Kern Regional Center

Financial Statements

June 30, 2014 and 2013

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

Report on the Financial Statements

We have audited the accompanying financial statements of Kern Regional Center (a California nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, 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.

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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 Kern Regional Center as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of functional expenses on page 21 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 26, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 9, 2015 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* in considering Kern Regional Center's internal control over financial reporting and compliance.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
June 9, 2015

Kern Regional Center

Statements of Financial Position
June 30, 2014 and 2013

ASSETS	*2014*	*2013*
Current Assets		
Cash and cash equivalents	$ 3,882,162	$ 1,653,162
State reimbursement claims	7,203,391	11,535,212
Receivable - ICF providers	5,123,446	5,767,193
Accounts receivable, related parties	1,500	13,543
Other receivables	148,060	67,754
Prepaid expenses	309,837	340,967
Due from client trust accounts	237,896	154,224
	16,906,292	19,532,055
Property and Equipment , net of accumulated depreciation		
Office equipment	2,059,513	1,974,015
Noncurrent Assets		
Restricted cash	1,369,355	1,371,321
Contracts receivable - unfunded defined and post retirement benefit liability, accrued vacation/sick pay, retirement payable	35,026,151	14,147,684
Due from vendors	206,739	622,187
Deposits	84,749	2,404
	36,686,994	16,143,596
	$ 55,652,799	$ 37,649,666

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	*2014*	*2013*
Current Liabilities		
Line of credit	$ -	$ 2,200,000
Current maturities of long-term debt	109,409	105,589
Accounts payable	12,672,132	12,978,005
Payable to DDS - ICF providers	3,948,525	4,613,985
Payable to DDS	281,037	622,187
Accrued expenses	274,912	277,986
	17,286,015	20,797,752
Long-Term Liabilities and Reserves		
Long-term debt, less current maturities	367,011	347,477
Defined benefit and post retirement plan unfunded liability	33,664,670	12,160,136
Reserve for investment in equipment	1,429,804	1,408,151
Accrued vacation and sick pay	1,091,481	1,025,548
Client trust liability	1,369,355	1,330,838
	37,922,321	16,272,150
Commitments		
Net Assets		
Unrestricted	444,463	579,764
	$ 55,652,799	$ 37,649,666

Kern Regional Center

Statements of Activities
Years Ended June 30, 2014 and 2013

	2014	2013
Changes in unrestricted net assets:		
Revenues		
Reimbursement from State of California	$ 147,455,305	$ 144,929,468
Contributions	5,105	250,000
Management fee	-	106,888
Interest income	41,733	44,698
Other income	159,020	223,044
	147,661,163	145,554,098
Expenses		
Program Services		
Purchase of services:		
Out of home	30,088,194	30,025,774
Day programs	23,547,170	22,565,029
Other services	77,147,573	77,406,697
	130,782,937	129,997,500
Support Services		
Intake and assessment	1,306,201	1,089,128
Case management	10,612,362	7,315,549
Program development	319,296	681,622
Other client services	491,617	671,510
Grants and special projects	878,122	612,539
	13,607,598	10,370,348
Operating Expenses	3,405,929	4,829,362
Total expenses	147,796,464	145,197,210
Change in net assets	(135,301)	356,888
Net assets, beginning of the year	579,764	222,876
Net assets, end of the year	$ 444,463	$ 579,764

See Notes to Financial Statements.

Kern Regional Center

Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	$ (135,301)	$ 356,888
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	140,406	-
Changes in operating assets and liabilities		
State reimbursement claims	4,331,821	(529,898)
Accounts receivable- ICF providers	643,747	(294,596)
Accounts receivable, related parties	12,043	(13,543)
Other receivables	(80,306)	(19,877)
Prepaid expenses and deposits	(51,215)	(76,224)
Due from vendors	415,448	35,396
Due from client trust accounts	(83,672)	95,161
Accounts payable	444,127	770,853
Payable to DDS-ICF providers	(665,460)	(777,736)
DDS payable	(341,150)	(35,396)
Other liabilities	(39,421)	17,750
Client trust liability	38,517	(652,425)
Net provided by (cash used) in operating activities	4,629,584	(1,123,647)
Cash flows used in investing activities:		
Purchases of property and equipment	(21,653)	(77,493)
Cash flows used in financing activities:		
Payments on long-term debt	(180,897)	(35,305)
Net borrowings (payments) on line of credit	(2,200,000)	2,200,000
Net cash provided by (used in) financing activities	(2,380,897)	2,164,695

See Notes to Financial Statements.

