HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

SOUTH CENTRAL LOS ANGELES REGIONAL CENTER FOR DEVELOPMENTALLY DISABLED PERSONS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018

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C O N T E N T S

HARRINGTON GROUP
CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Central Los Angeles Regional Center
for Developmentally Disabled Persons, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. (a nonprofit organization) which comprise the Statement of Financial Position as of June 30, 2018, 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 South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. as of June 30, 2018, 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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Emphasis of Matter

As discussed in Note 9 to the financial statements, the beginning net assets as of July 1, 2017 have been restated to correct a misstatement. Our opinion is not modified with respect to that matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019, on our consideration of South Central Los Angeles Regional Center for Developmentally Disabled Persons, 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 South Central Los Angeles Regional Center for Developmentally Disabled Persons, 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 South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.'s internal control over financial reporting and compliance.

Harrington Group

Pasadena, California
March 22, 2019

SOUTH CENTRAL LOS ANGELES REGIONAL CENTER FOR DEVELOPMENTALLY DISABLED PERSONS, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2018

ASSETS		
Cash and cash equivalents (Note 2)	**$**	**2,167,418**
Cash held for clients		**1,095,352**
Contracts receivable - State of California, net		**224,057**
Receivable from Intermediate Care Facility Vendors		**1,132,824**
Other receivables		**1,027,115**
Deposits and prepaid expenses		**91,733**
Receivable from the state for vacation and sick leave benefits		**1,335,005**
Receivable from state for pension benefit obligation		**51,502,444**
Receivable from the state for deferred rent		**9,919,281**
TOTAL ASSETS	**$**	**68,495,229**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	**$**	**3,766,375**
Accrued vacation and sick leave benefits		**1,335,005**
Amounts held for clients		**1,734,034**
Pension benefit obligations		**51,502,444**
Deferred rent		**9,919,281**
TOTAL LIABILITIES		**68,257,139**
NET ASSETS		
Unrestricted net assets		**238,090**
TOTAL NET ASSETS		**238,090**
TOTAL LIABILITIES AND NET ASSETS	**$**	**68,495,229**

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

SOUTH CENTRAL LOS ANGELES REGIONAL CENTER
FOR DEVELOPMENTALLY DISABLED PERSONS, INC.

STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contracts - State of California	$ 260,167,284	$ -	$ -	**$ 260,167,284**
Intermediate Care Facility supplemental services income	2,079,427			**2,079,427**
Interest income	6,678			**6,678**
Grants	143,668			**143,668**
Other income	238,196			**238,196**
TOTAL REVENUE	262,635,253	-	-	**262,635,253**
EXPENSES				
Program services				
Purchase of services	224,942,466			**224,942,466**
Personnel expenses	21,615,422			**21,615,422**
Total program services expenses	246,557,888	-	-	**246,557,888**
General and administrative				
Operating expenses	11,371,691			**11,371,691**
Personnel expenses	7,127,566			**7,127,566**
Total general and administrative expenses	18,499,257	-	-	**18,499,257**
TOTAL EXPENSES	265,057,145	-	-	**265,057,145**
CHANGE IN NET ASSETS BEFORE PENSION RELATED CHANGES AND OTHER COST SETTLEMENT	(2,421,892)	-	-	**(2,421,892)**
Net periodic benefit costs	(6,641,961)			**(6,641,961)**
Pension plan related changes other than net periodic benefit costs	9,134,365			**9,134,365**
CHANGE IN NET ASSETS AFTER PENSION RELATED CHANGES AND OTHER COST SETTLEMENT	70,512	-	-	**70,512**
NET ASSETS, BEGINNING OF YEAR	(60,767,965)			**(60,767,965)**
PRIOR PERIOD ADJUSTMENTS (Note 9)	60,935,543			**60,935,543**
NET ASSETS, BEGINNING OF YEAR AS RESTATED (Note 9)	167,578	-	-	**167,578**
UNRESTRICTED NET DEFICIT, END OF YEAR	$ 238,090	$ -	$ -	**$ 238,090**

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

SOUTH CENTRAL LOS ANGELES REGIONAL CENTER
FOR DEVELOPMENTALLY DISABLED PERSONS, INC.

STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2018

	Program Services	General and Administrative	Total
Salaries	$ 16,661,830	$ 5,508,296	**$ 22,170,126**
Employee benefits and retirement benefits	4,721,302	1,561,202	**6,282,504**
Payroll taxes	232,290	58,068	**290,358**
Total personnel expenses	21,615,422	7,127,566	**28,742,988**
Purchases of services			
Out of home	69,836,756		**69,836,756**
Day program	49,105,533		**49,105,533**
Transportation services	19,870,213		**19,870,213**
Other purchased services	85,979,705		**85,979,705**
Facility rent		7,976,749	**7,976,749**
General office expenses	9,414	1,117,673	**1,127,087**
Data processing maintenance		366,526	**366,526**
Travel	133,532	229,975	**363,507**
Communication		332,612	**332,612**
Contract consultants	7,313	234,202	**241,515**
Insurance		179,969	**179,969**
Postage		165,403	**165,403**
Legal fees		158,518	**158,518**
Equipment purchases		140,641	**140,641**
General expenses		127,188	**127,188**
Equipment rental		83,922	**83,922**
Dues		80,458	**80,458**
Facility maintenance		62,198	**62,198**
Professional fees		59,670	**59,670**
Equipment maintenance		32,893	**32,893**
Interest expense and bank fees		11,559	**11,559**
Printing		11,535	**11,535**
TOTAL FUNCTIONAL EXPENSES	**$ 246,557,888**	**$ 18,499,257**	**$ 265,057,145**

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

SOUTH CENTRAL LOS ANGELES REGIONAL CENTER
FOR DEVELOPMENTALLY DISABLED PERSONS, INC.

STATEMENT OF CASH FLOWS
For the year ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$	70,512
Adjustments to reconcile change in net deficit to net cash (used) by operating activities:		
(Increase) decrease in operating assets:		
Cash held for clients		248,626
Contracts receivable - State of California		12,714,983
Receivable from Intermediate Care Facility vendors		11,501
Other receivables		(235,610)
Deposits and prepaid expenses		(91,643)
Receivable from state for accrued vacation and sick leave benefits		5,159
Receivable from state for pension benefit obligation		2,492,404
Receivable from the state for deferred rent		(2,978,586)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses		(18,990,031)
Accrued vacation and sick leave benefits		(5,159)
Amounts held for clients		232,834
Pension benefit obligations		(2,492,404)
Deferred rent		2,978,586
NET CASH (USED) BY OPERATING ACTIVITIES		(6,038,828)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		(6,038,828)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		8,206,246
CASH AND CASH EQUIVALENTS, END OF YEAR	$	2,167,418
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	$	7,563

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

1. Organization

South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc. ("SCLARC"), was incorporated on May 2, 1983 as a California nonprofit corporation. SCLARC was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act ("the Act") of the Welfare and Institutions Code of the State of California. In accordance with the Act, SCLARC provides services for persons with developmental disabilities and their families. Services include, but are not limited to, programs of developmental services, public information and education, research, manpower and resource development, and evaluation. SCLARC serves five County of Los Angeles Districts including Compton, San Antonio, Southeast and Southwest. The Act includes governance provisions regarding the composition of SCLARC'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, which is composed of persons representing the various categories of providers from which SCLARC purchases client services, shall serve as a member of SCLARC's board. To comply with the Act, SCLARC's board of directors includes persons with developmental disabilities, or their parents or legal guardians, who receive services from SCLARC and a client service provider of SCLARC.

