement benefits other than pension obligations (Note 11)	9,061,137		**9,061,137**	7,807,568
Deferred rent (Note 2)	14,550,744		**14,550,744**	13,679,573
Other liabilities	7,285,404	221,599	**7,507,003**	9,174,480
TOTAL LIABILITIES	152,776,051	221,599	**152,997,650**	140,514,220
NET ASSETS (DEFICIT)				
Without donor restrictions	(19,799,208)		**(19,799,208)**	(19,051,090)
With donor restrictions (Note 13)		19,253	**19,253**	22,661
TOTAL NET ASSETS (DEFICIT)	(19,799,208)	19,253	**(19,779,955)**	(19,028,429)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	$ 132,976,843	$ 240,852	**$ 133,217,695**	$ 121,485,791

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

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENT OF ACTIVITIES
For the year ended June 30, 2019
With comparative totals for year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2019	As Restated 2018
REVENUE				
Contracts - State of California	$ 538,294,267	$ -	**$ 538,294,267**	$ 480,635,417
Intermediate Care Facility supplemental services income	17,637,838		**17,637,838**	19,803,812
Other income	564,952		**564,952**	637,264
Interest income	430,828		**430,828**	262,923
Contributions and grants	97,921	34,574	**132,495**	312,560
Special event income, net of $174,938 expense	69,610		**69,610**	69,393
Investment gain	9,215		**9,215**	19,504
TOTAL REVENUE	557,104,631	34,574	**557,139,205**	501,740,873
EXPENSES				
Program services				
Purchase of services	481,335,033	37,982	**481,373,015**	429,876,697
Personnel expenses	40,946,447		**40,946,447**	39,999,801
Operating expenses	1,222,727		**1,222,727**	1,235,816
Total program services	523,504,207	37,982	**523,542,189**	471,112,314
General and administrative				
Personnel expenses	19,397,595		**19,397,595**	18,510,458
Operating expenses	11,055,232		**11,055,232**	13,604,764
Total general and administrative	30,452,827	-	**30,452,827**	32,115,222
TOTAL EXPENSES	553,957,034	37,982	**553,995,016**	503,227,536
CHANGE IN NET ASSETS BEFORE RETIREMENT OBLIGATIONS RELATED CHANGES	3,147,597	(3,408)	**3,144,189**	(1,486,663)
Net periodic benefit costs	(10,315,280)		**(10,315,280)**	(4,110,817)
Retirement obligations related changes other than net periodic benefit costs	6,419,565		**6,419,565**	4,771,025
CHANGE IN NET ASSETS AFTER RETIREMENT OBLIGATIONS RELATED CHANGES	(748,118)	(3,408)	**(751,526)**	(826,455)
RESTATED NET DEFICIT, BEGINNING OF YEAR (NOTE 16)	(19,051,090)	22,661	**(19,028,429)**	(18,201,974)
NET DEFICIT, END OF YEAR	$ (19,799,208)	$ 19,253	**$ (19,779,955)**	$ (19,028,429)

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, 2019
With comparative totals for the year ended June 30, 2018

	Client Program Services	General and Administrative	Total Expenses 2019	Total Expenses 2018
Salaries	$ 30,568,230	$ 14,397,653	**$ 44,965,883**	$ 43,593,240
Employee benefits and retirement benefits	9,951,087	4,792,919	**14,744,006**	14,233,167
Payroll taxes	427,130	207,023	**634,153**	683,852
Total personnel expenses	40,946,447	19,397,595	**60,344,042**	58,510,259
Purchases of services				
Residential care facilities	149,674,475		**149,674,475**	132,597,341
Day program	152,258,987		**152,258,987**	146,926,400
Other purchased services	179,439,553		**179,439,553**	150,352,956
Rent expense		8,190,323	**8,190,323**	8,141,292
Staff travel	934,141	133,378	**1,067,519**	1,031,735
General expenses		803,541	**803,541**	775,657
Data processing		525,248	**525,248**	791,912
Insurance	288,586	235,789	**524,375**	584,140
Communication		418,962	**418,962**	501,156
Consultant fees		183,901	**183,901**	204,072
Accounting fees		148,416	**148,416**	90,195
Equipment and facility maintenance		144,963	**144,963**	81,529
Legal fees		110,661	**110,661**	255,712
ARCA dues		106,406	**106,406**	106,406
Equipment purchases		35,043	**35,043**	465,638
Board expenses		13,495	**13,495**	14,390
Printing		5,106	**5,106**	901
Legal settlement			**-**	1,795,845
TOTAL 2019 FUNCTIONAL EXPENSES	**$ 523,542,189**	**$ 30,452,827**	**$ 553,995,016**	
TOTAL 2018 FUNCTIONAL EXPENSES	$ 471,112,314	$ 32,115,222		$ 503,227,536