	2014	2013
Net increase in cash and cash equivalents	2,227,034	963,555
Cash and cash equivalents at beginning of the year	3,024,483	2,060,928
Cash and cash equivalents at end of the year	$ 5,251,517	$ 3,024,483
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	$ 3,882,162	1,653,162
Restricted cash	1,369,355	1,371,321
	$ 5,251,517	$ 3,024,483
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 40,982	$ 17,432
Noncash investing and financing activities:		
Debt incurred for the purchase of property and equipment	$ 204,251	$ 488,371
Disposal of office equipment	$ -	$ 278,227

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 Lanternman 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 obtain 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.

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.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted contributions are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

All of the Organization's net assets for the years ended June 30, 2014 and 2013 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. All of of the Organization's receivables represent or relate to the 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.

Property and equipment:

Property and equipment, which consists primarily of 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.

Equipment, purchased with non-DDS funds, is recorded at cost. At June 30, 2014 and 2013, depreciable assets were $770,114 and $565,864, respectively. Total accumulated depreciation was $140,406 and $-0-, respectively. Depreciation of equipment is computed on the straight-line method over the estimated useful lives which is 5 years.

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 their 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, 2014 and 2013 was $1,091,481 and $1,025,548, respectively.

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 tax returns filed with federal and state governments use the same accounting methods as those used for financial reporting.

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 2010 and 2009 for state filings.

Reclassifications:

Certain reclassifications have been made to the June 30, 2013 financial statements in order to conform to the June 30, 2014 presentation.

Note 2. Cash and Cash Equivalents

Cash accounts at June 30, 2014 and 2013 included the following:

	2014	*2013*
Unrestricted cash:		
Petty cash	$ 1,500	$ 1,650
General checking account	3,703,348	1,195,609
Special projects account	177,314	455,903
	3,882,162	1,653,162
Restricted cash:		
Money market account with financial institution	-	40,483
Money management checking account	1,267,298	1,219,760
Money management savings account	102,057	111,078
	1,369,355	1,371,321
	$ 5,251,517	$ 3,024,483

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 and operations) 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, 2014 and 2013 consisted of the following:

	2014	2013
Contract billing - current contract	$ 36,050,024	$ 30,536,109
Contractual receivable from prior years	5,792,238	888,621
Less: outstanding cash advanced by State	(34,638,871)	(19,889,518)
Net due from the State of California	$ 7,203,391	$ 11,535,212

The Organization has renewed its contract with the State through the fiscal year ending June 30, 2021. The State contract provides initial funding of $120,537,564, with subsequent amendments for an increased funding of $143,746,496.

Note 4. Agency Transactions

The Organization acts as a fiduciary for the client support funds received directly from clients. The Organization held $1,369,355 and $1,330,838 at June 30, 2014 and 2013, 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. The Federal law allows for only one provider of the ICF service, requiring the Medicaid funding to go through the applicable vendors. 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.

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As of June 30, 2014 and 2013, amounts due from vendors and payable to the DDS are as follows:

	2014	2013
Receivable from vendors:		
Beginning balance	$ 5,767,193	$ 5,472,597
Amounts remitted by vendors	(4,474,907)	(3,159,719)
Amounts billed to vendors	3,155,718	2,370,317
Amounts billed to DDS	675,442	1,083,998
	$ 5,123,446	$ 5,767,193
Payable to DDS:		
Due to DDS	$ 3,995,862	4,694,973
Administrative fee recognized	(47,337)	(80,988)
	$ 3,948,525	$ 4,613,985

Note 6. Line of Credit

The Organization entered into a line of credit agreement on January 1, 2014 for a total commitment of $23,000,000, 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 the bank's reference rate plus 5%. The balance outstanding at June 30, 2014 and 2013 was $-0- and $2,200,000, respectively. The line of credit expired October 15, 2014. A new line of credit was obtained in October 2014, for a total commitment of $23,000,000, with an expiration date of September 30, 2015.

Note 7. Notes Payable

Notes payable consisted of the following at June 30, 2014 and 2013:

	2014	***2013***
Note payable, Great American Financial, 8%, collateralized by equipment, due in monthly payments of $6,272 including interest, due February 2018	$ 229,051	$ 287,925
Note payable, Wells Fargo Bank, 7.6%, collateralized by equipment, due in monthly payments of $5,562 including interest, due March 2016	109,033	165,141
Note payable, Hewlett-Packard Financial Services Co., 3.25%, collateralized by equipment, due in annual payments of $72,554 including interest, due September 2016	138,336	-
	476,420	453,065
Less current maturities	109,409	105,589
	$ 367,011	$ 347,477

Aggregate maturities of notes payable at June 30, 2014 are as follows:

Year ending June 30,	
2015	$ 109,409
2016	179,678
2017	138,635
2018	48,698
	$ 476,420

Note 8. DDS Payable

In accordance with the terms of the DDS contract, a fiscal 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. In 2012, the DDS conducted such an audit for the fiscal years 2009 and 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. At June 30, 2014 and 2013, $206,739 and $622,187, respectively, was receivable from vendors and payable to DDS for findings/unallowable costs related to the 2012 DDS audit.

