

NEW ISSUE – BOOK-ENTRY ONLY

Moody's "A3"
(See "RATING" herein)

In the opinion of Norton Rose Fulbright US LLP, Bond Counsel, under existing law interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum income tax imposed on corporations and individuals. See "TAX MATTERS."

\$73,150,000



CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Refunding Revenue Bonds
(Inland Regional Center Project)
Series 2015

Dated: Date of Delivery

Due: June 15, as shown on the inside cover

The \$73,150,000 California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 (the "Bonds") will be issued as fully-registered bonds registered in the name of a nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Bonds will not receive physical delivery of bond certificates. Payments of the principal of, redemption premium, if any, and interest on the Bonds will be made to DTC by MUFG Union Bank, N.A., as trustee (the "Trustee"). Disbursement of payments to DTC Participants is the responsibility of DTC, and disbursement of payments to the Beneficial Owners is the responsibility of DTC Participants. See Appendix C – "BOOK-ENTRY SYSTEM." Interest on the Bonds is payable semiannually on June 15 and December 15 of each year, commencing December 15, 2015.

The Bonds are subject to optional and mandatory redemption as described herein. See "THE BONDS – Redemption" herein.

The Bonds are being issued by the California Municipal Finance Authority (the "Authority"), which will loan the proceeds of the Bonds to the

CALIFORNIA HOUSING FOUNDATION

(the "Corporation") to provide funds which the Corporation will use to (i) refund on an advance basis the \$77,530,000 California Statewide Communities Development Authority Revenue Bonds (Inland Regional Center Project), Series 2007, currently outstanding in the aggregate principal amount of \$72,445,000, and (ii) pay the costs of issuing the Bonds. See "THE REFUNDING PLAN" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

None of the Authority, any Authority member or any person executing the Bonds is liable personally on the Bonds or subject to any personal liability or accountability by reason of their issuance. The Bonds are limited obligations of the Authority, payable solely from and secured by the pledge of Revenues under the Indenture, as each such term is defined herein. None of the Authority, its members, the State of California (the "State"), or any of its political subdivisions shall be directly, indirectly, contingently or morally obligated to use any other moneys or assets to pay all or any portion of the debt service due on the Bonds, to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment. The Bonds are not a pledge of the faith and credit of the Authority, its members, the State or any of its political subdivisions nor do they constitute indebtedness within the meaning of any constitutional or statutory debt limitation. The Authority has no taxing power.

This cover page contains certain information for quick reference only. It is not intended to be a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered by the Underwriter named below when, as and if issued by the Authority, and accepted by the Underwriter, subject to the approving opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel and subject to certain other conditions. Norton Rose Fulbright US LLP is also serving as Disclosure Counsel. Approval of certain legal matters will be passed upon for the Authority by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California, for the Corporation by its counsel Fullerton, Lemann, Schaefer & Dominick LLP, San Bernardino, California, for IRC by its counsel Steven K. Beckett, PLC, Redlands, California, and for the Underwriter by its counsel, Quint & Thimmig LLP, Larkspur, California. It is expected that the Bonds will be available for delivery through the book-entry facilities of DTC on or about August 27, 2015.

Westhoff, Cone & Holmstedt

Dated: August 19, 2015

MATURITY SCHEDULE

Maturity Date (June 15)	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	CUSIP* (Base 13048T)
2016	\$ 850,000	2.000%	0.650%	101.075	YC1
2017	1,075,000	2.000	1.140	101.527	YD9
2018	1,205,000	2.000	1.500	101.365	YE7
2019	1,340,000	2.000	1.750	100.914	YF4
2020	1,365,000	5.000	2.160	112.879	YG2
2021	1,435,000	5.000	2.440	113.763	YH0
2022	1,505,000	5.000	2.700	114.197	YJ6
2023	1,580,000	5.000	2.850	114.937	YK3
2024	1,660,000	5.000	2.950	115.782	YL1
2025	1,745,000	3.000	3.150	98.740	YM9

\$14,625,000 5.000% Term Bonds due June 15, 2032 Yield: 3.640%; Price: 111.120c
CUSIP NO.* 13048T YQ0

\$13,965,000 5.000% Term Bonds due June 15, 2037 Yield: 3.830%; Price: 109.479c
CUSIP NO.* : 13048T YR8

\$30,800,000 5.000% Term Bonds due June 15, 2045 Yield: 3.980%; Price: 108.204c
CUSIP NO.* : 13048T YS6

^c Priced to the optional call date of June 15, 2025, at par.

^{*} CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the Authority, the Corporation or IRC are responsible for the selection or correctness of the CUSIP numbers set forth herein.

No dealer, broker, salesperson or other person has been authorized by the California Municipal Finance Authority (the “Authority”), the California Housing Foundation (the “Corporation”), Inland Counties Regional Center, Inc. (“IRC,” “Inland Regional Center” or “Inland Counties Regional Center”) or Westhoff, Cone & Holmstedt (the “Underwriter”) to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by the Authority, the Corporation, IRC, or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been furnished by the Authority, the Corporation, and IRC and includes information from sources that are believed to be reliable, but the Authority, the Corporation, and IRC do not guarantee the completeness or accuracy of the information from such sources. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Corporation, or IRC, or other matters described herein since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Marketplace Access (EMMA) website. The Authority, the Corporation and IRC each maintains a website. The information presented therein is not part of this Official Statement and should not be relied on in making investment decisions with respect to the Bonds. Unless otherwise expressly stated, references to websites in this Official Statement are shown for reference and convenience only, and none of their content (including any content on the Authority, the Corporation and IRC’s websites) is incorporated in this Official Statement by reference. The Authority, the Corporation and IRC make no representation regarding the accuracy or completeness of the information presented on such websites.

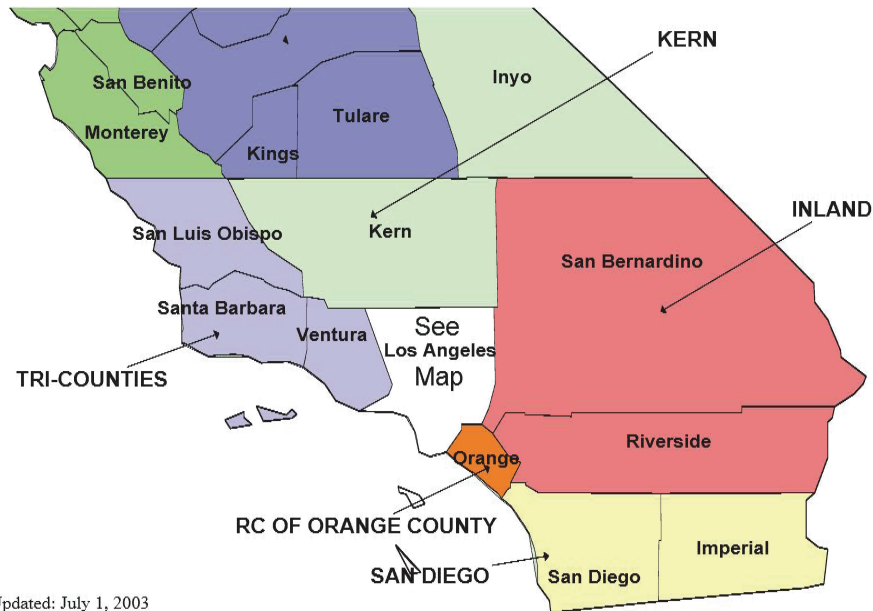
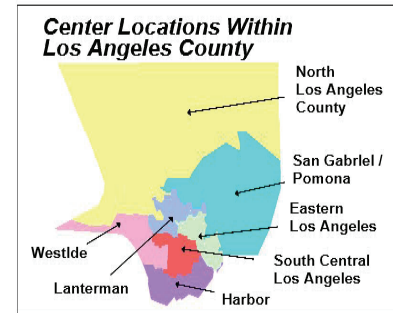
IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

**CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “project,” “expect,” “anticipate,” “intend,” “believe,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as otherwise noted, neither the Authority, the Corporation nor IRC plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

Department of Developmental Services Regional Centers

(Colors correspond to areas served by each Regional Center)



Updated: July 1, 2003

INLAND REGIONAL CENTER'S HEADQUARTERS FACILITIES



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OFFICIAL STATEMENT

\$73,150,000

CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Refunding Revenue Bonds
(Inland Regional Center Project)
Series 2015

INTRODUCTION

This Introduction contains a brief summary of certain of the terms of the Bonds being offered hereby and a full review should be made of the entire Official Statement, including the cover page and the Appendices hereto in order to make an informed investment decision. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the laws of the State of California (the "State") or any documents referred to herein do not purport to be complete and such references are qualified in their entirety to the complete provisions thereof. Capitalized terms used and not otherwise defined herein are defined in APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" or in the Indenture, the Office Lease, or the Loan Agreement, as applicable, each as hereinafter defined.

General

This Official Statement, including the cover page and Appendices hereto (this "Official Statement"), provides certain information in connection with the offering of \$73,150,000 aggregate principal amount of Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 (the "Bonds") of the California Municipal Finance Authority (the "Authority"). The Bonds will be issued pursuant to the provisions of the Joint Exercise of Powers Act, comprising Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the Government Code of the State, as amended (the "Act"), and an Indenture of Trust, dated as of August 1, 2015 (the "Indenture"), by and among the Authority, the California Housing Foundation (the "Corporation") and MUFG Union Bank, N.A., as trustee (the "Trustee").

The Authority will loan the proceeds of the Bonds to the Corporation pursuant to a Loan Agreement, dated as of August 1, 2015 (the "Loan Agreement"), by and between the Authority and the Corporation, which the Corporation will use to (i) refund on an advance basis all of the California Statewide Communities Development Authority \$77,530,000 Revenue Bonds (Inland Regional Center Project), Series 2007 currently outstanding in the aggregate principal amount of \$72,445,000 (the "Prior Bonds"), and (ii) pay the costs of issuing the Bonds.

Payments under the Loan Agreement will be made from amounts received by the Corporation from Inland Counties Regional Center, Inc., a California nonprofit public benefit corporation ("IRC" or "Inland Counties Regional Center"), generally known as the "Inland Regional Center," pursuant to the Office Lease, dated November 29, 2007, by and between the Corporation and IRC with respect to the Facilities (as defined herein), as amended by Amendment No. 1 to the Office Lease, dated as of August 1, 2015 (collectively the "Office Lease"), and as further amended from time to time. The Authority may issue Additional Bonds on parity with the Bonds as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds" herein.

Pursuant to a Loan Agreement, dated as of December 1, 2007, the Corporation borrowed from the California Statewide Communities Development Authority (“CSCDA”) the proceeds of its Prior Bonds to finance the acquisition, construction and equipping of a 200,000 rentable square feet office facility (the “Facilities”) in the City of San Bernardino (the “City”) for lease to IRC. The property and Facilities are collectively referred to herein as the “Project.”

Regional Centers

IRC is one of 21 regional centers (the “Regional Centers”) in the State that coordinate services under contracts with the State to persons with developmental disabilities as mandated under the Lanterman Developmental Disabilities Services Act (the “Lanterman Act”). State contracts with the Regional Centers are typically for a term of five years, with funding in each year subject to appropriation by the State Legislature. The Lanterman Act defines “developmental disability” as mental retardation, cerebral palsy, epilepsy, autism or other conditions similar to mental retardation that require treatment similar to that required by persons with mental retardation which occur before 18 years of age.

Under the Lanterman Act, Regional Centers are responsible for eligibility determinations and client assessment, the development of a program plan for each individual receiving services, and case management. In general, Regional Centers pay for services only if an individual does not have private insurance or they cannot refer an individual to services that are provided by the State or a local agency. Regional Centers purchase services such as transportation, health care, respite care, day programs and residential care provided by community-based service providers.

Inland Counties Regional Center

IRC was incorporated on July 16, 1971 and is a tax-exempt organization described in section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”). Since 1971, IRC has contracted with the State to provide services for the developmentally disabled and their families pursuant to the Lanterman Act. IRC is among the largest regional centers as measured by annual budget, caseload and service area. IRC has approximately 600 employees. In fiscal year 2014-15, IRC’s contracted revenues exceeded \$344 million and IRC coordinated the delivery of services to more than 30,000 consumers during the same period within a service area of nearly 28,000 square miles which comprise all of San Bernardino and Riverside counties. See APPENDIX A – CERTAIN INFORMATION RELATING TO THE CALIFORNIA HOUSING FOUNDATION AND INLAND COUNTIES REGIONAL CENTER.”

The Corporation

The Corporation is a California nonprofit public benefit corporation and a tax-exempt organization described in section 501(c)(3) of the Code. The Corporation was incorporated in 1998 in furtherance of IRC’s commitment to coordinate services to the developmentally disabled. The Corporation also owns properties and residential homes and leases them to third-party vendors that provide services to the developmentally disabled. See APPENDIX A – CERTAIN INFORMATION RELATING TO THE CALIFORNIA HOUSING FOUNDATION AND INLAND COUNTIES REGIONAL CENTER.”

The Bonds

The Bonds will be dated the date of their delivery, will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof (each an “Authorized Denomination”). Interest on the Bonds is payable semiannually on each June 15 and December 15, commencing December 15, 2015 (each, an “Interest Payment Date”). The Bonds are subject to optional and mandatory redemption prior to their maturity as described herein. See “THE BONDS – Redemption” herein. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

Book-Entry System

The Bonds will be registered in the name of a nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Purchases of the Bonds may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Bonds will not receive physical delivery of the Bonds. Payments of principal of, premium, if any, and interest on the Bonds are payable by the Trustee to DTC, which will in turn remit such payments to the DTC Participants, which will in turn remit such payments to the Beneficial Owners of the Bonds. See APPENDIX C – “BOOK-ENTRY SYSTEM.”

Sources of Payment of the Bonds

The Authority is obligated to pay the Bonds solely from Revenues and the other funds available therefor under the Indenture. Under the Loan Agreement, the Corporation has pledged Gross Revenues (as defined herein) to the payment of the loan payments to be made under the Loan Agreement (“Loan Payments”), which are due in amounts and at the times necessary to pay the principal of, premium, if any, and interest to the date of maturity or redemption of the Bonds, when due. The primary source of Gross Revenues and thus repayment for the Bonds is rent received by the Corporation under the Office Lease. The term of the Office Lease will exceed the final maturity of the Bonds. IRC will make rent payments under the Office Lease from moneys received from the State pursuant to IRC’s contract under the Lanterman Act. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “INVESTMENT CONSIDERATIONS – State Budget and Funding” herein.

NONE OF THE AUTHORITY, ANY AUTHORITY MEMBER OR ANY PERSON EXECUTING THE BONDS IS LIABLE PERSONALLY ON THE BONDS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE. THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES UNDER THE INDENTURE. NONE OF THE AUTHORITY, ITS MEMBERS, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS SHALL BE DIRECTLY, INDIRECTLY, CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE BONDS ARE NOT A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, ITS MEMBERS, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS, NOR DO THEY CONSTITUTE INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE AUTHORITY HAS NO TAXING POWER.

Debt Service Reserve Fund

Payments of principal of, premium, if any, and interest on the Bonds will also be secured by amounts on deposit in the California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 Debt Service Reserve Fund (the “Debt Service Reserve Fund”) established under the Indenture. On the date of delivery of the Bonds, the Debt Service Reserve Fund will be funded at the Debt Service Reserve Requirement in the amount of \$4,768,250.00.

Deed of Trust

To secure its obligations under the Loan Agreement and the Indenture, the Corporation will execute and deliver a Deed of Trust with Assignment of Rents and Fixture Filing, dated as of August 1, 2015 (the “Deed of Trust”), for the benefit of the Trustee, as trustee for the Owners of the Bonds, encumbering the Facilities. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Deed of Trust” and “INVESTMENT CONSIDERATIONS – Limitations Relating to the Deed of Trust” herein.

Continuing Disclosure

The Corporation and IRC will covenant in a Continuing Disclosure Agreement, dated as of August 1, 2015 (the “Continuing Disclosure Agreement”), by and among the Corporation, IRC and Willdan Financial Services, as Dissemination Agent thereunder, to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (the “EMMA System”), certain annual financial information and operating data relating to the Corporation and IRC and, in a timely manner, notice of certain enumerated events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12, as amended (“Rule 15c2-12”) adopted by the U.S. Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended. See “CONTINUING DISCLOSURE” herein and APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement, including in Appendix A attached hereto, constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are believed to be reasonable, there can be no assurance that such expectations will prove to be correct. The Authority, the Corporation and IRC are not obligated to issue any updates or revisions to the forward-looking statements if or when the expectations, events, conditions or circumstances on which such statements are based occur.

Additional Information

The brief descriptions of the Bonds, the Indenture, the Loan Agreement, the Deed of Trust, the Office Lease, the Continuing Disclosure Agreement and documents, statutes, reports and other instruments included in this Official Statement do not purport to be complete, comprehensive or definitive. All references to such documents and other documents, statutes, reports and other instruments are qualified in their entirety by reference to such document, statute, report or instrument. Copies of the Bonds, the Indenture, the Loan Agreement, the Deed of Trust, the Office Lease and the Continuing Disclosure Agreement may be obtained, upon written request, from the Trustee.

REFUNDING PLAN

The Bonds are being issued for the purpose of (i) refunding on an advance basis the Prior Bonds, and (ii) paying the costs of issuing the Bonds. A portion of the proceeds of the Bonds, together with other available amounts, will be used to refund on an advance basis the Prior Bonds. The Prior Bonds were issued pursuant to an Indenture of Trust, dated as of December 1, 2007 (the “Prior Indenture”), by and among CSCDA, the Corporation, and MUFG Union Bank, N.A., formerly known as Union Bank of California, N.A., as trustee (the “Prior Trustee”). Pursuant to the terms of an Escrow Agreement, dated as of August 1, 2015 (the “Escrow Agreement”), by and between the Corporation and MUFG Union Bank, N.A., as escrow agent (the “Escrow Agent”), a portion of the proceeds of the Bonds, together with other available moneys (collectively, the “Escrow Deposit”), will be deposited into an escrow fund established under the Escrow Agreement (the “Escrow Fund”). The Escrow Deposit will be sufficient to purchase United States Government Securities (as defined in the Prior Indenture), the principal of and interest on which when due will provide moneys that, together with uninvested moneys deposited with the Escrow Agent, will be sufficient to pay the scheduled principal of and interest on the remaining Prior Bonds coming due on and prior to December 1, 2017, and to redeem the Prior Bonds on December 1, 2017 (the “Redemption Date”) at a redemption price of 100% of the principal amount thereof.

Grant Thornton LLP, certified public accountants (the “Verification Agent”), will deliver a report stating that the firm has verified the accuracy of mathematical computations concerning the adequacy of the Escrow Deposit deposited in the Escrow Fund. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS” herein.

ESTIMATED SOURCES AND USES OF PROCEEDS

The proceeds of the Bonds, together with other available amounts, are expected to be applied as follows:

Estimated Sources of Funds

Principal Amount of Bonds	\$73,150,000.00
Net Original Issue Premium	6,594,084.00
Amounts Released from Prior Bonds	<u>7,219,220.45</u>
Total	<u>\$86,963,304.45</u>

Estimated Uses of Funds

Escrow Fund	\$80,395,780.22
Debt Service Reserve Fund	4,768,250.00
Funded Interest Fund ⁽¹⁾	523,275.00
Costs of Issuance Fund ⁽²⁾	<u>1,275,999.23</u>
Total	<u>\$86,963,304.45</u>

⁽¹⁾ Represents one-half of interest through December 15, 2015.

⁽²⁾ Includes Underwriter’s discount, legal fees, fees and expenses of the Trustee, issuance and first annual fees of the Authority, rating agency fees, printing costs, and other costs incurred in connection with the issuance of the Bonds.

DEBT SERVICE SCHEDULE

The following table sets forth the debt service due on the Bonds.

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 850,000	\$ 2,790,800	\$ 3,640,800
2017	1,075,000	3,471,500	4,546,500
2018	1,205,000	3,450,000	4,655,000
2019	1,340,000	3,425,900	4,765,900
2020	1,365,000	3,399,100	4,764,100
2021	1,435,000	3,330,850	4,765,850
2022	1,505,000	3,259,100	4,764,100
2023	1,580,000	3,183,850	4,763,850
2024	1,660,000	3,104,850	4,764,850
2025	1,745,000	3,021,850	4,766,850
2026	1,795,000	2,969,500	4,764,500
2027	1,885,000	2,879,750	4,764,750
2028	1,980,000	2,785,500	4,765,500
2029	2,080,000	2,686,500	4,766,500
2030	2,185,000	2,582,500	4,767,500
2031	2,295,000	2,473,250	4,768,250
2032	2,405,000	2,358,500	4,763,500
2033	2,530,000	2,238,250	4,768,250
2034	2,655,000	2,111,750	4,766,750
2035	2,785,000	1,979,000	4,764,000
2036	2,925,000	1,839,750	4,764,750
2037	3,070,000	1,693,500	4,763,500
2038	3,225,000	1,540,000	4,765,000
2039	3,385,000	1,378,750	4,763,750
2040	3,555,000	1,209,500	4,764,500
2041	3,735,000	1,031,750	4,766,750
2042	3,920,000	845,000	4,765,000
2043	4,115,000	649,000	4,764,000
2044	4,325,000	443,250	4,768,250
2045	4,540,000	227,000	4,767,000
Total	<u>\$73,150,000</u>	<u>\$68,359,800</u>	<u>\$141,509,800</u>

THE BONDS

General

The Bonds will be issued and sold in the aggregate principal amounts set forth on the inside cover page hereof as fully registered bonds in Authorized Denominations. Interest on the Bonds is payable on each Interest Payment Date. The principal of, premium, if any, and interest on the Bonds is payable by the Trustee to DTC, which will in turn remit such principal, premium, if any, and interest to the DTC Participants, which will in turn remit such principal, premium, if any, and interest to the Beneficial Owners of the Bonds. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

The Bonds will be dated their date of issuance and will bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the Interest Payment Date next preceding the date of authentication thereof, or if a Bond is authenticated on or before the Record Date for the first Interest Payment Date, from its initial date of delivery; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The Corporation will make monthly deposits with the Trustee in the amounts set forth in the Loan Agreement such that eight Business Days preceding each Interest Payment Date or Principal Installment Date, as applicable, an amount equal to the amount of the interest or principal payable on the Bonds on such Interest Payment Date or Principal Installment Date, as applicable, less any amounts then on deposit in the Bond Fund is available to pay the interest or principal on the Bonds payable on such Interest Payment Date or Principal Installment Date, as applicable.

Redemption

Optional Redemption. The Bonds maturing on or after June 15, 2026, are subject to redemption prior to their respective stated maturities, as a whole or in part, on any date on and after June 15, 2025, at the principal amount of the Bonds to be redeemed, without premium, plus unpaid accrued interest, if any, to the date of redemption, from any moneys received by the Trustee from the Corporation pursuant to the Loan Agreement. The maturities and the principal amount of the Bonds of each maturity to be redeemed will be as directed by the Corporation.

Mandatory Redemption. The Series 2015 Bonds maturing on June 15, 2032 (the “2032 Term Bonds”) are subject to mandatory redemption, in part, by lot, from Mandatory Sinking Fund Installments on each June 15 from and after June 15, 2026, at the principal amount of the 2032 Term Bonds to be redeemed, without premium. Sinking Fund Installments for the 2032 Term Bonds maturing on June 15, 2032, are due on the following dates and in the following amounts:

Mandatory Sinking Fund Installment Due Dates (June 15)	Mandatory Sinking Fund Installments
2026	\$1,795,000
2027	1,885,000
2028	1,980,000
2029	2,080,000
2030	2,185,000
2031	2,295,000
2032 ⁽¹⁾	2,405,000

⁽¹⁾ Maturity.

The Series 2015 Bonds maturing on June 15, 2037 (the “2037 Term Bonds”) are subject to mandatory redemption, in part, by lot, from Mandatory Sinking Fund Installments on each June 15 from and after June 15, 2033, at the principal amount of the 2037 Term Bonds to be redeemed, without premium. Sinking Fund Installments for the 2037 Term Bonds maturing on June 15, 2037, are due on the following dates and in the following amounts:

Mandatory Sinking Fund Installment Due Dates (June 15)	Mandatory Sinking Fund Installments
2033	\$2,530,000
2034	2,655,000
2035	2,785,000
2036	2,925,000
2037 ⁽¹⁾	3,070,000

⁽¹⁾ Maturity.

The Series 2015 Bonds maturing on June 15, 2045 (the “2045 Term Bonds”) are subject to mandatory redemption, in part, by lot, from Mandatory Sinking Fund Installments on each June 15 from and after June 15, 2038, at the principal amount of the 2045 Term Bonds to be redeemed, without premium. Sinking Fund Installments for the 2045 Term Bonds maturing on June 15, 2045, are due on the following dates and in the following amounts:

Mandatory Sinking Fund Installment Due Dates (June 15)	Mandatory Sinking Fund Installments
2038	\$3,225,000
2039	3,385,000
2040	3,555,000
2041	3,735,000
2042	3,920,000
2043	4,115,000
2044	4,325,000
2045 ⁽¹⁾	4,540,000

⁽¹⁾ Maturity.

If the Term Bonds are optionally redeemed, the remaining Sinking Fund Installments shall be reduced in an aggregate amount equal to the principal amount of such Term Bonds so redeemed, as directed by the Corporation, or in the absence of such direction, as proportionately as possible in Authorized Denominations.

Redemption Procedures

Notice of Redemption. The Trustee, for and on behalf of the Authority, shall give notice of any redemption by first class mail, postage prepaid, not less than twenty (20) nor more than sixty (60) days prior to the redemption date to (i) the Owner of such Bond at the address shown on the Bond Register on the date such notice is mailed; (ii) the Securities Depositories; (iii) one or more Information Services; (iv) the Authority, and (v) the Municipal Securities Rulemaking Board (the “MSRB”). Notice of redemption to the Securities Depositories, the Information Services, and the MSRB shall be given by telecopy or other electronic means. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds to be redeemed, the redemption date, the redemption price, the place of redemption (including

the name and appropriate address of the Trustee), the principal amount, the CUSIP numbers (if any) of the Bonds to be redeemed and, if less than all, the distinctive certificate numbers of the Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that the interest on the Bonds designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds the principal amount thereof to be redeemed and any unpaid interest accrued thereon to the redemption date) and shall require that such Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notwithstanding the foregoing, failure by the Trustee to give notice pursuant to this paragraph to the Authority or any one or more of the Information Services or the Securities Depositories, or the MSRB or the insufficiency of any such notices shall not affect the sufficiency of the proceedings for redemption. Failure to mail the notices required by this paragraph to any Owner of any Bonds designated for redemption, or any defect in any notice so mailed, shall not affect the validity of the proceedings for redemption of any other Bonds.

With respect to any notice of optional redemption of Bonds, unless upon the giving of such notice such Bonds are to be deemed to have been paid within the meaning of the Indenture, such notice shall also state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the redemption price of such Bonds to be redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such Bonds. If such notice of redemption contains such a condition and such amounts are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, to the Persons and in the manner in which the notice of redemption was given, that such amounts were not so received.

Selection of Bonds for Redemption. The principal amount of Bonds of each maturity to be redeemed will be as specified by the Corporation. If less than all of the Bonds of any maturity are called for redemption, the Trustee is required to select the Bonds of such maturities, or any given portion thereof, to be redeemed, by lot in such manner as it may determine. Notwithstanding the foregoing, if less than all of the Bonds of any maturity are to be redeemed, selection of the Bonds to be redeemed will be made in accordance with customary practices of DTC or the applicable successor depository, as the case may be.

Effect of Redemption. Notice of redemption having been duly given as described under “Notice of Redemption” above, and moneys for payment of the redemption price being held by the Trustee, the Bonds so called for redemption will, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds so called for redemption will cease to accrue, such Bonds will cease to be entitled to any lien, benefit or security under the Indenture, and the Owners of said Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof (including interest, if any, accrued to the redemption date), without interest accrued on any funds held after the redemption date to pay such redemption price.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Lanterman Act; Department of Developmental Services; State Budget

In 1969, the State Legislature enacted section 4500 *et seq.* of the California Welfare and Institutions Code, known as the “Lanterman Act,” which created a State funded entitlement program for qualifying State residents with developmental disabilities, those at risk of developing a developmental disability, and their families.

The Lanterman Act mandates that the State’s services for the developmentally disabled be administered through a network of private, nonprofit corporations. There are currently 21 Regional Centers that operate under contract with the California Department of Developmental Services (“DDS”)

pursuant to the Lanterman Act. The Lanterman Act creates a framework involving both DDS and the Regional Centers. DDS has jurisdiction over promoting the uniformity and cost-effectiveness of the Regional Centers. The Regional Centers determine the level of services needed and coordinate those services to persons with developmental disabilities. The Regional Centers coordinate services and support for over 280,000 children and adults with developmental disabilities and infants at risk of developmental delay or disability. IRC is one of the Regional Centers.

Each Regional Center is required to undertake during each fiscal year two comprehensive evaluations of its budget and funding requirements for the upcoming fiscal year. Such evaluations are conducted in coordination with DDS. Regional Centers are required to bring any funding insufficiencies to the attention of DDS and the Association of Regional Center Agencies (“ARCA”) in time to allow ARCA to request that the applicable Regional Center’s funding needs be incorporated into the Governor’s January budget proposal and the Governor’s May Revision to the budget proposal. Each Regional Center’s contract provides that if ARCA and the State are not able to agree in any fiscal year on the funding allocation process for a Regional Center, no less than 99% of the purchase of service and operations requirements of such Regional Center will be funded by January 15 of that fiscal year. Under the Regional Center contracts, each Regional Center is also required to provide monthly Sufficiency of Allocation Reports to DDS, identifying and explaining any month-to-month changes in projected expenditures. Contract amounts for each Regional Center may be adjusted based on the budgetary needs of such Regional Center.

A Regional Center’s contract is typically modified in mid-August following the passage of the State’s Budget Act and provides substantially all of the funding needs of the Regional Center. Contract amounts not advanced to the Regional Center are paid by DDS on a monthly basis as reimbursements for purchase of service costs incurred by the Regional Center. Regional Centers return substantially all budgeted but unexpended funds to DDS at the end of each fiscal year, with only a small cash balance carried from one fiscal year to the next.

The following table sets forth regional centers’ portion of the DDS Budget for the fiscal years 2010-11 to 2014-15 and the total State Budget for such years.

**California Department of Developmental Services
Budget for Regional Centers
Fiscal Years 2010-11 through 2014-15
(In Millions)**

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Regional Centers	\$4,060.7	\$3,959.9	\$4,207.7	\$4,381.4	\$4,848.5
Total % Change	(0.1)%	(2.7)%	4.1%	6.3%	10.7%
 Total State Budget	 \$125,254.9	 \$129,476.9	 \$142,420.3	 \$145,300.0	 \$156,357.6
Total % Change	5.0%	3.4%	10.0%	2.0%	7.6%

Source: State of California, Department of Finance, Final Budget Summary.