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

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENT OF CASH FLOWS
For the year ended June 30, 2019
With comparative totals for the year ended June 30, 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (751,526)	$ (826,455)
Adjustments to reconcile change in net deficit to net cash provided (used) by operating activities:		
Deferred rent	871,171	1,025,120
Net realized and unrealized investment gains	(9,215)	(19,504)
Dividend reinvested	28,161	(12,218)
(Increase) decrease in operating assets:		
Cash held for clients	(101,927)	(254,547)
Contracts receivable - State of California	(271,053)	(10,429,881)
Receivable from Intermediate Care Facility vendors	(235,139)	838,287
Other receivables	(815,755)	(117,805)
Investment - Master Trust	(843,588)	152,814
Deposits and prepaid expenses	(136,260)	(222,487)
Receivable from state for accrued vacation and sick leave benefits	(728,050)	211,515
Receivable from the State of California - pension benefit obligation	(2,642,146)	660,208
Receivable from the State of California - other post-retirement benefits obligation	(1,253,569)	5,760,083
Increase (decrease) in operating liabilities:		
Accounts payable	6,434,913	4,370,418
Accrued payroll	99,258	(193,413)
Due to state	1,192,176	(570,695)
Accrued vacation and sick leave benefits	728,050	(211,516)
Amounts held for clients	86,036	275,779
Master trust obligations	843,588	(152,814)
Pension benefit obligations	2,642,146	(660,208)
Other post-retirement benefits obligations	1,253,569	(5,760,083)
Other liabilities	(1,667,477)	1,350,416
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	4,723,363	(4,786,986)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,723,363	(4,786,986)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	24,803,471	29,590,457
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 29,526,834	$ 24,803,471

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

1. Organization

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

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

IRC contracts with the State Department of Developmental Services (DDS) to operate a regional center from the developmentally disabled and their families. Under the terms of these contracts, IRC's expenses incurred in the performance of the contracts are compensable. Such expenses are billable and reimbursable under the DDS contract when they are paid. For the 2018-2019 contract year, funded expenditures were not to exceed $537,940,873. Actual net expenditures under IRC contract for the 2018-2019 contracts were $531,237,703 as of June 30, 2019.

As discussed above, IRC operates under contracts with the DDS and is only funded on a cost reimbursement basis as expenses are paid. However, generally accepted accounting principles in the United States of America require IRC to recognize and accrue expenses when incurred. IRC's net deficit as of June 30, 2019 on the statement of financial position is primarily the result of the accruals of deferred rent and the legal settlement with the DDS.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

continued

2. Summary of Significant Accounting Policies, continued

Basis of Accounting

The financial statements of IRC have been prepared on the accrual basis of accounting and, accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Reimbursements from the state are considered earned when a qualifying expense is incurred.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without Donor Restrictions. Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

With Donor Restrictions. Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions

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

Cash and Cash Equivalents and Concentration of Credit Risk

IRC has defined cash and cash equivalents as cash in banks and certificates of deposit with an original maturity of six months or less. Cash held for clients is presented separately on the Statement of Financial Position.

IRC places their temporary cash investments with high credit quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. IRC has not incurred losses in such accounts and believes it is not exposed to any significant credit risk on cash.

continued

2. Summary of Significant Accounting Policies, continued

Revenue Recognition

Receivables from the State are recorded on the accrual method as related reimbursable expenses are incurred. Receivables from Intermediate Care Facility vendors and supplemental services income are recorded on the accrual method as revenue is earned.

