Kern Regional Center

Financial Statements

June 30, 2012 and 2011

C O N T E N T S

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

Independent Auditors' Report

The Board of Directors
Kern Regional Center
Bakersfield, California

We have audited the accompanying statement of financial position of Kern Regional Center (a California nonprofit organization) as of June 30, 2012, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Kern Regional Center management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Kern Regional Center as of June 30, 2011, were audited by other auditors whose report dated June 18, 2012, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kern Regional Center as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with auditing standards generally accepted in the United States of America.

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In accordance with Government Auditing Standards, we have also issued our report dated April 29, 2013 on our consideration of Kern Regional Center'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 and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The accompanying schedules of functional expenses on page 18 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
May 6, 2013

Kern Regional Center

Statements of Financial Position
June 30, 2012 and 2011

ASSETS	***2012***	***2011***
Current Assets		
Cash and cash equivalents	$ 165,869	$ 3,742,166
State reimbursement claims	11,005,314	7,098,680
Accounts receivable - ICF providers	5,472,597	4,844,190
Other receivables	47,877	19,109
Prepaid expenses	254,084	143,290
Due from client trust accounts	119,655	-
	17,065,396	15,847,435
Property and Equipment , at cost		
Office equipment	1,686,378	1,673,244
Noncurrent Assets		
Restricted cash	1,895,059	1,364,667
Contracts receivable - unfunded defined and post retirment benefit liability, accrued vacation/sick pay, retirement payable	14,092,956	13,197,340
Due from vendors	657,583	-
Deposits	13,063	13,063
Client receivables	129,730	240,502
	16,788,391	14,815,572
	$ 35,540,165	$ 32,336,251

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	***2012***	***2011***
Current Liabilities		
Accounts payable	$ 12,158,890	$ 11,827,259
Payable to DDS - ICF providers	5,391,721	5,228,634
DDS payable	657,583	-
Accrued expenses	222,236	180,474
	18,430,430	17,236,367
Long-Term Liabilities and Reserves		
Defined benefit and post retirement plan unfunded liability	12,061,999	10,785,009
Reserve for investment in equipment	1,686,378	1,673,244
Accrued vacation and sick pay	1,155,219	1,239,331
Client trust liability	1,983,263	1,394,424
	16,886,859	15,092,008
Commitments		
Net Assets		
Unrestricted	222,876	7,876
	$ 35,540,165	$ 32,336,251

Kern Regional Center

Statements of Activities
Years Ended June 30, 2012 and 2011

	2012	2011
Changes in unrestricted net assets:		
Revenues		
Reimbursment from State of California	$ 140,607,126	$ 140,501,229
Interest income	50,331	83,437
Other income	158,518	138,276
	140,815,975	140,722,942
Expenses		
Program Services		
Purchase of services:		
Out of home	29,605,684	28,091,141
Day programs	19,293,867	18,892,495
Other services	75,956,765	77,491,520
	124,856,316	124,475,156
Intake and assesment	1,102,697	949,524
Case management	6,871,849	6,530,069
Program development	936,938	1,067,086
Other client services	1,076,871	1,194,272
Grants and special projects	714,085	147,594
	10,702,440	9,888,545
Operating Expenses	5,042,219	6,366,298
Total expenses	140,600,975	140,729,999
Change in net assets	215,000	(7,057)
Net assets, beginning of the year	7,876	14,933
Net assets, end of the year	$ 222,876	$ 7,876

See Notes to Financial Statements.

Kern Regional Center

Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 215,000	$ (7,057)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
State reimbursement claims	(3,906,634)	(1,719,714)
Accounts receivable- ICF providers	(628,407)	(4,844,190)
Other receivables	(28,768)	76,543
Prepaid expenses	(110,794)	162,093
Due from vendors	(657,583)	-
Other assets	(8,883)	(60,809)
Accounts payable	629,893	151,419
Payable to DDS-ICF providers	163,087	5,228,635
DDS payable	657,583	-
Accrued expenses	40,762	7,460
Client trust liability	588,839	116,057
Net cash used in operating activities	(3,045,905)	(889,563)
Cash flows used in financing activities:		
Payments on line of credit	-	(10,587,600)
Net decrease in cash and cash equivalents	(3,045,905)	(11,477,163)
Cash and cash equivalents at beginning of the year	5,106,833	16,583,996
Cash and cash equivalents at end of the year	$ 2,060,928	$ 5,106,833
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	$ 165,869	3,742,166
Restricted cash	1,895,059	1,364,667
	$ 2,060,928	$ 5,106,833

See Notes to Financial Statements.