Note 9. 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 participate 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 only.

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, 2014 and 2013, employer contributions to the Plan were $194,035 and $232,616, 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 enroll in a CalPERS plan prior to retirement in order to be eligible to participate in the Organization's 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 had $-0- and $40,483 of advanced funding of future obligations held in a trust account that precludes payment to any other party other than plan participants at June 30, 2014 and 2013, respectively. The cash account is included the statements of financial position in restricted cash at June 30, 2014 and 2013.

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, 2014 and 2013:

Defined Benefit Plan:	***2014***	***2013***
Change in benefit obligation:		
Benefit obligation, July 1	$ 26,482,283	$ 25,056,229
Service cost	1,880,306	1,077,879
Interest cost	1,890,386	1,477,943
Plan participant contributions	466,097	478,815
Assumption changes	21,316,176	-
Actuarial (gain)/loss	(29,898)	(487,031)
Benefits paid	(1,417,925)	(1,121,552)
Benefit obligation, June 30	$ 50,587,425	$ 26,482,283

	2014	***2013***
Change in fair value of plan assets:		
Beginning fair value of plan assets	$ 25,904,694	$ 23,299,777
Actual return on plan assets	3,681,974	2,546,955
Employer contributions	750,000	706,307
Participant contributions	466,097	478,815
Expenses	(7,086)	(5,608)
Benefits paid to participants	(1,417,925)	(1,121,552)
Ending fair value of plan assets	$ 29,377,754	$ 25,904,694

Funded status:	***2014***	***2013***
Benefit obligation	$ (50,587,425)	$ (26,482,283)
Fair value of plan assets	29,377,754	25,904,694
Funded status	$ (21,209,671)	$ (577,589)

The Organization expects funding during the year ending June 30, 2015 to be approximately $750,000.

Post Retirement Plan:	***2014***	***2013***
Change in benefit obligation:		
Benefit obligation, July 1	$ 11,835,000	$ 10,520,000
Service cost	573,000	509,000
Interest cost	569,000	597,000
Actuarial (gain)/loss	-	471,000
Benefits paid	(252,000)	(262,000)
Benefit obligation, June 30	$ 12,725,000	$ 11,835,000

	2014	***2013***
Change in fair value of plan assets:		
Beginning fair value of plan assets	$ 40,000	$ 42,000
Actual return on plan assets	1,000	(2,000)
Employer contributions	211,000	262,000
Benefits paid to participants	(252,000)	(262,000)
Ending fair value of plan assets	$ -	$ 40,000

Funded status:	***2014***	***2013***
Benefit obligation	$ (12,725,000)	$ (11,835,000)
Fair value of plan assets	-	40,000
Funded status	$ (12,725,000)	$ (11,795,000)

The Organization expects funding during the year ending June 30, 2015 to be approximately $211,000.

The following table summarizes the amounts recognized on the statement of financial position as of June 30, 2014 and 2013:

Defined Benefit Plan:	***2014***	***2013***
Noncurrent assets- Contracts receivable	$ 21,209,671	$ 577,589
Current liabilities	-	-
Noncurrent liabilities	(21,209,671)	(577,589)
Net amount recognized	$ -	$ -

Post Retirement Plan:	***2014***	***2013***
Noncurrent assets- Contracts receivable	$ 12,725,000	$ 11,794,547
Current liabilities- Accrued expenses	(270,000)	(212,000)
Noncurrent liabilities	(12,455,000)	(11,582,547)
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***
2015	$ 1,511,654	$ 270,000
2016	1,609,723	294,000
2017	1,691,934	322,000
2018	1,821,348	360,000
2019	2,015,216	360,000
2020-2024	10,933,844	2,029,000
	$ 19,583,719	$ 3,635,000

The net periodic benefit cost for the plans included the following components for the year ended June 30, 2014:

Defined Benefit Plan:	***2014***	***2013***
Service cost	$ 1,880,306	$ 1,077,879
Interest cost	1,890,386	1,477,943
Expected return on plan assets	(1,852,495)	(1,427,700)
Amortization of net (gain) loss	987,383	-
Net periodic cost	$ 2,905,580	$ 1,128,122