Historically, State funding for Regional Centers has consistently increased, even in fiscal years where the total State budget has declined. However, on February 19, 2009, the State Legislature passed a budget-balancing reform package which was signed by Governor Schwarzenegger on February 20, 2009 and became effective on March 1, 2009 and there were substantial amendments to the budget-balancing reform package on July 28, 2009 (the “2009 Budget Act”). As a result of the 2009 Budget Act, a 3% reduction to the Regional Centers’ operations budgets went into effect for fiscal year 2008-09 and continued through fiscal year 2009-10. The reduction in purchase of services budgets meant

that while rates for service providers to the Regional Centers were held constant, such providers only received 97% of the cost of services they provided.

Future State actions taken to address budgetary difficulties could have the effect of reducing revenues to the Regional Centers, including IRC. The Corporation and IRC are unable to predict the nature, extent or effect of any future reductions, were they to occur, or the impact any such future reductions may have on IRC's finances and operations. See "INVESTMENT CONSIDERATIONS – State Budget and Funding" herein. In addition, the Corporation and IRC are unable to predict the impact of any future State budget actions on Federal resources that historically have been available to the Regional Centers.

In August 2010, the California State Auditor issued a report regarding DDS and the Regional Centers. The report, entitled "A More Uniform and Transparent Procurement and Rate-Setting Process Would Improve the Cost-Effectiveness of Regional Centers," is available at <http://www.bsa.ca.gov/pdfs/reports/2009-118.pdf>; such report is not incorporated herein by reference. In the transmittal letter of the report to the Governor, the Chief Deputy State Auditor stated that "[o]ur report concludes that while most of the expenditures we reviewed for the purchase of services appeared allowable and were supported by proper vendor invoices, the regional centers could not consistently demonstrate the rationale behind their rate-setting and vendor-selection decisions or how contracts are procured. In some cases, the ways in which the regional centers established payment rates and selected vendors had the appearance of favoritism or fiscal irresponsibility and did not demonstrate compliance with recent statutory amendments attempting to control the costs of purchased services. Further, we found that [DDS] systematically audits and reviews whether services purchased for consumers are allowable but generally did not examine how regional centers established rates or selected particular vendors for services. Lastly, a survey of employees at the six regional centers we visited identified several issues in the working environment at some regional centers, including a concern that many regional centers' employees do not feel safe reporting suspected improprieties." The Chief Deputy State Auditor also stated that "[a]fter discussing our concerns with [DDS], it has made a number of improvements to its oversight processes, including new fiscal audit procedures designed to evaluate how regional centers establish vendor rates and to ensure compliance with a statutory rate freeze on all negotiated rates. [DDS] also developed a written process for receiving and reviewing complaints from regional center employees."

In January 2012, the California State Auditor issued a report regarding its findings of the results of its prior recommendations, including its recommendations contained in the aforementioned report regarding DDS and the Regional Centers. The report is available at <http://www.bsa.ca.gov/pdfs/reports/2011-041.pdf>; such report is not incorporated herein by reference. In its report, the California State Auditor noted that of the 17 total recommendations to DDS that the Bureau of State Audits had made, DDS had not fully implemented two of such recommendations, namely, (i) to require the Regional Centers to document the basis of any individual program plan-related vendor selection and specify which comparable vendors (when available) were evaluated, and (ii) to review a representative sample of such documentation as part of its biennial waiver reviews or fiscal audits to ensure that Regional Centers are complying with state law and particularly with the requirement for selection of the least costly available provider of comparable service. In each case, DDS indicated that it will not implement the recommendation because it would be inconsistent with the Lanterman Act, which delegates a great deal of decision making to the Regional Centers. DDS responded to the Bureau of State Audits that it will use its oversight authority to ensure adherence to the law, and issued a directive on August 16, 2010 to Regional Centers to update their internal review process and associated policies and procedures to ensure the Regional Centers' compliance with all current statutes. The directive also requires Regional Centers to inform their staff of the updates to policies and procedures. DDS noted to the Bureau of State Audits that its review of Regional Centers' purchase of service policies for compliance with law is an ongoing process which includes ensuring that Regional Centers are implementing the least costly provision contained in current statutes.

Inland Counties Regional Center

IRC was incorporated in 1971 to serve the developmentally disabled in the Counties of Riverside and San Bernardino (collectively, the “Inland Empire”). IRC is the sole agency under contract with DDS to provide services to the developmentally disabled in the Inland Empire. IRC’s contract with DDS has been continually renewed since 1971. IRC’s budget and caseload have grown consistently as the population of the Inland Empire has grown. See APPENDIX A – “CERTAIN INFORMATION RELATING TO THE CALIFORNIA HOUSING FOUNDATION AND INLAND COUNTIES REGIONAL CENTER.” The source of repayment for the Bonds will be primarily from funds received by IRC pursuant to its contract with DDS, which amounts will be paid by IRC to the Corporation as rent under the Office Lease in connection with the Facilities.

Under IRC’s contract with DDS, the State may take corrective action against IRC based on its failure to perform under the contract. IRC’s current contract with DDS provides that “[i]f it is found that [IRC] does not meet or is at risk of not meeting performance standards, due to the failure to meet performance objectives or requirements under the Lanterman Act or the terms of the contract, the State may take any or all of the following actions independently or in combination: the provision of technical assistance; loss of fiscal incentives; mandated consultation with designated representatives of the [Association of Regional Center Agencies] or a management team designated by the State, or both; issuance of a letter of noncompliance; pursuit of legal or equitable remedies for enforcement of specified obligations; or contract termination or contract nonrenewal subject to section 4635 of the Welfare and Institutions Code.” The State may take any other appropriate action under the Lanterman Act. IRC has never had its contract with DDS suspended, terminated or not renewed.

DDS conducted a fiscal compliance audit of IRC for the period of July 1, 2008 through June 30, 2010. The State issued its final audit report on October 21, 2011. DDS also conducted a fiscal compliance audit for IRC for the period of July 1, 2010 through June 30, 2012. The State issued its final audit report on July 15, 2014. DDS found multiple alleged deficiencies and noncompliance with statutes and regulations and issued various findings and recommendations that IRC repay to DDS various amounts in a combined total of approximately \$12,400,000. IRC appealed DDS’s findings. IRC has been working to address these findings and has provided additional supporting documentation to DDS. As a result, DDS has reduced the amount it claims IRC should repay to the combined amount of \$6,536,687. IRC is continuing to pursue its administrative appeal of the DDS findings and recommendations. IRC cannot predict whether any amounts will have to be reimbursed to DDS or whether any such disallowed costs would materially impair IRC’s ability to pay its obligations, including obligations to the Corporation. 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.

No assurance can be given, that DDS will not take corrective action in the future, including, without limitation, termination of IRC’s contract with DDS. In such circumstance, IRC’s management believes that IRC’s employees would remain in the Facilities and continue to coordinate services to the developmentally disabled and that all payments required to be made under the Office Lease would continue to be made. IRC’s management in the past has been engaged by DDS from time to time to assume the management of other regional centers on an interim basis.

Pledge of Revenues under the Indenture

The principal of and interest on the Bonds are payable solely from and secured solely by the Revenues, the Deed of Trust, the Office Lease (other than Reserved Rights) and all amounts and securities in the funds and accounts held by the Trustee (other than the Rebate Fund and any account therein) and pledged under the Indenture. “Revenues” means all receipts, payments and other income derived by the Authority or the Trustee pursuant to the Loan Agreement (except any payments owed by the Corporation to the Authority in connection with its Reserved Rights made pursuant to the Loan Agreement), including all

Loan Payments and all amounts received by the Corporation under the Office Lease constituting Gross Revenues (as defined herein) under the Loan Agreement, or otherwise in respect of the refinancing of the Project as provided in the Loan Agreement, and any income or revenue derived from the investment of any money in any fund or account established pursuant to the Indenture (other than the Rebate Fund and the Additional Payments Fund and any account therein). Pursuant to the Indenture, the Authority transfers, assigns and sets over to the Trustee all of the Revenues and any and all rights and privileges, other than certain reserved rights it has under the Loan Agreement, including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest therein. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Pledge of Gross Revenues

Under the Loan Agreement the Corporation agrees that, so long as any of the Bonds are Outstanding or any Additional Payments under the Loan Agreement remain unpaid, it will deposit all of the Gross Revenues, as soon as practicable upon receipt, with such banking institutions as the Corporation shall designate from time to time (the “Depository Banks”) in accounts designated collectively as the “Gross Revenue Fund,” and, pursuant to the Loan Agreement, the Corporation pledges, and, to the extent permitted by law, grants a security interest to the Trustee, as assignee of the Authority, for the benefit of the Owners, as and to the extent provided in the Loan Agreement, in the Gross Revenue Fund and all of the Gross Revenues to secure the payment of the Loan Payments and any Additional Payments under the Loan Agreement and the performance by the Corporation of its other obligations under the Loan Agreement.

“Gross Revenues” means all revenues, income, receipts and money received in any period by the Corporation (other than the proceeds of borrowing and interest earned thereon if and to the extent such interest is required to be excluded by the terms of the borrowing), including, but without limiting the generality of the foregoing, (a) gross revenues derived from its operation and possession of and pertaining to the Facilities or any other property or facilities owned or held by the Corporation, (b) gifts, grants, bequests, donations and contributions to the Corporation, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Loan Payments or Additional Payments under the Loan Agreement and, (c) proceeds with respect to, arising from, or relating to the Facilities or any other property or facilities owned or held by the Corporation and derived from (i) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required by the terms of the Loan Agreement or the Indenture to be used for purposes inconsistent with their use for the payment of Loan Payments or Additional Payments under the Loan Agreement), (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical and hospital expense reimbursement programs and agreements, and (vi) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation; provided, however, that Gross Revenues shall not include any funds received by the Corporation pursuant to vendor contracts to be used by the Corporation for the coordination of services to the developmentally disabled; provided further, however, that Gross Revenues shall not include any payments received by the Corporation in connection with homes for the developmentally disabled administered by the Corporation to the extent that such payments are required to pay costs, mortgage payments or contractual services with respect to such homes.

Amounts in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as provided in the Loan Agreement. If the Corporation is delinquent for more than three (3) Business Days in the payment or required prepayment of any Loan Payment, or in the payment of monthly deposits required under the Loan Agreement, the Authority or the Trustee shall notify the Corporation and the Depository Bank(s) of such delinquency, and, unless such Loan Payments or other payment is made within five (5) Business Days after receipt by the Corporation of such notice, the Corporation shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Trustee, as assignee of the Corporation. The Gross Revenue Fund shall remain in the name and to the

credit of the Trustee until the amounts on deposit in the Gross Revenue Fund are sufficient to pay in full (or have been used to pay in full) all Loan Payments in default and payments required and until all other Events of Default known to the Trustee shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefore, whereupon the Gross Revenue Fund (except Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the Corporation. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use and withdraw from time to time amounts in the Gross Revenue Fund, making such withdrawals first from amounts in the Gross Revenue Fund, to make Loan Payments, Additional Payments under the Loan Agreement, and other payments required of the Corporation under the Loan Agreement or with respect to any Parity Debt, as such payments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of Loan Payments and Parity Debt according to the amounts due for Loan Payments and Parity Debt, and to such other payments in the order which the Trustee, in its discretion, shall determine to be in the best interests of the Owners of the Bonds, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Corporation shall continue to deposit all Gross Revenues in the Gross Revenue Fund and shall not be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Trustee in its sole discretion so directs for the payment of current or past due operating expenses of the Corporation; provided, however, that the Corporation shall be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues.

Monthly Deposits

The Corporation will agree in the Loan Agreement that it will make monthly deposits by the 1st Business Day of each calendar month with the Trustee such that preceding each Interest Payment Date or Principal Installment Date, as applicable, an amount equal to the amount of the interest or principal payable on the Bonds on such Interest Payment Date or Principal Installment Date, as applicable, less any amounts then on deposit in the Bond Fund, is available to pay the interest or principal on the Bonds payable on such Interest Payment Date or Principal Installment Date, as applicable. Under the Loan Agreement, the Corporation has an absolute and unconditional general obligation to pay the Loan Payments to be made thereunder, which payments are due in amounts and at the times necessary to pay the principal of and interest to the date of maturity or redemption of the Bonds. Loan Payments are expected to be paid primarily from amounts paid by IRC as rent under the Office lease. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Office Lease” herein.

Rates and Charges and Debt Service Coverage Under Loan Agreement

The Corporation covenants and agrees to fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rent, fees and charges for the use of the Facilities which, together with all other receipts and revenues of the Corporation and any other funds available therefor, will be sufficient in each Fiscal Year to produce Net Income Available for Debt Service equal to at least 1.25 times Aggregate Debt Service for such Fiscal Year with respect to the Bonds. No assurance can be given that the Corporation will be able to fix, charge and collect, or cause to be fixed, charged and collected, rents, fees and charges for the use of the Facilities beyond the rent specified in the Office Lease, see APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement.”

Office Lease

The Corporation entered into the Office Lease with IRC for the Facilities On November 29, 2007. The Office Lease will be amended pursuant to Amendment No. 1 to the Office Lease. The term of the Office Lease exceeds the final maturity of the Bonds. **Rent under the Office Lease is the primary source of Gross Revenues under the Loan Agreement and therefore the primary source of Revenues under**

the Indenture to secure the repayment of the principal of and interest on the Bonds. During the Corporation's fiscal year 2015-16, the total annual amount payable under the Office Lease is expected to be \$6,520,680 (consisting of base rent of approximately \$4,703,910 and operating expenses payable under the Lease of approximately \$1,816,770). Based on net debt service of \$3,117,525 in the Corporation's fiscal year 2015-16, Net Income Available for Debt Service equals 2.09 times. See "ESTIMATED SOURCES AND USES OF FUNDS" and "INVESTMENT CONSIDERATIONS" herein.

Deed of Trust

To secure its obligations under the Loan Agreement and the Indenture, the Corporation will execute and deliver the Deed of Trust, encumbering the Facilities. See "INVESTMENT CONSIDERATIONS – Limitations Relating to the Deed of Trust" herein.

Debt Service Reserve Fund

The Indenture requires the establishment of the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Requirement, which will be \$4,768,250.00 on the date of issuance of the Bonds. "Debt Service Reserve Requirement" means, with respect to the Debt Service Reserve Fund and as of any date of calculation, an amount equal to the least of (a) ten percent (10%) of the initial offering price to the public of the Bonds issued under the Indenture and as determined under the Code, or (b) the greatest amount of the Bond Debt Service for the Bonds and any Additional Bonds issued under the Indenture in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond and any Additional Bonds issued under the Indenture is due, or (c) one hundred twenty-five percent (125%) of the sum of the Bond Debt Service for the Bonds and any Additional Bonds issued under the Indenture for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the issuance of the Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service for the Bonds and any Additional Bonds issued under the Indenture is due, divided by the number of such Fiscal Years, all as computed and determined by the Corporation and specified in writing to the Trustee. If, on any date on which the principal or redemption price of, or interest on, any of the Bonds and any Additional Bonds issued under the Indenture is due, the amount in the Bond Fund available for such payment is less than the amount of the principal and redemption price of and interest on the Bonds due on such date, the Trustee is required to apply amounts from the Debt Service Reserve Fund to the extent necessary to make good the deficiency. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture."

Insurance

The Corporation is obligated to procure or cause to be procured and maintain or cause to be maintained through the term of the loan under the Loan Agreement, insurance for the Facilities against loss or damage to the Facilities or such structure or item of furniture or equipment caused by fire or lightning, with an extended coverage endorsement and vandalism and malicious mischief insurance, which such extended coverage insurance will, as nearly as practicable, cover loss or damage by earthquake, explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance; provided, that earthquake coverage will be required only if available from reputable insurers at commercially reasonable rates, as determined by an Insurance Consultant. In addition, the Corporation is required to maintain or cause to be maintained rental interruption or loss of use insurance for the Facilities in an amount not less than the maximum remaining scheduled Loan Payments in any twenty-four (24) month period, to insure against loss of use of the Facilities caused by perils covered by the insurance required in the Loan Agreement. The insurance required by the Loan Agreement shall be in an amount equal to the lesser of the replacement cost (without deduction for depreciation) of the Facilities or the principal amount of the Outstanding Bonds (except that such insurance may be subject to deductible clauses of not to exceed ten percent (10%) of the amount of any one loss). The Corporation is required to maintain flood insurance on

the Facilities and the furniture, equipment and other contents therein at such levels as shall be determined adequate by the Insurance Consultant in its sole discretion. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement.” There can be no assurance that such insurance will cover all losses or that uninsured or underinsured losses will not have a material adverse impact on the Corporation and its operations.

Limited Obligation of Authority

NONE OF THE AUTHORITY, ANY AUTHORITY MEMBER OR ANY PERSON EXECUTING THE BONDS IS LIABLE PERSONALLY ON THE BONDS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE. THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES UNDER THE INDENTURE. NONE OF THE AUTHORITY, ITS MEMBERS, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS SHALL BE DIRECTLY, INDIRECTLY, CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE BONDS ARE NOT A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, ITS MEMBERS, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS NOR DO THEY CONSTITUTE INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE AUTHORITY HAS NO TAXING POWER.

Limitation on Encumbrances

Under the Loan Agreement, the Corporation covenants and agrees that it will not incur, create, assume or permit to exist any mortgage, deed of trust, pledge, security interest, encumbrance, lien or charge of any kind (a “security interest”) upon the Revenues or the Facilities whether now owned or hereafter acquired except for Permitted Encumbrances. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Limitations on Indebtedness

In the Loan Agreement, the Corporation covenants and agrees that it will not incur any indebtedness or financial obligations by borrowing money, by assuming or guaranteeing the obligations of others, by entering into installment purchase contracts or leases required to be capitalized in accordance with generally accepted accounting principles, or otherwise (other than indebtedness, not for borrowed money, incurred in the ordinary course of business); provided, however, that the Corporation may incur:

(a) Funded Debt incurred for the purpose of refinancing or refunding outstanding indebtedness, which may be Parity Debt if incurred for the purpose of refinancing or refunding outstanding Parity Debt, provided that the Board of Directors determines that such refinancing or refunding is in the best interests of the Corporation;

(b) Debt subordinated to Parity Debt, provided that the instrument pursuant to which such debt is incurred contains no provision that would permit the obligee under such instrument to cause an event of default to occur in connection with any Funded Debt; and

(c) Non-Recourse Indebtedness arising either in connection with the Corporation’s financing of real or personal property not theretofore owned by the Corporation, or in connection with the refinancing of Non-Recourse Indebtedness, whether, in either case, such indebtedness be to the sellers of such property or to banks or other lenders and whether, in either case, such indebtedness be unsecured or secured by liens on the property financed.

Additional Bonds

The Authority may at any time issue Additional Bonds under the Indenture payable from and secured by a pledge of the Revenues under the Indenture on a parity with the Bonds upon the satisfaction of certain conditions set forth therein. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

STATE BUDGET

Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading “California Budget.” An impartial analysis of the budget is posted by the Office of the Legislative Analyst (the “LAO”) at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on cities in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the Corporation or the Authority, and the Corporation and the Authority can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

2015-16 State Budget

On June 24, 2015, Governor Brown signed the Fiscal Year 2015-16 State Budget (the “2015-16 Budget”) which expands child care, boosts funding for public schools and opens the State's public healthcare program to immigrant children who are in the country illegally. The new spending plan, which includes a \$115.4-billion general fund, takes effect July 1 and provides for an estimated 170,000 immigrants 18 and younger to qualify for Medi-Cal. In addition, Governor Brown called special legislative sessions to find sustainable funding for transportation and public healthcare.

Significant adjustments set forth in the 2015-16 Budget affecting DDS include the following:

- \$5.9 billion total funds to DDS for Fiscal Year 2015-16, a net increase of \$456.7 million above the updated Fiscal Year 2014-15 expenditure, an 8.3 percent increase;
- \$20.3 billion (\$7.2 billion general fund) for DDS, an increase of \$244.7 million from the revised 2014-15 budget;
- Community Care Licensing - \$3 million general fund and 28.5 positions to address a backlog of complaint cases and expand training and technical assistance; and
- Interagency Child Abuse and Neglect - \$4 million to support an optional grant program for counties to report instances of suspected child abuse or neglect to local law enforcement agencies.

Proposition 30

On November 6, 2012, California voters approved Proposition 30, which increases personal income taxes on high-income taxpayers for seven years and sales taxes for four years. The new tax revenues are available to fund programs in the State budget, including DDS contracts with Regional Centers. The approval of Proposition 30 averted a \$50 million mid-year cut to the DDS budget for fiscal year 2012-13.

Future State Budgets

No prediction can be made by the Corporation as to whether the State will encounter budgetary problems in future fiscal years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the Corporation cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on Corporation or IRC finances and operations or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. There can be no assurance that actions taken by the State to address its financial condition will not materially adversely affect the financial condition of the Corporation or IRC. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the Corporation, the Authority or IRC have no control.

INVESTMENT CONSIDERATIONS

Investment in the Bonds involves substantial risks. The following information should be considered by prospective investors in evaluating an investment in the Bonds. However, the following does not purport to be an exclusive listing of risks and other considerations which may be relevant to investing in the Bonds, and the order in which the following information is presented is not intended to reflect the relative importance of such risks.

Limited Source for Repayment

The Corporation's primary source of revenues to pay debt service on the Bonds will be the rental payments it receives from IRC under the Office Lease. If IRC were to default in paying rent under the Office Lease there likely would be insufficient moneys available to pay the Owners of the Bonds. The Corporation is presently dependent on IRC for substantially all of the Corporation's Gross Revenues. The Corporation's Gross Revenues will be derived almost entirely from amounts paid by the State pursuant to various contracts between IRC and the State, and, in particular, the contract with DDS that funds IRC's operations and the purchase of services budget. See APPENDIX A - "CERTAIN INFORMATION RELATING TO THE CALIFORNIA HOUSING FOUNDATION AND INLAND COUNTIES REGIONAL CENTER."

The amounts paid by DDS to IRC vary from year to year, and there can be no assurance that the State will continue to renew the DDS contract with IRC at current levels for the services it coordinates to the developmentally disabled. If the State fails to renew the DDS contract with IRC, the ability of IRC to pay the rent required under the Office Lease, and thus the ability of the Corporation to pay debt service on the Bonds, would be adversely affected.

State Budget and Funding

The primary source of Gross Revenues and thus repayment for the Bonds is rent received by the Corporation under the Office Lease. IRC makes rent payments under the Office Lease from moneys received from the State pursuant to IRC's contract with DDS under the Lanterman Act. Funding for the Regional Centers is subject to annual appropriation by the State Legislature. During the previous economic recession, the State experienced severe financial and economic restraints.

For fiscal years 2012-13 and 2013-14, DDS maintained its allocation for rent payable by IRC (and other Regional Centers) to the approximate funding level of fiscal year 2010-11. DDS has informed the Regional Centers that this funding level will be maintained during fiscal year 2015-16. No assurance can be made regarding DDS's calculations of rent allocation for subsequent fiscal years. To the extent the rent allocation under the DDS contract is less than the rent payable by IRC under the Office Lease for the Facilities (which rent is subject to an annual escalation pursuant to the Office Lease), IRC has used and

will use other operations funds provided for under the DDS contract or other available funds to satisfy its rent obligations. Use of other funds has reduced and will reduce funds available to IRC for staffing and other operational purposes. The use of operations funds in addition to those funds specifically allocated to rent payments has not materially adversely affected IRC's operations or financial condition. Inability of IRC to make rent payments under the Office Lease in a timely manner may result in an inability of the Corporation to meet its payment obligations under the Loan Agreement, which may in turn have a material adverse effect on the timely payment of principal of and interest on the Bonds.

Future State actions taken to address budgetary difficulties could have the effect of reducing or delaying funding to DDS and the Regional Centers. There can be no assurance that such difficulties will not have a material adverse effect on IRC's ability to pay when due rent payments under the Office Lease.

The Corporation and IRC are unable to predict the nature, extent or effect of any future reductions, or the impact that any such reductions may have on IRC's finances and operations. **Neither DDS nor any other State agency is a party to the Office Lease and there can be no guarantee that the State will fund the Regional Centers, including IRC, through the term of the Office Lease in amounts sufficient for IRC to make the required payments to the Corporation thereunder.** See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Lanterman Act; Department of Developmental Services; State Budget" herein.

Information regarding the State budget is regularly available at various State-maintained websites, including the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Additionally, an impartial analysis of the State's Budgets is posted by the Legislative Analyst's Office (the "LAO") at www.lao.ca.gov. The Authority, the Corporation and IRC take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted on such websites, and such information is not incorporated herein by reference.

Tax-Exempt Status

Maintenance of Tax-Exempt Status. The tax-exempt status of interest on the Bonds depends upon the maintenance by each of the Corporation and IRC of its respective status as an organization described in section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including its operation for charitable purposes and its avoidance of transactions which may cause its assets to inure to the benefit of private individuals.

The loss of tax-exempt status of the Corporation or IRC could result in loss of tax exemption with respect to interest on the Bonds and defaults in covenants with respect to the Bonds would likely be triggered. Such an event could also have material adverse consequences on the financial condition of the Corporation and IRC.

State Income Tax Exemption. The loss by either the Corporation or IRC of the exclusion of interest from gross income for federal tax purposes might trigger a challenge to its State income and property tax exemptions. Depending on the circumstances, such an event could be adverse and material.

Bankruptcy Risks

The rights and remedies of the Owners of the Bonds are subject to various provisions of the federal Bankruptcy Code. If the Corporation or IRC was to become a debtor in a bankruptcy case, its revenues and certain of its accounts receivable and other property created or otherwise acquired after the filing of such petition and for up to 90 days prior to the filing of such petition may not be subject to the security interest created under the Indenture for the benefit of the Owners of the Bonds. The filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the

Corporation or IRC and their respective properties, and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over their respective properties. If the bankruptcy court so ordered, the property of the Corporation or IRC, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation or IRC despite the security interest of the Trustee therein. While the Bankruptcy Code requires that the interest of the Trustee as lien owner be adequately protected before the collateral may be used by the Corporation or IRC, such protection could take the form of a replacement lien on assets of the Corporation or IRC acquired or created after the bankruptcy petition is instituted. The rights of the Trustee to enforce liens and security interests against the assets of the Corporation or IRC could be delayed during the pendency of the rehabilitation proceedings.

The Corporation or IRC could file a plan for the reorganization of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, if confirmed by a court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Hazardous Substances

While governmental taxes, assessments and charges are common claims against the value of property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized is a claim with regard to hazardous substances. In general, the Corporation may be required by law to remedy conditions of the Facilities relating to release of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws. California laws with regard to hazardous substances are stringent and similar to certain federal acts. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) had or has anything to do with the creation or handling of the hazardous substance. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling the hazardous substance. If any portion of the Facilities is affected by a hazardous substance, the marketability of the Facilities could be impacted and the value of the Facilities could be reduced by the cost of remedying the condition and hence the security for the Bonds could be impaired. Any of these potentialities described in this paragraph could significantly affect the value of the Facilities that would be realized upon a default and foreclosure. In addition, during any period when remediation is occurring, all or a portion of the Facilities may not be able to be occupied. In such circumstance, IRC would be entitled to abatement of all or a portion of its obligation to pay rent under the Office Lease. Any business interruption insurance obtained in connection with the lease of the Facilities may not be sufficient to pay all rent due during such period of abatement.

Limitations on Remedies

The ability of the Trustee to enforce the agreements set forth in the Indenture, the Deed of Trust, and the Loan Agreement will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or be limited. The various legal opinions to be delivered concurrently with the issuance of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights.

Seismic Activity

Generally, throughout the State, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking, destabilization or liquefaction of the soils, and potential for damage to property located at or near the center of such seismic activity. The Corporation maintains general liability insurance covering a variety of hazards, but it does not presently carry earthquake insurance on the Facilities. Unless earthquake insurance is available on the open market from reputable companies at a reasonable cost, the Corporation will not carry such insurance. As a result, if seismic activity causes significant damage to the Facilities, the value thereof could be adversely affected and hence the security for the Bonds could be impaired. In addition, seismic activity in the general vicinity of the Facilities could adversely affect real estate prices generally and/or the rate at which real estate sales occur, thus adversely affecting the security for the Bonds by reducing property values.

Limitations Relating to the Deed of Trust

The security afforded by the Deed of Trust is limited. There can be no assurance that the lien of the Deed of Trust could be foreclosed or otherwise realized upon at a time or in an amount sufficient to make full and timely payment of principal of and interest on the Bonds.

Foreclosure. There are two methods of foreclosing on a deed of trust under State law, by nonjudicial sale and by judicial sale. Foreclosure under a deed of trust may be accomplished by a nonjudicial trustee's sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor and to certain other parties discernable from the real property records. The trustee then must wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the trustee's proposed sale date and giving a notice of sale (in a form mandated by State statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee's sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior to the trustee's sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust and to certain other parties discernable from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period, cure any monetary default by paying the entire amount of the debt then due under the terms of the deed of trust and the obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustee's fees. Following a nonjudicial sale, neither the trustor nor any junior lien holder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor.

Should foreclosure under a deed of trust be sought in the form of a judicial foreclosure, it is generally subject to most of the delays and expenses of other lawsuits, and sometimes requires up to several years to complete. The primary advantage of a judicial foreclosure is that the beneficiary is entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successors in interest may redeem the property for a period of one year (or a period of only three months if the proceeds of sale are sufficient to satisfy the debt, plus interest and costs). In addition, to assure collection of any rents assigned as additional collateral under the Deed of Trust, the Trustee would likely need to seek the appointment by a court of a receiver for the Facilities.

Antideficiency Legislation and Certain Other Limitations on Lenders. The State has four principal statutory prohibitions limiting the remedies of a beneficiary under a deed of trust. Two such prohibitions limit the beneficiary's right to obtain a deficiency judgment, one being based on the method of foreclosure and the other on the type of debt secured. Under the former, a deficiency judgment is ordinarily barred when the foreclosure is accomplished by means of a nonjudicial trustee's sale, except for limited exceptions not applicable to the Deed of Trust. Under the latter, a deficiency judgment is barred where a foreclosed deed of trust secures certain purchase money obligations. A State law, commonly known as the "one form of action" rule, requires the beneficiary to exhaust the security under a deed of trust by foreclosure before bringing a personal action against the trustor on the indebtedness. If a court were to hold that this rule were applicable to the Deed of Trust, and the trustee under the Deed of Trust or the Owners of the Bonds were to file suit or take other actions (including set off) to collect the debt secured by the Deed of Trust without seeking to enforce their remedies under the Deed of Trust, they might be precluded from thereafter proceeding under the Deed of Trust. State law also limits any deficiency judgment obtained by a beneficiary following a judicial sale to the excess of the outstanding debt above the fair market value of the property at the time of sale. This prevents a beneficiary from obtaining a large deficiency judgment against the debtor as the result of low bids at a judicial sale. Statutory provisions (such as the federal bankruptcy laws) may have the effect of delaying enforcement of the lien of the Deed of Trust in the event of a default by the Corporation.

THE AUTHORITY

Under Title 1, Division 7, Chapter 5 of the California Government Code (the "JPA Act"), certain California cities, counties and special districts have entered into a joint exercise of powers agreement (the "JPA Agreement") forming the Authority for the purpose of exercising powers common to the members and exercising the additional powers granted to the Authority by the JPA Act and any other applicable provisions of California law. Under the JPA Agreement, the Authority may issue bonds, notes or any other evidence of indebtedness, for any purpose or activity permitted under the JPA Act or any other applicable law.