Note 1. Summary of Significant Accounting Policies

Nature of services provided:

Kern Regional Center (the Organization) is a California nonprofit organization which was incorporated on July 23, 1973. The Organization provides a central point for individuals with developmental disabilities, or their families, to obtain or be referred to needed services. The Organization further offers diagnosis and coordination of resources, such as education, health, welfare, rehabilitation, and recreation for residents with developmental disabilities in the counties of Kern, Inyo and Mono.

The Organization was organized in accordance with provisions of the Lanternman Development Disabilities Services Act of the Welfare and Institutions Code of the State of California. The Organization receives a major portion of its program revenue from contracts with the State of California Department of Developmental Services (DDS) under the Lanterman Developmental Disabilities Services Act.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Basis of accounting:

Assets and liabilities and revenues and expenses are recognized on the accrual basis of accounting.

Revenue:

The Organization operates under an annual contract with the Department of Developmental Services of California, under the Lanternman Act. Maximum expenditures under the contract are limited to contract amount plus interest earned. The Organization is required to have DDS approval for certain expenses. The Organization is required to maintain accounting records in accordance with the Regional Center Fiscal Manual issued by the DDS. In the event of termination or nonrenewal of the contract, the State of California maintains the right to assume control of the Organization’s liabilities.

Income taxes:

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of the State of California. Since the Organization is exempt from income tax liability, no provision is made for current or deferred tax expense. Annual income returns filed with federal and state governments use the same accounting methods as those used for financial reporting.

ASC 740 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance on derecognition, classification, interest and penalties, disclosure and transition. Management believes that no such uncertain tax positions exist at June 30, 2012. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2012 and 2011.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to income tax examinations for tax years prior to 2008 and 2007 for state filings.

Basis of presentation:

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets consist of assets and activities which represent the portion of expendable funds available for support of the Organization's operations. The Board of Directors may designate these assets for specific purposes.

Temporarily restricted net assets consist of contributions subject to specific donor-imposed stipulations. When the donor restriction expires or is fulfilled by the Organization, the temporarily restricted net assets are reclassified to unrestricted net assets and the reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets consist of contributions subject to donor-imposed stipulations that the principal be maintained in perpetuity and invested for the purposes of producing a permanent source of income.

All of the Organization's net assets for the years ended June 30, 2012 and 2011 were unrestricted.

Cash and cash equivalents:

For purposes of reporting cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable:

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. The majority of the Organization's receivables represents or relate to cost-reimbursement provided under contract with the DDS. Management has assessed the collectability of accounts receivable at year-end and has concluded that an allowance is not necessary.

Compensated absences:

The Organization's policy and union contract allow employees to accumulate vacation and sick leave based on the length of service, position, and other factors. Accrual of vacation and sick time begins on the date of hire. Both vacation and sick time may be accrued from year to year, however, the maximum amount of vacation time allowed to be accrued for is contingent on the number of years of service. An employee leaving the Organization shall be entitled to payment of all accrued vacation. Upon termination after two years of continuous employment an employee shall receive payment for one-half of his or her unused accumulated sick leave not to exceed the payment of forty-five days.

In the event of termination or non-renewal of the contract, the State shall pay accrued benefits pursuant to the contract of employment of each terminated employee.

Accrued vacation and sick leave at June 30, 2012 and 2011 was $1,155,219 and $1,239,331, respectively.

Property and equipment:

Property and equipment, which consist of primarily office equipment, are not capitalized, but recorded as expenditures in accordance with the Regional Center Fiscal Manual. All equipment, material, supplies, or property of any kind furnished by DDS, or purchased from funds received by DDS remains the property of the State of California.

Reclassifications:

Certain reclassifications have been made to the June 30, 2011 financial statements in order to confirm to the June 30, 2012 presentation.