Post Retirement Plan:	***2014***	***2013***
Service cost	$ 573,000	$ 509,000
Interest cost	569,000	597,000
Expected return on plan assets	(1,000)	(2,000)
Amortization of:		
Unrecognized transition costs	-	-
Unrecognized prior service costs	826,000	826,000
Unrecognized (gain) loss	(42,000)	(97,000)
Net periodic cost	$ 1,925,000	$ 1,833,000

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:

	June 30, 2014	
	Defined Benefit Plan	***Post Retirement***
Benefit obligations:		
Discount rate	4.23%	4.86%
Rate of compensation increase	4%	not applicable
Net periodic benefit cost:		
Discount rate	4.69%	5.75%
Expected rate return on plan assets	7.25%	4.50%
Rate of compensation increase	4%	not applicable

	June 30, 2013	
	Defined Benefit Plan	***Post Retirement***
Benefit obligations:		
Discount rate	6%	4.86%
Rate of compensation increase	3%	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

During the year ended June 30, 2014, the mortality table was changed from the 1983 Group Annuity Mortality Table to the RP-2000 Mortality Tables for Annuitants and Non-Annuitants. The postretirement cost of living adjustment has been changed from .75% to 2.0%. The discount rate was changed in accordance with an average rate used in the industry.

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 were 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, 2014 and 2013:

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 fair value of the mutual funds held by the defined benefit plan was $28,190,868 and $24,363,195 at June 30, 2014 and 2013, respectively. The mutual funds are considered Level 1 assets. The fair value of the general investment contract was $1,186,887 and $1,541,499 at June 30, 2014 and 2013, respectively. The investment contract is considered a Level 2 asset.

Note 10. Concentrations

Concentration of labor:

The Organization’s employees, representing approximately 86% and 87% at June 30, 2014 and 2013, respectively, 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 and was subsequently extended to July 31, 2015. The Organization’s other employees are not represented by a union.

Note 11. Related Party Transactions

The Developmental Services Support Foundation for Kern, Inyo and Mono Counties (the Foundation) was formed by members of the Organization's Board of Directors in 1994, as a nonprofit public benefit corporation, for the purpose of funding various activities and programs of or supported by the Kern Regional Center and the funding of various charitable or community services, special projects of this entity and other charitable organizations. The Foundation provides donations to the Organization to assist in providing services to the Organization's consumers not otherwise provided by DDS. The Foundation and the Organization do not have common board members. However, the Organization has the right to appoint the Foundation's directors.

During the years ended June 30, 2014 and 2013, the Organization received $5,105 and $250,000, respectively, in contributions from the Foundation.

In May 2009, the Organization entered into an operating lease agreement with the Foundation, as discussed in Note 12. Included in the operating lease agreement, was a building management fee paid by the Foundation to the Organization. As of January 1, 2015, the management fees no longer apply to the agreement. For the years ended June 30, 2014 and 2013, respectively, the Foundation paid $-0- and $106,888 in management fees to the Organization.

Note 12. Commitments and Contingencies

Operating leases:

The Organization leases buildings for its operations from the Foundation. The Organization has entered into an agreement for its current office space in Bakersfield of two buildings for thirty years. The Organization pays $51,999 and $50,484, respectively, monthly to lease each building. The monthly rent is increased on an annual basis. Rent expense for the years ended June 30, 2014 and 2013 was $1,156,284 and $1,122,588, respectively. The lease expires June 1, 2039.

In addition, the Organization leases office spaces for its various locations, for the years ended June 30, 2014 and 2013, respectively, in outlying cities within Kern County, which have expiration dates ranging through December 2016. Rent expense for years ended June 30, 2014 and 2013 was $206,160 and $202,868, 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, 2014:

Year Ending June 30,		
2015	$	1,402,218
2016		1,394,330
2017		1,292,038
2018		1,301,400
2019		1,340,448
Thereafter		37,098,624
	$	43,829,058

Note 13. Subsequent Events

The Organization has evaluated events and transactions subsequent to June 30, 2014 through June 9, 2015, the date of the independent auditors' report, noting no significant items requiring further discussion.