Other Receivables

Other receivables primarily consist of client support receivables and loans and vendor receivables. Other receivables are recorded when support or loans are granted to clients and when vendor audits have been completed and overpayments have been determined. Other receivables are presented on the Statement of Financial Position net of an allowance for doubtful accounts and are written off when they are determined to uncollectible. Management determined there was no allowance necessary as of June 30, 2019.

Investments

IRC values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or loss on investments, except for the Master Trust investments as described in Note 8.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets
Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets
Level 3 inputs - estimates using the best information available when there is little or no market

IRC is required to measure certain investments at fair value. The specific techniques used to measure fair value for the financial statement element is described in Note 9.

Property and Equipment

Pursuant to the terms of the contract with the DDS, equipment purchases become the property of the State and, accordingly, are expensed as incurred. For the year ended June 30, 2019 equipment purchases totaled $35,926.

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.

continued

2. Summary of Significant Accounting Policies, continued

Accrued Vacation and Sick Leave Benefits

IRC has accrued a liability and a receivable from the State for accrued vacation and sick benefits earned. These expenses are compensable costs per the terms of the DDS contract and will become billable and reimbursable under the terms of the DDS contract when they are actually paid to employees.

Obligation for Retirement Pension Benefits

IRC is required to recognize the unfunded status of the California Public Employees' Retirement System (CalPERS) pension plans, measured as the difference between plan assets at fair value and the pension obligation, in the Statement of Financial Position, with an offsetting charge or credit to net assets (deficit). IRC has accrued a liability for the CalPERS pension. IRC has also recorded a receivable from the State for pension benefit obligation to reflect the future reimbursement of such benefits. However, such benefits are reimbursed under the State contract only when actually paid.

Post-Retirement Benefits Other Than Pension

IRC is required to recognize the unfunded status of the Retirement Medical Reimbursement ("RMR") Plan, measured as the difference between plan assets at fair value and the benefit obligation, in the Statement of Financial Position, with an offsetting charge or credit to net assets or net assets (deficit). IRC has accrued a liability for the RMR Plan. Gains or losses and prior service costs will be recognized each year as a separate charge or credit to net assets. Such expenses are compensable costs incurred under the terms of the DDS contract and will become billable and reimbursable only if they are paid. IRC did not contribute to the RMR Plan for the year ending June 30, 2019.

Deferred Rent

IRC leases office facilities under lease agreements that are subject to scheduled acceleration 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.

Functional Allocation of Expenses

Costs of providing IRC programs and other activities have been presented in the Statement of Functional Expenses. Personnel expenses, purchase of services, travel and insurance expenses are accumulated into separate groupings on a direct-cost basis. All other operating expenses are accumulated into the general and administrative expense and are not allocated.

continued

2. **Summary of Significant Accounting Policies**, continued

Income Taxes

IRC is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d). Consequently, the accompanying financial statements do not include any provisions for income taxes.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by IRC in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. IRC returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Use of Estimates

The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America and requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for financial statements for fiscal years beginning after December 15, 2017. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for the periods prior to adoption. IRC's financial statements for the year ended June 30, 2019 are presented in accordance with ASU 2016-14.

continued

2. Summary of Significant Accounting Policies, continued

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the Statement of Financial Position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for fiscal years beginning after December 15, 2020, with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of ASU 2014-09 is to recognize revenues when promise goods or services are transferred to customers in an amount that reflects the consideration to which an entity is expected to be entitled for those goods and services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgement and estimates may be required within the revenues recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the variable consideration to include in the transaction price and allocating the transaction price to each performance obligation. Revenue from contributions and investment income are not impacted by this new standard. ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2018 using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. Management has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the financial statements.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with IRC's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through March 9, 2020, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Liquidity and Availability of Resources

IRC regularly monitors its liquidity that is required to meet its operating needs and contractual commitments. IRC's sources of liquidity at its disposal includes cash and cash equivalents, contracts receivable, other receivables, and investment.

continued

3. Liquidity and Availability of Resources, continued

For purposes of analyzing resources required to meet operating expense over a 12-month period, IRC considers all expenditures and the pattern of all incomes related to its ongoing activities. The Finance Committee of the Board of Directors meets regularly to review all financial aspects of the organization.