SCLARC contracts with the State of California Department of Developmental Services ("DDS") to operate a regional center for individuals with developmental disabilities and their families. Under the terms of these contracts, funded expenditures are not to exceed $259,446,559 for the 2017-2018 contract year. Actual net expenditures under SCLARC contracts for the 2017-2018 contract year was $265,057,145.

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.

Basis of Accounting

The financial statements of SCLARC 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.

continued

2. Summary of Significant Accounting Policies, continued

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of SCLARC are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted. SCLARC reports gifts of cash and other assets as temporarily 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 the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently but permit SCLARC to expend all of the income (or other economic benefits) derived from the donated assets.

As of June 30, 2018, SCLARC had no temporarily or permanently restricted net assets.

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.

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

continued

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

SCLARC has defined cash and cash equivalents as cash in banks and certificates of deposit with an original maturity of six months or less.

Concentration of Credit Risks

SCLARC 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. SCLARC has not incurred losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Contracts Receivable - State of California

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

Receivables from Intermediate Care Facility Vendors

SCLARC for Medicare and Medicaid Services ("CMS") has approved federal financial participation in the funding of the day and related transportation services purchased by SCLARC 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. SCLARC receives a 1.5% administrative fee based on the funds received to cover the additional workload.

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

State-owned Equipment

Pursuant to the terms of the contract with the DDS, equipment purchases become the property of the state and, accordingly, are charged as expenses when incurred. For the year ended June 30, 2018 equipment purchases totaled $140,641.

Accrued Vacation and Sick Leave Benefits

SCLARC has accrued a liability for leave benefits earned. SCLARC has also recorded a receivable from the state for the accrued leave benefits to reflect the future reimbursement of such benefits. However, such benefits are reimbursed under the state contract only when actually paid.

continued

2. Summary of Significant Accounting Policies, continued

Obligation for Retirement Pension Benefits

SCLARC is required to recognize the funded status of the California Public Employee's 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 or net deficit. SCLARC has accrued a liability for the CalPERS pension. SCLARC 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.

Deferred Rent

SCLARC 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. SCLARC has also recorded a receivable from the state for deferred rent to reflect the future reimbursement of such expense. However, such expenses are reimbursed under the state contract only when actually paid.

Income Taxes

SCLARC is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d).

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 SCLARC in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. SCLARC returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs of providing SCLARC programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

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.

continued

2. Summary of Significant Accounting Policies, continued

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 SCLARC's fiscal years beginning after December 15, 2019 with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - 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 SCLARC's financial statements for fiscal years beginning after December 15, 2017. Early adoption is permitted. 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. Management is currently evaluating the impact of this ASU on their financial statements.

Subsequent Events

Management has evaluated subsequent events through March 22, 2019, 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.

continued

3. Cash Held for Clients and Unexpended Client Support

SCLARC 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 SCLARC and are restricted for client support. Since SCLARC 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 activities as of June 30, 2018:

	2018
Support:	
Social Security and other client support	$13,726,164
Disbursements:	
Living out of own home	$ 9,353,840
Other disbursements	4,372,324
	$13,726,164

4. Contracts Receivable/Contract Advances – State of California

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

As of June 30, 2018, DDS had advanced SCLARC $87,901,973, under the contracts with the DDS. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from the DDS as of June 30, 2018 as follows:

	2018
Contracts receivable - State of California	$ 88,126,030
Contract advances - State of California	(87,901,973)
Net contract receivable	$ 224,057

SCLARC has received its contract for the fiscal year ending June 30, 2019. The contract provides for initial funding of $273,649,852.

continued

5. Line of Credit

SCLARC has an unsecured revolving line of credit with a bank in the amount of $27,000,000, at a rate equal to, at SCLARC's option: the greater of 1% or the LIBOR rate plus 1.95%; or the prime rate minus 1%., due June 2019. There was no outstanding balance at June 30, 2018.

6. Employee Benefit Plan

SCLARC contributes to the CalPERS for retirement benefits. CalPERS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within California. Substantially all of SCLARC's employees participate in CalPERS.