Supplementary Information

Kern Regional Center
Schedules of Functional Expenses
June 30, 2014

	Program Services							*Operating Expenses*	*June 30, 2014*	*June 30, 2013*
	Intake & Assessment	Case Management	Program Developme nt	Other Client Services	Special Projects & Grants	Purchase of Services	Total Program Services	General & Administrative	Total Expenses	Total Expenses (Summarized)
Salaries	$ 657,361	$ 5,340,796	$ 160,690	$ 247,412	$ 441,925	$ -	$ 6,848,184	$ 1,714,076	$ 8,562,260	$ 8,787,972
Pension expense	118,651	963,989	29,004	44,657	79,765	-	1,236,066	309,382	1,545,448	321,821
Other employee benefit	274,557	2,230,664	67,115	103,335	184,576	-	2,860,247	715,911	3,576,158	2,974,840
Payroll taxes	8,012	65,092	1,958	3,015	5,386	-	83,463	20,891	104,354	182,749
	1,058,581	8,600,541	258,767	398,419	711,652	-	11,027,960	2,760,260	13,788,220	12,267,382
Purchase of service	-	-	-	-	-	130,782,937	130,782,937	-	130,782,937	129,997,500
Rent	85,697	696,257	20,948	32,254	57,612	-	892,768	223,457	1,116,225	1,295,202
Repairs & maintenance	15,586	126,629	3,810	5,866	10,478	-	162,369	40,640	203,009	239,764
Communications	4,069	33,061	995	1,532	2,736	-	42,393	10,610	53,003	54,149
Contract labor	857	6,960	209	322	576	-	8,924	2,234	11,158	-
Office expense	20,108	163,371	4,915	7,568	13,518	-	209,480	52,434	261,914	207,610
Data processing	12,036	97,784	2,942	4,530	8,091	-	125,383	31,382	156,765	85,057
Depreciation	10,780	87,580	2,635	4,057	7,247	-	112,299	28,107	140,406	-
General insurance	15,477	125,747	3,783	5,825	10,405	-	161,237	40,358	201,595	183,254
Workers comp insuranc	13,560	110,170	3,315	5,104	9,116	-	141,265	35,357	176,622	142,438
Utilities	12,913	104,914	3,157	4,860	8,681	-	134,525	33,671	168,196	140,718
Interest	3,146	25,563	769	1,184	2,115	-	32,777	8,205	40,982	17,432
Legal & accounting	10,221	83,040	2,498	3,847	6,871	-	106,477	26,651	133,128	98,453
General expense	14,632	118,878	3,577	5,507	9,837	-	152,431	38,152	190,583	156,574
Travel	25,505	207,222	6,235	9,600	17,147	-	265,709	66,505	332,214	302,169
Equipment purchased	3,033	24,643	741	1,142	2,039	-	31,598	7,909	39,507	9,508
	$ 1,306,201	$ 10,612,360	$ 319,296	$ 491,617	$ 878,121	$ 130,782,937	$ 144,390,532	$ 3,405,932	$ 147,796,464	$ 145,197,210

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kern Regional Center (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014 and 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 9, 2015.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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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*.

Purpose of this Report

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

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
June 9, 2015

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

Board of Directors
Kern Regional Center
Bakersfield, California

Report on Compliance for Each Major-Federal Program

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, 2014. Kern Regional Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Kern Regional Center's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Kern Regional Center'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Kern Regional Center's compliance.

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Opinion on Each Major Federal Program

In our opinion, Kern Regional Center, complied, in all material respects, with the types of 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, 2014.

Report on Internal Control over Compliance

Management of Kern Regional Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirement referred to above. 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 that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Kern Regional Center'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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BARBICH HOOPER KING
DILL HOFFMAN
Accountancy Corporation

Barbich Hooper King

Bakersfield, California
June 9, 2015

Kern Regional Center

Schedule of Expenditures of Federal Awards
June 30, 2014

Federal Grantor	***Federal 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	$ 421,750
Corporation for National and Community Services		
Passed through the State of California Department of Developmental Services, Contract HD099009	94.011	83,900
		$ 505,650

See Notes to Schedule of Expenditures of Federal Awards.

Kern Regional Center

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Kern Regional Center under programs of the federal government for the year ended June 30, 2014. 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*. Because the Schedule presents only a selected portion of the operations of Kern Regional Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Kern Regional Center.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Kern Regional Center

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Summary of Auditors' Results

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

2. No significant deficiencies relating to the audit of the financial statements. No material weaknesses are reported.

3. No instances of noncompliance material to the financial statements of Kern Regional Center, which would be required to be reported in accordance with *Government Auditing Standards,* were disclosed during the audit.

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

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 were: Infant and Toddlers with Disabilities, Early Start, CFDA number 84.181-A.

8. The threshold for distinguishing Types A and B programs was $300,000.

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

Financial Statements - Findings and Questioned Costs

No matters were reported.

Federal Awards - Findings and Questioned Costs

No matters were reported.