IRC's major resources are from the State of California in the form of reimbursement of qualified expenses. IRC operates a budget that is allocated and reimbursed by the DDS annually to cover general expenditures.

As of June 30, 2019, the following table shows the total financial assets held by IRC and the amounts of those financial assets that could be readily available within one year of the balance sheet date to meet general expenditures.

Cash and cash equivalents	$29,285,982
Contracts receivable	16,993,090
Receivable from Intermediate Care Facility Vendors	7,880,748
Other receivables	1,307,783
Investment	542,055
Assets available to meet general expenditures within one year	$56,009,658

4. Cash Held for Clients and Unexpended Client Support

IRC functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. The cash balances are segregated from the operating cash accounts of IRC and are restricted for client support. Since IRC is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying statements of activities. The following is a summary of client support and expenses not reported in the Statements of Activity for the year ending June 30, 2019:

Social Security and other client support	$ 16,463,516
Residential care and other disbursements	(16,377,481)
support over disbursements	86,035
Changes to reconcile support over disbursement (disbursements over support) to net cash for support and care activities:	
Decrease in amounts due to IRC	186,382
Decrease in receivable from state and federal agencies	(170,490)
Increase in cash	101,927
Add cash at beginning of the year	1,793,134
Cash at end of the year	$ 1,895,061

continued

5. Contracts Receivable/Contract Advances – State of California

IRC's major source of revenue is from the State in the form of reimbursement of qualified expenses. Each fiscal year, IRC enters into a new contract with the State for a specified funding amount subject to IRC's approved budget amendments. Revenue 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 IRC or by applying the claims reimbursements against advances already made to IRC by the State.

As of June 30, 2019, DDS had advanced IRC $132,354,773 under the contracts with DDS. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from DDS as of June 30, 2019 as follows:

Contracts receivable - State of California	$ 149,347,863
Contract advances - State of California	(132,354,773)
Net contract receivable	$ 16,993,090

IRC has received its contract for the year ending June 30, 2020. The contract provides for initial funding of $599,113,702.

6. Receivables from Intermediate Care Facility Vendors

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

The DDS has directed IRC to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. IRC 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 IRC's administrative fee, to IRC within 30 days of receipt of funds from the State Controller's Office.

7. Investments

Investments at June 30, 2019 are summarized as follows:

Mutual funds	$259,723
Money market funds	145,874
Fixed income funds	136,458
	$542,055

The above investments were maintained in the following funds:

continued

7. Investments, continued

Another Way Fund	$307,634
General Fund	137,533
Master Trust Fund	96,888
	$542,055

Investment income including interest on bank accounts and other sources are as follows:

Interest and dividend income	$430,828
Realized and unrealized gain	9,215
	$440,043

8. Investments – Restricted for Master Trust

IRC Master Trust of California (Master Trust) was established in 1978 to receive property from individuals or other entities (trustors), and administered for the benefit of specified disabled persons (beneficiaries). Property is admitted as a separate trust into the Master Trust upon approval of IRC Trustee through the Master Trust of California Committee; then by the 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.

Only the assets and obligations of the Master Trust are shown on the Statement of Financial Position. Trustee fees charged by IRC are included in the Statement of Activities.