The Authority may sell and deliver obligations other than the Bonds. These obligations will be secured by instruments separate and apart from the Indenture and Loan Agreement, and the holders of such other obligations of the Authority will have no claim on the security for the Bonds. Likewise, the Holders of the Bonds will have no claim on the security for such other obligations that may be issued by the Authority.

Neither the Authority nor its independent contractors has furnished, reviewed, investigated or verified the information contained in this Official Statement other than the information contained in this section and the section entitled "ABSENCE OF LITIGATION - The Authority." The Authority does not and will not in the future monitor the financial condition of the Corporation or IRC or otherwise monitor payment of the Bonds or compliance with the documents relating thereto. Any commitment or obligation for continuing disclosure with respect to the Bonds, the Corporation or IRC has been undertaken solely by the Corporation and IRC. See "CONTINUING DISCLOSURE" herein.

TAX MATTERS

Tax Exemption

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. Each of the Authority and the Corporation has covenanted to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. It is the further opinion of Bond Counsel, that under existing statutes, regulations, rulings and court decisions, that the Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

Pursuant to the Indenture and the Loan Agreement, and in the *Tax Certificate Pertaining to Arbitrage and Certain Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986*, to be delivered by the Authority, the Corporation and IRC in connection with the issuance of the Bonds, each of the Authority, the Corporation and IRC will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described in the immediately preceding paragraph, Bond Counsel will assume the accuracy of such representations and the present and future compliance by each of the Authority, the Corporation and IRC with its covenants.

Except as stated in this section above, Bond Counsel will express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the Bonds. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequence with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel. Bond Counsel has not undertaken to advise in the future whether any event after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority, the Corporation and IRC described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Authority as the “taxpayer,” and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Authority or the Corporation may have different or conflicting interest from the owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

No assurance can be given that future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

The opinion of Bond Counsel will be subject to certain other assumptions and qualifications set forth therein. A copy of the proposed form of opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix F.

Tax Accounting Treatment of Bond Premium and Original Issue Discount on Bonds

To the extent that a purchaser of a Bond acquires that Bond at a price in excess of its “stated redemption price at maturity” (within the meaning of section 1273(a)(2) of the Code), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Bond to the owner.

The excess, if any, of the stated redemption price at maturity of Bonds of a maturity over the initial offering price to the public of the Bonds of that maturity is “original issue discount.” Original issue discount accruing on a Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax to the same extent as would be stated interest on that Bond. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of Bonds who purchase such Bonds other than at the initial offering price and pursuant to the initial offering

Other Tax Consequences

Although interest on the Bonds may be exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner’s federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the owner’s other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel will express no opinion regarding any such other tax consequence. Bond Counsel will express no opinion regarding any such tax accounting matter. Persons considering the purchase of Bonds with original issue discount or

initial bond premium should consult with their own tax advisors with respect to the determination of original issue discount or amortizable bond premium on such Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Bonds.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel. Norton Rose Fulbright US LLP is also serving as Disclosure Counsel. Approval of certain legal matters will be passed upon for the Authority by its counsel, Jones Hall, A Professional Law Corporation, for the Corporation by its counsel Fullerton, Lemann, Schaefer & Dominick LLP, San Bernardino, California, for IRC by its counsel Steven K. Beckett, PLC, Redlands, California, and for the Underwriter by its counsel, Quint & Thimmig LLP, Larkspur, California. Jones Hall, A Professional Law Corporation, undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

LITIGATION

The Authority

To the knowledge of the Authority, there is no material litigation pending or threatened against the Authority concerning the validity of the Bonds or any proceedings of the Authority taken with respect to the issuance thereof.

The Corporation and Inland Counties Regional Center

There are no actions, suits or proceedings pending or, to the Corporation's best knowledge, threatened against the Corporation; (i) seeking to restrain or enjoin the issuance or delivery of any of the Bonds or the collection of Revenues pledged under the Indenture or the collection of Gross Revenues under the Loan Agreement or the payment of Loan Payments; (ii) in any way contesting or adversely affecting the authority for the issuance of the Bonds or the validity of the Bonds, the Indenture, the Loan Agreement, the Office Lease or the Deed of Trust; (iii) contesting the existence or powers of the Corporation; (iv) which, if determined adversely to it, would materially adversely affect the consummation of the transactions described in this Official Statement or contemplated by the Indenture, the Loan Agreement, the Office Lease or the Deed of Trust or the ability of the Corporation to perform its obligations thereunder, as applicable; or (v) contesting the Corporation's status as an organization described in section 501(c)(3) of the Code or which would subject any income of the Corporation to federal income taxation to such extent as would result in loss of the exclusion from gross income for federal income tax purposes of interest on any of the Bonds under section 103 of the Code.

On October 24, 2014, Augustine Clemente, a window washer, suffered serious injuries when his carbon fiber water fed extension pole allegedly made contact with high-voltage power lines outside of the Facilities. On May 20, 2015, Plaintiff filed a Complaint in *Augustine Clemente v. California Housing Foundation et. al.* (San Bernardino Superior Court Case No. CIVDS 1507238) with one cause of action for negligence against Derek Rivera d/b/a Mr. Window Cleaning, California Housing Foundation, Tiarna Real Estate Services, Inc. and Southern California Edison. The Complaint alleges that Mr. Clemente suffered severe third degree burns to 40% of his body, has undergone numerous surgeries including the amputation of a finger, and remains severely physically and cognitively impaired. The Complaint further alleges that the Corporation negligently constructed or caused to be constructed the Facilities that did not provide for a safe working environment in violation of various California Labor Code sections. The Corporation maintains a Premises Operations General Liability Coverage with a \$1,000,000 liability limit and an excess liability limit of \$3,000,000. There may be insurance coverage available to cover Plaintiff's claims from the other defendants named in this action or other third parties. There may also be contractual indemnity obligations of other parties to protect the Corporation against liabilities alleged in this lawsuit. Discovery is

currently being conducted so the full extent of the claims, damages, insurance coverages and potential liability cannot be estimated at this time. Although the amount of Plaintiff's damages is not known at this time, liabilities that could arise from this lawsuit may exceed insurance policy limits.

The Corporation, IRC and Southwestern Transportation Management Service, LLC (a vendor of IRC, referred to as "STMS") were named as defendants in a case titled *State of California ex rel. Danny Gilbert v. Inland Regional Center; Southwestern Transportation Management Services, LLC, William Ames, and California Housing Foundation, Does 1-30* [San Bernardino County Superior Court Case No CIVDS 1204390] (the "State Action"). The complaint was filed on June 3, 2010 and alleges violations of the California False Claims Act ("CFCA") against all defendants and wrongful employment termination causes of action against IRC only. The plaintiff filed a second amended complaint on September 17, 2012.

The plaintiff also filed a lawsuit against IRC and STMS titled *United States of America ex rel. Danny R. Gilbert v. Inland Regional Center et. al., Case Number CV-13-02978 in the United States District Court for the Central District of California* (the "Federal Action") alleging that the defendants made false claims under the Federal False Claims Act ("FFCA"). The Federal Action also alleges wrongful employment termination claims against IRC. The Corporation is not a party to the Federal Action.

Both the Corporation and IRC demurred to the complaint in the State Action and the court stayed the CFCA causes of action pending the outcome of an administrative audit appeal between IRC and DDS since that appeal addresses the same transactions involved in the State Action. The Corporation is not a party to the IRC/DDS administrative audit appeal.

IRC and STMS filed motions to dismiss the Federal Action because it was based on the same facts as the State Action. The court granted the motions to dismiss the Federal Action and the plaintiff has appealed that dismissal. The appeal is pending before the Ninth Circuit Court of Appeals.

The wrongful employment termination causes of actions in the State Action were not stayed. On or about March 27, 2015, plaintiff and IRC participated in a mediation and reached a tentative settlement. On July 6, 2015 plaintiff filed a motion to approve the settlement and on July 7, 2015 IRC filed a motion for determination of good faith settlement. The basic terms of the settlement include a payment by IRC to Plaintiff in the total amount of \$2,000,000 in four annual installments of \$500,000 each beginning on August 15, 2015. As consideration for the settlement payment, IRC is to be dismissed with prejudice from the wrongful termination causes of action in both the State Action and Federal Action, and dismissed without prejudice from the CFCA causes of action in the State Action and the FFCA causes of action in the Federal Action. Both the California Atty. Gen.'s office and the US Attorney's office have consented to the settlement and dismissal.

A hearing on Plaintiff's and IRC's motions to approve the settlement was set for August 17, 2015. The Corporation and STMS filed oppositions to Plaintiff's and IRC's motions to approve the settlement. On August 17, 2015 the court issued its ruling granting both motions.

A violator of the CFCA can face damages in an amount of three times the amount of loss suffered by the State, civil penalties of not less than \$5,500 nor more than \$11,000 for each violation, and be liable for the qui tam plaintiff's reasonable costs and attorney fees. Plaintiff alleged in the State Action that the State was damaged in an amount of \$450,000 by the joint conduct of the Corporation and IRC. Therefore, under the relevant statutes a finding of liability could amount to at least \$1,350,000 in damages plus attorney fees and costs.

The Corporation will continue to vigorously contest the State Action and believes that there is no basis for the claims alleged against it in that lawsuit.

In addition, during the ordinary course of carrying out its activities, IRC is subject to litigation from time to time. The Corporation is not aware of any pending or threatened litigation against IRC that would materially and adversely impair or delay the payments to be made by IRC to the Corporation under the Office Lease.

UNDERWRITING

The Authority and the Corporation have entered into a purchase contract with Westhoff, Cone & Holmstedt (the “Underwriter”) pursuant to which the Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Authority at an aggregate price of \$79,012,584.00 (being the principal amount of the Bonds of \$73,150,000.00, plus a net original issue premium of \$6,594,084.00, less an Underwriter’s discount of \$731,500.00). The Underwriter is obligated under the purchase contract to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold by the Underwriter to certain dealers and others at yields lower than the public offering yield indicated on the inside cover hereof, and such public offering yield may be changed, from time to time, by the Underwriter.

The Underwriter has entered into an agreement with Alamo Capital for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Bonds, the Underwriter will share a portion of its underwriting compensation with respect to the Bonds with Alamo Capital.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Verification Agent will verify the accuracy of (i) mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the United States Government Securities deposited in the Escrow Fund, together with amounts held as cash therein, to provide for payment of the redemption price (including accrued interest) of the Prior Bonds on the Redemption Date and (ii) certain mathematical computations supporting the conclusion that the Bonds are not “arbitrage bonds” under the Code, which verification will be relied upon by Bond Counsel in reaching its opinion regarding the exclusion pursuant to section 103(a) of the Code of interest on the Bonds described in “Tax Matters,” above.

The report of the Verification Agent will include the statement that the scope of its engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell Bonds and the Authority will not provide any such information. The Authority shall have no liability to the Owners of the Bonds or any other person with respect to Rule 15c2-12.

The Corporation and IRC have undertaken all responsibilities for any continuing disclosure to Owners as described below. To assist the Underwriter with its obligation to comply with applicable provisions of the Rule, the Corporation and IRC will execute the Continuing Disclosure Agreement. Under the Continuing Disclosure Agreement, Willdan Financial Services will serve as the initial Dissemination Agent. See APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

In the past five years, the Corporation and IRC failed to timely file certain annual reports and financial statements. The Corporation and IRC have since filed such annual reports and financial statements. In addition, in connection with the annual reports described above, within the past five years, the Corporation and IRC did not file a notice of failure to provide annual financial information on or before the date specified in their prior continuing disclosure undertaking. On March 24, 2015, the Board of Directors

of the Corporation adopted a Continuing Disclosure Compliance Policy pursuant to Resolution No. 3-24-2015. Under this policy, the President/CEO of the Corporation is designated as the responsible officer for compiling and filing annual reports and event notices, if necessary. The policy establishes procedures that are intended to assist the Corporation in making timely and complete filings under the Continuing Disclosure Agreement.

RATING

Moody's Investors Service, Inc. ("Moody's") has assigned the Bonds a rating of "A3." Such rating reflects only the view of Moody's and any explanation of the significance of such rating should be obtained from Moody's at the following address: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's, if in the judgment of Moody's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

FINANCIAL STATEMENTS

Included as Appendix B to this Official Statement are the audited financial statements of the Corporation for the Fiscal Year ended June 30, 2014 and the financial statements of IRC for the Fiscal Year ended June 30, 2014. The financial statements of the Corporation and IRC included as APPENDIX B have been audited by Vavrinek, Trine, Day & Co., LLP, certified public accountants ("Vavrinek") and Windes, certified public accountant ("Windes"), respectively. Vavrinek and Windes were not requested to consent to the inclusion of its reports in Appendix B and they have not undertaken to update their respective reports or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Vavrinek or Windes with respect to any event subsequent to the respective date of its reports.

MISCELLANEOUS

All quotations from and summaries and explanations of the Indenture, the Loan Agreement, the Continuing Disclosure Agreement, the Office Lease, the Deed of Trust and of other documents contained herein do not purport to be complete, and reference is made to such documents for full and complete statements of their provisions. Copies of the foregoing documents may be obtained upon request from the Trustee and upon payment of the expenses incurred in connection therewith.

Any statements in this Official Statement involving matters of opinion are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the Corporation and Owners of any of the Bonds. Appendices A and B hereto, and other portions of this Official Statement, contain certain information with respect to the Corporation and IRC. Such information has been furnished by the Corporation and IRC and officers and officials of the Corporation and IRC, and the Authority makes no representation or warranty whatsoever with respect to the information contained in such Appendices or any other information contained in this Official Statement, except for information set forth under the captions "THE AUTHORITY" and "ABSENCE OF LITIGATION – The Authority" herein.

This Official Statement and the execution and delivery thereof have been duly approved and authorized by the Corporation and IRC.

CALIFORNIA HOUSING FOUNDATION

By: /s/ Steve von Rajcs
President/CEO

INLAND COUNTIES REGIONAL CENTER, INC.

By: /s/ Marybeth Feild
President

By: /s/ Denise Woolsey
Secretary

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APPENDIX A

CERTAIN INFORMATION RELATING TO THE CALIFORNIA HOUSING FOUNDATION AND INLAND COUNTIES REGIONAL CENTER

In 1969, the State of California (the “State”) enacted the Lanterman Developmental Disabilities Services Act (the “Lanterman Act”), which created a State-funded entitlement program for qualifying State residents with developmental disabilities, those at risk of developing a developmental disability, and their families. The Lanterman Act mandates that the State’s services for the developmentally disabled be administered through a network of private nonprofit corporations. There are currently 21 such corporations (the “Regional Centers”), that operate under contract with the California Department of Developmental Services (“DDS”), the central coordinating agency for the Regional Centers. The Regional Centers coordinate services and support for over 280,000 children and adults with developmental disabilities and infants at risk of developmental delay or disability. DDS is one of 13 departments and one board comprising the California Health and Human Services Agency. In fiscal year 2014-15, the State provided approximately \$4.8 billion to the 21 Regional Centers to coordinate the delivery of services pursuant to the Lanterman Act. Under the State’s current budget, funding to Regional Centers will increase to \$5.9 billion for fiscal year 2015-16.

THE CORPORATION

General

The California Housing Foundation (the “Corporation”), formerly the Developmental Support Services Foundation, is a California nonprofit public benefit corporation and an organization described in section 501(c)(3) of the Internal Revenue Code of 1986. The Corporation was organized as a supporting organization for Inland Counties Regional Center, Inc., a California nonprofit public benefit corporation (“IRC” or “Inland Counties Regional Center”), and subsequently amended its bylaws to allow the Corporation to serve all of the Regional Centers. The Corporation was incorporated in 1998 in furtherance of IRC’s commitment to coordinate services to the developmentally disabled. The Corporation is authorized to receive donations from the public. The Corporation also owns property and residential homes and leases them to third-party vendors that provide services to the developmentally disabled. Such residential properties do not provide any security for the Bonds. The Corporation has two full-time and two part-time employees.

History

The predecessor to the Corporation was initially formed, at the request of Verlin Wooley, then Executive Director of IRC, by a small group of individuals with the purpose of facilitating and augmenting IRC’s coordination of services to people with developmental disabilities in the counties of Riverside and San Bernardino.

In 2000, the Corporation established the Independent Living Grant Program (the “Independent Living Grants Program”), which was designed to assist developmentally disabled individuals with their transition to independent living situations. Since the establishment of the Independent Living Program, the Corporation has awarded over \$1,000,000 in Independent Living Grants. This program ended in 2009 at the direction of IRC. In 2001, the Corporation built four homes in the Palm Desert area as part of a pilot project for the construction of homes built specifically for developmentally disabled adults. The four Palm Desert homes currently house 16 such individuals. Based on the success of the homes in the pilot program, the Corporation’s mission now includes the provision of a permanent stock of homes designed to suit the needs of the developmentally disabled.

The Corporation currently owns 50 homes that house over 200 individuals with developmental disabilities. Each Corporation home is leased to a qualified, licensed care provider selected by IRC or another Regional Center. Care is provided 24-hours per day by staff that does not live in the homes.

Board of Directors

The Corporation is governed by a Board of Directors comprised of nine volunteer members from the community (the “Board of Directors”). The Director of IRC is also a member of the Advisory Committee. Members of the Board of Directors serve a term of one year. The current members of the Board of Directors and their principal occupations are set forth in the table below.

<u>Name</u>	<u>Position</u>	<u>Principal Occupation</u>
Toni Callicott	Chair	Retired Foundation Executive
C. James Clinton	Vice Chair	Retired Banking Executive
Mark Cousineau	Secretary	Public Accounting Executive
Scott Brown	Treasurer	College Administrator/Counselor
Dwight Tate	Member	Retired Investment Professional
Jane Carney	Member	Retired Attorney
Drew Gagner	Member	Foundation Executive
Don Nydam	Member	Executive and Entrepreneur
Steve von Rajcs	President/CEO	President & CEO of Corporation

Corporation Management

The Corporation’s President/CEO oversees the day-to-day operations of the Corporation. The Vice President assists the President and manages the renovation of properties purchased by the Corporation. Brief biographies of the senior management of the Corporation are set forth below.

Steve von Rajcs, President/CEO. Mr. von Rajcs accepted the position of President/CEO of the Corporation in July 2005, after nearly thirty years in the financial services industry. He has a long record of civic and charitable involvement. Mr. von Rajcs is a graduate of Saint Mary’s College of California. His banking career was primarily focused on commercial banking, product management, marketing, and branch management. He left the banking industry in 2005 after founding and serving as President & CEO of Members Business Services, a Credit Union Service Organization that provides commercial banking services to credit unions.

Daniel Schenkel, Vice President. Mr. Schenkel joined the Corporation in July 2006. Mr. Schenkel graduated from Calvin College, Grand Rapids, Michigan with a Bachelor of Arts in history and education. He taught for two years before going to work for an international non-profit organization in Uzbekistan and Afghanistan. Mr. Schenkel subsequently returned to the United States and obtained a Masters of Business Administration at the University of Redlands.

Insurance

The Corporation currently maintains insurance with commercial insurers for maximum policy amounts of up to \$1,000,000 per occurrence with an aggregate limit of \$3,000,000 for property coverage, up to \$1,000,000 per occurrence with an aggregate limit of \$3,000,000 for general liability coverage, and up to \$1,000,000 per occurrence with an aggregate limit of \$3,000,000 for professional liability/medical malpractice coverage.

Financial Information

The following table sets forth the audited revenues and expenses of the Corporation for fiscal years 2009-10 through 2013-14.

THE CORPORATION STATEMENT OF REVENUES AND EXPENSES Fiscal Years 2009-10 through 2013-14

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Support and Revenue					
Contributions	\$ 94,512	\$ 29,850	\$ 5,490	\$ 4,550	\$ 5,750
Rental Income	7,440,113	9,098,674	9,456,457	9,813,929	10,036,480
Management fees	70,019	86,544	89,136	91,812	94,581
Program income/grants	1,147,737	2,145,500	1,308,450	879,344	616,580
Investment income	<u>79,551</u>	<u>31,348</u>	<u>193,375</u>	<u>193,558</u>	<u>187,941</u>
Total Revenues	<u>\$8,831,932</u>	<u>\$11,391,916</u>	<u>\$11,052,908</u>	<u>\$10,983,193</u>	<u>\$10,941,332</u>
Expenses					
Program Services					
Residential facilities	\$910,711	\$932,516	\$978,088	\$1,244,042	\$1,388,210
Other client services	207,701	173,975	40,245	45,843	56,247
IRC Headquarters	5,403,126	6,720,978	6,670,070	6,851,267	6,882,396
Supporting Services					
General and administrative	<u>313,829</u>	<u>200,462</u>	<u>235,133</u>	<u>212,265</u>	<u>194,364</u>
Total Expenses	<u>\$6,835,367</u>	<u>\$ 8,027,931</u>	<u>\$ 7,923,536</u>	<u>\$ 8,353,417</u>	<u>\$ 8,521,217</u>
CHANGE IN NET ASSETS	\$1,996,565	\$3,363,985	\$3,129,372	\$2,629,776	\$2,420,115
NET ASSETS, BEGINNING OF YEAR	<u>5,086,801</u>	<u>7,083,366</u>	<u>10,447,351</u>	<u>13,576,723</u>	<u>16,206,499</u>
NET ASSETS, END OF YEAR	<u>\$7,083,366</u>	<u>\$10,447,351</u>	<u>\$13,576,723</u>	<u>\$16,206,499</u>	<u>\$18,626,614</u>

Source: Audited financial statements of the Corporation.

Operating Revenues and Expenses

The Corporation's total annual revenues of approximately \$10.94 million for fiscal year 2013-14 represent an increase of 23.9% from its annual revenues of \$8.83 million in fiscal year 2009-10. The Corporation had total annual expenditures of approximately \$8.51 million for fiscal year 2013-14, representing an increase of 24.5% from its annual expenditures of \$6.83 million in fiscal year 2009-10.

Statement of Financial Position

The following table sets forth the statement of financial position for fiscal years 2009-10 through 2013-14.

THE CORPORATION STATEMENT OF FINANCIAL POSITION Fiscal Years 2009-10 through 2013-14

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Assets					
Current Assets					
Unrestricted cash and cash equivalents	\$ 3,107,657	\$ 2,263,519	\$ 2,211,480	\$ 4,335,287	\$ 4,395,425
Restricted cash and investments	9,926,356	8,291,291	8,416,784	6,509,120	6,632,413
Accounts receivable	-	13,218	158,185	3,000	-
Prepaid expenses and deposits	<u>47,765</u>	<u>49,200</u>	<u>70,652</u>	<u>126,530</u>	<u>31,730</u>
Total Current Assets	13,081,778	10,617,228	10,857,101	10,973,937	11,059,568
Noncurrent Assets					
Rents receivable	2,271,830	4,871,991	7,346,137	9,678,971	11,877,884
Intangible assets	4,047,803	6,188,959	5,985,196	5,778,751	5,568,933
Property, furniture, equipment and construction in progress, net	70,319,593	70,634,572	71,339,530	72,373,100	73,992,489
Total Noncurrent Assets	<u>-</u>	<u>-</u>	<u>84,670,863</u>	<u>87,830,822</u>	<u>91,439,306</u>
TOTAL ASSETS	<u>\$89,721,004</u>	<u>\$92,312,750</u>	<u>\$95,527,964</u>	<u>\$98,804,759</u>	<u>\$102,498,874</u>
LIABILITIES AND NET ASSETS					
Current Liabilities					
Accounts payable	\$ 60,646	\$ 48,719	\$ 47,016	\$ 85,125	\$ 34,203
Accrued expenses	372,728	367,366	369,975	366,582	375,548
Rents received in advance	81,841	115,172	80,493	68,528	73,532
Deferred revenue	2,161,455	688,609	363,109	107,410	148,333
Notes payable – current portion	3,028,354	4,325,675	128,351	178,319	190,182
Bonds payable – current portion	<u>76,932,614⁽¹⁾</u>	<u>76,319,858⁽¹⁾</u>	<u>1,005,000</u>	<u>1,210,000</u>	<u>1,430,000</u>
Total Current Liabilities	\$82,637,638 ⁽¹⁾	\$81,865,399 ⁽¹⁾	\$1,993,944	\$2,015,964	\$2,251,798
Noncurrent Liabilities					
Notes payable	-	-	5,434,037	7,249,175	9,695,698
Bonds payable, net	-	-	74,523,260	73,333,121	71,924,764
Total Noncurrent Liabilities	<u>-</u>	<u>-</u>	<u>79,957,297</u>	<u>80,582,296</u>	<u>81,620,462</u>
TOTAL LIABILITIES	<u>\$82,637,638</u>	<u>\$81,865,399</u>	<u>\$81,951,241</u>	<u>\$82,598,260</u>	<u>\$83,872,260</u>
NET ASSETS					
Unrestricted	6,949,299	10,447,351	13,576,723	16,206,499	18,626,614
Temporarily restricted	<u>134,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL NET ASSETS	<u>\$7,083,366</u>	<u>\$10,447,351</u>	<u>\$13,576,723</u>	<u>\$16,206,499</u>	<u>\$18,626,614</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$89,721,004</u>	<u>\$92,312,750</u>	<u>\$95,527,964</u>	<u>\$98,804,759</u>	<u>\$102,498,874</u>

⁽¹⁾ Prior to Fiscal Year ended June 30, 2012, Notes Payable and Bonds Payable were not split between current and noncurrent portions.

Source: Audited financial statements of the Corporation.

Corporation's Primary Mission

The Corporation's core program is the acquisition and renovation of single-family homes designed as residences for persons with developmental disabilities. The Corporation has acquired and improved a total of 50 single-family homes. Each home is leased to a care provider selected and authorized as a vendor by the Regional Center system. Acquisition advances constitute a substantial portion of the Corporation's revenues used for the purchase and renovation of the homes. Such advances are repayable by the Corporation only if it fails to complete the construction of homes pursuant to the terms of each contract. Current construction projects include two homes in Clovis, California, one in the San Gabriel Valley, and two in the San Fernando Valley. The Corporation also has a current contract to acquire and develop two more homes for the San Gabriel/Pomona Regional Center and one for IRC.

INLAND COUNTIES REGIONAL CENTER

General

IRC was founded in 1971 and operates as one of 21 Regional Centers established under the Lanterman Act. IRC is among the largest Regional Centers as measured by annual budget, caseload and service area. IRC has approximately 600 employees. In fiscal year 2014-15, IRC's contracted revenues from DDS exceeded \$344 million and IRC coordinated the delivery of services to more than 30,000 Consumers during the same period within a service area of nearly 28,000 square miles in the counties of San Bernardino and Riverside. These counties have a combined population of over 4.3 million residents. In fiscal year 2014-15, the State will provide approximately \$4.8 billion to the 21 Regional Centers to coordinate the delivery of services pursuant to the Lanterman Act. Under the State's current budget, funding to Regional Centers will increase to \$5.9 billion for fiscal year 2015-16.

Population of Service Area

The counties of San Bernardino and Riverside have a higher population growth rate than the State as a whole. The following table sets forth the population in the counties of San Bernardino, Riverside, and the State from 2004 to 2014.

<u>Year</u>	<u>San Bernardino County</u>	<u>Riverside County</u>	<u>State of California</u>
2004	1,900,210	1,856,879	35,753,000
2005	1,942,734	1,934,723	35,986,000
2006	1,976,767	2,017,350	36,247,000
2007	2,002,651	2,082,656	36,553,000
2008	2,016,526	2,122,920	36,856,000
2009	2,022,319	2,158,399	37,077,000
2010	2,038,518	2,191,919	37,309,000
2011	2,053,077	2,220,269	37,570,000
2012	2,063,867	2,249,045	37,867,000
2013	2,074,080	2,264,569	38,164,000
2014	2,091,618	2,295,298	38,499,000
Growth Rate *	10.1%	23.6%	7.7%

Source: State of California, Department of Finance, E-2, E-6, and E-7 Population Estimates.

* Growth rate, in percentages, from 2004 to 2014.

Eligibility Criteria

Individuals must have a developmental disability, as defined in section 4512 California Welfare and Institutions Code, to receive services from providers under contract with Regional Centers funded by DDS. “Developmental disability” means a disability that originates before an individual attains 18 years of age; continues, or can be expected to continue, indefinitely; and constitutes a substantial disability for that individual, including intellectual disability, cerebral palsy, epilepsy, autism and disabling conditions found to be closely related to intellectual disability or to require treatment similar to that required for individuals with intellectual disability, but does not include other handicapping conditions that are solely physical in nature. Infants and toddlers, ages 0 to 36 months, who have an established risk condition or who have a developmental delay may also qualify for services.

Board of Trustees

IRC is governed by a Board of Trustees composed of 17 volunteer members from the community with demonstrated interest in developmental disabilities, including individuals with developmental disabilities or their parent or guardian (the “Board of Trustees”). Members of the Board of Trustees serve until disqualified, replaced by a successor, removed by majority vote, resignation or service for six years in any eight-year period. The current members of the Board of Trustees and their respective occupation are set forth below.

<u>Name</u> [*]	<u>Position</u>	<u>Principal Occupation</u>
Marybeth Feild	President	Law Officer Manager
Keith J. Nelson, Ph.D.	Vice President	Chief Technology Officer
Denise Woolsey	Secretary	Parent/Advocate
Leanett Loury-Smith	Treasurer	Retired Special Ed Teacher
Peter Asten	Trustee	Financial Advisor
Theodore Leonard	Trustee	Landscaper
Jack Padilla	Trustee	Retired Social Worker
Rene Rojo	Trustee	Retail Service Worker
John Weeks	Trustee	Retired Receptionist
Cody Williams	Trustee	Unemployed/Consumer
Tami Simpson	Trustee	Regional Director
Cameron Page	Trustee	Attorney
Sheela Stark	Trustee	Attorney
Alva Stewart	Trustee	Social Worker
Tom Cosand	ARCA Rep	Retired Program Manager

* There are currently two vacancies on the Board of Trustees.

Management

IRC’s day-to-day operations are managed by a senior management team of five long-time professionals and are led by IRC’s Interim Co-Executive Directors, Lavinia Johnson and Kevin Urtz. Ms. Johnson and Mr. Urtz were named Interim Co-Executive Directors in May of 2015. Brief biographies of the senior management team of IRC are set forth below.

Lavinia Johnson, Interim Co-Executive Director. Ms. Johnson has been with IRC for 27 years. She is currently serving as the Interim Co-Executive Director with Mr. Kevin Urtz. Ms. Johnson received her Bachelor’s Degree in Social Work from California Polytechnic University and her Master’s Degree in Education/Counseling from California State University, San Bernardino. Ms. Johnson began her

professional career at IRC on November 1, 1988 as a Consumer Service Coordinator. In 1997 she was promoted to Program Manager and supervised 23 Consumer Service Coordinators. While serving as Program Manager, Ms. Johnson developed the Autism Compliance Review and was successful in collaborating with parents and school districts to provide home to classroom best practices and service delivery. In 2007, Ms. Johnson was promoted to Director of Children Services where she supervised 12 Program Managers and their units. In 2011, IRC reorganized their structure and the Intake, Clinical, Early Starts and Family Resource Center units were added to her responsibilities.