Note 2. Cash and Cash Equivalents

Cash accounts at June 30, 2012 and 2011 included the following:

	2012	***2011***
Unrestricted cash:		
Petty cash	$ 1,650	$ 1,259
General checking account	164,219	3,740,907
	165,869	3,742,166
Restricted cash:		
Investments with financial institutions	40,453	40,438
Money management checking account	1,749,669	1,218,333
Money management savings account	104,937	105,896
	1,895,059	1,364,667
Total cash and cash equivalents	$ 2,060,928	$ 5,106,833

Note 3. Contract with DDS

The Organization's major source of revenue is from the DDS. Each fiscal year, the Organization enters into a new contract with the DDS for a specified funding amount subject to budget amendments. Revenue from the DDS is recognized monthly upon submission of a claim for reimbursement of actual expenses (purchase of services) to the DDS. DDS can pay the reimbursement claims directly to the Organization or apply the claims against advances previously paid to the Organization.

The net contract receivable from DDS at June 30, 2012 and 2011 consisted of the following:

	2012	*2011*
Contract billing - current contract	$ 20,072,226	$ 23,963,916
Contractual receivable from prior years	378,577	246,098
Less: outstanding cash advanced by State	(9,445,489)	(17,111,334)
Net due from the State of California	$ 11,005,314	$ 7,098,680

The Organization has renewed its contract with the State for the fiscal year ending June 30, 2013. The State contract provides initial funding of $128,456,249.

Note 4. Agency Transactions

The Organization acts a fiduciary for the client support funds received directly from clients. The Organization held $1,983,263 and $1,394,424 at June 30, 2012 and 2011, respectively, on behalf of clients. The Organization is acting as an agent in processing these transactions, therefore no revenue or expenses are reflected on the statements of activities.

Note 5. Intermediate Care Facility Billing

During the year ended June 30, 2011, legislative changes were made to the California Welfare and Institutions Code retroactive to July 1, 2007, making Intermediate Care Facility (ICF) providers responsible for providing day treatment and transportation services. As such, the services were eligible to be reimbursed through Medicaid funding. The legislative changes allow for the DDS to bill these services to Medicaid. During the year ended June 30, 2011, the Organization began collecting the funding provided under the federal program from applicable vendors retroactive to July 2007, and remitting the funds to the DDS. The Organization receives a 1.5% administrative fee based on the funds received.

As of June 30, 2012 and 2011, amounts due from vendors and payable to the DDS are as follows:

	2012	2011
Due from vendors		
Beginning balance	$ 4,844,192	$ -
Amounts remitted by vendors	(6,608,960)	(679,882)
Amounts billed from vendors	7,237,365	5,524,074
	$ 5,472,597	$ 4,844,192
Due to DDS		
Due to DDS	$ 5,472,597	5,310,271
Administrative fee recognized	(80,876)	(81,637)
	$ 5,391,721	$ 5,228,634

Note 6. DDS Payable

In accordance with the terms of the DDS contract, an audit may be performed by an authorized DDS representative. Should the audit disclose any unallowable costs, the Organization may be liable to the DDS for reimbursement of such costs. The DDS conducted such an audit for the fiscal years 2008-2009 and 2009-2010. As a result, a total of $657,583 of findings/unallowable costs were noted during the audit and are due to DDS. The Organization has recorded a receivable due from the various vendors from which the unallowable costs were noted, and a payable for the same amount due to the DDS as of June 30, 2012 on the statements of financial position.

Note 7. Pension Plans

The Organization has a money purchase pension plan and a defined benefit pension plan covering all eligible employees. All employees of the Organization who work at least 15.5 hours per week are eligible to participant in one of the Organization’s retirement plans. Employees who worked for the Organization on or before June 30, 2002 had the option of participation in the money purchase plan or the defined benefit plan. Employees hired after June 30, 2002 participate in the defined benefit plan.

Money Purchase Pension Plan:

Union employee participants in the Money Purchase Pension Plan receive an employer contribution of 12.4% of compensation. Non-union employees receive an employer contribution of 10.9% of compensation, plus 4.3% of excess compensation. Excess compensation is defined as compensation in excess of $12,000. The Money Purchase Pension Plan allows for employee contributions. For the years ended June 30, 2012 and 2011, employer contributions to the Plan were $224,136 and $270,484, respectively.

Defined Benefit Pension Plan:

The Organization maintains a defined benefit pension plan. Benefits under the Plan are based on the employees' years of service and average compensation. The Organization's funding policy is to contribute annually an amount that is not less than the minimum funding requirement of the Employee Retirement Income Security Act of 1974.