The Master Trust assets classified as restricted investments were as follows:

Investments in marketable securities	
Equities	$ 9,432,621
Fixed income	9,219,457
Certificate of deposit	766,256
Other assets	
Pooled cash	965,655
Accrued interest and dividend receivable, net	114,816
Other assets	2,598,923
Total investments	$23,097,728

continued

9. Fair Value Measurements

The table below presents the balance of the IRC's assets measured at fair value at June 30, 2019 on a recurring basis:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Large blend	$124,346	$ -	$ -	**$124,346**
Large cap growth	43,999			**43,999**
Mid cap growth	45,995			**45,995**
Small cap growth	45,383			**45,383**
	259,723	-	-	**259,723**
Fixed income funds				
Corporate bond		59,413		**59,413**
U.S. government securities		50,497		**50,497**
Security core bond		26,548		**26,548**
	-	136,458	-	**136,458**
	$259,723	$136,458	$ -	**$396,181**

The table below presents the balances of Master Trust's assets measured at fair value at June 30, 2019 on a recurring basis:

	Level 1	Level 2	Level 3	Total
Equities				
Domestic common and foreign stock	$ 3,909,262	$ -	$ -	**$ 3,909,262**
Mutual funds - equity	3,263,989			**3,263,989**
Mutual funds - closed end	2,259,370			**2,259,370**
	9,432,621	-	-	**9,432,621**
Fixed income				
Municipal bonds		2,984,837		**2,984,837**
Corporate bonds		2,904,008		**2,904,008**
U.S government securities		1,835,095		**1,835,095**
Mutual funds - fixed income	1,495,517			**1,495,517**
	1,495,517	7,723,940	-	**9,219,457**
	$10,928,138	$7,723,940	$ -	**$18,652,078**

The fair value of large blend, mid cap growth, small cap growth, large cap growth, domestic common and foreign stock, and mutual funds are measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair value of municipal bonds, corporate bonds, U.S. government securities, and security core bond have been measured on a recurring basis using quoted prices in active market for the same or similar assets (Level 2 inputs).

There are no investments classified as Level 3.

continued

10. Pension Benefit Obligation

Since 1998, IRC has participated in CalPERS, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public employers within the State. All eligible employees of IRC are enrolled in CalPERS.

The Public Employee's Retirement Law (Part 3 of the *California Government Code* § 20000, et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California, 95811 and at www.calpers.ca.gov.

IRC 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 7% of earnings for the 2% at-age-55 plan, 6.5% of earnings for the 2%-at-age-62 plan.

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 net periodic benefit cost for the year ended June 30, 2019 was $9,509,686.

Benefit obligation and funded status as of June 30, 2019 are as follows:

Change in benefit obligation	
Benefit obligation, beginning of year	$203,944,845
Service cost	7,132,503
Interest cost	14,669,902
Experience (gain) or loss	676,645
Benefits and expenses paid	(6,028,560)
Benefit obligation, end of year	$220,395,335
Change in fair value of plan assets	
Fair value of plan assets, beginning of year	$170,775,196
Employer contributions	5,550,253
Employee contributions	3,109,350
Net investment income	11,298,776
Benefits and expenses paid	(6,028,560)
Administrative and other expenses	(121,475)
Fair value of plan asset, end of year	$184,583,540
Plan net pension liability	$ 35,811,795

The assumptions used in the measurement of the benefit obligations at June 30, 2019 are as follows:

continued

10. Pension Benefit Obligation, continued

Discount rate	7.15%
Expected long-term return on plan assets	7.38%
Rate of compensation increase	2.75%

The plan is reported as a pension trust fund, and is accounted for using the accrual basis of accounting. Contributions to the plan are recognized in the period in which the contributions are due pursuant to legal requirements. Member contribution rates are defined by law and depend on the respective employer's benefit formulas. Member and employer contribution rates are determined by periodic actuarial valuations. Actuarial valuations are based on the benefit provisions and employee groups of each employer. Benefits and refund are recognized when currently due and payable in accordance with the terms of each rate plan.

Plan assets of $184,583,540 are held in a pooled investment account managed by CalPERS. The fair value measurement inputs can be found on the CalPERS Comprehensive Annual Financial Report (CAFR) at www.calpers.ca.gov.