Kevin Urtz, Interim Co-Executive Director. Mr. Urtz received his Master's Degree in Social Work from Long Beach State in May of 1989. He also has a Bachelor's Degree in Psychology from the University of Notre Dame (1977). He is currently serving as the Interim Co-Executive Director with Ms. Lavinia Johnson. Prior to his employment at IRC, he was a Consumer Service Coordinator at San Gabriel/Pomona Regional Center from April 1985 to July 1990. Prior to that he worked at Ennoble Group Centers based in Long Beach for four years. He was a shift supervisor in their 87-bed facility for one year before being asked to set up and run three six-bed residential facilities for individuals with intellectual and developmental disabilities. He also worked as a Behavior Specialist at College Hospital in Cerritos for one year and as a Counselor at the Long Beach Youth Home for another year. Mr. Urtz began his professional career at IRC in July 1990 as a Senior Counselor for the Medicaid Waiver Unit. In June, 1991 he was promoted to Program Manager and served in this capacity until December 2014 when he was promoted to Director of Adult Services.

Merissa Steuwer, Director, Financial Services. Ms. Steuwer has more than 23 years of experience handling Regional Center finances. She joined IRC in January 1992 as a Reimbursement Specialist in the Purchase of Service Unit that is responsible for paying vendors providing services to IRC consumers. She was promoted to the Account Technician position of the unit in 1994. In 2000, Ms. Steuwer took on a different role and was promoted to Manager of the Accounting and Payroll Department. As Manager of Accounting and Payroll, she was also responsible for the administration of IRC's retirement plan with CalPERS and the 403-b Plans. In 2012, Ms. Steuwer was promoted to senior management as Director of Finance. Ms. Steuwer's current responsibilities include, but are not limited to, planning, development, and implementation of IRC's budgets; preparation of various financial reports for IRC, its Board of Trustees, and the Department of Developmental Services. Ms. Steuwer earned a B.S. in Business with a major in Economics and minor in Accounting from the College of the Holy Spirit, Manila, Philippines; and an MBA from the University of Redlands.

Felipe Garcia, Director, Children and Transition Services. Mr. Garcia started his professional career at IRC in April 2000 as a Consumer Service Coordinator in the San Bernardino Transition Unit. He obtained his Master of Arts Degree in Rehabilitation in 2002. He was promoted to Program Manager of the West End School Age unit in September 2003. As a Program Manager, he also participated in the Autism Review Team that was responsible for the referral process of cases requesting ABA services. In 2012, Mr. Garcia left IRC to pursue his Board Certified Behavior Analyst certificate and worked for California Mentor from May 2012 to December 2014 as an Area Director. In January 2014, he returned to IRC as a Behavior Consultant and was in charge of reviewing cases that requested ABA services. In October 2014, he became the Director of the Children and Transition Services units.

Treva Webster, Director, Community Services. Ms. Webster received her MBA from the University of Redlands and has continuously maintained her RN license since receiving her degree from Southwestern Michigan University. Prior to her employment at IRC, Ms. Webster worked as a resident nurse in long-term care, intensive care and trauma centers for various hospitals, medical centers and long-term care facilities. She was the Director of Public Relations for Mercy Air and was the Wound Care Nurse for a specialty bed selling company. Ms. Webster founded and directed the International Patient Care Department at Loma Linda University Medical Center. While employed at Loma Linda University Medical

Center, Ms. Webster also served as Assistant Dean for Development at the School of Medicine, Director of Development at the Children's Hospital and Marketing and Intake Manager at their Rehabilitation Institute. In March 2013, Ms. Webster joined IRC as the Director of Community Services. Ms. Webster is responsible for and manages the Community Engagement, Quality Assurance, Resource and Development, Mobility & Transportation units.

California Department of Developmental Services Contract

IRC's primary source of revenues is its contract with DDS. IRC is the sole agency under contract with DDS for State-funded services for the developmentally disabled in San Bernardino and Riverside counties. IRC's contract with DDS for fiscal year 2014-15 (the "DDS Contract") provided an allocation budget for IRC to receive payments of approximately \$344,468,082 million (approximately \$290,116,699 million for the purchase of services and \$54,351,383 million for operations) from the State. The DDS Contract has a term of five years and is scheduled to expire in 2021. The contract has been renewed continuously since 1971.

The DDS Contract provides that twenty-five percent (25%) of the funds allocated to IRC pursuant to the State budget is available to IRC at the beginning of each fiscal year. Each month, after service providers are paid, IRC submits a claim to DDS and receives reimbursement. Near the end of each fiscal year, DDS offsets IRC's monthly claims using the money advanced in the beginning of such fiscal year. Following the end of each fiscal year IRC retains funds from the annual advance payment to pay any late invoices from service providers. Each February, DDS and IRC reconcile the previous fiscal year's advance and claims and return unspent funds to the State that IRC may not retain under the DDS Contract.

The operations budgets of DDS contracts with IRC have increased significantly. In the past five fiscal years, the operations budget has increased by 22.03% from \$44,538,371 in fiscal year 2010-11 to \$54,351,383 in fiscal year 2014-15. The following table sets forth the total DDS contract budgets for the past five fiscal years.

INLAND REGIONAL CENTER/DDS CONTRACT BUDGETS Fiscal Years 2010-11 through 2014-15

<u>Budget Category</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Operations	\$ 44,538,371	\$ 45,140,226	\$ 48,014,007	\$ 50,930,822	\$ 54,351,383
Purchase of Service	<u>\$237,923,797</u>	<u>\$247,546,568</u>	<u>\$250,876,905</u>	<u>\$266,305,339</u>	<u>\$290,116,699</u>
Total Budget	<u>\$282,462,168</u>	<u>\$292,686,794</u>	<u>\$298,890,912</u>	<u>\$317,236,161</u>	<u>\$344,468,082</u>

Source: IRC.

The operations category includes personal services, equipment and facility rental, general office expenses, accounting and legal fees, and contractor and sub-contractor indirect costs. The purchase of services category includes out-of-home care services, including community care facilities and special services; day programs, including day-care, day training, supported employment and work activity programs; and other services, including prevention, hospital care, respite care and transportation.

In accordance with the terms of the DDS Contract, an audit may be performed by an authorized State representative. DDS conducted a fiscal compliance audit of IRC for the period of July 1, 2008 through June 30, 2010. DDS also conducted a fiscal compliance audit for IRC for the period July 1, 2010 through

June 30, 2012. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Inland Counties Regional Center.”

Caseload

The following table sets forth IRC’s caseload for fiscal years 2004-05 through 2013-14. IRC’s caseload increased more than fifty-three percent during this period.

**INLAND REGIONAL CENTER
CASELOAD
Fiscal Years 2004-05 through 2013-14**

<u>Fiscal Year</u>	<u>Consumers Served</u>
2004-05	23,344
2005-06	23,928
2006-07	24,932
2007-08	26,186
2008-09	27,138
2009-10	23,960
2010-11	25,093
2011-12	26,537
2012-13	27,901
2013-14	28,832

Source: IRC.

Financial Information

IRC’s primary source of revenues has been its contracts with DDS, including the DDS Contract. In 2012 IRC changed certified public accountants and thus the audited financial reports of IRC changed format beginning with the report for Fiscal Year ended June 30, 2012.

The following table sets forth the Statement of Activities for fiscal years 2009-10 through 2013-14.

**INLAND REGIONAL CENTER
STATEMENT OF ACTIVITIES
Fiscal Years 2009-10 through 2013-14**

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u> <u>Restated</u>	<u>2012-13</u>	<u>2013-14</u>
Change in Unrestricted Net Deficit					
Support and Revenue					
Contracts – State of California	\$266,406,811	\$279,725,044	\$291,506,094	\$301,141,901	\$319,983,666
Intermediate Care Facility supplemental services income	-	-	-	12,526,134	14,335,987
Interest and dividend income	474,143	346,995	163,902	130,886	127,535
Contributions and grants	22,052	254,637	700,902	195,044	280,778
Realized and unrealized gain (loss) on investments	-	-	(5,489)	22,913	39,421
Other income	<u>678,205</u>	<u>683,153</u>	<u>493,192</u>	<u>477,524</u>	<u>458,904</u>
Total Unrestricted Support and Revenue	267,748,237	281,473,820	292,858,601	314,494,402	335,226,291
Net assets released from restriction	<u>58,585</u>	<u>35,130</u>	<u>47,543</u>	<u>148,382</u>	<u>99,730</u>
Total Support and Revenue	267,806,822	281,508,950	292,906,144	314,642,784	335,326,021
Expenses					
Program Services					
Direct Client Services	246,201,657	258,643,119	270,651,390	293,058,100	311,839,782
Another Way	142,209	329,434	-	-	-
Supporting Services					
General and Administrative	27,935,075	27,758,709	24,712,988	23,708,304	25,430,778
Fundraising	<u>98,174</u>	<u>71,715</u>	<u>42,441</u>	<u>49,642</u>	<u>73,980</u>
Total Expenses	<u>274,377,115</u>	<u>286,802,977</u>	<u>295,406,819</u>	<u>316,816,046</u>	<u>337,344,540</u>
Change in Unrestricted Net Deficit	<u>-</u>	<u>-</u>	<u>(2,500,675)</u>	<u>(2,173,262)</u>	<u>(2,018,519)</u>
Actuarial gains (losses) related to post-retirement benefits	(179,640)	3,738,923	-	-	-
Adjustment to contract revenue to be funded in future years	3,894,000	(4,310,374)	-	-	-
Increase In Unrestricted Net Assets	(2,855,933)	(5,865,478)	-	-	-
Increase (Decrease) in Net Assets Before Effect Of Post-Retirement Benefits	(6,570,293)	(5,294,027)	-	-	-
Change In Temporarily Restricted Net Assets					
Contributions	-	-	137,937	135,836	38,880
Net assets released from restriction	<u>-</u>	<u>-</u>	<u>(47,543)</u>	<u>(148,382)</u>	<u>(99,730)</u>
Change In Temporarily Restricted Net Assets	(8,952)	12,291	90,394	(12,546)	(60,850)
Change in Net Deficit Before Medical Plan Related Changes Other than Net Periodic Post-Retirement Benefit Cost	-	-	(2,410,281)	(2,185,808)	(2,079,369)
Medical Plan Related Changes Other Than Net Periodic Post-Retirement Benefit Cost	<u>-</u>	<u>-</u>	<u>2,382,464</u>	<u>(598,216)</u>	<u>(423,317)</u>
Change in Total Net Deficit	(2,864,885)	(5,853,187)	(27,817)	(2,784,024)	(2,502,686)
Net Deficit at Beginning of Year	<u>1,803,810</u>	<u>(1,061,075)</u>	<u>(4,262,018)</u>	<u>(4,289,835)</u>	<u>(7,073,859)</u>
Net Deficit at End of Year	(\$1,061,075)	(\$6,914,262)	(\$4,289,835)	(\$7,073,859)	(\$9,576,545)

Source: Audited financial statements of IRC.

The following table sets forth the Statement of Financial Position for fiscal years 2009-10 through 2010-11.

**INLAND REGIONAL CENTER
STATEMENT OF FINANCIAL POSITION
Fiscal Years 2009-10 through 2010-11**

	<u>2009-10</u>	<u>2010-11</u>
Assets		
Cash and cash equivalents	\$29,764,184	\$20,468,377
Restricted cash – client trust funds	2,043,064	2,214,939
Investments	1,377,083	453,209
Accounts receivable	257,993	18,601,042
Prepaid expenses	777,352	736,378
Restricted investments – McElroy Trust	17,527,621	19,992,935
Restricted investments – Master Trust	177,463	186,975
Due from State - Contract	14,185,766	4,493,520
Due from State – employee benefits	26,764,468	19,232,498
Equipment, net of accumulated depreciation	521	444
Deposits	<u>68,699</u>	<u>68,311</u>
Total Assets	89,944,184	86,448,628
Liabilities and Net Assets (Deficit)		
Accounts payable	21,040,060	23,011,019
Accrued salaries	806,466	1,133,569
Accrued vacation and other leave benefits	3,384,486	3,217,550
Line of Credit	21,443,000	-
Retiree medical reimbursement plan obligation	13,645,000	9,755,626
Retirement plan obligation	7,155,000	6,734,000
Other liabilities	62,551	68,951
Due to state	879,147	19,383,739
Unexpended client support	2,049,465	2,235,771
Rent payable	3,012,463	7,829,730
Master Trust obligations	<u>17,527,621</u>	<u>19,992,935</u>
Total Liabilities	91,005,259	93,362,890
Commitments and Contingencies		
Net Assets (Deficit)		
Unrestricted	(1,292,535)	(7,158,013)
Temporarily restricted	<u>231,460</u>	<u>243,751</u>
	<u>(1,061,075)</u>	<u>(6,914,262)</u>
Total Liabilities and Net Deficit	<u>\$89,944,184</u>	<u>\$86,448,628</u>

Source: Audited financial statements of IRC.

The following table sets forth the Statement of Financial Position for fiscal years 2011-12 through 2013-14.

**INLAND REGIONAL CENTER
STATEMENT OF FINANCIAL POSITION
Fiscal Years 2011-12 through 2013-14**

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Assets			
Cash and cash equivalents	\$ 2,080,477	\$ 3,864,709	\$ 9,599,473
Cash – client trust funds	3,194,223	2,345,522	2,324,284
Contracts receivable – state of California	22,618,339	22,231,601	17,876,854
Receivable from Intermediate Care Facility vendors		4,068,415	4,874,992
Other receivables	381,951	124,078	187,717
Investments	456,888	478,489	736,019
Investments – McElroy Trust	193,443	204,946	-
Investments – Master Trust	20,070,509	20,510,392	22,814,337
Other assets	875,506	1,432,744	1,313,252
Due from state-accrued vacation, other leave and retirement benefits	11,054,560	11,972,699	12,979,336
Prepaid post-retirement medical plan expense	5,034,708	4,436,492	4,013,175
Property and equipment, net	368	321	273
Total Assets	<u>\$65,960,972</u>	<u>\$71,670,408</u>	<u>\$76,719,712</u>
Liabilities and Net Assets (Deficit)			
Accounts payable	\$22,710,278	\$25,659,099	\$28,202,987
Accrued payroll	1,220,063	1,238,318	1,448,016
Due to state	1,118,528	3,789,373	3,315,691
Accrued vacation and other leave benefits	3,135,326	3,196,732	3,590,528
Obligation for post-retirement benefits	7,919,234	8,775,967	9,388,808
Amounts held for clients	3,223,113	2,369,504	2,326,287
Master Trust obligations	20,070,509	20,510,392	22,814,337
Deferred rent	10,334,400	12,558,383	14,633,689
Other liabilities	519,356	646,499	575,914
	<u>\$70,250,807</u>	<u>\$78,744,267</u>	<u>\$86,269,257</u>
Commitments and Contingencies			
Net Assets (Deficit)			
Unrestricted	\$(4,623,980)	\$(7,395,458)	\$(9,837,294)
Temporarily restricted	334,145	321,599	260,749
	<u>(4,289,835)</u>	<u>(7,073,859)</u>	<u>(9,576,545)</u>
Total Liabilities and Net Deficit	<u>\$ 65,960,972</u>	<u>\$71,670,408</u>	<u>\$76,719,712</u>

Source: Audited financial statements of IRC.

The net deficit reported on the statement of financial position is primarily the result of deferred rent. For long-term leases with escalating rental expense, accounting standards require IRC to recognize the total rental expense evenly over the life of the lease. Deferred rent represents the difference between the cash paid and the rental expense recognized since inception of the lease. Rental expenditures are reimbursed under the DDS contract as they are paid.

Insurance

The Corporation currently maintains insurance with commercial insurers with an aggregate limit of \$4 million for property coverage, up to \$1 million per occurrence with an aggregate limit of \$3 million for general liability coverage, and up to \$1 million per occurrence with an aggregate limit of \$1 million for professional liability/medical malpractice coverage. IRC has elected to self-insure for unemployment insurance and is required to reimburse the State for benefits paid to former employees. As of June 30, 2015, IRC had \$622,311 in its unemployment insurance reserve fund.

Service Agreements

IRC coordinates the services provided to its Consumers through service agreements with third-party vendors. The service agreements conform to applicable regulations under the Lanterman Act. Some of the services provided under third-party contracts include supported living services, educational services, community integration services and independent-living transition services. IRC has never experienced any disruptions in the provision of service to its Consumers because of a dispute related to any service agreement.

Line of Credit

IRC has a \$49,200,000 operating line of credit with a bank that expires on September 30, 2015. The interest rate on the line of credit was fixed at 5.0% per annum. Amounts borrowed on the line of credit are secured by all assets of IRC.

Defined Benefit Pension Plan

As of May 1, 1998, IRC began participating in the California Public Employees' Retirement System ("PERS"), an agent multiple-employer plan administered by PERS, which acts as a common investment and administrative agent for participating public employers within the State. IRC selects optional benefit provisions from the benefit menu provided by PERS.

IRC has two retirement plans with PERS. One plan is a 2%-at-age-55 formula which closed as of December 31, 2012. All employees hired prior to January 1, 2013 participate in this plan. The second plan is a 2 %-at-age-62 formula which was established by the Public Employees' Pension Reform Act of 2013 ("PEPRA") and all employees hired on or after January 1, 2013 participate in this plan. The total required employee contributions are 2% of earnings for the 2 %-at-age-55 plan and 6.25% of earnings for the 2 %-at-age-62 plan. IRC is required to contribute at an actuarially determined rate, which was 10.140% of annual covered payroll for the year ended June 30, 2014. Total retirement expense for the years ended June 30, 2014 and 2013 was \$3,605,016 and \$4,393,151, respectively.

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

A summary of principal actuarial assumptions used are as follows:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Asset Valuation Method	Market value
Actuarial Assumptions	
Discount Rate	7.5% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

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

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

Source: Audited financial statements of IRC.

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

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

Source: Audited financial statements of IRC.

Other Post-Employment Benefits

In addition to PERS benefits, IRC instituted a Retiree Medical Reimbursement Plan (the “RMR Plan”) and related trust effective July 1, 1988. The RMR Plan provides reimbursement of medical expenses for each participant and each participant’s spouse and dependents, up to their maximum yearly allowance. Each IRC employee, upon meeting certain age and length of service requirements, becomes a participant upon separation from service. IRC retains the right to amend or revoke the RMR Plan at any time.

The following tables provide a reconciliation of the changes in the RMR Plan’s benefit obligations and a statement of the funded status as of June 30, 2013 and 2014.

**INLAND REGIONAL CENTER
RMR PLAN BENEFIT OBLIGATION
AND NET ACCRUED LIABILITY
Fiscal Years 2012-13 and 2013-14**

	<u>2012-13</u>	<u>2013-14</u>
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$10,557,000	\$11,396,000
Service cost	318,729	299,326
Interest cost	569,800	608,950
Actuarial loss	150,072	105,850
Benefits paid	<u>(199,601)</u>	<u>(231,126)</u>
Obligation at end of year	\$11,396,000	\$12,179,000
Change in plan assets		
Fair value of plan assets at beginning of year	\$2,637,766	\$2,620,033
Actual return on plan assets	207,014	426,686
Expenses other than benefits	(25,146)	(25,401)
Benefit payments	(199,601)	(231,126)
Fair value of plan assets at end of year	<u>2,620,033</u>	<u>2,790,192</u>
Net amount recognized in the statements of financial position	<u><u>\$8,775,967</u></u>	<u><u>\$9,388,808</u></u>

Source: Audited financial statements of IRC.

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

	<u>2012-13</u>	<u>2013-14</u>
Service cost	\$318,729	\$299,326
Interest cost	569,800	608,950
Returns on assets	(207,014)	(426,686)
Net assets gain	(744,274)	(613,449)
Amortization of unrecognized service cost	<u>321,383</u>	<u>321,383</u>
Net periodic post-retirement benefit cost	\$258,624	\$189,524

Amounts not recognized in net periodic post-retirement benefit cost as of June 30, 2013 and 2014 were as follows:

	<u>2012-13</u>	<u>2013-14</u>
Prior-service cost	\$ 3,213,702	\$ 2,892,319
Benefit obligation at beginning of year	<u>(7,650,194)</u>	<u>(6,905,494)</u>
	(\$4,436,492)	(\$4,013,175)

Source: Audited financial statements of IRC.

IRC accrued a receivable from DDS totaling \$9,388,808 and \$8,775,967 as of June 30, 2014 and 2013, respectively, representing the portion of the post-retirement health care plan obligation recognized as plan expense. The receivables are included in due from state accrued vacation, other leave and retirement benefits on the statements of financial position, above. The unrecognized prior-service costs of \$2,892,319 at June 30, 2014 are being amortized on a straight-line basis over the remaining nine years.

APPENDIX B

**FINANCIAL STATEMENTS OF THE CALIFORNIA HOUSING FOUNDATION
AND INLAND COUNTIES REGIONAL CENTER**

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CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

ANNUAL FINANCIAL REPORT

JUNE 30, 2014 AND 2013

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

JUNE 30, 2014 AND 2013

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
California Housing Foundation
Redlands, California

Report on the Financial Statements

We have audited the accompanying financial statements of California Housing Foundation (a California nonprofit corporation), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

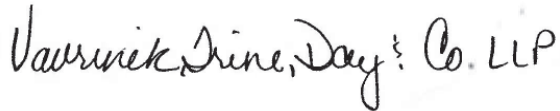
Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Housing Foundation as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the California Housing Foundation's basic financial statements. The supplementary information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Vaurin, Fine, Day & Co. LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
October 10, 2014

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Unrestricted cash and cash equivalents	\$ 4,395,425	\$ 4,335,287
Restricted cash and investments	6,632,413	6,509,120
Accounts receivable	-	3,000
Prepaid expenses and deposits	31,730	126,530
Total Current Assets	<u>11,059,568</u>	<u>10,973,937</u>
Noncurrent Assets		
Rents receivable	11,877,884	9,678,971
Intangible assets	5,568,933	5,778,751
Property, furniture, equipment, and construction in progress, net	73,992,489	72,373,100
Total Noncurrent Assets	<u>91,439,306</u>	<u>87,830,822</u>
TOTAL ASSETS	<u><u>\$ 102,498,874</u></u>	<u><u>\$ 98,804,759</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 34,203	\$ 85,125
Accrued expenses	375,548	366,582
Rents received in advance	73,532	68,528
Deferred revenue	148,333	107,410
Notes payable - current portion	190,182	178,319
Bonds payable - current portion	1,430,000	1,210,000
Total Current Liabilities	<u>2,251,798</u>	<u>2,015,964</u>
Noncurrent Liabilities		
Notes payable	9,695,698	7,249,175
Bonds payable, net	71,924,764	73,333,121
Total Noncurrent Liabilities	<u>81,620,462</u>	<u>80,582,296</u>
TOTAL LIABILITIES	<u><u>83,872,260</u></u>	<u><u>82,598,260</u></u>
NET ASSETS		
Unrestricted	<u>18,626,614</u>	<u>16,206,499</u>
TOTAL NET ASSETS	<u><u>18,626,614</u></u>	<u><u>16,206,499</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 102,498,874</u></u>	<u><u>\$ 98,804,759</u></u>

See the accompanying notes to financial statements.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	<u>2014</u>	<u>2013</u>
SUPPORT AND REVENUE		
Contributions	\$ 5,750	\$ 4,550
Rental income	10,036,480	9,813,929
Management fees	94,581	91,812
Program income/grants	616,580	879,344
Investment income	187,941	193,558
Total Revenues	<u>10,941,332</u>	<u>10,983,193</u>
EXPENSES		
Program Services		
Residential facilities	1,388,210	1,244,042
Other client services	56,247	45,843
IRC Headquarters	6,882,396	6,851,267
Supporting Services		
General and administrative	194,364	212,265
Total Expenses	<u>8,521,217</u>	<u>8,353,417</u>
CHANGE IN NET ASSETS	2,420,115	2,629,776
NET ASSETS, BEGINNING OF YEAR	<u>16,206,499</u>	<u>13,576,723</u>
NET ASSETS, END OF YEAR	<u><u>\$ 18,626,614</u></u>	<u><u>\$ 16,206,499</u></u>

See the accompanying notes to financial statements.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 2,420,115	\$ 2,629,776
Adjustments to Reconcile Change in Net Assets to Net Cash From Operating Activities		
Depreciation	1,883,100	1,831,604
Amortization	209,918	228,842
Change in assets and liabilities		
Decrease in accounts receivable	3,000	155,185
Increase in rents receivable	(2,198,913)	(2,332,834)
(Increase) decrease in prepaid expenses and deposits	94,800	(55,878)
Increase (decrease) in accounts payable	(50,922)	38,109
Increase (decrease) in accrued expenses	8,966	(3,393)
Increase (decrease) in rents received in advance	5,004	(11,965)
Increase (decrease) in deferred revenue	40,923	(255,699)
Net Cash Flows From Operating Activities	<u>2,415,991</u>	<u>2,223,747</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in restricted cash and investments	123,293	1,885,276
Purchase of property, furniture, equipment, and construction costs	(3,727,530)	(2,865,183)
Net Cash Flows From Investing Activities	<u>(3,604,237)</u>	<u>(979,907)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bond, net	(1,210,000)	(985,139)
Payments on notes payable	(232,566)	(319,445)
Borrowing of notes payable	2,690,950	2,184,551
Net Cash Flows From Financing Activities	<u>1,248,384</u>	<u>879,967</u>
NET CHANGE IN UNRESTRICTED CASH AND CASH EQUIVALENTS	60,138	2,123,807
UNRESTRICTED CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,335,287</u>	<u>2,211,480</u>
UNRESTRICTED CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 4,395,425</u></u>	<u><u>\$ 4,335,287</u></u>
SUPPLEMENTARY DISCLOSURE		
Noncash Investing and Financing Activities		
Property acquired through issuance of debt	\$ 2,690,950	\$ 2,037,600
Interest paid	<u><u>\$ 4,328,536</u></u>	<u><u>\$ 4,314,259</u></u>

See the accompanying notes to financial statements.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,

	2014					
	Program Services				Supporting Services	
	Residential Facilities	Other Client Services	IRC Headquarters	Total Program Services	General and Administrative	Total Expenses
Salary expense	\$ 254,064	\$ 21,470	\$ 10,735	\$ 286,269	\$ 71,567	\$ 357,836
Payroll taxes	15,078	1,274	637	16,989	4,247	21,236
Employee benefits	36,253	3,064	1,532	40,849	10,212	51,061
Total Salaries and Related Expenses	305,395	25,808	12,904	344,107	86,026	430,133
Contributions and donations	-	26,370	-	26,370	-	26,370
Professional fees	48,153	4,069	500	52,722	15,599	68,321
Office expense	-	-	511	511	5,183	5,694
Rent expense	-	-	-	-	33,938	33,938
Communication	-	-	-	-	7,466	7,466
Meetings and seminars	-	-	-	-	21,974	21,974
Mileage reimbursement	5,570	-	-	5,570	-	5,570
Taxes and licenses	22,232	-	2,092	24,324	-	24,324
Depreciation and amortization	588,776	-	1,525,786	2,114,562	-	2,114,562
Property management	-	-	88,176	88,176	-	88,176
Repairs and maintenance	10,352	-	758,668	769,020	-	769,020
Occupancy	-	-	400,684	400,684	-	400,684
General expenses	-	-	97,358	97,358	24,178	121,536
Interest	383,667	-	3,939,896	4,323,563	-	4,323,563
Insurance	24,065	-	55,821	79,886	-	79,886
Total Expenses	\$ 1,388,210	\$ 56,247	\$ 6,882,396	\$ 8,326,853	\$ 194,364	\$ 8,521,217

See the accompanying notes to financial statements.

2013

Program Services				Supporting Services	
Residential Facilities	Other Client Services	IRC Headquarters	Total Program Services	General and Administrative	Total Expenses
\$ 221,192	\$ 18,554	\$ 9,182	\$ 248,928	\$ 62,030	\$ 310,958
13,282	1,114	551	14,947	3,724	18,671
33,987	2,851	1,411	38,249	9,531	47,780
268,461	22,519	11,144	302,124	75,285	377,409
-	19,350	-	19,350	-	19,350
47,028	3,974	3,184	54,186	15,235	69,421
-	-	429	429	7,062	7,491
-	-	-	-	40,578	40,578
-	-	-	-	7,955	7,955
-	-	-	-	14,228	14,228
7,091	-	-	7,091	-	7,091
14,536	-	3,659	18,195	-	18,195
539,914	-	1,520,532	2,060,446	-	2,060,446
-	-	144,953	144,953	-	144,953
24,770	-	646,493	671,263	-	671,263
-	-	383,584	383,584	-	383,584
-	-	91,812	91,812	51,922	143,734
314,015	-	3,992,785	4,306,800	-	4,306,800
28,227	-	52,692	80,919	-	80,919
<u>\$ 1,244,042</u>	<u>\$ 45,843</u>	<u>\$ 6,851,267</u>	<u>\$ 8,141,152</u>	<u>\$ 212,265</u>	<u>\$ 8,353,417</u>

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

California Housing Foundation (Foundation) is a California nonprofit corporation. It was organized to facilitate and augment the delivery of services and programs of California Regional Centers, which aid and assist the developmentally disabled. The Foundation is organized exclusively as a supporting organization of California Regional Centers.

The Foundation contracts with Inland Counties Regional Center and San Gabriel Pomona Regional Center to develop, build, and have available for occupancy, residential facilities in Riverside, San Bernardino, and Los Angeles Counties for persons with developmental disabilities.

Financial Statement Presentation

Accounting principles generally accepted in the United States of America require the Foundation to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. As of June 30, 2014, the Foundation had no permanently or temporarily restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Use of Estimates and Assumptions

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

Cash and Cash Equivalents

The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are stated at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Initial Lease Costs and Lease Incentives

Initial lease costs and lease incentives are deferred and amortized over the lease term in proportion to the recognition of rental income.

Bond Issuance Costs and Bond Discount

Bond issuance costs and the bond discount are deferred and amortized over the life of the bonds using the interest method.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided over the following estimated economic lives using the straight-line method:

Buildings and improvements	27.5-50.0 years
Home furnishings	7.0 years
Office furniture and equipment	5.0-7.0 years

Concentrations of Credit Risk

The Foundation maintains cash and cash equivalents with two major financial institutions. At June 30, 2014, and at various times throughout the year, the Foundation maintained cash balances at its financial institutions in excess of federally insured limits. The uninsured balance as of June 30, 2014, was \$3,714,797.

Investment contracts are guaranteed by government securities. The market value of these investment contracts is equal to the cost.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Income Tax Status

The Foundation is a non-profit public benefit corporation that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation and qualifies for deductible contributions as provided in Section 170(b) (A) (vi). It is also exempt from State franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been reflected in these financial statements.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Accounting principles generally accepted in the United States of America 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 the Foundation in its Federal and State exempt organization returns are more likely than not to be sustained upon examination. The Foundation's current income tax return and those for the immediate three previous years are subject to examination and adjustment by the Internal Revenue Service. For California, the immediate four previous years are subject to examination and adjustment.

Allocation of Functional Expenses

The costs of providing the various programs, fundraising, and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and fundraising activities benefited.