Post Retirement Benefits:

An employee must be in a CalPERS plan prior to retirement in order to be eligible to enroll in the post retirement plan as a retiree. To be eligible, the employee's age and years of service must equal to at least 75 upon retirement. The Organization has approximately $40,000 of advanced funding of future obligations held in a trust account that precludes payment to any other party other than plan participants. The cash account is on the Statements of Financial Position in restricted cash at June 30, 2012 and 2011.

The following provides a reconciliation of benefit obligations, plan assets and funded status related to the qualified defined benefit pension plans as of June 30, 2012:

	Defined Benefit Plan	Post Retirement
Change in benefit obligation:		
Benefit obligation, July 1	$ 22,195,932	$ 9,700,000
Service cost	1,131,418	481,000
Interest cost	1,306,326	552,000
Plan participant contributions	501,494	-
Actuarial (gain)/loss	771,064	-
Benefits paid	(850,005)	(213,000)
Benefit obligation, June 30	$ 25,056,229	$ 10,520,000

	Defined Benefit Plan	*Post Retirement*
Change in fair value of plan assets:		
Beginning fair value of plan assets	$ 21,782,678	$ 40,000
Atual return on plan assets	865,610	2,000
Employer contributions	1,000,000	213,000
Participant contributions	501,494	-
Actuarial gain (loss)	-	-
Benefits paid to participants	(850,005)	(213,000)
Ending fair value of plan assets	$ 23,299,777	$ 42,000
Funded status:		
Benefit obligation	$ (25,056,229)	$ (10,520,000)
Fair value of plan assets	23,299,777	42,000
Funded status	$ (1,756,452)	$ (10,478,000)

The following table summarizes the amounts recognized on the statement of financial position as of June 30, 2012:

	Defined Benefit Plan	*Post Retirement*
Noncurrent assets	$ 1,756,452	$ 10,480,000
Current liabilities	-	(174,000)
Noncurrent liabilities	(1,756,452)	(10,306,000)
Net amount recognized	$ -	$ -

The following benefit payments, which reflect expected future service, are expected to be paid:

Years ending June 30,	*Defined Benefit Plan*	*Post Retirement*
2013	$ 852,615	$ 216,000
2014	1,472,879	249,000
2015	2,604,008	277,000
2016	2,307,708	311,000
2017	1,320,426	-
2018-2023	12,708,292	2,140,000
	$ 21,265,928	$ 3,193,000

The net periodic benefit cost for the plans included the following components for the year ended June 30, 2012:

	Defined Benefit Plan	***Post Retirement***
Service cost	$ 1,131,418	$ 481,000
Interest cost	1,306,326	552,000
Expected return on plan assets	(1,345,783)	(2,000)
Amortization of:		
Unrecognized transition costs	-	-
Unrecognized prior service costs	-	826,000
Unrecognized (gain) loss	-	(103,000)
Net periodic cost	$ 1,091,961	$ 1,754,000

The Organization operates on an annual cost reimbursement contract with the DDS, therefore the Organization has no net assets and is reimbursed for costs as incurred.

The weighted-average actuarial assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost:

	Defined Benefit Plan	***Post Retirement***
Benefit obligations:		
Discount rate	6%	5.75%
Rate of compensation increase	4%	not applicable
Net periodic benefit cost:		
Discount rate	6%	5.75%
Expected rate return on plan assets	6%	4.50%
Rate of compensation increase	3%	not applicable

Plan assets:

The investment objectives are to preserve and protect the assets of the Plan and to achieve the actuarial rate of return after inflation over a market cycle. A market cycle is defined as three to five years. The overall investment objective of the portfolio is to be balanced. The entire portfolio should be invested as a whole into no less than 50% and no more than 75% in investments/equity, with the remaining balance being invested in bonds, stable value, money market and similar investments. It is the intention of the Organization to allocate the assets among managed portfolios, such as mutual funds. The Organization's pension committee reserves the right to shift assets into cash, if prudent, at any time due to market conditions to minimize any losses or maximize any gains for a short period of time.

The expected return on plan assets for the defined benefit plan was determined based on historical and expected future returns of the various asset classes, using the asset allocations noted in the paragraph above. Specifically, the expected return on equities (U.S. and foreign combined) is 10%, and the expected return on debt securities (including higher and lower quality bonds) is 5%.