The following projected benefit payments for the next seven years provided by CalPERS, which reflect expected future service, as appropriate, are expected to be paid at June 30, 2019 and for the years then ended:

Year ending June 30,	Expected Payment
2020	$ 6,552,589
2021	6,903,159
2022	7,585,064
2023	8,152,572
2024	8,534,820
2025 – 2026 Aggregate	17,721,618
	$55,449,822

11. Post-Retirement Medical Reimbursement Plan

IRC instituted an unfunded RMR Plan, effective July 1, 1988. The RMR Plan was established to provide reimbursement of medical expenses for the medical care of each participant and eligible dependents up to their maximum yearly allowance. An IRC employee who meets certain age and length of service requirements becomes a participant of the RMR Plan upon separation from service. Investments are maintained in an irrevocable trust for the RMR Plan from funds set aside in previous years. IRC did not contribute to the RMR Plan assets for the year ending June 30, 2019.

IRC has the right to amend the RMR Plan at any time. The RMR Plan and its obligations will terminate when the assets in the plan are completely exhausted. IRC uses a June 30 measurement date.

continued

11. Post-Retirement Medical Reimbursement Plan, continued

The net periodic post-retirement benefit cost for the year ended June 30, 2019 was $805,594

Benefit obligation and funded status as of June 30, 2019 are as follows:

Change in benefit obligation	
Benefit obligation, beginning of year	$ 9,501,000
Service cost	596,695
Interest cost	352,658
Experience (gain) or loss	371,928
Benefits and expenses paid	(193,581)
Benefit obligation, end of year	$10,628,700
Change in fair value of plan assets	
Fair value of plan assets, beginning of year	$1,693,432
Employer contributions	-
Employee contributions	-
Net investment income	67,712
Benefits and expenses paid	(193,581)
Fair value of plan asset, end of year	$1,567,563
Plan net pension liability	$9,061,137

The following projected benefit payments for the next ten years, which reflect expected future service, as appropriate, are expected to be paid at June 30, 2019 and for the years then ended:

Year ending June 30,	Expected Payment
2020	$ 301,000
2021	335,000
2022	339,000
2023	361,000
2024	381,000
2025 – 2029 Aggregate	2,073,000
	$3,790,000

12. Line of Credit

IRC has a secured revolving line of credit with a bank in the amount of $42,000,000, at a rate equal to the Reference Rate, due September 2020. There was no outstanding balance at June 30, 2019.

continued

13. Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 consist of the following:

Another Way Program	$11,261
Staff training	7,992
	$19,253

For the year ended June 30, 2019, net assets released from purpose restrictions were $37,982.

14. Commitments and Contingencies

Commitments

IRC is obligated under various operating lease agreements, which expire at various dates through June 2045 for office facilities. The terms of the office lease agreement provide for payment of minimum annual rental payments, with fixed increases.

In November 2007, IRC entered into an operating lease agreement with California Housing Foundation to lease office facilities. The original lease term was 32 years and began on September 1, 2009. During the year ended June 30, 2016, the agreement was amended to extend the lease term to end June 30, 2045, and reduce the monthly base rent.

Future minimum lease commitments as of June 30, 2019 are as follows:

Year ending June 30,	
2020	$ 5,530,386
2021	5,653,676
2022	5,330,319
2023	5,397,179
2024	5,505,123
Thereafter	138,480,826
	$165,897,509

Rent expense consisted of the following for the year ended June 30, 2019:

Facilities rental payments	$7,319,152
Deferred rent liability increase	871,171
	$8,190,323

continued

14. Commitments and Contingencies, continued

Contingencies

In accordance with the terms of the contract with the DDS, an audit may be performed by an authorized DDS representative. DDS conducted fiscal compliance audits of IRC for the period of July 1, 2008 through June 30, 2012 and issued its final audit reports with various findings and recommendations that IRC should repay to DDS. IRC has entered into an agreement with DDS to settle the disputed audit findings. The provision for the total amount due to DDS is included in other liabilities on the Statement of Financial Position and annual installments payments began on August 15, 2019.

DDS issued its final audit reports for July 1, 2012 through June 30, 2014 on April 17, 2018 with various findings and recommendations that IRC should repay to DDS various amounts in a combined total which immaterial to the financial statements at June 30, 2019. IRC pursued its administrative appeal of the findings and recommendations and provisions for the repayment to the State has not been recorded on the Statement of Financial Position. IRC 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 IRC.