NOTE 2 - INTANGIBLE ASSETS

The Foundation has intangible assets as follows:

	2014	2013
Initial lease costs	\$ 2,196,778	\$ 2,196,778
Lease incentives	3,137,491	3,137,491
Bond issuance costs	1,224,785	1,224,785
Loan fees	55,444	58,598
	<u>6,614,498</u>	<u>6,617,652</u>
Accumulated amortization	<u>(1,045,565)</u>	<u>(838,901)</u>
Intangible Assets, Net	<u>\$ 5,568,933</u>	<u>\$ 5,778,751</u>

Amortization of initial lease costs and lease incentives are reported as a reduction of rental income. Amortization of bond issuance costs and loan fees are reported as a component of interest expense. Amortization for the years ended June 30, 2014, and 2013, was \$209,918 and \$228,842, respectively. The weighted-average amortization period is 30 years.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments were restricted by the Bond Covenants for the Bond Fund and Debt Service Reserve Fund.

	2014	2013
Cash and cash equivalents	\$ 1,160,451	\$ 1,037,158
Guaranteed investment contracts	5,471,962	5,471,962
Total	<u>\$ 6,632,413</u>	<u>\$ 6,509,120</u>

Investment income consisted substantially of interest earned on invested amounts.

NOTE 4 - FAIR VALUE MEASUREMENTS

The Foundation uses Guaranteed investment contracts to invest in repurchase agreements. The repurchase agreements are backed by government securities and the purchase price is equal to its fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy 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 significant unobservable inputs (Level 3 measurements).

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.

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

Level 3 inputs are unobservable inputs for the asset or liability.

Guaranteed investment contracts are financial instruments that are measured at fair value on a recurring basis in the accompanying statements of financial position. Generally, identical instruments to guaranteed investment contracts are not traded in active markets and, as such, fair value is based on estimates using present value or other valuation techniques, such as discounted cash flows and observable inputs for similar instruments. Therefore, the guaranteed investment contracts are classified within Level 2 of the fair value hierarchy.

	Level 2	
	2014	2013
Guaranteed investment contracts	<u>\$ 5,471,962</u>	<u>\$ 5,471,962</u>

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2014	2013
Buildings and improvements	\$ 66,333,988	\$ 63,533,850
Furniture	1,774,752	1,736,069
Equipment	1,029,238	1,010,307
	<u>69,137,978</u>	<u>66,280,226</u>
Accumulated depreciation	(9,317,034)	(7,433,934)
Construction in progress	195,973	271,255
Land	13,975,572	13,255,553
Total	<u>\$ 73,992,489</u>	<u>\$ 72,373,100</u>

Included above are residential facilities subject to restrictive covenants. The residential facilities acquired with funds provided by a regional center are subject to restrictive covenants that require the Foundation to use them solely for the benefit of individuals with developmental disabilities. The Foundation shall not sell, mortgage, assign, lease, or otherwise use the homes for any other purpose without first obtaining the agreement of the regional center and the California Department of Developmental Services. The residential facilities acquired with funds provided by the San Bernardino Redevelopment Agency must be used for low and moderate income housing for a minimum of 20 years.

Depreciation expenses were \$1,883,100 and \$1,831,604 for the years ended June 30, 2014, and 2013, respectively.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 6 - NOTES PAYABLE

Notes payable consisted of mortgage notes payable and notes payable to the Redevelopment Agency of the City of San Bernardino as follows:

Notes payable to Guild Mortgage, secured by 13 residential properties. Principal matures between April 2039 and April 2041. Principal and interest payments are due monthly. Interest rates range from 4.875% to 6.526%. \$ 2,557,717

Note payable to Community Bank, secured by residential property. Principal matures through October 2014. Principal and interest payments are due monthly with one final principal payment of \$316,345 due on November 1, 2017. Interest rate is 6.50%. 403,829

Note payable to Bank of Guam secured by residential property. Principal matures through September 2026. Principal and interest payments are due monthly with one final principal payment of \$252,730 due September 2026. Interest is variable and is currently set at 5.5%. 343,069

Note payable to Union Bank secured by residential property. Principal matures through April 2035. Principal and interest payments are due monthly. Interest is adjustable, not to exceed 10%. Current interest rate was 2.875%. 325,169

Notes payable to Union Bank secured by 15 residential properties. Principal matures between August 2040 and October 2041. Principal and interest payments are due monthly. Interest rates range from 3.875 to 5.1250%. 5,717,971
Subtotal Mortgage Notes Payable 9,347,755

Promissory note payable to the Redevelopment Agency of the City of San Bernardino secured by 4 residential properties. Principal payments are paid annually in arrears. For each year the note is outstanding, the borrower is not in default of any provision of the note and one-twentieth of the original principal amount of the notes shall be deemed to have been paid along with any unpaid interest. No payments are anticipated to be made on these notes. In the event of default, interest will be calculated at 6.00% of the unpaid balance and will be due and payable with the principal balance. 538,125
Total Notes Payable \$ 9,885,880

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Maturities as of June 30, 2014, on the notes payable are as follows:

Year Ended	Redevelopment Agency Notes	Mortgage Notes Payable	Total Notes Payable
2015	\$ 35,000	\$ 155,182	\$ 190,182
2016	35,000	163,005	198,005
2017	35,000	171,247	206,247
2018	35,000	179,933	214,933
2019	35,000	188,920	223,920
Thereafter	363,125	8,489,468	8,852,593
	<u>\$ 538,125</u>	<u>\$ 9,347,755</u>	<u>\$ 9,885,880</u>

Interest expense on notes payable amounted to \$383,667 and \$314,015 for the years ended June 30, 2014 and 2013, respectively.

NOTE 7 - BONDS PAYABLE

On December 1, 2007, the Foundation issued tax-exempt revenue bonds with an aggregate principal of \$77,530,000 through the California Statewide Communities Development Authority. The proceeds of the bonds were used to (1) finance the acquisition, construction, and equipping of an approximate 200,000 square foot rentable office facility for lease to Inland Counties Regional Center, Inc.; (2) fund a debt service reserve for the bonds of \$5,471,963; (3) pay capitalized interest through September 1, 2009; and (4) pay the costs of issuing the bonds. The maturity dates of the bonds are as follows:

Original Bond Amount	Interest Rate	Maturity Date
\$ 10,345,000	5.00%	12/1/2017
24,860,000	5.25%	12/1/2027
42,325,000	5.38%	12/1/2037
<u>\$ 77,530,000</u>		

Bonds payable, net of unamortized discount, as of June 30, 2014, are as follows:

Bonds payable	\$ 73,875,000
Less: Unamortized discount	(520,236)
Total	<u>\$ 73,354,764</u>

The bonds are subject to mandatory redemption from mandatory sinking fund installments on each December 1.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Annual debt service requirements for the next five years and thereafter are as follows:

Year Ended June 30,	Principal	Interest	Total
2015	\$ 1,430,000	\$ 3,878,869	\$ 5,308,869
2016	1,660,000	3,801,619	5,461,619
2017	1,755,000	3,716,244	5,471,244
2018	1,845,000	3,626,244	5,471,244
2019	1,940,000	3,529,194	5,469,194
Thereafter	64,724,764	38,688,591	103,413,355
	<u>\$ 73,354,764</u>	<u>\$ 57,240,761</u>	<u>\$ 130,595,525</u>

Interest on the bonds is payable semiannually on each June 1 and December 1 to their maturity. Bond interest expense amounted to \$3,939,896 and \$3,992,785 for the years ended June 30, 2014 and 2013, respectively.

NOTE 8 - OPERATING LEASES AS LESSOR

Residential Properties

The Foundation has operating leases with several vendors to operate and manage its residential facilities. The lessee is responsible for payment of all utility costs, maintenance of nonstructural components of the premises, real property taxes, and insurance costs. The lessee is also responsible for the care of the developmentally disabled individuals living in each of the homes. The total cost and accumulated depreciation of land, buildings and improvements, equipment, furniture, and fixtures held for lease at June 30, 2014, is shown in Note 5.

IRC Headquarters

The Foundation entered into a lease agreement with Inland Counties Regional Center, Inc. for an office facility constructed using funds provided by the issuance of tax-exempt revenue bonds discussed in Note 7. The lease term began in September 2009. The lease is for a period of 32 years. The initial monthly rent was \$350,097. The rents increase by three percent on July 1 of each year. Lease revenue is recognized on a straight-line basis over the term of the lease. Lease payments are received according to the lease schedule and the difference between lease revenue and cash received is recorded as an increase or decrease in rent receivable. A lease commission of \$2,196,778 and lease incentives of \$3,137,491 were paid in conjunction with this lease and are being amortized over the term of the lease. The amortization for the years ended June 30, 2014 and 2013, was \$166,696. The total cost and accumulated depreciation of the IRC headquarters is included in Note 5.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Rental Income

Rental income consisted of the following:

	2014	2013
IRC Headquarters lease payments received	\$ 6,927,360	\$ 6,927,360
Common area maintenance (CAM)	1,742,665	1,685,119
Total IRC Headquarters Rent Income	<u>8,670,025</u>	<u>8,612,479</u>
Residential properties rent income	1,366,455	1,201,450
Total Rent Income	<u><u>\$ 10,036,480</u></u>	<u><u>\$ 9,813,929</u></u>

NOTE 9 - OPERATING LEASES AS LESSEE

The Foundation has a noncancellable operating lease for office space through February 2018. In addition to minimum lease payments, the Foundation is responsible for a proportionate share of operating expenses. The lease expense for the years ended June 30, 2014 and 2013, was \$33,938.

NOTE 10 - DEFERRED REVENUE

Deferred revenue consisted of contract advances from two California regional centers to purchase or construct residential facilities were \$148,333 and \$107,410 as of June 30, 2014 and 2013, respectively.

NOTE 11 - PROGRAM REVENUE

Prior to and during 2014, the Foundation entered into various contracts to purchase and to continue to develop residential facilities for consumers. These contracts are governed by restrictive covenants. In the event that the contracts are breached, the Foundation would be responsible to repay the total amount of the grant with interest at a rate equal to the contracted amount. Total program income was \$616,580 and \$879,344 for 2014 and 2013, respectively.

NOTE 12 - TRANSACTIONS WITH CALIFORNIA REGIONAL CENTERS

The Foundation entered into lease agreements with vendors of two regional centers. The lessees are responsible for the care of the developmentally disabled individuals living in each of the homes.

The Foundation leases an office facility to Inland Regional Center, Inc. as discussed in Note 8.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

NOTE 13 - CONCENTRATION

The Foundation receives a substantial portion of its revenue from a single entity with which it transacts business. The percentage of revenue received from this entity as of June 30, 2014, was 86.2 percent.

NOTE 14 - SUBSEQUENT EVENTS

The Foundation's management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through October 10, 2014, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

COMBINING SCHEDULE OF FINANCIAL POSITION
JUNE 30, 2014

	<u>Residential</u>	<u>IRC</u>	<u>Total</u>
ASSETS			
Current Assets			
Unrestricted cash and cash equivalents	\$ 1,327,024	\$ 3,068,401	\$ 4,395,425
Restricted cash and investments	-	6,632,413	6,632,413
Accounts receivable	-	-	-
Prepaid expenses and deposits	28,862	2,868	31,730
Total Current Assets	<u>1,355,886</u>	<u>9,703,682</u>	<u>11,059,568</u>
Noncurrent Assets			
Rents receivable	-	11,877,884	11,877,884
Intangible assets	48,193	5,520,740	5,568,933
Property, furniture, equipment, and construction in progress, net	19,026,852	54,965,637	73,992,489
Total Noncurrent Assets	<u>19,075,045</u>	<u>72,364,261</u>	<u>91,439,306</u>
TOTAL ASSETS	<u><u>\$ 20,430,931</u></u>	<u><u>\$ 82,067,943</u></u>	<u><u>\$ 102,498,874</u></u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	26,144	8,059	34,203
Accrued expenses	53,799	321,749	375,548
Rents received in advance	36,200	37,332	73,532
Deferred revenue	148,333	-	148,333
Notes payable - current portion	190,182	-	190,182
Bonds payable - current portion	-	1,430,000	1,430,000
Total Current Liabilities	<u>454,658</u>	<u>1,797,140</u>	<u>2,251,798</u>
Noncurrent Liabilities			
Notes payable	9,695,698	-	9,695,698
Bonds payable, net	-	71,924,764	71,924,764
Total Noncurrent Liabilities	<u>9,695,698</u>	<u>71,924,764</u>	<u>81,620,462</u>
TOTAL LIABILITIES	<u>10,150,356</u>	<u>73,721,904</u>	<u>83,872,260</u>
NET ASSETS			
Unrestricted	10,280,575	8,346,039	18,626,614
TOTAL NET ASSETS	<u>10,280,575</u>	<u>8,346,039</u>	<u>18,626,614</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 20,430,931</u></u>	<u><u>\$ 82,067,943</u></u>	<u><u>\$ 102,498,874</u></u>

See accompanying note to supplementary information.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Residential</u>	<u>IRC</u>	<u>Total</u>
SUPPORT AND REVENUE			
Contributions	\$ 5,750	\$ -	\$ 5,750
Rental income	1,366,455	8,670,025	10,036,480
Management fees	94,581	-	94,581
Program income/grants	616,580	-	616,580
Investment income	175,497	12,444	187,941
Total Support and Revenue	<u>2,258,863</u>	<u>8,682,469</u>	<u>10,941,332</u>
EXPENSES			
Salaries	347,101	10,735	357,836
Payroll taxes	20,599	637	21,236
Employee benefits	49,529	1,532	51,061
Total Salary and Benefits	<u>417,229</u>	<u>12,904</u>	<u>430,133</u>
Contributions and donations	26,370	-	26,370
Professional fees	67,821	500	68,321
Office expense	5,183	511	5,694
Rent expense	33,938	-	33,938
Communication	7,466	-	7,466
Meetings and seminars	21,974	-	21,974
Mileage reimbursement	5,570	-	5,570
Taxes and licenses	22,232	2,092	24,324
Depreciation and amortization	588,776	1,525,786	2,114,562
Property management	-	88,176	88,176
Repairs and maintenance	10,352	758,668	769,020
Occupancy	-	400,684	400,684
General expenses	24,178	97,358	121,536
Interest	383,667	3,939,896	4,323,563
Insurance	24,065	55,821	79,886
Total Expenses	<u>1,638,821</u>	<u>6,882,396</u>	<u>8,521,217</u>
EXCESS OF PUBLIC SUPPORT AND REVENUE OVER EXPENSES	<u>\$ 620,042</u>	<u>\$ 1,800,073</u>	<u>\$ 2,420,115</u>

See accompanying note to supplementary information.

CALIFORNIA HOUSING FOUNDATION
(A California Nonprofit Corporation)

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2014

NOTE 1 - PURPOSE OF THE SCHEDULES

Combining Schedule of Financial Position and Combining Schedule of Activities

These schedules are presented at the request of management to provide additional detail and analysis of the programs and services of the Foundation. The schedules are prepared using the same methodology as the financial statements as a whole.

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INLAND COUNTIES REGIONAL CENTER, INC.

FINANCIAL STATEMENTS

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Inland Counties Regional Center, Inc., a California nonprofit corporation, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Inland Counties Regional Center, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in Note 10 to the financial statements, Inland Counties Regional Center, Inc. is subject to a potential labor related class action lawsuit. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2015, on our consideration of Inland Counties Regional Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Inland Counties Regional Center, Inc.'s internal control over financial reporting and compliance.



Long Beach, California
February 9, 2015

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

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

LIABILITIES AND NET ASSETS (DEFICIT)

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENTS OF ACTIVITIES

	For the Year Ended June 30,	
	<u>2014</u>	<u>2013</u>
CHANGE IN UNRESTRICTED NET DEFICIT		
SUPPORT AND REVENUE		
Contracts - state of California	\$ 319,983,666	\$ 301,141,901
Intermediate Care Facility supplemental services income	14,335,987	12,526,134
Interest and dividend income	127,535	130,886
Contributions and grants	280,778	195,044
Realized and unrealized gain on investments	39,421	22,913
Other income	458,904	477,524
Total Unrestricted Support and Revenue	<u>335,226,291</u>	<u>314,494,402</u>
Net assets released from restriction	<u>99,730</u>	<u>148,382</u>
Total Support and Revenue	<u>335,326,021</u>	<u>314,642,784</u>
EXPENSES		
Program Services		
Direct client services	311,839,782	293,058,100
Supporting Services		
General and administrative	25,430,778	23,708,304
Fundraising	73,980	49,642
Total Expenses	<u>337,344,540</u>	<u>316,816,046</u>
CHANGE IN UNRESTRICTED NET DEFICIT	(<u>2,018,519</u>)	(<u>2,173,262</u>)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	38,880	135,836
Net assets released from restriction	(<u>99,730</u>)	(<u>148,382</u>)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(<u>60,850</u>)	(<u>12,546</u>)
CHANGE IN NET DEFICIT BEFORE MEDICAL PLAN RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	(<u>2,079,369</u>)	(<u>2,185,808</u>)
MEDICAL PLAN RELATED CHANGES OTHER THAN NET PERIODIC POST-RETIREMENT BENEFIT COST	(<u>423,317</u>)	(<u>598,216</u>)
CHANGE IN NET DEFICIT	(<u>2,502,686</u>)	(<u>2,784,024</u>)
NET DEFICIT AT BEGINNING OF YEAR	(<u>7,073,859</u>)	(<u>4,289,835</u>)
NET DEFICIT AT END OF YEAR	(<u>\$ 9,576,545</u>)	(<u>\$ 7,073,859</u>)

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

INLAND COUNTIES REGIONAL CENTER, INC.

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

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

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

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net deficit	(\$ 2,502,686)	(\$ 2,784,024)
Adjustments to reconcile change in net deficit to net cash provided by operating activities		
Depreciation	48	47
Net realized and unrealized investment gain	(39,421)	(22,913)
Dividends reinvested	(13,163)	(10,191)
(Increase) decrease in operating assets		
Cash - client trust funds	21,238	848,701
Contracts receivable - state of California	4,354,747	386,738
Receivable from Intermediate Care Facility vendors	(806,577)	(4,068,415)
Other receivables	(63,639)	257,873
Investments - Master Trust	(2,303,945)	(439,883)
Other assets	119,492	(557,238)
Due from state – accrued vacation, other leave, and retirement benefits	(1,006,637)	(918,139)
Prepaid post-retirement medical plan expense	423,317	598,216
Increase (decrease) in operating liabilities		
Accounts payable	2,543,888	2,948,821
Accrued payroll	209,698	18,255
Due to state	(473,682)	2,670,845
Accrued vacation and other leave benefits	393,796	61,406
Obligation for post-retirement benefits	612,841	856,733
Accounts held for clients	(43,217)	(853,609)
Master Trust obligations	2,303,945	439,883
Deferred rent	2,075,306	2,223,983
Other liabilities	(70,585)	127,143
Net Cash Provided By Operating Activities	<u>5,734,764</u>	<u>1,784,232</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,734,764	1,784,232
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,864,709</u>	<u>2,080,477</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 9,599,473</u>	<u>\$ 3,864,709</u>

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

INLAND COUNTIES REGIONAL CENTER, INC.

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – Summary of Significant Accounting Policies

Background Information

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

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

The Center contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for the developmentally disabled and their families. Under the terms of these contracts, funded expenditures are not to exceed \$317,236,161 and \$298,890,912 for the 2013-2014 and 2012-2013 contract years, respectively. Actual net expenditures under the regional center contract for the 2013-2014 and 2012-2013 contracts were \$313,263,795 and \$298,834,901, respectively as of June 30, 2014.

As discussed above, the Center operates under contracts with the DDS. Contract revenue is funded on a cost reimbursement basis. The net deficit reported as of June 30, 2014 and 2013 on the statements of financial position is primarily the result of deferred rent. For long-term leases with escalating rental expense, accounting standards require the Center to recognize the total rental expense evenly over the life of the lease. Deferred rent represents the difference between the cash paid and the rental expense recognized since inception of the lease. Rental expenditures are reimbursed under the DDS contract as they are paid.

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Basis of Presentation

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

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Center and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

As of June 30, 2014 and 2013, the Center had no permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor-imposed restrictions.

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Use of Estimates and Assumptions

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

Cash and Cash Equivalents and Concentration of Credit Risk

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

At June 30, 2014 and at various times during the year, the Center maintained cash balances in its financial institutions in excess of federally insured limits.

Investments

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

Revenue Recognition

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Other Receivables

Other receivables primarily consists of client support receivables and loans and vendor receivables. Other receivables and loans are recorded when support or loans are granted to clients and when vendor audits are complete and overpayments have been determined. Other receivables and loans are presented on the statements of financial position net of the allowance for doubtful accounts and are written off when they are determined to be uncollectible. Management determined there was no allowance necessary as of June 30, 2014 and 2013.

Property and Equipment

Pursuant to the terms of the DDS contract, equipment purchases become the property of the state and, accordingly, are charged as expenses when incurred. For the years ended June 30, 2014 and 2013, sensitive and nonexpendable equipment purchases totaled \$394,454 and \$292,984, respectively. Equipment owned by the Center is stated at cost and is depreciated on the straight-line method over the estimated useful life of ten years.

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

Accrued Vacation and Other Leave Benefits

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

Post-Retirement Medical Reimbursement Plan

The Center is required to recognize the funded status of a benefit plan, measured as the difference between plan assets at fair value and the benefit obligation, in the statements of financial position, with an offsetting charge or credit to net assets. Gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net period benefit cost will be recognized each year as a separate charge or credit to net assets.

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Deferred Rent

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

Allocation of Functional Expenses

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

Tax Status

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

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

Subsequent Events

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 – State Contracts

As of June 30, 2014 and 2013, DDS had advanced the Center \$74,149,750 and \$48,709,402, respectively, under the regional center contracts. For financial statement presentation, to the extent there are claims receivable, these claims have been offset against the advances from the state.

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

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

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

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 3 – Receivable from Intermediate Care Facility Vendors

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

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

NOTE 4 – Net Assets

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

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

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2014	2013
Another Way program	\$ 33,553	\$ 108,663
Staff training	7,990	7,990
McElroy Trust	219,206	204,946
	<u>\$ 260,749</u>	<u>\$ 321,599</u>

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4 – Net Assets (Continued)

Unrestricted net deficit consisted of balances in the following funds:

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

NOTE 5 – Line of Credit

The Center had a \$49,200,000 operating line of credit with a bank which expired October 15, 2014. The interest rate was fixed at 3.25%. Amounts borrowed on the line of credit were secured by all assets of the Center. There was no balance outstanding as of June 30, 2014 and 2013. Management is currently negotiating an extension of the line of credit.

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 6 – Cash Client Trust Funds

The Center functions as custodian for receipt of certain governmental payments and resulting disbursements made on behalf of regional center clients. The cash balances are segregated from the operating cash accounts of the Center and are restricted for client support. The following is a summary of the client trust operating cash activity not reported in the statements of activities:

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 – Investments

The fair values of investments were as follows:

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting principles generally accepted in the United States of America establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1** Inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.
- Level 2** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.
- Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 – Investments (Continued)

The following table sets forth by level, with the fair value hierarchy, the Center's investments at fair value as of June 30, 2014 and 2013:

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 7 – Investments (Continued)

Investments at fair value were held in the following:

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

The following schedule summarizes the investment income:

Dividend income	\$ 10,484	\$ 10,191
Realized and unrealized gain	<u>39,421</u>	<u>22,913</u>
	<u>\$ 49,905</u>	<u>\$ 33,104</u>

NOTE 8 – Master Trust Program

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 8 – Master Trust Program (Continued)

Assets and obligations of the program are shown on the statements of financial position. Operating activities such as capital additions and distributions are not shown in the statements of activities as the Center is only acting as an agency for the beneficiaries. Operating activities such as trustee fees and administrative support services were included in other income and general administrative expense, respectively, in the statements of activities. Trustee fees and administrative support services income of \$404,000 and \$400,000 are included in other income for the years ended June 30, 2014 and 2013, respectively.

NOTE 9 – Employee Retirement Benefits

Post-Retirement Benefits Other Than Pensions

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Reconciliation of Benefit Obligations

The following tables provide a reconciliation of the changes in the plan's benefit obligations and a statement of the funded status as of June 30, 2014 and 2013:

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

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Reconciliation of Benefit Obligations (Continued)

Amounts not recognized in net periodic post-retirement benefit cost as of June 30, 2014 and 2013 were as follows:

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

The Center has accrued a receivable from the DDS totaling \$9,388,808 and \$8,775,967 as of June 30, 2014 and 2013, respectively, representing the portion of the post-retirement health care plan obligation which has been recognized as plan expense. The receivables are included in due from state-accrued vacation, other leave and retirement benefits on the statements of financial position.

The unrecognized prior-service costs of \$2,892,319 at June 30, 2014 are being amortized on a straight-line basis over the remaining nine years.

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

Prior service cost	<u>\$ 321,383</u>
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INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Assumptions

Weighted-average assumptions used to determine benefit obligations at June 30, 2014 and 2013:

	June 30,	
	2014	2013
Discount rate	5.00%	5.00%
General inflation	2.50%	2.50%
Long-term rate of return on plan assets	5.00%	5.00%

Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30, 2014 and 2013:

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

Assumed health care cost trend at June 30, 2014 and 2013:

Net Periodic Benefit Cost:

Health care cost trend rate assumed for next year	9.50%	9.50%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2023	2022

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Assumptions (Continued)

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Accumulated Post-Retirement Benefit Obligation:		
Health care cost trend rate assumed for next year	9.50%	9.50%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2023	2022

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A 1% change in assumed health care cost trend rates would have the following effects for the year ended June 30, 2014:

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

Contributions

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

The expected benefits to be paid are as follows:

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Asset Category

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

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

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

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9 – Employee Retirement Benefits (Continued)

Post-Retirement Benefits Other Than Pensions (Continued)

Asset Category (Continued)

<u>June 30, 2013</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 14,825	\$ 14,825		
Equity securities – U.S. companies	1,659,118	1,659,118		
Corporate bonds	78,727		\$ 78,727	
U.S. Government bonds	<u>867,363</u>	<u> </u>	<u>867,363</u>	<u> </u>
Total assets at fair value	<u>\$ 2,620,033</u>	<u>\$ 1,673,943</u>	<u>\$ 946,090</u>	<u>None</u>

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

PERS Retirement Plan

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

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9 – Employee Retirement Benefits (Continued)

PERS Retirement Plan (Continued)

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

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

A summary of principal actuarial assumptions used are as follows:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost Method
Amortization Method	Level percent of payroll
Asset Valuation Method	Market value
Actuarial Assumptions	
Discount Rate	7.5% (net of administrative expenses)
Projected Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Inflation	2.75%
Payroll Growth	3.00%
Individual Salary Growth	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9 – Employee Retirement Benefits (Continued)

PERS Retirement Plan (Continued)

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

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

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 9 – Employee Retirement Benefits (Continued)

PERS Retirement Plan (Continued)

The Center has two retirement plans with CalPERS. One plan is a 2%-at-age-55 formula which closed as of December 31, 2012. All employees hired prior to January 1, 2013 participate in this plan. The second plan is a 2%-at-age-62 formula which was established by the Public Employees' Pension Reform Act of 2013 (PEPRA) and all employees hired on or after January 1, 2013 participate in this plan. The total required employee contributions are 2% of earnings for the 2%-at-age-55 plan and 6.25% of earnings for the 2%-at-age-62 plan. The Center is required to contribute at an actuarially determined rate, which was 10.140% of annual covered payroll for the year ended June 30, 2014.

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

NOTE 10 – Commitments and Contingencies

Commitments

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 – Commitments and Contingencies (Continued)

Commitments (Continued)

Future minimum facilities lease commitments are as follows:

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

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

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 – Commitments and Contingencies (Continued)

Contingencies

DDS Audit

In accordance with the terms of the DDS contract, an audit may be performed by an authorized state representative. DDS conducted a fiscal compliance audit of the Center for the period of July 1, 2008 through June 30, 2010. It issued its final audit report on October 21, 2011. DDS also conducted a fiscal compliance audit of the Center for the period of July 1, 2010 through June 30, 2012. It issued its draft audit report on December 2, 2013. DDS found multiple alleged deficiencies and noncompliance with the statutes and regulations and issued various findings and recommendations that the Center should repay to DDS various amounts in a combined total of approximately \$12,400,000. The Center has been working to address these findings and providing additional supporting documentation to DDS before the final report is issued in connection with the audit period of July 1, 2010 through June 30, 2012. The Center is continuing to pursue its administrative appeal of the DDS findings and recommendations. It is premature to state if any amount will have to be repaid to DDS. The Center has complied with, or is in the process of complying with, other findings and recommendations that are not being appealed and that have no direct fiscal impact on the Center. As such, provisions for the repayment have not been recorded on the statement of financial position.

DDS Funding

The Center is dependent on continued funding provided by the DDS to operate and provide services for its clients. The Center's contract with DDS provides funding for services under the Lanterman Act. In the event that the operations of the Center result in a deficit position at the end of any contract year, DDS may reallocate surplus funds within the state of California system to supplement the Center's funding. Should a system-wide deficit occur, DDS is required to report to the governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. DDS's recommendations are subsequently reviewed by the governor and the Legislature and a decision is made with regard to specific actions.

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 – Commitments and Contingencies (Continued)

Contingencies (Continued)

Unemployment Insurance

The Center has elected to self-insure its unemployment insurance. The Center is required to reimburse the state of California for benefits paid to its former employees. A trust fund is maintained to fund any reimbursements. As of June 30, 2014 and 2013, the trust fund balance was approximately \$576,000 and \$647,000, respectively, which is included in other assets on the statements of financial position.

Landlord Settlement Agreements

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

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 10 – Commitments and Contingencies (Continued)

Contingencies (Continued)

Wage and Hour Class Action Lawsuit

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

Other Litigation

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

INLAND COUNTIES REGIONAL CENTER, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 11 – Transactions with Affiliated Organization

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

The Center entered into an operating lease agreement with the Foundation in November 2007, as discussed in Note 10. Lease and common area maintenance payments made to the Foundation amounted to approximately \$7,000,000 and \$6,800,000 for the years ended June 30, 2014 and 2013, respectively.

Community Placement Plan Loans

The Center entered into multiple contracts with the Foundation to provide advance funding for the purchases of homes to be used as residential facilities for its consumers. The advances are secured by promissory notes, which will be forgiven, without interest, upon the completion of the residential facilities. In the event that the contract is breached, the Foundation would be responsible to repay the Center the total amount of the advance with interest at a rate equal to ten percent. During June 30, 2014, the Center has advanced the Foundation \$150,000, which has not been forgiven.

APPENDIX C

BOOK-ENTRY SYSTEM

The information in this Appendix concerning The Depository Trust Company, New York, New York (“DTC”), and DTC’s book-entry system has been obtained from DTC and the Corporation and the Authority take no responsibility for the completeness or accuracy thereof. The Corporation and the Authority cannot and do not give any assurances that DTC, Direct Participants (as defined below) or Indirect Participants (as defined below) will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The Authority, the Corporation and IRC are not responsible or liable for the failure of DTC or any DTC Direct or Indirect Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC’s Direct and Indirect Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 issues of million U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of “AA+.” The DTC Rules applicable to DTC’s Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated herein by reference.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as

periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Corporation or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of such principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered as described in the Indenture.