The Financial Accounting Standards Board (FASB) provides the framework for measuring fair value. That framework provides 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 under FASB are described as follows: Level 1- inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access; Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means; Level 3- inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2012 and 2011:

Registered investment companies (mutual funds): The fair values of mutual funds are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end.

Investment contract: The fair value of the unallocated investment contract is stated at contract value.

The following table sets forth by level within the fair value hierarchy, the defined benefit plan's assets at fair value as of June 30, 2012:

		June 30, 2012		
		Fair Value Measurements Using:		
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Registered investment companies:				
New horizons fund	$ 1,186,940	$ 1,186,940	$ -	$ -
Small capital value fund	1,004,474	1,004,474	-	-
Diversified equity income fund	897,565	897,565	-	-
Select growth opportunities fund	897,307	897,307	-	-
Growth fund	918,315	918,315	-	-
Value fund	914,061	914,061	-	-
Total return fund	510,141	510,141	-	-
Extended duration bond	1,261,557	1,261,557	-	-
Premier short-duration bond	1,321,865	1,321,865	-	-
Select PIMCO total return fund	2,984,070	2,984,070	-	-
Premier inflation-protected bond	1,476,854	1,476,854	-	-
Long-term US government fund	1,320,085	1,320,085	-	-
High yield bond	1,418,311	1,418,311	-	-
International new discovery fund	1,255,875	1,255,875	-	-
Global opportunities fund	1,227,675	1,227,675	-	-
Developing markets fund	1,124,914	1,124,914	-	-
Real estate fund	1,515,007	1,515,007	-	-
Total registered investment companies	23,284,025	23,284,025	-	-
Investment contract:				
General investment account	15,752	-	15,752	-
Total assets at fair value	$ 23,299,777	$ 23,284,025	$ 15,752	$ -

Note 8. Line of Credit

The Organization entered into a line of credit agreement on October 7, 2011 for a total commitment of $20,800,000 to ensure no disruption in meeting cash requirement needs of its daily operations. The line of credit is collateralized by all of the Organization's assets, including rights to payment under the DDS Agreement. The line of credit bears interest at 5%. No amount was outstanding as of June 30, 2012 and 2011. The line of credit expires May 13, 2013.

Note 9. Concentrations

Concentration of labor:

The Organization's employees (representing approximately 84% at June 30, 2012 and 2011) are covered by a collective bargaining agreement with the Social Services Union Local 521, Service Employees International Union, AFL-CIO-CCL. The Organization's current collective bargaining covers the period October 1, 2011 through September 30, 2014. The Organization's other employees are not represented by a union.

Note 10. Commitments and Contingencies

Operating leases:

The Organization leases buildings for its operations. The Organization has entered into an agreement for its current office space in Bakersfield for two buildings for thirty years. The Organization pays $49,013 and $41,811, respectively, monthly to lease each building. The monthly rent is increased on an annual basis. Rent expense for the years ended June 30, 2012 and 2011 was $1,089,895 and $1,058,155, respectively. The lease expires June 1, 2039.

In addition, the Organization leases five office spaces in outlying cities within Kern County, which have expiration dates ranging from December 2013 through July 2016. Rent expense for years ended June 30, 2012 and 2011 was $224,686 and $199,958, respectively.

Following is a schedule of the future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year as of June 30, 2012:

Year Ending June 30,		
2013	$	1,296,356
2014		1,321,764
2015		1,360,758
2016		1,352,870
2017		1,263,492
Thereafter		39,748,290
	$	46,343,530

Note 11. Subsequent Events

The Organization has evaluated events and transactions subsequent to June 30, 2012 through April 29, 2013, the date of the independent auditors' report, noting no significant items requiring further discussion.