On November 19, 2018, DDS issued its final audit reports for July 1, 2014 through June 30, 2015 with various findings and recommendations that have no direct fiscal impact on IRC. IRC has complied with the findings and recommendations.

On May 17, 2019, DDS issued its final audit reports for July 1, 2015 through June 30, 2016 and July 1, 2016 through June 30, 2017. No audit finding was reported.

On February 26, 2020, DDS issued its final audit report for July 1, 2017 through June 30, 2018 with a finding and recommendation that have no direct fiscal impact on IRC. IRC has complied with the finding and recommendation.

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

IRC is required to reimburse the State for state unemployment insurance benefits paid to its former employees. A trust fund is maintained to fund any reimbursements. As of June 30, 2019, the trust fund balance was $696,699, which is included in other assets on the Statement of Financial Position.

continued

14. Commitments and Contingencies, continued

IRC is involved as a defendant in other various matters of litigation arising in the normal course of its business. IRC 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, IRC 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. IRC believes based upon its current knowledge, after consultation with counsel, that legal proceedings currently pending against it should not have a material adverse effect on IRC's financial position, thus, has made no provision in the financial statements for any costs relating to such matters. IRC notes, however, that considering the uncertainties involved in such proceedings, there is no assurance of the ultimate resolution of these matters.

15. Transactions with Affiliates

California Housing Foundation ("the Foundation") was formed by members of IRC's board of trustees for the purpose of providing support services for consumers of IRC. The Foundation and IRC have no common board members. The Foundation provides residential facilities for occupancy by persons with developmental disabilities.

IRC entered into an operating lease agreement with the Foundation in November 2007. Lease payments made to the Foundation amounted to $6,916,680 for the year ended June 30, 2019. These amounts are included within the rent expense.

IRC entered into multiple contracts with the Foundation to provide advance funding for the purchase of homes to be used as residential facilities for its consumers. The advances are secured by promissory notes, bear no interest, require no principal payments, and will be forgiven based on the terms of the agreement. In the event that the contract is breached, the Foundation would be responsible to repay IRC the total amount of the advance with interest at a rate equal to 10%. During the year ended June 30, 2019, IRC made no advances to the Foundation. As of June 30, 2019, total advances which have not been forgiven were $150,000.

16. Restatement of Net Assets (Deficit)

Net assets (deficit) without donor restrictions as of June 30, 2018 have been restated $33,169,649 to correct for errors and properly reflect accounts receivable from state for pension benefit obligation. Had the transactions been properly recorded, accounts receivable would have increased by $33,169,649 for the year ended June 30, 2018.

The comparative totals for June 30, 2018 presented in the financial statements have been restated to reflect the correct balances as follows:

continued

16. Restatement of Net Assets (Deficit), continued

	As Previously Reported	Adjustment	As Restated
Statement of Financial Position			
Assets			
Receivable from the State of California – pension benefit obligation	$ -	$33,169,649	$ 33,169,649
Receivable from the State of California – post-retirement benefits other than pension obligation	$ -	$ 7,807,568	$ 7,807,568
Total assets	$80,508,574	$40,977,217	$121,485,791
Liabilities and net assets (Deficit)			
Post-retirement benefits other than pension obligation	$ -	$ 7,807,568	$ 7,807,568
Total liabilities	$132,706,652	$ 7,807,568	$140,514,220
Net assets (deficit), June 30, 2018	$(52,198,078)	$33,169,649	$(19,028,429)
Statement of Activities			
Contracts – State of California	$481,295,625	$ (660,208)	$480,635,417
Total revenue	$502,401,081	$ (660,208)	$501,740,873
Change in net assets	$ (166,247)	$ (660,208)	$ (826,455)
Net assets (deficit), June 30, 2017	$(52,031,831)	$33,829,857	$(18,201,974)

ADDITIONAL INFORMATION

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited 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, the financial statements of Inland Counties Regional Center, Inc. (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2019, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Inland Counties Regional Center, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Inland Counties Regional Center, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Inland Counties Regional Center, Inc.'s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

Pasadena, California
March 9, 2020