The Corporation or the Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Loan Agreement and the Office Lease. These summaries do not purport to be complete or definitive and reference should be made to such documents for a full and complete statement of their provisions.

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS RELATING TO THE BONDS

DEFINITIONS

“Act” means the Joint Exercise of Powers Act, comprising Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State.

“Act of Bankruptcy” means any of the following with respect to any Person: (a) the commencement by such Person of a voluntary case under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (b) failure by such Person to timely controvert the filing of a petition with a court having jurisdiction over such Person to commence an involuntary case against such Person under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (c) such Person shall admit in writing its inability to pay its debts generally as they become due; (d) a receiver, trustee, custodian or liquidator of such Person or such Person’s assets shall be appointed in any proceeding brought against the Person or such Person’s assets; (e) assignment by such Person for the benefit of its creditors; or (f) the entry by such Person into an agreement of composition with its creditors.

“Additional Bonds” means all bonds and refunding bonds of the Authority authorized by and at any time Outstanding pursuant to the Indenture and authorized, issued and delivered in accordance with the Indenture.

“Additional Payments” means the amounts payable to the Authority, the Trustee or other Persons pursuant to the Agreement.

“Additional Payments Fund” means the Additional Payments Fund established pursuant to the Indenture.

“Agreement” means the Loan Agreement, dated as of August 1, 2015, by and between the Authority and the Corporation and relating to the loan of the proceeds of the Bonds, as originally executed or as it may from time to time be supplemented or amended.

“Aggregate Debt Service” means, as of any date of calculation and with respect to any period, the sum of amounts of Debt Service for all Funded Debt for such period.

“Amendment” means any amendment or modification of any of the Documents.

“Annual Debt Service” means, for any Fiscal Year, the aggregate of the payments to be made in respect of principal and interest represented by the Bonds during such Fiscal Year.

“Authority” means the California Municipal Finance Authority, or its successors and assigns, a joint exercise of powers authority formed by the Joint Powers Agreement pursuant to the provisions of the Act.

“Authority Fee Payment Fund” means the Authority Fee Payment Fund established pursuant to the Indenture.

“Authorized Denomination” means \$5,000 or any integral multiple thereof. Notwithstanding the foregoing, in the event that the Outstanding principal amount of a Bond initially issued in an Authorized Denomination is, due to redemption, less than the minimum principal amount of the Authorized Denomination that otherwise would apply to such Bond, then such Authorized Denomination shall be reduced to equal such Outstanding principal balance.

“Authorized Corporation Representative” means any person who at the time and from time to time may be designated, by written certificate furnished to the Trustee, as a person authorized to act on behalf of the Corporation. Such certificate shall contain the specimen signature of such person, shall be signed on behalf of the Corporation by any officer of the Corporation and may designate an alternate or alternates.

“Authorized Authority Representative” means, any member of the Board, an Authorized Signatory identified by the Authority, or any other person designated as an Authorized Authority Representative by a certificate signed by a member of the Board and filed with the Trustee.

“Bankruptcy Code” means Title 11 of the United States Code, as amended.

“Beneficial Owner” means, with respect to any Book-Entry Bond, the beneficial owner of such Bond as determined in accordance with the applicable rules of DTC or any successor securities depository for Book-Entry Bonds.

“Board” means the Board of Directors of the Authority.

“Bonds” means the Bonds and any Additional Bonds issued under the Indenture.

“Bond Counsel” means Norton Rose Fulbright US LLP or any other attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the validity of, and exclusion from gross income for federal tax purposes of interest on, bonds issued by states and political subdivisions and duly admitted to practice law before the highest court of any state of the United States and acceptable to the Authority.

“Bond Debt Service” means, for any period of time, the sum of (a) the interest payable during such period on all Outstanding Bonds, assuming that all Outstanding Bonds which are Serial Bonds are retired as scheduled and that all Outstanding Bonds which are Term Bonds are redeemed or paid from mandatory Sinking Fund Installments as scheduled, (b) that portion of the principal amount of all Outstanding Bonds which are Serial Bonds maturing on each principal payment date during such period, and (c) that portion of the principal amount of all Outstanding Bonds which are Term Bonds required to be redeemed or paid from mandatory Sinking Fund Installments during such period.

“Bond Fund” means the Bond Fund established pursuant to the Indenture.

“Bond Proceeds Fund” means the Bond Proceeds Fund established pursuant to the Indenture.

“Bond Register” means the registration books for the ownership of Bonds maintained by the Trustee pursuant to the Indenture.

“Bond Year” means each twelve-month period extending from June 15, 2016 in one calendar year to June 14 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall begin on the Issue Date and shall end on June 14, 2016.

“Business Day” means a day which is not a Saturday, a Sunday, a day on which banks located in the city in which the Principal Corporate Trust Office is required or authorized to be closed or a day on which the New York Stock Exchange is closed.

“Certificate of the Authority” means a certificate signed by an Authorized Authority Representative. If and to the extent required by the provisions of the Indenture, each Certificate of the Authority shall include the statements provided for in the Indenture.

“Certificate of the Corporation” means a certificate signed by an Authorized Corporation Representative. If and to the extent required by the provisions of the Indenture, each Certificate of the Corporation shall include the statements provided for in the Indenture.

“Certified Resolution” means a copy of a resolution of the Authority certified to have been duly adopted by the Authority and to be in full force and effect on the date of such certification.

“Code” means the Internal Revenue Code of 1986.

“Computation Date” means, initially, the first day following the conclusion of the fifth Bond Year (unless on or before June 15, 2019 the Corporation has designated a different date as the Computation Date), and each subsequent Computation Date shall be the fifth anniversary of the immediately preceding Computation Date (unless, as to any Computation Date, the Corporation has designated an earlier date following such immediately preceding Computation Date as a Computation Date), and the date of the final retirement of the Bonds.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of August 1, 2015, by and between the Corporation and the dissemination agent named there, as originally executed or as it may from time to time be supplemented or amended.

“Corporation” means (i) the California Housing Foundation, a California nonprofit public benefit corporation, and its successors and assigns; and (ii) any surviving, resulting or transferee corporation as provided in the Agreement.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee, legal fees, and charges, fees and disbursements of consultants and professionals, including bond and disclosure counsel, rating agency fees, verification agent fees, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds which constitutes a “cost of issuance” within the meaning of Section 147(g) of the Code.

“Costs of Issuance Fund” means the fund which is established pursuant to the Indenture.

“Debt Service,” when used with respect to any Funded Debt, means, as of any date of calculation and with respect to any period, the sum of (1) the interest falling due on such Funded Debt during such period (except to the extent that such interest is payable from the proceeds of such Funded Debt set aside for such purpose), and (2) the principal (or mandatory sinking fund or installment purchase price or similar) payments or deposits required with respect to such Funded Debt during such period; computed on the assumption that no portion of such Funded Debt shall cease to be outstanding during such period except by reason of the application of such scheduled payments.

“Debt Service Reserve Fund” means the Debt Service Reserve Fund established pursuant to the Indenture.

“Debt Service Reserve Requirement” means, with respect to the Debt Service Reserve Fund and as of any date of calculation, an amount equal to the least of (a) ten percent (10%) of the initial offering price to the public of the Bonds as determined under the Code, (b) the greatest amount of the Bond Debt Service in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (c) one hundred twenty-five percent (125%) of the sum of the Bond Debt Service for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the issuance of the Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service is due, divided by the number of such Fiscal Years, all as computed and determined by the Corporation and specified in writing to the Trustee.

“Debt Service Reserve Valuation Date” means the Business Day preceding each June 15 and December 15, commencing with the Business Day preceding December 1, 2015.

“Deed of Trust” means that certain Deed of Trust with Assignment of Rents and Fixture Filing, dated as of August 1, 2015, executed by the Corporation in favor of the Deed of Trust Trustee for the benefit of the Trustee (as assignee of the Authority), as trustee for the Owners, as such may be originally executed or as from time to time supplemented or amended, respecting the real property more particularly described therein.

“Deed of Trust Trustee” means Chicago Title Company.

“Documents” means the Indenture, the Deed of Trust and the Agreement.

“DTC” means The Depository Trust Company, New York, New York and its successors and assigns.

“Electronic Notice” means notice given through means of telecopy, telegraph, telegram, telex, facsimile transmission, or other similar electronic means of communication confirmed by writing or written transmission.

“Environmental Regulation” means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Substances or chemical waste, materials or substances.

“Event of Default” as used with respect to the Indenture has the meaning specified in the Indenture, and as used with respect to the Agreement has the meaning specified thereof.

“Escrow Agent” means MUFG Union Bank, N.A., as escrow agent pursuant to the Escrow Agreement.

“Escrow Agreement” means the Escrow Agreement, dated as of August 1, 2015, by and between MUFG Union Bank, N.A., as escrow agent and the Corporation.

“Facilities” means the improvements on the Property as the same may be modified and expanded from time to time.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the Corporation.

“Fitch” means Fitch, Inc., and any successor thereto.

“Funded Debt” means all indebtedness of the Corporation (including the obligation of the Corporation to make Loan Payments and any Additional Payments) that in accordance with generally accepted accounting principles is classified as a liability on a balance sheet, and which has a final maturity (or which, pursuant to the terms of a revolving credit or similar agreement or otherwise, is renewable or extendable at the option of the Corporation to a date or for a period or periods ending) more than one year after the date of creation thereof, notwithstanding the fact that payments in respect thereof (whether loan, serial maturity or sinking fund payments or otherwise) are required to be made less than one year after the date of the creation thereof; excluding any indebtedness which is renewable or extendable pursuant to the terms of a revolving credit or similar agreement if, by the terms of such agreement, no indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each period of twelve (12) consecutive months beginning with the effective date of such revolving credit or other similar agreement.

“Funded Interest Account” means the Funded Interest Account established pursuant to the Indenture.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in the opinions, pronouncements and publications of the Accounting Principles Board, the American Institute of Certified Public Accountants and the Financial Accounting Standards Board or in such other statements by such other entity as may be of general use by significant segments of the accounting profession as in effect on the date hereof.

“Government Obligations” means any of the following:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation) or collateralized by obligations described in (2) below; and

(2) Obligations of, or obligations guaranteed as to principal and interest by, the United States of America, or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America including:

- United States of America treasury obligations;
- All direct or fully guaranteed obligations;
- Farmers Home Administration;
- General Services Administration;
- Guaranteed Title XI financing;
- Government National Mortgage Association (GNMA); and
- State and Local Government Series.

“Governmental Unit” shall have the meaning set forth in Section 150 of the Code.

“Hazardous Substances” means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Project or to Persons on or about the Project or (ii) cause the Project to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of “waste,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act (“RCRA”), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Environmental Quality Act (“CEQA”), Cal. Public Resources Code § 21000 et seq.; the California Hazardous Waste Control Law (“HWCL”), Cal. Health & Safety §§ 25100 et seq.; the Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the “Porter-Cologne Act”), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other person coming upon the Project or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

“Indenture” means the Indenture of Trust, dated as of August 1, 2015, by and among the Authority, the Corporation and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions of the Indenture.

“Insurance and Condemnation Proceeds Fund” means the fund by the name established pursuant to the Indenture.

“Interest Payment Date” means each June 15 and December 15, commencing December 15, 2015.

“IRC” means the Inland Counties Regional Center, a California nonprofit corporation, and its successors and assigns.

“Issue Date” means the date the Bonds are issued and delivered.

“Joint Powers Agreement” means the Joint Exercise of Powers Agreement, dated as of January 1, 2004, relating to the California Municipal Finance Authority, by and among certain California cities, counties and special districts, as may be amended from time to time.

“Loan Payment” means any amount that the Corporation is required to pay to the Trustee pursuant to the Agreement as a repayment of the loan of the Bond proceeds made by the Authority under the Agreement.

“Management Consultant” means any independent Person of good reputation in the Southern California real estate market qualified to report on questions relating to the financial and operational condition of office real estate and selected by the Corporation.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, and any successor thereto.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Income Available for Debt Service” means, with respect to any period, the excess of revenues over expenses of the Corporation for such period, determined in accordance with generally accepted accounting principles, to which shall be added interest, amortization and depreciation and extraordinary or unusual non-cash items, each item determined in accordance with generally accepted accounting principles and excluding (a) any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets or resulting from the early extinguishment of debt, (b) gifts, grants, bequests, donations and contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Debt Service, (c) the net proceeds of insurance (other than business interruption insurance) and condemnation proceeds (except to the extent such proceeds are required by the terms of the Agreement or the Indenture to be used for purposes other than the payment of Loan Payments or Additional Payments), (d) unrealized gains and losses on investment assets of the Corporation, and (e) operating expenses relating to the Project received by the Corporation pursuant to the Office Lease.

“Office Lease” means the Office Lease, dated November 29, 2007, by and between the Corporation and IRC, as amended by Amendment No. 1 to the Office Lease, dated as of August 1, 2015, and as further amended from time to time.

“Opinion of Bond Counsel” means an Opinion of Counsel from a Bond Counsel.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Corporation) acceptable to the Authority and the Corporation. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel shall include the statements provided for in the Indenture.

“Outstanding,” when used as of any particular time with reference to the Bonds (subject to the provisions of the Indenture), means all such Bonds theretofore authenticated and delivered by the Trustee under the Indenture, except:

- (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; and
- (3) Bonds with respect to which the liability of the Authority and the Corporation have been discharged to the extent provided in, and pursuant to the requirements of, the Indenture.

“Owner” means, as of any time, the registered owner of any Bond as set forth in the Bond Register.

“Person” means an individual, a corporation, a partnership, a limited liability company, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

“Permitted Encumbrances” means and includes: (i) liens for taxes, assessments and other governmental charges due but not yet payable unless contested to in good faith by appropriate proceedings which are being diligently pursued; (ii) landlord’s, warehouseman’s, carrier’s, worker’s, vendor’s, mechanic’s and materialmen’s liens and similar liens incurred in the ordinary course of business remaining undischarged for not longer than 60 days from the filing thereof unless contested to in good faith by appropriate proceedings which are being diligently pursued; (iii) attachments remaining undischarged for not longer than 60 days from the making thereof unless contested to in good faith by appropriate proceedings which are being diligently pursued; (iv) liens in respect of pledges or deposits under workers’ compensation laws, unemployment insurance or similar legislation and in respect of pledges or deposits to secure bids, tenders, contracts (other than contracts for the payment of money), leases or statutory obligations, or in connection with surety, appeal and similar bonds incidental to the conduct of litigation; (v) all leases which have been or should be capitalized in accordance with Generally Accepted Accounting Principles with respect to property (A) not previously owned by the Corporation or an affiliate and (B) not otherwise acquired in whole or in part with proceeds of the Bonds; (vi) purchase money security interests in property of the Corporation which property was not acquired in whole or in part with the proceeds of the Bonds; (vii) the Deed of Trust; (viii) the rights of the Authority and the Trustee under the Agreement; (ix) liens on any property or assets owned by the Corporation existing on the date of the Indenture; (x) liens created by the Indenture, the Office Lease and the Agreement; (xi) liens on property received by the Corporation through gifts, grants or bequests, and (xii) any lien arising by reason of an escrow established to pay debt service on the Bonds.

“Permitted Investments” means Government Obligations and any of the following:

(1) Direct obligations (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;

(2) Bonds, debentures, notes or other evidences of indebtedness issued or fully and unconditionally guaranteed by any of the following Federal full faith and credit agencies: Export Import Bank of the United States, Federal Housing Administration, Government National Mortgage Association, Student Loan Marketing Association, Maritime Administration, Federal Financing Bank, Federal Farm Credit Bank, Farmer’s Home Administration or the Public Housing Authorities;

(3) Bonds, debentures, notes or other evidences of indebtedness issued or fully unconditionally guaranteed by and of the following United States Government non-full faith and credit agencies: Federal Home Loan Bank and Federal Land Bank;

(4) Bonds, notes or other evidences of indebtedness rated “AAA” by Standard & Poor’s Corporation issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;

(5) Interest-bearing demand or time deposits (including certificates of deposit, and bank investment contracts whether negotiable or non-negotiable) in federal or state chartered savings and loan associations or in national or State banks (including the Trustee) provided that either: (a) the obligations of such association or bank or the obligations of the holding company of such association or bank are rated in one of the three highest rating categories by Moody’s

Investors Service, Inc. or Standard & Poor's Corporation; (b) such deposits are fully insured by the Federal Deposit Insurance Corporation, provided, however, that the portion of any certificates of deposit in excess of the amount insured by the Federal Deposit Insurance Corporation, if any, shall be secured at all times in the manner provided by law by collateral security having a market value not less than the amount of such excess, consisting of securities described in this section, items (1) through (4); or (c) an investment in non-negotiable certificates of deposit made in accordance with the following conditions is an authorized investment: (i) the financial institution selected by the Corporation arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Corporation; (ii) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States of America or an instrumentality of the United States of America; (iii) the financial institution selected by the Corporation acts as custodian for the Corporation with respect to the certificates of deposit issued for the account of the Corporation;

(6) Investment agreements, guaranteed investment contracts, funding agreements, or any other form of corporate note which represents the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution which has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, in one of the two highest Rating Categories by two or more Rating Agencies;

(7) Repurchase agreements with financial institutions or banks insured by the FDIC or FSLIC, or any broker dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation; provided, that: (a) the over-collateralization is at one hundred two percent (102%), computed weekly, consisting of such securities as described in this section, items (1) through (4); (b) a third party custodian, the Trustee or the Federal Reserve Bank shall have possession of such obligations; (c) the Trustee shall have perfected a first priority security interest in such obligations; and (d) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral;

(8) Forward Delivery or Forward Purchase Agreements with underlying securities of the types outlined in (1), (2), (3) and (4) above;

(9) Money Market Mutual Funds registered with the Securities and Exchange Commission, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services, and having a rating by S&P of "AAAm-G," "AAA-m," or "AA-m" and if rated by Moody's rated "Aaa," "Aa1" or "Aa2";

(10) Tax-exempt obligations rated in either of the two highest rating categories by Moody's Investors Service, Inc. or Standard & Poor's Corporation, including money market funds so rated.

"Principal Corporate Trust Office" means the corporate trust office of the Trustee as designated in the Indenture or such other office designated by the Trustee from time to time.

"Principal Installment" means, with respect to any Principal Installment Date, the sum of (a) the aggregate amount of principal due with respect to Bonds that mature on such Principal Installment Date, plus (b) the aggregate amount of Sinking Fund Installments due on such Principal Installment Date.

"Principal Installment Date" means any date on which any Bonds mature or any date on which any of the Bonds are subject to redemption from mandatory Sinking Fund Installments.

“Project” has the meaning set forth in Exhibit A to the Agreement. The term “Project” shall also include such alternative or additional real property, facilities, equipment, furnishings, improvements and property as are permitted in accordance with the Agreement.

“Property” means that certain real property described in the Indenture.

“Rating Agency” means Fitch, Moody’s or Standard & Poor’s to the extent it is then providing or maintaining a rating on the Bonds at the request of the Corporation, or if Fitch, Moody’s or Standard & Poor’s no longer maintains a rating on the Bonds, any other nationally recognized rating agency then providing or maintaining a rating on the Bonds.

“Rebate Amount,” with respect to the Bonds, has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“Rebate Fund” means the Rebate Fund which is established in accordance with the Indenture.

“Record Date” means, with respect to each Interest Payment Date, the first day (whether or not a Business Day) of the calendar month in which the Interest Payment Date occurs.

“Reserved Rights” means the Authority’s rights under the Agreement to Additional Payments, payment of expenses pursuant to the Agreement and as otherwise expressly retained by the Authority in the Agreement, the Deed of Trust or in the Indenture, as applicable.

“Responsible Officer of the Trustee” means and includes the chairman of the board of directors, the president, every vice president, every assistant vice president, every trust officer, and every officer and assistant officer of the Trustee other than those specifically above mentioned, to whom any corporate trust matter is referred because of his or her knowledge of, and familiarity with, a particular subject.

“Revenues” means all receipts, payments and other income derived by the Authority or the Trustee pursuant to the Agreement (except any payments owed by the Corporation to the Authority in connection with its Reserved Rights made pursuant to the Agreement), including all Loan Payments and all amounts received by the Corporation under the Office Lease constituting Gross Revenues under the Agreement, or otherwise in respect of the financing and refinancing of the Project as provided in the Agreement, and any income or revenue derived from the investment of any money in any fund or account established pursuant to the Indenture (other than the Rebate Fund and any account therein).

“Serial Bonds” means Bonds for which no Sinking Fund Installments are established.

“Sinking Fund Installments” means the amounts set forth in the Indenture, subject to the credits provided in the Indenture.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and assigns.

“State” means the State of California.

“Supplemental Indenture” means any indenture amendatory of or supplemental to the Indenture duly authorized and entered into between the Authority and the Trustee in accordance with the provisions of the Indenture.

“Tax Certificate” means the Tax Certificate related to the Bonds, dated as of the Issue Date, as the same may be amended from time to time.

“Tax-Exempt” means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from the gross income of the owners thereof (other than any owner who is a “substantial user” of facilities financed with such obligations or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

“Term Bonds” means Bonds which are payable on or before their specified maturity dates from Sinking Fund Installments.

“Trustee” means MUFG Union Bank, N.A., a national banking association organized under the laws of the United States of America, and its successors and assigns or any successor Trustee appointed pursuant to the Indenture.

“United States Government Securities” has the meaning given such term in the definition of “Permitted Investments.”

“Yield” shall have the meaning ascribed to such term by Section 148(h) of the Code.

INDENTURE

Transfer and Exchange of Bonds

Registration of any Bond may, in accordance with the terms of the Indenture, be transferred, upon the books of the Trustee required to be kept pursuant to the Indenture, by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Bond shall be surrendered for registration of transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same tenor and in Authorized Denominations. No registration or transfer of Bonds shall be required to be made during the period after any Record Date and prior to the related Interest Payment Date or during the period of fifteen (15) days next preceding the date on which the Trustee gives any notice of redemption, nor shall any registration of transfer of Bonds called for redemption be required. Bonds may be exchanged at the Principal Corporate Trust Office for a like aggregate principal amount of Bonds of the same tenor and in Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Owners for any such exchange. No exchange of Bonds shall be required to be made during the period after any Record Date and prior to the related Interest Payment Date or during the period of fifteen (15) days next preceding the date on which the Trustee gives notice of redemption, nor shall any exchange of Bonds called for redemption be required.

Conditions for the Issuance of Additional Bonds

The Authority may at any time issue Additional Bonds payable from the Revenues as provided in the Indenture and secured by a pledge of the Revenues as provided in the Indenture on a parity with to the pledge securing the Outstanding Bonds theretofore issued under the Indenture, but only subject to the

following specific conditions, which are made conditions precedent to the issuance of any such Additional Bonds:

(a) The Authority shall be in compliance with all agreements and covenants contained in the Indenture and no Event of Default shall have occurred and be continuing under the Loan Agreement.

(b) The issuance of such Additional Bonds shall have been authorized by the Authority and shall have been provided for by Supplemental Indenture which shall specify the following:

(i) the purpose for which such Additional Bonds are to be issued; provided that the proceeds of such Additional Bonds shall be applied solely for the purpose of (A) financing, acquiring, constructing, maintaining, operating, improving and leasing the Project, including payment of all costs incidental to or connected with such financing; (B) increasing the Debt Service Reserve Requirement; (C) refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding; and/or (D) funding capitalized interest;

(ii) the authorized principal amount and designation of such Additional Bonds;

(iii) the dated date and the maturity dates of, and the sinking fund payment dates, if any, for such Additional Bonds; provided, that (A) each maturity and sinking fund date shall fall upon June 15; (B) all such Additional Bonds of like maturity shall be identical in all respects, except as to number and denomination; and (C) serial maturities for Serial Bonds or sinking fund payments for Term Bonds, or any combination thereof, shall be established to provide for the retirement of such Additional Bonds on or before their respective longest maturity dates;

(iv) the interest payment dates for such Additional Bonds, which shall be Interest Payment Dates;

(v) the redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(vi) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Bond Fund;

(vii) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in an escrow fund or construction fund;

(viii) the amount to be deposited from the proceeds of sale of such Additional Bonds in the Debt Service Reserve Fund, which amount shall be sufficient to cause the amount on deposit in the Debt Service Reserve Fund to equal the Debt Service Reserve Requirement for Additional Bonds upon the issuance of such Additional Bonds;

(ix) the forms of such Additional Bonds; and

(x) such other provisions as are necessary or appropriate and not inconsistent herewith.

(c) The Office Lease shall have been amended so as to increase the aggregate Rents (as defined therein) payable to the Corporation thereunder by an amount at least sufficient to pay the interest on and principal of such Additional Bonds as the same become due.

(d) The Authority shall have received confirmation in writing from the Rating Agency that the issuance of such Additional Bonds will not, in and of itself, cause a downgrading or withdrawal of its rating on any Outstanding Bonds. The Authority shall not be required to seek such a confirmation in writing if the Additional Bonds shall be refunding bonds and the annual amount of interest and principal, including sinking fund payments, payable on the Additional Bonds, does not exceed the corresponding amount of such payments on the Outstanding Bonds being refunded; provided, that the term of the Additional Bonds does not exceed the term on the Outstanding Bonds being refunded.

Nothing contained in the Indenture shall limit the issuance of any Additional Bonds of the Authority payable from the Revenues and secured by a pledge of the Revenues if, after the issuance and delivery of such Additional Bonds, none of the Bonds theretofore issued under the Indenture will be Outstanding.

Procedure for the Issuance of Additional Bonds

The Authority may, at any time, execute Additional Bonds for issuance under the Indenture and deliver them to the Trustee, and thereupon such Additional Bonds shall be authenticated and delivered by the Trustee to the purchaser thereof upon the Written Request of the Authority, but only upon receipt by the Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of authentication of such Additional Bonds by the Trustee (unless the Trustee shall accept any of such documents bearing a prior date):

(a) an executed copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(b) a Written Request of the Authority as to the authentication of such Additional Bonds;

(c) an Opinion of Counsel to the effect that (i) the Authority has the right and power to execute and deliver the Supplemental Indenture and the Supplemental Indenture has been duly and lawfully executed and delivered by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and no other authorization for the execution and delivery thereof is required; (ii) the Supplemental Indenture creates the valid pledge of the Revenues which it purports to create as provided therein, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; (iii) such Additional Bonds are valid and binding special obligations of the Authority, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and the terms hereof and entitled to the benefits hereof, and such Additional Bonds have been duly and validly authorized, executed, issued and delivered in accordance herewith; (iv) the amendment to the Office Lease required by the Indenture has been duly authorized, executed and delivered and is valid, binding and enforceable in accordance with its terms (except as enforcement may be limited by bankruptcy insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles); and (v) the issuance of such Additional Bonds will not adversely affect the exclusion from gross income for federal tax purposes of interest on the Bonds then Outstanding; and

(d) such further documents, opinions, money or securities as are required by the provisions of the Supplemental Indenture providing for the issuance of such Additional Bonds.

Bond Fund

Upon the receipt thereof, the Trustee shall deposit all Revenues in the “California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 Bond Fund” (the “Bond Fund”), which the Trustee shall establish and maintain and hold in trust, and which shall be disbursed and applied only as authorized in the Indenture. Within the Bond Fund the Trustee shall establish the “California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 Funded Interest Account” (the “Funded Interest Account”), which the Trustee shall maintain and hold in trust, and which shall be disbursed and applied in accordance with the Indenture. Except as provided in the Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of and interest on the Bonds as the same shall become due whether at maturity or upon redemption or acceleration. Amounts in the Funded Interest Account and earnings on such amounts shall be applied to the interest due on the Bonds.

The Trustee shall deposit in the Bond Fund from time to time, upon receipt thereof, all Loan Payments received by the Trustee from the Corporation for deposit in the Bond Fund, any income received from the investment of moneys on deposit in the Bond Fund and any other Revenues, including any prepayment amounts received under the Agreement from or for the account of the Corporation. In making payments of principal of and interest on the Bonds, the Trustee shall use any Revenues received by the Trustee.

Except to the extent such moneys are required to be held for the payment of principal of or interest on the Bonds then due and payable or to effect the defeasance of Bonds pursuant to the Indenture, so long as no Event of Default (or any event which would be an Event of Default under the Indenture with the passage of time or the giving of notice or both) exists under the Indenture, on the fifth day after each Interest Payment Date, the Trustee, upon receipt of a Certificate of the Corporation, shall return to the Corporation (free and clear of the pledge and lien of the Indenture) any moneys then on deposit in the Bond Fund or shall deposit such funds in the Rebate Fund if so instructed by the Corporation.

Debt Service Reserve Fund

(a) The Trustee shall establish and maintain and hold in trust the “California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 Debt Service Reserve Fund” (the “Debt Service Reserve Fund”). The Trustee shall deposit proceeds of the Bonds into the Debt Service Reserve Fund in the amount set forth in the Indenture. If, on any date on which the principal or redemption price of, or interest on, any of the Bonds is due, the amount in the Bond Fund available for such payment is less than the amount of the principal and redemption price of and interest on the Bonds due on such date, the Trustee shall apply amounts from the Debt Service Reserve Fund to the extent necessary to make good the deficiency.

(b) If on any Debt Service Reserve Valuation Date the amount on deposit in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, such excess shall be deposited in the Bond Fund.

(c) Whenever the amount in the Debt Service Reserve Fund, together with the amount in the Bond Fund, is sufficient to pay in full all of the Outstanding Bonds in accordance with their terms (including principal or redemption price and interest thereon), the funds on deposit in the Debt Service Reserve Fund shall be transferred to the Bond Fund.

(d) In the event of the refunding of the Bonds (or portions thereof), the Trustee shall, upon the written direction of an Authorized Corporation Representative, withdraw from the Debt Service

Reserve Fund any or all of the amounts on deposit therein and deposit such amounts with itself as Trustee to be held for the payment of the principal or redemption price, if any, of, and interest on, the Bonds (or portions thereof) being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds (or portions thereof) being refunded shall be deemed to have been paid pursuant to the Indenture, and (b) the amount remaining in the Debt Service Reserve Fund after such withdrawal, taking into account any deposits to be made in the Debt Service Reserve Fund in connection with such refunding, shall not be less than the Debt Service Reserve Requirement.

Bond Proceeds Fund

The Trustee shall establish the “California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 Bond Proceeds Fund” (the “Bond Proceeds Fund”). The Trustee shall keep the Bond Proceeds Fund separate and apart from all other funds and money held by it. The Trustee shall transfer all moneys in the Bond Proceeds Fund to the Escrow Fund established under the Escrow Agreement, representing the amount, together with the amount deposited in the Escrow Fund from other available funds, necessary to refund the Prior Bonds, and thereafter such Bond Proceeds Fund shall be closed.

Costs of Issuance Fund

The Trustee shall establish the “California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 Costs of Issuance Fund” (the “Costs of Issuance Fund”). The moneys in the Costs of Issuance Fund shall be held by the Trustee in trust and applied to the payment of Costs of Issuance of the Bonds, upon a requisition filed with the Trustee in the form attached to the Indenture as Exhibit B, signed by an Authorized Corporation Representative. All payments from the Costs of Issuance Fund shall be reflected in the Trustee’s regular accounting statements. Any amounts remaining in an account of the Costs of Issuance Fund shall be transferred to the Bond Fund upon the earlier of (a) six months from the Issue Date, or (b) the filing with the Trustee of a Certificate of the Corporation stating that all Costs of Issuance have been paid; the account shall then be closed.