FASB Accounting Standards Codification (ASC) 715-30, "Defined Benefit Plans - Pension," requires SCLARC to recognize the funded status of a defined benefit retirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in unrestricted net assets in the year in which the change occurs.

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.

SCLARC has three retirement plans with CalPERS. One plan is a 3%-at-age-60 formula, which closed as of July 1, 2007. All employees hired prior to July 1, 2007 participate in this plan. The second plan is a 2%-at-age-60 formula which closed as of January 1, 2013. All employees hired from July 1, 2007 through December 31, 2012 participate in this plan. The third 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 8% of earnings for the 3% at-age-60 plan, 7% of earnings for the 2%-at-age-60 plan and 6.25% of earnings for the 2%-at-age-62 plan. SCLARC is required to contribute the remaining amounts necessary to fund the benefits for its employees, using the actuarial basis adopted by the CalPERS Board of Administration.

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

continued

6. Employee Benefit Plan, continued

The net periodic benefit cost for the year ended June 30, 2018 is as follows:

	2018
Service cost	$ 6,253,163
Interest cost	4,613,368
Expected (return) on plan assets	(4,224,570)
Net periodic benefit cost/(income)	$ 6,641,961

Amounts recognized in the statement of financial position as of June 30, 2018 is $51,502,444.

Pension benefit changes other than net periodic benefit costs during the year ended June 30, 2018 is $9,134,365.

	2018
Change in benefit obligation	
Benefit obligation, beginning of year	$113,490,286
Service cost	6,253,163
Interest cost	4,613,368
Assumption change (gain) or loss	(7,440,949)
Experience (gain) or loss	2,972,855
Benefits and expenses paid	(2,258,775)
Benefit obligation, end of year	$117,629,948
Change in fair value of plan assets	
Fair value of plan assets, beginning of year	$ 59,495,438
Actual return on plan assets	4,920,929
Employer contributions	2,672,380
Employee contributions	1,297,532
Benefits and expenses paid	(2,258,775)
Fair value of plan asset, end of year	$ 66,127,504
Plan net pension liability	$(51,502,444)

The unrecognized net (gain) or loss for the year ended June 30, 2018 is as follows:

Unrecognized net (gain) or loss	
Beginning of year	$ (6,653,759)
Experience (gain) or loss	2,972,855
Asset (gain) or loss	(696,359)
Amortization amount	-
Assumption change (gain) or loss	(7,440,949)
End of year	$(11,818,212)

continued

6. Employee Benefit Plan, continued

The assumptions used in the measurement of the benefit obligations at June 30, 2018 are as follows:

Discount rate (benefit expense)	4.25%
Discount rate (benefit obligation)	4.25%
Expected long-term return on plan assets	7.00%
Rate of compensation increase	4.00%

This discount rate was derived from the Above Median Citigroup Pension Discount Curve as of the end of June 30, 2018 using the expected payouts from the plan. The rate used as of the beginning of the fiscal year (used to calculate the expense for the year) was 4.00%. The Long-term rate of return on plan assets is the expected return used by CalPERS for their pension fund and was derived based on their long-term expectation of asset returns in consultation with CalPERS investment staff and advisors. The annual pension expense under ASC 715 is based on the expected return on plan assets during the fiscal year. For the Mortality rate, the actuary used the RP-2014 Healthy Mortality Table projected generationally from 2006 using Scale MP-2018. This assumption is expected to be a best estimate of future mortality experience, being based on the latest published study by the Society of Actuaries, which was finalized in October 2018.

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 SCLARC 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.