Supplementary Information

Kern Regional Center
Statements of Functional Expense
June 30, 2012

	Program Services							*Operating Expenses*		*June 30, 2011*
	Intake and Assessment	Case Management	Program Development	Other Client Services	Special Projects & Grants	Purchase of Services	Total Program Services	General & Administrative	Total Expenses	Total Expenses (Summarized)
Salaries	$ 632,585	$ 3,942,175	$ 537,492	$ 617,770	$ 409,649	$ -	$ 6,139,672	$ 2,892,571	$ 9,032,243	$ 8,761,742
Pension expense	70,527	439,515	59,925	68,875	45,672	-	684,514	322,494	1,007,008	1,343,909
Other employee benefit	206,866	1,289,155	175,769	202,021	133,962	-	2,007,773	945,917	2,953,690	3,039,400
Payroll taxes	11,336	70,642	9,632	11,070	7,341	-	110,021	51,833	161,854	154,571
	921,314	5,741,487	782,818	899,736	596,624	-	8,941,980	4,212,815	13,154,795	13,299,622
Purchase of service	-	-	-	-	-	124,856,316	124,856,316	-	124,856,316	124,475,156
Rent	76,866	479,020	65,312	75,066	49,777	-	746,041	351,482	1,097,523	1,258,112
Repairs & maintenance	11,098	69,162	9,430	10,838	7,187	-	107,715	50,747	158,462	85,807
Communications	6,702	41,768	5,695	6,545	4,340	-	65,050	30,647	95,697	85,650
Office expense	20,571	128,195	17,479	20,089	13,321	-	199,655	94,062	293,717	260,865
Data processing	6,255	38,979	5,315	6,108	4,050	-	60,707	28,601	89,308	95,199
General insurance	12,762	79,530	10,843	12,463	8,264	-	123,862	58,356	182,218	195,995
Workers comp insurance	8,218	51,215	6,983	8,026	5,322	-	79,764	37,578	117,342	98,288
Utilities	9,601	59,833	8,158	9,376	6,218	-	93,186	43,903	137,089	143,221
Interest	294	1,832	250	287	190	-	2,853	1,345	4,198	54,885
Legal & accounting	5,362	33,418	4,556	5,237	3,473	-	52,046	24,521	76,567	65,550
General expense	2,036	12,690	1,730	1,989	1,319	-	19,764	9,311	29,075	197,291
Travel	20,698	128,988	17,587	20,213	13,404	-	200,890	94,645	295,535	356,134
Equipment purchased	920	5,732	782	898	596	-	8,928	4,206	13,133	58,224
	$ 1,102,697	$ 6,871,849	$ 936,938	$ 1,076,871	$ 714,085	$ 124,856,316	$ 135,558,757	$ 5,042,218	$ 140,600,975	$ 140,729,999

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

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

Board of Directors
Kern Regional Center
Bakersfield, California

We have audited the accompanying statements of net assets of Kern Regional Center (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated May 6, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Kern Regional Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the board of directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
May 6, 2013

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

Independent Auditors' Report on Compliance with Requirements that Could Have a Direct and Material Effect on each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Board of Directors
Kern Regional Center
Bakersfield, California

Compliance

We have audited Kern Regional Center's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Kern Regional Center's major federal programs for the year ended June 30, 2012. Kern Regional Center's major federal programs are identified in the accompanying schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Kern Regional Center's management. Our responsibility is to express an opinion on the Kern Regional Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Kern Regional Center's compliance with those requirements.

In our opinion, the Organization, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

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Internal Control over Compliance

Kern Regional Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Kern Regional Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
May 6, 2013

Kern Regional Center

Schedule of Expenditures of Federal Awards
June 30, 2012

Federal Grantor	*CFDA Number*		*Federal Expenditures*
United States Department of Education Passed through the State of Califonia Department of Developmental Services, Grant H181A100037 Contract HD099009	84.181A	$	753,756
Corporation for National and Community Services Passed through the State of California Department of Developmental Services, Contract HD099009	94.011		124,820
		$	878,576

See Notes to Schedule of Expenditures of Federal Awards.

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2012

Note 1. Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Kern Regional Center

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Summary of Auditors' Results

1. The independent auditors' report expresses an unqualified opinion on the financial statements of Kern Regional Center.

2. There were no significant deficiencies disclosed during the audit of the financial statements.

3. No instances of noncompliance material to the financial statements of Kern Regional Center were disclosed during the audit.

4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit.

5. The independent auditors' report on compliance for the major federal award programs for Kern Regional Center expresses an unqualified opinion on all major federal programs.

6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Cicular A-133.

7. The program tested as major programs was: Infant and Toddlers with Disabilities, Early Start, CFDA #84.393-A.

8. The threshold for distinguishing Types A and B programs was $500,000.

9. Kern Regional Center was not determined to be a low-risk auditee.

Financial Statements Findings and Questioned Costs

No matters were reported.

Federal Award Findings and Questioned Costs

No matters were reported.