Trustee Authorized to Take Actions Under the Agreement

The Authority authorizes and directs the Trustee under the Indenture, and the Trustee agrees, subject to the Indenture, to take such actions as the Trustee deems necessary to enforce the Corporation’s obligation under the Agreement to make payments at such times and in such amounts as are necessary for the Trustee to make timely payment of principal of and interest on the Bonds, to the extent that moneys in the Bond Fund are not available for such payment, in accordance with the provisions of Section “Bond Fund” herein. In addition, the Authority authorizes and directs the Trustee under the Indenture, and the Trustee thereby agrees, subject to the provisions of the Indenture, to take such actions as the Trustee deems necessary to enforce the Corporation’s obligation under the Agreement to make payments at such times and in such amounts as are necessary for the Trustee to make timely payment of any Additional Payments and payments owed to the Authority by the Corporation pursuant to the Agreement, to the extent that moneys in the Additional Payments Fund are not available for such payment.

Investments of Moneys

Any moneys in any of the funds and accounts established pursuant to the Indenture shall be invested upon the written direction of the Corporation signed by an Authorized Corporation Representative (such direction to specify the particular investment to be made), by the Trustee, if and to the extent then permitted by law, in Permitted Investments. In the absence of such written direction, the Trustee shall hold such funds uninvested. Moneys in any fund or account established pursuant to the

Indenture shall be invested in Permitted Investments with respect to which payments of principal thereof and interest thereon are scheduled to be paid or are otherwise payable not later than the date on which such moneys will be required by the Trustee except that any investments of amounts in the Debt Service Reserve Fund shall mature no later than five years from the time of investment; provided, however, that Permitted Investments which allow for withdrawal at par and without penalty may have an aggregate weighted term to maturity of greater than five years. Investments in any of the funds or accounts established under the Indenture, shall be valued at least once each Fiscal Year at the market value thereof; provided that the investments in the Debt Service Reserve Fund shall be valued on each Debt Service Reserve Valuation Date.

Any interest, profit or loss on any investments of moneys in any fund or account established under the Indenture shall be credited or charged to the respective fund or account from which such investments are made. See Section "Debt Service Reserve Fund" hereof regarding the transfer of excess earnings from the Debt Service Reserve Fund. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss, fee, tax or other charge resulting from any investment, reinvestment or liquidation under the Indenture. Unless otherwise directed by the Corporation, the Trustee may make any investment permitted under the Indenture or the Agreement through or with its own commercial banking or investment departments or an affiliate.

The Trustee shall furnish the Authority and the Corporation periodic cash transaction statements which include detail for all investment transactions effected by the Trustee or brokers selected by the Corporation. Upon the either party's election, such statements will be delivered via the Trustee's online service and upon electing such service, paper statements will be provided only upon request. The Authority and the Corporation each waives the right to receive brokerage confirmations of security transactions effected by the Trustee as they occur to the extent permitted by law. The Authority and the Corporation further understands that trade confirmations for securities transactions effected by the Trustee will be available upon request and at no additional cost and other trade confirmations may be obtained from the applicable broker.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture or the Agreement.

Disposition of Insurance and Condemnation Proceeds

The proceeds of insurance maintained by the Corporation against loss or damage by fire, lightning, vandalism, malicious mischief and all other risks covered by the extended coverage insurance endorsement then in use in the State or against loss or damage by risks covered by builders' all-risk insurance, and the proceeds of any condemnation awards with respect to the Facilities, shall be paid immediately upon receipt by the Corporation or other named insured parties to the Trustee, for deposit in a special fund which the Trustee shall establish and maintain and hold in trust, when needed for such deposit, to be known as the "California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 Insurance and Condemnation Proceeds Fund." If the Corporation elects to repair or replace the property damaged, destroyed or taken, it shall furnish to the Trustee plans of the contemplated repair or replacement, accompanied by a certificate of an architect or other qualified expert estimating the reasonable cost of such repair or replacement and a Certificate of the Corporation stating that amounts in the Insurance and Condemnation Proceeds Fund, together with investment income reasonably expected to be received with respect thereto and any other funds available or reasonably expected to become available therefor (and which the Corporation shall agree to deposit in said fund when so available), shall be sufficient to repair or replace the property damaged, destroyed or taken in accordance with such plans. After deducting therefrom the reasonable charges and expenses of the

Trustee in connection with the collection and disbursement of such moneys, moneys in the Insurance and Condemnation Proceeds Fund shall be disbursed by the Trustee upon receipt by the Trustee of a Certificate of the Corporation for the purpose of repairing or replacing the property damaged, destroyed or taken.

If the Corporation shall not elect to repair or replace the property damaged, destroyed or taken, as provided in the Indenture, the Trustee upon receipt by the Trustee of a Certificate of the Corporation shall apply all amounts in the Insurance and Condemnation Proceeds Fund on account of such damage, destruction or condemnation to redeem all or a portion of Outstanding Bonds as such amounts in the Insurance and Condemnation Proceeds Fund will allow in accordance with the Indenture.

Rental Interruption Insurance

Any proceeds from rental interruption insurance with respect to the Facilities received by the Corporation shall be deposited with the Trustee and applied by the Trustee first to the immediate payment of interest payments past due and then to the immediate payment of Principal Installments past due. The Trustee shall then transfer any remaining proceeds from rental interruption insurance to the Debt Service Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Debt Service Reserve Requirement and then deposit any proceeds remaining into the Bond Fund to be applied in the manner provided in the Indenture.

Additional Payments Fund

The Trustee shall establish the “California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 Additional Payments Fund” (the “Additional Payments Fund”). The Trustee shall deposit into the Additional Payments Fund the amounts received from the Corporation pursuant to the Agreement. Amounts in the Additional Payments Fund shall be held by the Trustee in trust and applied to the payment of the Additional Payments and payments owed to the Authority pursuant to the Agreement. Any interest earnings on amounts in the Additional Payments Fund shall be transferred to the Bond Fund. The Trustee shall pay any such payments promptly upon receipt from an Authorized Corporation Representative of a written direction to pay such Additional Payment.

Authority Fee Payment Fund

The Trustee shall establish the “California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 Authority Fee Payment Fund” (the “Authority Fee Payment Fund”). The Trustee shall deposit into the Authority Fee Payment Fund the amounts received from the Corporation pursuant to the Agreement including but not limited to the payment of the Authority’s annual fee. The moneys in the Authority Fee Payment Fund shall be held by the Trustee in trust and applied to the payment of the Authority’s fee as provided in the Agreement. Any interest earnings on amounts in the Authority Fee Payment Fund shall be transferred to the Bond Fund. The Trustee shall transfer the Additional Payments constituting the Authority’s annual fee, promptly upon receipt thereof from the Corporation, to the Authority at the Remittance Address.

Power to Issue Bonds and to Make Pledge; Preservation of Revenues

The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The Authority has duly authorized the execution and delivery of the Bonds and the Indenture under the terms and provisions of

the Act and a resolution adopted by the Board and further represents, covenants and warrants that all requirements have been met and procedures have occurred to ensure the enforceability against the Authority of the Bonds and the Indenture. The Authority has taken all necessary action and has complied with all provisions of the Act required to make the Bonds and the Indenture the valid, legal and binding limited obligations of the Authority.

The Authority shall not waive any provision of the Agreement or take any action to interfere with or impair the pledge and assignment, under the Indenture, of Revenues and the assignment to the Trustee of rights under the Agreement assigned to the Trustee under the Indenture, or the Trustee's enforcement of any such rights under the Agreement, without the prior written consent of the Trustee. The Trustee may give such written consent, and may itself take any such action, or consent to any Amendment, only in accordance with the provisions of the Indenture.

Tax Covenants

The Authority and the Corporation each covenant that neither shall use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause interest on any Bond to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Authority and the Corporation receive a written opinion of Bond Counsel to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the Authority and the Corporation, as the case may be, shall comply with each of the specific covenants in the Indenture.

Rebate Fund

When requested, the Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated the "California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 Rebate Fund" (the "Rebate Fund"). Within the Rebate Fund, the Trustee shall maintain such accounts as shall be directed by the Corporation as necessary for the Authority and the Corporation to comply with the terms and requirements of the Tax Certificate. Subject to the transfer provisions provided below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Certificate), for payment to the United States of America, and none of the Corporation, the Authority nor the Owners shall have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture, the Agreement and by the Tax Certificate. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the directions of the Corporation, including supplying all necessary information requested by the Corporation and the Authority in the manner set forth in the Tax Certificate, and shall not be required to take any actions thereunder in the absence of written directions from the Corporation.

Upon receipt of the Corporation's written instructions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States of America, as so directed. In addition, if the Corporation so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Corporation's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Amount and payment of all other amounts due and owing pursuant to the Agreement shall be withdrawn and remitted to the Corporation upon its written request.

Notwithstanding any provision of the Indenture the obligation of the Corporation to pay the Rebate Amount to the United States of America and to comply with all other requirements of the Indenture, the Agreement and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

Notwithstanding any provisions of the Indenture and the Agreement, if the Corporation shall provide to the Authority and the Trustee an Opinion of Bond Counsel that any specified action required under the Indenture or the Agreement is no longer required or that some further or different action is required to maintain the Tax-Exempt status of interest on the Bonds, the Corporation, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of the Indenture; and the covenants under the Indenture shall be deemed to be modified to that extent.

Other Liens

So long as any Bonds are Outstanding, the Authority shall not create any pledge, lien or charge of any type whatsoever upon all or any part of the Revenues or the other assets pledged under the Indenture, other than the lien of the Indenture. No obligations of the Corporation may be issued on a parity with the Bonds other than obligations issued or delivered to complete the Project pursuant to a Supplemental Indenture delivered pursuant to the provisions hereto or to refund existing obligations of the Corporation which would result in debt service savings to the Corporation.

Further Assurances

Whenever and so often as requested so to do by the Trustee, the Authority shall promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all of the rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Indenture and to perfect and maintain as perfected such rights, interests, powers, benefits, privileges and advantages.

Events of Default; Acceleration; Waiver of Default

Each of the following events shall constitute an “Event of Default” under the Indenture:

- (i) Failure to make payment of any installment of interest upon any Bond when such payment shall have become due and payable;
- (ii) Failure to make due and punctual payment of the principal of any Outstanding Bond when such payment shall have become due and payable, whether at the stated maturity thereof, or upon proceedings for the mandatory redemption thereof from Sinking Fund Installments or upon the maturity thereof by declaration;
- (iii) The occurrence of an “Event of Default” under the Agreement, as specified in the Agreement; or
- (iv) Default by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, and the continuance of such default for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Corporation by the Trustee or to the Authority, the Corporation and

the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding;

No default specified in (iv) above shall constitute an Event of Default unless the Authority shall have failed to correct such default within the applicable 30-day period; provided, however, that if the default shall be such that it can be corrected, but cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within the applicable period and diligently pursued until the default is corrected.

Upon the occurrence and continuation of an Event of Default the Trustee, may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding, shall, by notice in writing delivered to the Corporation, with copies of such notice being sent to the Authority, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default under the Indenture until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration of the Bonds under the Indenture the Trustee shall immediately declare all indebtedness payable under the Agreement with respect to the Bonds to be immediately due and payable in accordance with the Agreement and may exercise and enforce such rights as exist under the Agreement.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Indenture, there shall have been deposited with the Trustee a sum which, together with any other amounts then held in the Bond Fund, is sufficient to pay all the principal of such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses (including reasonable attorneys' fees) of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee in its sole discretion or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (by written notice to the Authority and to the Trustee) may, on behalf of the Owners of all Bonds, rescind and annul such declaration with respect to the Bonds and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Limitation on Owners' Right to Sue

No Owner shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (b) the Owners of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted under the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses (including reasonable attorneys' fees) and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of thirty (30) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture; it being understood and intended that no one or more Owners shall have any right in any manner whatsoever by his or her or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

The right of any Owner to receive payment of the principal of and interest on such Bond out of Revenues, as provided in the Indenture and the Bond, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner, notwithstanding any provisions of the Indenture.

Modification Without Consent of Owners

The Authority and the Trustee (with the consent of the Corporation), without the consent of or notice to any Owners, from time to time and at any time, but subject to the conditions and restrictions contained in the Indenture, may enter into a Supplemental Indenture or Indentures, which Supplemental Indenture or Indentures thereafter shall form part of the Indenture; and the Trustee, without the consent of or notice to any Owners, from time to time and at any time, may consent to any Amendment to any Document; in each case for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Authority contained in the Indenture, or of the Corporation contained in any Document, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power reserved to or conferred upon the Authority or the Corporation in the Indenture or any Supplemental Indenture; provided, that no such covenant, agreement, assignment, pledge or surrender shall materially adversely affect the interests of the Owners of the Bonds;
- (ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision contained in the Indenture or any Document, or in regard to matters or questions arising under the Indenture or any Document, as the Authority may deem necessary or desirable and which shall not materially adversely affect the interests of the Owners of the Bonds;
- (iii) to modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification of the Indenture or any Supplemental Indenture under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if they so determine, to add to the Indenture as supplemented or amended such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute, and which shall not adversely affect the interests of the Owners of the Bonds;
- (iv) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of interest on the Bonds; provided that such amendment or supplement shall not materially adversely affect the interests of the Owners of the Bonds;
- (v) to modify or eliminate the book-entry registration system for any of the Bonds;

- (vi) to provide for the procedures required to permit any Owner to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell or dispose of such rights, as contemplated by Section 1286 of the Code;
- (vii) to provide for the appointment of a co-Trustee or the succession of a new Trustee;
- (viii) to change the description of the Project under the Agreement in accordance with the provisions thereof and of the Tax Certificate;
- (ix) to comply with requirements of any Rating Agency in order to obtain or maintain a rating on any Bonds;
- (x) in connection with any other change which will not adversely affect the security for the Bonds or the Tax-Exempt status of interest thereon or otherwise materially adversely affect the interests of the Owners of the Bonds, such determination to be based upon an Opinion of Bond Counsel; or
- (xi) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Indenture.

Before the Authority or the Trustee enters into a Supplemental Indenture, and before the Trustee consents to any Amendment, pursuant to the provisions of the Indenture, the Authority or the Trustee shall cause notice of the proposed execution of the Supplemental Indenture or Amendment to be given by mail to each Rating Agency. A copy of the proposed Supplemental Indenture or Amendment shall accompany such notice. Not less than one week after the date of the first mailing of such notice, the Authority and/or the Trustee may execute and deliver such Supplemental Indenture or Amendment, but only after there shall have been delivered to the Trustee an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with the applicable terms of the Indenture; (iii) will, upon the execution and delivery thereof be a valid and binding agreement of the Authority; and (iv) will not adversely affect the Tax-Exempt status of interest on the Bonds.

Notwithstanding the foregoing, the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such Supplemental Indenture, and the Trustee shall not enter into any Supplemental Indenture or consent to any Amendment without first obtaining the written consent of the Corporation. Any Supplemental Indenture or Amendment permitted pursuant to the Indenture may be approved by an Authorized Authority Representative and need not be approved by resolution or other action of the Authority.

Modification With Consent of Owners

With the consent of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, evidenced as provided in the Indenture, (i) the Authority and the Trustee may from time to time and at any time enter into a Supplemental Indenture or Indentures for the purpose of adding any provisions to or changing in any manner or, eliminating any of the provisions of the Indenture as theretofore supplemented and amended; (ii) the Authority and the Corporation may enter into any Amendment; and (iii) the Trustee may consent to any Amendment to any Document and any other matters for which its consent is required pursuant to the Indenture; provided, however, that no such Supplemental Indenture or Amendment will have the effect of extending the time for payment or reducing

any amount due and payable by the Corporation pursuant to the Agreement without the consent of the Owners of all Bonds then Outstanding; and that no such Supplemental Indenture shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Owners whose consent is required for the execution of such Supplemental Indentures or Amendments, or permit the creation of any lien on the Revenues and the other assets pledged as security for Bonds under the Indenture prior to or on a parity with the lien of the Indenture, except as permitted in the Indenture, or permit the creation of any preference of any Owner over any other Owner, except as permitted in the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture upon the Revenues and the other assets pledged to the payment of the Bonds under the Indenture, without the consent of the Owners of all Bonds then Outstanding. Nothing in this paragraph shall be construed as making necessary the approval of any Owner of any Supplemental Indenture or Amendment permitted by the provisions of the Indenture.

Upon receipt by the Trustee of: (1) a Certified Resolution authorizing the execution of any such Supplemental Indenture or Amendment; (2) an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with the applicable terms of the Indenture; (iii) in the case of a Supplemental Indenture, will, upon the execution and delivery thereof, be a valid and binding agreement of the Authority; and (iv) will not adversely affect the Tax-Exempt status of interest on the Bonds; and (3) as required by the Indenture, the Owners, as aforesaid, the Trustee shall join with the Authority in the execution of such Supplemental Indenture or shall consent to such Amendment; provided, however, that (i) the Trustee shall not be obligated to enter into any such Supplemental Indenture which materially and adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its sole discretion, but shall not be obligated to, enter into such Supplemental Indenture; and (ii) the Trustee shall not enter into such Supplemental Indenture or consent to any Amendment of any Document without first obtaining the Corporation's written consent thereto.

It shall not be necessary for the consent of the Owners under the Indenture to approve the particular form of any proposed Supplemental Indenture or Amendment, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the parties thereto of any Supplemental Indenture or Amendment as provided in the Indenture, the Trustee shall mail a notice (prepared by the Corporation) setting forth in general terms the substance of such Supplemental Indenture or such Amendment to the Rating Agencies and each Owner at the address contained in the Bond Register. Any failure of the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture or such Amendment.

Discharge of Indenture

If all Bonds shall be paid and discharged in any one or more of the following ways:

- (i) by the payment of the principal of and interest on all Bonds as and when the same become due and payable; or
- (ii) by providing for the payment of the principal of and interest on all Bonds as provided in the Indenture; or
- (iii) by the delivery to the Trustee, for cancellation by it, of all Bonds;

and if all other sums payable under the Indenture by the Corporation and the Authority shall be paid and discharged, then thereupon the Indenture shall be satisfied and discharged and shall cease, terminate and become null and void, and thereupon the Trustee shall, upon Written Request of the Authority, and upon receipt by the Trustee and the Authority of an Opinion of Bond Counsel to the effect that all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Indenture. The Trustee shall mail written notice of such payment and discharge to the Authority, the Corporation, and each Rating Agency. The satisfaction and discharge of the Indenture shall be without prejudice to the rights of the Trustee and the Authority to charge and be reimbursed by the Corporation for any expenditures which it may thereafter incur in connection with the Indenture.

The Authority and the Corporation shall surrender to the Trustee for cancellation by it any Bonds previously authenticated and delivered which the Authority or the Corporation lawfully may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Discharge of Liability on Particular Bonds

Any Bond or a portion thereof shall be deemed to be paid within the meaning of the Indenture when payment of the principal of such Bond or a portion thereof plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption or by declaration as provided in the Indenture) shall have been provided for by (i) irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment money and/or nonprepayable, noncallable United States Government Securities as provided in the Indenture; and (ii) if such Bond or portion thereof is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as required in the Indenture provided or provision satisfactory to the Trustee shall have been made for giving such notice.

In the event of the provision of the payment of less than the full principal amount of a Bond in accordance with the Indenture, the principal amount of the Bond as to which such payment is not provided for shall be in an Authorized Denomination and, unless that portion of the Bond as to which payment is provided for in accordance with the Indenture is to be paid or redeemed within sixty days of the deposit with the Trustee, such portion will also be in an Authorized Denomination.

Upon the deposit with the Trustee, in trust, at or before maturity or the redemption date, as applicable, of money and/or nonprepayable, noncallable United States Government Securities as provided in the Indenture to pay or redeem a Bond or a portion thereof and the satisfaction of the other conditions specified in the Indenture, such Bond, or the applicable portion thereof, shall be deemed to be paid under the Indenture, shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such money and/or United States Government Securities deposited with the Trustee for such purpose, and all liability of the Authority and the Corporation in respect of such Bond, or the applicable portion thereof, shall cease, terminate and be completely discharged, except that the Authority and the Corporation shall remain liable for the payment of the principal of and interest on such Bond, or the applicable portion thereof, but only from, and the Owners shall thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money and/or United States Government Securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

Unclaimed Moneys

Notwithstanding any provisions of the Indenture to the contrary, and subject to applicable laws of the State, any moneys deposited with the Trustee in trust for the payment of the principal of, or interest on, any Bonds remaining unclaimed for two (2) years after the principal of any or all of the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Indenture), shall then be repaid to the Corporation upon its written request, and the Owners of such Bonds shall thereafter be entitled to look only to the Corporation for payment thereof, and all liability of the Authority and the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Trustee shall (at the request and cost of the Corporation) first give notice by mail to each affected Owner, which notice shall be in such form as may be deemed appropriate by the Corporation and the Trustee, in respect of the Bonds so payable and not presented and in respect of the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof. If the repayment of any such moneys to the Corporation as aforesaid, the Owners of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be unsecured creditors of the Corporation for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Corporation (without interest thereon).

LOAN AGREEMENT

Corporation's Maintenance of its Existence; Consolidation; Merger; Sale or Transfer Under Certain Conditions

The Corporation agrees under the Agreement that during the term of the Agreement and so long as any Bond is Outstanding, it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, that the Corporation may, without violating the agreements contained in the Agreement, consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation or an agency of the State all or substantially all of its assets as an entirety and thereafter dissolve; provided, that in the event the Corporation is not the surviving, resulting or transferee corporation, as the case may be, that the surviving, resulting corporation, or the transferee of all or substantially all of the Corporation's assets (i) is a corporation (1) organized under the laws of the United States or any state, district or territory thereof; (2) is qualified to do business in the State; and (3) is an organization described in Section 501(c)(3) of the Code, or a corresponding provision of the federal income tax laws then in effect; and (ii) assumes in writing all of the obligations of the Corporation under the Agreement, the Indenture, the Office Lease and the Deed of Trust. Notwithstanding the foregoing, as a condition precedent to any consolidation, merger, sale or other transfer, the Trustee and the Authority shall receive (A) an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not in and of itself affect the Tax-Exempt status of interest on the Bonds and (B) an Opinion of Counsel reasonably acceptable to the Authority to the effect that after such merger, consolidation, sale or other transfer, the Agreement is a valid and binding obligation of the surviving, resulting or transferee corporation, enforceable according to its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, or by the application of equitable principles if equitable remedies are sought, and the security interest created in the Agreement and the Deed of Trust will not be adversely affected by such sale or other transfer.

Notwithstanding the foregoing, the Corporation need not comply with any of the above provisions of the Agreement if, at the time of such transaction, provision for the redemption of all Outstanding Bonds will be made as provided in the Indenture.

If a merger, consolidation, sale or other transfer is effected, as provided in the Agreement, the provisions of the Agreement above shall continue in full force and effect and no further merger, consolidation, sale or transfer shall be effected except in accordance with the above provisions of the Agreement.

Another entity may also agree to become a co-obligor and jointly and severally liable with the Corporation (without the necessity of merger, consolidation or transfer of assets) under the Agreement if the foregoing provisions are satisfied. In such event, references in the Agreement to indebtedness of the Corporation shall apply to the combined indebtedness of the Corporation and such other entity, references to the financial condition or results of operation of the Corporation shall apply to the combined financial condition and results of operation of the Corporation and such other entity, and the Corporation and such other entity shall be considered to be the Corporation for all purposes of the Agreement and the other Corporation Documents.

Rates and Charges; Debt Service Coverage

(a) The Corporation covenants and agrees to operate the Facilities as revenue-producing office facilities. The Corporation further covenants and agrees to fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rent, fees and charges for the use of the Facilities which, together with all other receipts and revenues of the Corporation and any other funds available therefor, will be sufficient in each Fiscal Year to produce Net Income Available for Debt Service equal to at least 1.25 times Aggregate Debt Service for such Fiscal Year.

(b) The Corporation further covenants and agrees that, from time to time and as often as shall be necessary, it will revise, or cause to be revised, subject to applicable requirements or restrictions imposed by law, its rental rates, fees and charges as may be necessary or proper so that the Net Income Available for Debt Service in each Fiscal Year will be not less than the amount required for such Fiscal Year under Subsection (a) of this Section. Within one hundred eighty (180) days after the end of each Fiscal Year, the Corporation shall compute the Net Income Available for Debt Service for such Fiscal Year and promptly furnish to the Trustee and the Authority a certificate setting forth the results of such computation. The Corporation further covenants and agrees that if in such Fiscal Year the Net Income Available for Debt Service shall have been less than the amount required under Subsection (a) above, it will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Corporation or the methods of operation of the Corporation that will result in producing Net Income Available for Debt Service in the amount required by Subsection (a) above in the then current Fiscal Year. Copies of the recommendations of the Management Consultant shall be filed with the Trustee and the Authority. The Corporation shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination of its Board of Directors that such recommendations, in whole or in part, are in the best interests of the Corporation, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations. If in any Fiscal Year, Net Income Available for Debt Service shall be less than 1.25 times Aggregate Debt Service, the Corporation shall comply with the recommendations of the Management Consultant, subject to the applicable requirements or restrictions imposed by law and in the event of a failure by the Corporation to so comply, the Authority or the Trustee may, in addition to the rights and remedies elsewhere set forth, institute and prosecute an action or proceeding in any court or before any board or

commission having jurisdiction to compel the Corporation to comply with the recommendations and requirements of this Subsection (b). If the Corporation complies in all material respects with the reasonable recommendations of the Management Consultant in respect to said rates, fees, charges and methods of operation or collection, the Corporation will be deemed to have complied with the covenants contained in this Section for such Fiscal Year notwithstanding that Net Income Available for Debt Service shall in fact be less than the amount required under Subsection (a) of this Section; provided, however, that the requirements of this Subsection (b) as to minimum levels of Net Income Available for the Debt Service shall be deemed satisfied if (x) there is delivered to the Trustee the report of a Management Consultant (which report, includes, in the case of projections, forecast balance sheets, statements of revenues and expenses and statements of changes in financial position for each of the two succeeding Fiscal Years and a statement of the relevant assumptions upon which such forecasted statements are based, which financial statements must indicate that sufficient revenues and cash flow could be generated to pay the operating expenses of the proposed and existing facilities and the Debt Service on the other existing Funded Debt of the Corporation during such two Fiscal Years), and an opinion of such Management Consultant to the effect that applicable laws or regulations have prevented or will prevent the Corporation from generating the amount of Net Income Available for Debt Service required to be generated under this subsection as a prerequisite to the issuance of Funded Debt and, if requested by the Trustee, such report is accompanied by a an Opinion of Counsel supporting any conclusions of law supporting the opinion of such Management Consultant, (y) the report of the Management Consultant indicates that the rates charged or to be charged by the Corporation are or will be such that, in the opinion of such Management Consultant, the Corporation has generated or will generate the maximum amount of Gross Revenues reasonably practicable, given such laws or regulations, and (z) the historical debt service coverage ratio of the Corporation and the projected Net Income Available for Debt Service for the then-current Fiscal Year shall be at least 1.25 times Aggregate Debt Service for such Fiscal Year.

Notwithstanding the foregoing, the Corporation may permit the rendering of service at, or the use of, the Facilities without charge or at reduced charges, at the discretion of the Board of Directors of the Corporation, to the extent necessary for maintaining its tax-exempt status and its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or the State or any political subdivision or instrumentality thereof, or in compliance with any recommendation for free services that may be made by the Management Consultant.

Events of Default

Any one of the following which occurs shall constitute an Event of Default under the Agreement:

- (i) failure by the Corporation to pay or cause to be paid any amounts required to be paid under the Agreement when due or to make the deposits required to be made under the Agreement within five days after the day when such payment was due; or
- (ii) failure of the Corporation to observe and perform any covenant, condition or agreement on its part required to be observed or performed under the Agreement, other than making the payments referred to in (i) above, which continues for a period of thirty (30) days after written notice from the Trustee or the Authority, which notice shall specify such failure and request that it be remedied, unless the Authority and the Trustee shall agree in writing to an extension of such time period; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Authority and the Trustee will not unreasonably withhold their consent to an extension of such time period if corrective action is instituted within such period and diligently pursued until the default is corrected; or

- (iii) any of the representations or warranties of the Corporation made in the Agreement or in the application filed with the Authority in connection with the Bonds was false or incorrect in any material respect when made; or
- (iv) an Act of Bankruptcy occurs with respect to the Corporation; or
- (v) the occurrence of an Event of Default under the Indenture.

Remedies on Default

Whenever any Event of Default under the Agreement shall have occurred and shall continue, the Authority or the Trustee may take whatever action or institute any proceeding, at law or in equity, as may be necessary or desirable for the collection of the payments and other amounts then due and thereafter to become due under the Agreement the enforcement of the performance and observance of any obligation, agreement or covenant of the Corporation under the Agreement, including but not limited to: (i) instituting and prosecuting to judgment or final decree and enforcing any such judgment or decree against the Corporation and collect in the manner provided by law moneys decreed to be payable; and (ii) by injunctive and other equitable relief, to require the Corporation to perform each of its obligations, and to otherwise protect the Authority's rights, under the Agreement.

If, at any time after all of the Outstanding Bonds shall have been declared due and payable pursuant to the Indenture but such declaration has been rescinded in accordance with the Indenture, no amount shall be payable by the Corporation pursuant to the Agreement with respect to the principal of Bonds as to which the acceleration of maturity has been rescinded.

In case the Trustee or the Authority shall have proceeded to enforce its rights under the Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Authority, then, and in every such case, the Corporation, the Trustee and the Authority shall be restored respectively to their several positions and rights under the Agreement, and all rights, remedies and powers of the Corporation, the Trustee and the Authority shall continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Authority, the Trustee or the Corporation shall not be disturbed by reason of this provision).

Nonliability of Authority

The Authority shall not be obligated to pay the principal (or redemption price) of or interest on the Bonds, except from Gross Revenues and other moneys and assets received by the Trustee pursuant to the Agreement. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof, nor the faith and credit of the Authority or any member is pledged to the payment of the principal (or redemption price) or interest on the Bonds. Neither the Authority nor its members, officers, directors, agents or employees or their successors or assigns shall be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Agreement, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Corporation under the Agreement.

The Corporation acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the Corporation to the Trustee pursuant to the Agreement, together with investment income on certain funds and accounts held by the Trustee under the Indenture, and agrees that if the payments to be made under the Agreement shall ever prove insufficient to pay all principal (or redemption price) and interest on the Bonds as the same shall become due (whether by

maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Corporation shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal (or redemption price) or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Corporation, the Authority or any third party, subject to any right of reimbursement from the Trustee, the Authority or any such third party, as the case may be, therefor but solely, in the case of the Authority, from Gross Revenues, other than with respect to any deficiency caused by the willful misconduct of the Authority.

OFFICE LEASE

Terms capitalized under this caption “OFFICE LEASE” but not defined shall have the meanings set forth in the Office Lease (the “Lease”) by and between the Corporation (“Lessor”), and IRC (“Lessee”) (collectively the “Parties” or, individually a “Party”) relating to the premises (“Premises”).