Plan assets of $66,127,504 are held in a pooled investment account managed by CalPERS and are considered level three investments.

continued

6. Employee Benefit Plan, continued

The following benefit payments for the next ten years, which reflect expected future service, as appropriate, are expected to be paid at June 30, 2018 and for the years then ended:

Year ending June 30,	Expected Payment
2019	$ 2,619,850
2020	2,988,251
2021	3,244,738
2022	3,531,426
2023	3,961,955
2024 – 2028 Aggregate	23,752,292
	$40,098,512

7. Commitments and Contingencies

Commitments

SCLARC is obligated under various operating lease agreements expiring through April 2049 for office equipment and office facilities. The terms of the office lease agreement provide for payment of minimum annual rental payments, with fixed increases, as discussed in Note 8. Future minimum lease commitments as of June 30, 2018 are as follows:

Year ending June 30,	Office Facility	Equipment	Total
2019	$ 5,178,669	$5,700	$ 5,184,369
2020	5,334,030		5,334,030
2021	5,494,050		5,494,050
2022	5,658,872		5,658,872
2023	5,828,653		5,858,653
Thereafter	229,289,653		229,289,653
	$256,783,912	$5,700	$256,789,612

Rent expense consisted of the following for the year ended June 30, 2018:

Facilities and office equipment rental payments	$4,998,163
Deferred rent liability increase	2,978,586
	$7,976,749

continued

7. 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. Should such audit disclose any unallowable costs, SCLARC may be liable to the DDS for reimbursement of such costs. In the opinion of SCLARC's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2018 and for the years then ended.

SCLARC is dependent on continued funding provided by the DDS to operate and provide services for its clients. SCLARC's contract with the DDS provides funding for services under the Act. In the event that the state determines that SCLARC has insufficient funds to meet its contractual obligations, the state shall make its best effort to secure additional funding and/or provide SCLARC with regulatory relief.

SCLARC is involved in various claims and lawsuits arising in the normal conduct of its operations. SCLARC's management believes it has adequate defenses and insurance coverage for these actions and, thus, has made no provision in the financial statements for any costs relating to the settlement of such claims.

8. Transactions with Affiliates

Friends of South Central Los Angeles Regional Center for the Developmentally Disabled Persons, Inc. ("Friends") is a separately incorporated California nonprofit corporation organized to improve the quality of life of the developmentally disabled consumers and families of SCLARC by providing assistance and activities that are not otherwise available through SCLARC or any other agency. SCLARC provides certain in-kind administrative services. The value of such services is not deemed significant and has not been recorded in the financial statements.

In August 2013, a limited liability company owned by Friends borrowed $55,000,000 from the California Municipal Finance Authority through the issuance of California Municipal Finance Authority Revenue Bonds to finance the construction of office buildings in Los Angeles for use by SCLARC. In connection with the issuance of the bonds, the limited liability company entered into a long-term lease with SCLARC and has pledged the rent payments to be received under the lease with SCLARC as the primary source of revenues to secure the repayment of the bonds. Rent under the lease commenced in May 2015 with a term of 34 years, or until the rent necessary to repay the bonds is received. Office and parking rent commenced in May 2015 and started at $392,970 per month for the first year and increases annually by three percent. SCLARC will also be responsible for operating expenses as defined in the agreement.

continued

9. Prior Period Adjustment

Unrestricted net assets as of June 30, 2017 have been restated $60,935,543 to correct for errors and properly reflect accounts receivable from state for pension benefit obligation and deferred rent, and unrestricted net assets. Had the transactions been properly recorded, accounts receivable would have increased by $60,935,543 for the year ended June 30, 2017.

The comparative totals for June 30, 2017 presented in the financial statements have been restated to reflect the correct balances as follows:

	As Previously Reported	Adjustment	As Restated
Statement of Activities			
Net assets, June 30, 2017	$(60,767,965)	$ -	$(60,767,965)
Increase in net position to record receivable for pension benefit obligation		53,994,848	53,994,848
Increase in net position to record receivable for deferred rent		6,940,695	6,940,695
Net deficit, July 1, 2017	$(60,767,965)	$60,935,543	$ 167,578

continued