Commencement of Lease

The Lease shall be effective as of the Lease Commencement Date. The Term of the Lease shall end on June 30, 2045 (the “Expiration Date”), unless extended pursuant to the terms thereof.

Notwithstanding anything to the contrary contained in the Lease, the term of the Lease shall expire on the later of the (i) final scheduled date for payment of Rents with respect to the Rents that support the payment of the Bonds, and (ii) date on which all Rents have been fully paid or prepaid; provided, that, if on the scheduled Expiration Date there shall remain outstanding and unpaid any amounts under the Agreement, the Term of the Lease shall automatically be extended until the Rents have been fully paid or prepaid.

Operating Expenses

As of the Lease Commencement Date, the Lessee’s Share of Operating Expenses calculated by dividing the approximate rentable square footage of the Premises by the total approximate square footage of the Project and shall not be subject to revision except in connection with an actual change in the size of the Premises or a change in the space available for lease in the Project.

All monetary obligations of Lessee to Lessor under the terms of the Lease are deemed to be Rent. Lessee’s obligation to pay Rent, including Base Rent, shall commence on the Rent Commencement Date. Lessee shall pay to Lessor during the Term, in addition to the Base Rent, Lessee’s Share of all Operating Expenses during each calendar year of the term of the Lease in accordance with the following provisions:

“Operating Expenses” include all costs incurred by Lessor relating to the ownership and operation of the Project, calculated as if the Project was at least 100% occupied, including, but not limited to, the following:

(A) The operation, repair, and maintenance in neat, clean, safe, good order and condition, of the following: (i) the Common Areas, including their surfaces, coverings, decorative items, carpets, drapes and window coverings, and including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, stairways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities, building exteriors and roofs, fences and gates; (ii) all heating, air conditioning, plumbing, electrical systems, life safety equipment, communication systems and other equipment used in common by, or for the benefit of, Lessee’s or occupants of the Premises, including elevators and escalators, tenant directories, fire detection systems including sprinkler system maintenance and repair; (iii) the cost of trash disposal, janitorial and security services, pest control

services, and the costs of any environmental inspections; the cost of any other service to be provided by Lessor that is elsewhere in the lease stated to be an Operating Expense; (iv) at the Lessor's request, the cost of the premiums for the insurance policies maintained by Lessor pursuant to the Lease and any deductible portion of an insured loss concerning the Buildings or the Common Areas; (v) the amount of the Real Property Taxes, if any, paid by Lessor pursuant to the Lease; (vi) the cost of water, sewer, gas, electricity, and other publicly mandated services not separately metered; (vii) labor, salaries, and applicable fringe benefits and costs, materials, supplies and tools, used in maintaining and/or cleaning the Buildings and accounting and property management fees, if requested by the Lessor, attributable to the operation of the Buildings; (viii) the cost of any capital improvement to the Buildings or the Project not covered under the provisions of the Lease provided; however, that Lessor shall allocate the cost of any such capital improvement over the remaining Term and Lessee shall not be required to pay more than Lessee's Share of the cost of such capital improvement in any given month, which monthly cost shall be an amount equal to a portion of such costs determined by calculating the number of months remaining in the Lease, which number shall be the denominator, and placing 1 as the numerator; (ix) the cost to replace equipment or improvements that have a useful life for accounting purposes of 5 years or less; (x) commercially reasonable reserves set aside for maintenance, repair, and/or replacement of Building, Common Area, Premises and equipment; and (xi) the cost of any other service to be provided by Lessor that is elsewhere in the Lease stated to be an Operating Expense.

(B) Any item of Operating Expense that is specifically attributable to the Premises or the Buildings or to the operation, repair and maintenance thereof, shall be allocated entirely to such Premises or Buildings. However, any such item that is not specifically attributable to the Buildings or to the operation, repair and maintenance thereof, shall be equitably allocated by Lessor to both Buildings in the Project.

(C) The inclusion of the improvements, facilities and services set forth in the Lease shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Project already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in the lease to provide the same or some of them.

(D) Lessee's Share of Operating Expenses shall be 100% (One Hundred Percent) thereof. Lessee's Share of Operating Expenses shall be payable monthly on the same day as the Base Rent is due under the Office Lease. The amount of such payments shall be based on Lessor's estimate of the Operating Expenses. On or before the tenth (10th) day of each month (if such day is not a business day, then the next business day) following the Rent Commencement Date, Lessor shall determine Lessee's Share of the actual Common Area Operating Expenses incurred during the preceding month. If Lessee's payments during such period exceed Lessee's Share of the actual Operating Expenses, Lessor shall credit the amount of such over-payment against Lessee's future Operating Expenses. If Lessee's payments during such period were less than Lessee's Share of the actual Operating Expenses, Lessee shall pay to Lessor the amount of the deficiency within 10 days after delivery by Lessor to Lessee of the statement.

(E) Notwithstanding the terms of this definition, including subsection (D) immediately preceding this subsection, the Lessee shall make monthly payments with respect to Operating Expenses, first as set forth in the schedule set forth in the Lease and such additional payments in excess of such amount to cover additional Operating Expenses as described in the Lease.

Notwithstanding anything contained in the definition of "Operating Expenses," the definition of Operating Expenses" shall not include the following: (i) any expenses paid by Lessee directly to third parties, or as to which the Lessor is otherwise reimbursed by any third party, Subtenant, or by insurance proceeds; (ii) to the extent funds are available in the Project Fund, the costs of capital improvements (except with respect to capital improvements as set forth in the Lease); (iii) tax penalties incurred as a

result of Lessor's negligence, inability or unwillingness to make payments or to file any tax or informational returns when due; (iv) any and all costs arising from the presence of hazardous or toxic materials in or about the Buildings or Project (except with respect to conditions that existed as of the date of signing of the Lease and to which the Lessee either had notice or could have discovered through reasonable due diligence); (v) expenses of all damage to the Buildings due to casualty governed by the Lease, regardless of whether such repairs are covered by Insurance; (vi) depreciation, amortization and interest payments, except on materials, tools, supplies and vendor-type equipment purchased by Lessor to enable Lessor to supply services Lessor might otherwise contract for with a third party where such depreciation, amortization and interest payments would otherwise have been included in the charge for such third party's services, all as determined in accordance with generally accepted accounting principles, consistently applied, and when depreciation or amortization is permitted or required, the item shall be amortized over its reasonably anticipated useful life; (vii) marketing costs including, without limitation, leasing commissions and attorney's fees in connection with the negotiation and preparation of letters, deal memos, letters of intent, leases, subleases and /or assignments, space planning costs, and other costs and expenses incurred in connection with the lease, sublease and/or assignment negotiations and transactions with present or prospective Subtenants or other occupants of the Buildings; (viii) all costs or expenses (including fines, penalties and legal fees) incurred due to the violation by Lessor, its employees, agents, contractors or assigns of the terms and conditions of the Lease, or any valid, applicable building code, governmental rule, regulation or law; (ix) Any expenditures which, under generally accepted accounting principals and practices, would be considered a capital expenditure unless its recovery is specifically permitted in the Lease; (x) costs associated with the final removal of any signage associated with the Buildings or Project; (xi) costs arising from Lessor's charitable or political contributions; and (xii) costs of replacement of any portions of the base, shell or core of the Buildings or improvements installed by Lessor containing material latent defects.

Lease Payment

Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in the lease), on or before the day on which it is due. Rent for any period during the term of the Lease which is for less than one full calendar month shall be prorated based upon the actual number of days of such month.

Use

Lessee shall use and occupy the Premises for any legal use allowed under the Lessee's Articles of Incorporation, including, but not limited to, general office use as customarily utilized by regional centers in coordinating services to individuals pursuant to the Lanterman Act (California Welfare & Institutions Code §§4400, et seq.) and the customary and usual directives and advice of the California Department of Developmental Services or any other legal use by which is reasonably comparable thereto or supportive thereof (the "Agreed Use").

Maintenance; Repairs

Lessee is obligated to keep the Premises in good condition and repair. Lessee shall be responsible for payment of all costs to Lessor as additional rent under the Lease for that portion of the cost of any maintenance and repair of the Premises or any equipment (wherever located) that serves only Lessee or the Premises, to the extent such cost is attributable to causes beyond normal wear and tear. Lessee shall be responsible for the cost of painting, repairing or replacing wall coverings, and to repair or replace any improvements with the Premises.

Subject to certain provisions of the Lease, Lessor, subject to reimbursement pursuant to the Lease, shall be responsible for providing the services relating to the ownership and operation of the Project.

Insurance; Indemnity

Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Lessor shall maintain liability insurance as described in the Lease, in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

Lessor, at Lessee's expense, shall obtain and keep in force a policy or policies of insurance in the name of Lessor, with loss payable to Lessor, any ground-lessor, and to any Bond Trustee insuring loss or damage to the Buildings and/or Project. The amount of such insurance shall be equal to the greater of (i) the full insurable replacement cost of the Buildings and/or Project, as the same shall exist from time to time, and (ii) the outstanding principal amount of the Bond issued to finance the Project. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee under the Lease. Lessor, at Lessee's expense, shall also obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Bond Trustee, insuring the loss of the full Rent for two (2) years with an extended period of indemnity for additional 180 days (Rental Value insurance).

Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage. Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent Lessee's in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils; the amount of insurance shall not be less than two (2) years of maximum annual Base Rent based upon the schedule of Base Rent.

Damage or Destruction

If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and the lease shall continue in full force and effect. If a Premises Partial Damage that is not an Insured Loss occurs, Lessee shall make the repairs at Lessee's expense. Notwithstanding any other provision in the Lease, if a Premises Total Destruction occurs, (a) the Lessor shall restore the Buildings and the Premises, excluding any Alterations or Utility Installations or leasehold improvements specific to Lessee's particular use of the Premises (collectively, the "Specialized Leasehold Improvements"), to substantially the same condition as it was in immediately before such destruction; (b) Lessor shall not be required to restore Specialized Leasehold Improvements or Lessee's personal property, such excluded items being the sole responsibility of Lessee to restore; (c) such destruction shall not terminate the Lease; and (d) all obligations of Lessee under the Lease shall remain in effect, except that rent shall be abated or reduced, between the date of such destruction and the date of restoration of the Buildings and the Premises by Lessor as provided in the Lease, by the ratio of (i) the useable square footage of the Premises rendered unusable or inaccessible by the destruction to (ii) the useable square footage of the Premises prior to the destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in the Lease.

If at any time during the last 6 months of the Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate the lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within 30 days after the date of occurrence of such damage; provided, however, that the Lease may not be terminated if the Bonds remain outstanding.

Abatement of Rent; Lessee's Remedies

In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under the Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired.

If Lessor shall be obligated to repair or restore the Premises and if it does not commence, in a substantial and meaningful way, such repair or restoration within 90 days after such obligation shall accrue, Lessee may give written notice to Lessor and to any Bond Trustee of which Lessee has actual notice, of Lessee's election to cause such repair or restoration to be completed and the Lease shall continue in full force and effect. Commence shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs. If the Lessee causing the repairs and renovation to be made, it shall be able to reduce any Rent payments to the extent such funds are not otherwise necessary to continue to service the debt on the Bonds issued to finance the Project.

Notwithstanding the terms described in the preceding paragraph, if Lessee is prevented from using, and does not use, the Premises or any portion thereof, for five (5) consecutive business days or ten (10) days in any twelve (12) month period (the "Eligibility Period") as a result of any damage or destruction to the Premises or any repair, maintenance or alteration performed by Lessor to the Premises after the Rent Commencement Date and required by the lease, which substantially interferes with Lessee's use of the Premises, or any failure to provide services or access to the Premises due to Lessor's gross negligence or default, then Lessee's rent shall be abated or reduced, as the case may be, after expiration of the Eligibility Period for such time that Lessee continues to be so prevented from using, and does not sue, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Lessee is prevented from using, and does not use, bears to the total rentable area of the Premises. However, if Lessee is prevented from conducting, and does not conduct, its business in any portion of the Premises for a period in excess of the Eligibility Period, and the remaining portion of the Premises is not sufficient to allow Lessee to effectively conduct its business therein, and if Lessee does not conduct its business from such remaining portion, then for such time after the Eligibility Period during which Lessee is so prevented from effectively conducting its business therein, the rent for the entire Premises shall be abated; provided, however, if Lessee reoccupies and conducts its business from any portion of the Premises during such period, the rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Lessee from the date such business operations commence.

There shall be no abatement of rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

Assignment and Subletting

Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, “assign” or “assignment”) or sublet all or any part of Lessee’s interest in the lease or in the Premises without Lessor’s prior written consent. Lessee shall have the right to sublease/assign all or any portion of its Premises during the term of the lease to a qualified lessee or lessees, subject to Lessor’s prior written approval.

Lessor shall withhold any consent to any proposed assignment or subletting under the Lease unless it has received (i) an opinion of Bond Counsel, as such term is defined in the Indenture, to the effect that such proposed assignment or sublease will not in and of itself have a material adverse effect on the exclusion pursuant to section 103 of the Internal Revenue Code of 1986 (the “Code”) of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes or the exemption from State of California personal income taxes of interest on the Bonds and (ii) an opinion from an attorney at law or firm of attorneys expert in matters relating to section 501(c)(3) of the Code to the effect that such proposed assignment or sublease will not in and of itself (x) cause any part of the Project financed with the proceeds of the Bonds to be used in any manner other than in a manner directly related to the exempt purposes of the Lessor and the Lessee or (y) permit the operation of any portion of the Project in an activity that, as to the exempt purpose or purposes of the assignee or sublessee would be in an “unrelated trade or business” within the meaning of section 513(a) of the Code; provided, however, that all or a portion of the requirements of clause (ii) preceding may be waived if the Lessor has received an opinion of Bond Counsel to the effect that the failure to satisfy said requirements will not preclude Bond Counsel from delivering the opinion described in clause (i) preceding.

Notwithstanding the foregoing, allowing on a continuing basis a de minimis portion of the Premises to be used by a third party vendor in connection with the installation and maintenance of vending machines or payphones, the same not to constitute a subletting; provided however, that Lessee shall give Lessor at least thirty (30) days written notice of its intent to allow such use, the notice to be evidenced by a written agreement between Lessee and the proposed vendor respecting the particulars of the proposed use.

Notwithstanding the foregoing, the Lessor’s consent shall not be required in the event of a Transfer to an entity that controls, is controlled by, or is in joint control with the Lessee; provided however, that Lessee shall give Lessor at least thirty (30) days written notice of its intent to make such Transfer.

Default; Breach; Remedies

A “Default” is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under the Lease. A “Breach” is defined as the occurrence of one or more of the Default provisions set forth in the Lease, and the failure of Lessee to cure such Default within any applicable grace period. If Lessee fails to perform any of its affirmative duties or obligations, within 10 days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee’s behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals.

In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach: (a) subject to the consent of the Owners (determined in the same manner as Owner consent is required in the Indenture) of all Bonds then Outstanding, terminate Lessee’s right to possession of the Premises by

any lawful means, in which case the lease shall terminate and Lessee shall immediately surrender possession to Lessor, and, in such even, the Lessor shall be entitled to recover from Lessee as provided in the Lease; (b) the Lessor may also continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession; and (c) Lessor may also pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of the lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of the lease as to matters occurring or accruing during the term of the Lease or by reason of Lessee's occupancy of the Premises.

Lessor shall not be deemed in breach of the lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. If the Lessor does not cure said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent the actual and reasonable cost to perform such cure, provided, however, that such offset shall not exceed an amount equal to the greater of one month's Base Rent, reserving Lessee's right to seek reimbursement from Lessor for any such expense in excess of such offset. Lessee shall document the cost of said cure and supply said documentation to Lessor.

Condemnation

If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "Condemnation"), the Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the rentable floor area of the Premises, or more than 25% of Lessee's Reserved Parking Spaces, if any, are taken by Condemnation, the lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of this leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation paid by the condemnor for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures.

Waivers

No waiver by Lessor or Lessor as to a Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition of the Lease, or of any subsequent Default or Breach by Lessor or Lessee of the same or of any other term, covenant or condition of the Lease. Lessor's or Lessee's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's or Lessee's consent to, or approval of, any subsequent or similar act by Lessee or Lessor, or be construed as the basis of an estoppel to enforce the provision or provisions of the lease requiring such consent.

The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

Subordination

As long as the Bonds remain outstanding, the Lessor shall not take any action that would make the Lease subordinate to any other ground lease, mortgage, deed of trust, or other hypothecation or security device.

Additional Covenants

Under the terms of the Agreement, the Authority and the Lessor each have covenanted to comply with certain covenants set forth in the Indenture and the "Tax Certificate" (as defined in the Indenture), which will be incorporated by reference therein under the terms of the Agreement, and to facilitate the Lessor's compliance with the obligations outlined in the Agreement and the Indenture, the Lessee has covenanted to cooperate with the Lessor by providing any information requested by the Lessor and by complying with the terms of the Tax Certificate, which are incorporated by reference as if fully set forth in the Lease.

Limitations on Indebtedness

The Lessee will not create, incur, assume or otherwise become or remain obligated in respect of, or permit to be outstanding, any Debt, including lease payments (other than (a) Debt, including lease payments, existing on the date of the Lease and (b) indebtedness, not for borrowed money, incurred in the ordinary course of business, including any short term leases without the written consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding.

Source of Payments

Rent under the Lease shall be paid from any source of legally available funds of the Lessee, and the Lessee covenants to take such action as may be necessary to include all Rent due under the Lease in its budget and requests to DDS and to make the necessary annual appropriations and/or requests for all such Rent, which covenants of the Lessee shall be deemed to be, and shall be, ministerial duties imposed by law, and it shall be the duty of each and every officer of the Lessee to take such action and do such things as are required by law in the performance of the official duties of such officials to enable the Lessee to carry out and perform the covenants made by the Lessee under the Lease. During the Term of the Lease, the Lessor will furnish to the Bond Trustee, no later than 20 days following the adoption of the budget for its then-current fiscal period, a certificate of the Lessee to the effect that the Rents due in that fiscal period have been included in the requests of the Lessee to DDS for such fiscal period. Notwithstanding any other provision, the Lessee may not use funds from its purchase of services budget for the payment of any Rent.

Third Party Beneficiary

The Bond Trustee shall be a third-party beneficiary under the Lease while the Bonds remain outstanding, to the extent permitted by applicable law.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”), dated as of August 1, 2015, is made by and among Inland Counties Regional Center, Inc. (“IRC” or “Inland Counties Regional Center”), the California Housing Foundation (the “Corporation”) (together, the “Obligated Persons”) and Willdan Financial Services, as dissemination agent (the “Dissemination Agent”), in connection with the issuance by the California Municipal Finance Authority (the “Authority”) of \$73,150,000 aggregate principal amount of the California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 (the “Bonds”).

WITNESSETH:

WHEREAS, this Disclosure Agreement is being executed and delivered by the Obligated Persons and the Dissemination Agent for the benefit of the owners and beneficial owners of the Bonds and in order to assist the purchaser of the Bonds in complying with the Rule (as defined herein);

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

Section 1. Definitions. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture of Trust, dated as of August 1, 2015 (the “Indenture”), by and among the Authority, the Corporation and MUFG Union Bank, N.A., as Trustee. In addition, the following capitalized terms shall have the following meanings:

“Annual Report” means any Annual Report provided by the Obligated Persons pursuant to, and as described in, Sections 2 and 3 hereof.

“Annual Report Date” means the date in each year that is eight months after the end of the Fiscal Year, which date, as of the date of this Disclosure Agreement, is March 1.

“Disclosure Representative” means the Executive Director of the Corporation or his or her designee, or such other officer or employee as the Obligated Persons shall designate in writing to the Dissemination Agent and the Trustee from time to time.

“Dissemination Agent” means Willdan Financial Services, or any successor Dissemination Agent designated in writing by the Obligated Persons and which has filed with the Trustee a written acceptance of such designation.

“EMMA” shall mean Electronic Municipal Market Access system, maintained on the internet at <http://emma.msrb.org> by the MSRB.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the

Obligated Persons, with notice of such selection or change in fiscal year to be provided as set forth herein.

“Listed Events” means any of the events listed in Section 4 hereof and any other event legally required to be reported pursuant to the Rule.

“MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through EMMA.

“Official Statement” means the Official Statement, dated August 19, 2015, relating to the Bonds.

“Participating Underwriter” means any of the original purchaser(s) of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Repository” means, until otherwise designated by the SEC, EMMA.

“Rule” means Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same has been or may be amended from time to time.

“SEC” shall mean the United States Securities and Exchange Commission.

Section 2. Provision of Annual Reports.

(a) The Obligated Persons shall provide, or shall cause the Dissemination Agent to provide, to MSRB, through EMMA, not later than 15 days prior to the Annual Report Date, an Annual Report which is consistent with the requirements of Section 3 of this Disclosure Agreement. The Annual Report must be submitted in electronic format, accompanied by such identifying information as provided by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 3 of this Disclosure Agreement. Not later than 15 Business Days prior to such date, the Obligated Persons shall provide the Annual Report to the Dissemination Agent. If the Fiscal Year changes for the Obligated Persons, the Obligated Persons shall give notice of such change in the manner provided under Section 4(e) hereof.

(b) If by 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, through EMMA, the Dissemination Agent has not received a copy of the Annual Report the Dissemination Agent shall contact the Obligated Persons to determine if the Obligated Persons are in compliance with subsection (a). The Obligated Persons shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Obligated Persons and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and

(ii) (if the Dissemination Agent is other than the Trustee), to the extent appropriate information is available to it, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

Section 3. Content of Annual Reports. The Obligated Persons' Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of each of the Obligated Persons for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to nonprofit entities from time to time by the Financial Accounting Standards Board. If the Obligated Persons' audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The following tables presented in Appendix A to the Official Statement, updated for the fiscal year covered by the Annual Report or, with respect to (c) and (d) below, updated for the most current fiscal year available:

(i) The table under the caption "INLAND COUNTIES REGIONAL CENTER – California Department of Developmental Services Contract" entitled "Inland Regional Center DDS Contract Revenues";

(ii) The table under the caption "INLAND COUNTIES REGIONAL CENTER – Caseload" entitled "Inland Regional Center Caseload";

(iii) The Schedule of Funding Progress under the caption "INLAND COUNTIES REGIONAL CENTER – Defined Benefit Pension Plan" to the extent that the information to be presented in such table is not included in the audited financial statements of IRC and is then available to IRC; and

(iv) The table under the caption "INLAND COUNTIES REGIONAL CENTER – Other Post-Employment Benefits" entitled "INLAND COUNTIES REGIONAL CENTER RMR PLAN BENEFIT OBLIGATION AND NET ACCRUED LIABILITY" to the extent that the information to be presented in such table is not included in the audited financial statements of IRC and is then available to IRC.

(c) A summary of the aggregate amount of, final maturity date of, and debt service or lease payments for the then-current year with respect to any debt or obligations payable by the Obligated Persons (to the extent not included in the audited financial statements of the Obligated Persons contained in the Obligated Persons' Annual Report).

(d) In addition to any of the information expressly required to be provided under subsections (a), (b) and (c) of this Section, the Obligated Persons shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Obligated Persons is an "obligated person" (as defined by the Rule), which are available to the public on EMMA or filed with the SEC. The Obligated Persons shall clearly identify each such document to be included by reference.

Section 4. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 4, the Obligated Persons shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, in a timely manner not more than ten (10) Business Days after the event:

- (1) principal and interest payment delinquencies;
- (2) defeasances;
- (3) tender offers;
- (4) rating changes;
- (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-status of the Bonds;
- (6) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (7) unscheduled draws on credit enhancements reflecting financial difficulties;
- (8) substitution of credit or liquidity providers or their failure to perform; or
- (9) bankruptcy, insolvency, receivership or similar proceedings.

For these purposes, any event described in the immediately preceding paragraph (9) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent,

or similar officer for the Obligated Persons in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Persons, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Persons.

(b) Pursuant to the provisions of this Section 4, the Obligated Persons shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the Obligated Persons or their termination;
- (2) appointment of a successor or additional Trustee or the change of the name of a Trustee;
- (3) nonpayment related defaults;
- (4) modifications to the rights of Owners;
- (5) a notices of prepayment; or
- (6) release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the Obligated Persons obtains knowledge of the occurrence of a Listed Event, described in subsection (b) of this Section 4, the Obligated Persons shall as soon as possible determine if such event would be material under applicable federal securities law.

(d) If the Obligated Persons determines that knowledge of the occurrence of a Listed Event described in subsection (b) of this Section 4 would be material under applicable federal securities law, the Obligated Persons shall promptly notify the Dissemination Agent in writing and instruct the Dissemination Agent to report the occurrence to the Repository in a timely manner not more than ten (10) Business Days after the event.

(e) If the Dissemination Agent has been instructed by the Obligated Persons to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB.

Section 5. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The Obligated Persons' obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Obligated Persons shall give notice of such termination in the same manner as for a Listed Event under Section 4 hereof.

Section 7. Dissemination Agent. The Obligated Persons may, from time to time, appoint or engage another Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. Notwithstanding any other provision to this Disclosure Agreement to the contrary, the Obligated Persons may provide any Annual Report to Beneficial Owners by means of posting such Annual Report on an internet site that provides open access to Beneficial Owners.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligated Persons may amend this Disclosure Agreement, provided no amendment increasing or affecting the obligations or duties of the Dissemination Agent shall be made without the consent of such party, and any provision of this Disclosure Agreement may be waived if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the Obligated Persons and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Obligated Persons from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Obligated Persons chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Obligated Persons shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Obligated Persons or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% of the aggregate amount of principal evidenced by Outstanding Bonds and upon being indemnified to its reasonable satisfaction, shall, or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Obligated Persons, Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Obligated Persons, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall not be responsible for the form or content of any Annual Report or notice of Listed Event. The Dissemination Agent shall receive reasonable compensation for its services provided under this Disclosure Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Obligated Persons agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Obligated Persons under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Obligated Persons, the Trustee, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

INLAND COUNTIES REGIONAL CENTER, INC.

By: _____
Marybeth Feild, President
IRC Board of Trustees

By: _____
Denise Woolsey, Secretary
IRC Board of Trustees

CALIFORNIA HOUSING FOUNDATION

By: _____
Authorized Representative

WILLDAN FINANCIAL SERVICES, as
Dissemination Agent

By: _____
Authorized Representative

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE
TO FILE ANNUAL REPORT**

Name of Obligor: INLAND COUNTIES REGIONAL CENTER, INC.
CALIFORNIA HOUSING FOUNDATION

Name of Issue: CALIFORNIA MUNICIPAL FINANCE AUTHORITY
REFUNDING REVENUE BONDS, SERIES 2015

Date of Execution and Delivery: August 27, 2015

NOTICE IS HEREBY GIVEN that the Obligated Persons have not provided an Annual Report with respect to the above-captioned Bonds as required by the Continuing Disclosure Agreement, dated as of August 1, 2015, by and among the Obligated Persons and Willdan Financial Services. [The Obligated Persons anticipate that the Annual Report will be filed by _____.]

Dated: ____, 20__

Willdan Financial Services

cc: Inland Counties Regional Center, Inc.
California Housing Foundation

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APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

\$73,150,000
California Municipal Finance Authority
Refunding Revenue Bonds
(Inland Regional Center Project)
Series 2015

Ladies and Gentlemen:

We have acted as Bond Counsel to the California Municipal Finance Authority (the “Authority”) in connection with the issuance by the Authority of \$73,150,000 aggregate principal amount of California Municipal Finance Authority Refunding Revenue Bonds (Inland Regional Center Project) Series 2015 (the “Bonds”) pursuant to the provisions of the Joint Exercise of Powers Act, comprising Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code (the “Act”), and an Indenture of Trust, dated as of August 1, 2015 (the “Indenture”), by and among the Authority, the California Housing Foundation (the “Corporation”), a nonprofit public benefit corporation organized under the laws of the State of California, and MUFG Union Bank, N.A., a national banking association organized under the laws of the United States of America, as trustee (the “Trustee”).

The Indenture provides that Authority will lend the proceeds of the Bonds to the Corporation pursuant to a Loan Agreement, dated as of August 1, 2015 (the “Loan Agreement”), by and between the Authority and the Corporation, which the Corporation will use to: (i) refund on an advance basis the California Statewide Communities Development Authority \$77,530,000 Revenue Bonds (Inland Regional Center Project), Series 2007 currently outstanding in the aggregate principal amount of \$72,445,000 (the “Prior Bonds”), and (ii) pay the costs of issuing the Bonds. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of Indenture, the Loan Agreement, the Deed of Trust, the Office Lease, the opinions of counsel to the Authority, the Trustee, Inland Counties Regional Center, Inc. (“IRC”), and the Corporation, certificates of the Authority, the Trustee, the Corporation, IRC, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Fullerton, Lemann, Schaefer & Dominick LLP, counsel to the Corporation, and Steven K. Beckett, PLC, counsel to IRC, regarding, among other matters, the current qualification of each of the Corporation and IRC as an organization described in section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”) and as to the proposed uses of the refinanced facilities as being with respect to activities that, as to such organization, do not constitute unrelated trade or business. We note that such opinions are subject to a number of qualifications and limitations. Failure of either of the Corporation or IRC to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in section 501(c)(3) of the Code, or use of the refinanced facilities (or any portion thereof) in activities that, as to either of such organizations, constitutes an unrelated trade or business, may result in interest on the Bonds being included in gross income for federal income tax purposes, from and after the date of issuance of the Bonds.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the fifth and sixth paragraphs hereof.

Based upon the foregoing, we are of the opinion that:

1. The Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of California, including the Act, and the Indenture. The Bonds constitute the valid and legally binding obligations of the Authority as provided in the Indenture, are enforceable in accordance with their terms and the terms of the Indenture and are entitled to the benefits of the Act and the Indenture.

2. The Indenture has been duly executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the other parties thereto, the Indenture constitutes the legal, valid and binding agreement of the Authority enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and to the application of equitable principles if equitable remedies are sought. The Indenture creates a valid pledge of the Revenues to secure the payment of the principal of and interest on the Bonds, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Loan Agreement has been duly executed and delivered by the Authority, and, assuming due authorization, execution and delivery by the other parties thereto, the Loan Agreement constitutes the legal, valid and binding agreement of the Authority enforceable in accordance with its terms, subject to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and to the application of equitable principles if equitable remedies are sought.

4. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Bonds.

5. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. We are of the further opinion that, under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, that interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Non-compliance with such requirements could cause the interest on the Bonds to fail to be excluded from the gross income of the

owners thereof retroactive to the date of issuance of the Bonds. Pursuant to the Indenture, the Loan Agreement and the *Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986* being delivered by the Authority, the Corporation and IRC in connection with the issuance of the Bonds, each of the Authority, the Corporation and IRC is making representations relevant to the determination of, and is undertaking certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching our opinions described in the immediately preceding paragraph, we have assumed the accuracy of such representations and the present and future compliance by the Authority and Corporation with such covenants. Further, except as stated in the preceding paragraph, we express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequence with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any fact or circumstance that may hereafter come to our attention or to reflect any change in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of results and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

This opinion is limited to the laws of the State of California and the federal laws of the United States.

Respectfully submitted,

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