Kern Regional Center

Financial Statements

June 30, 2013 and 2012

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, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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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, 2013 and 2012, 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 accompanying schedule of expenditures of federal awards, 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 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 16, 2014 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 16, 2014

Kern Regional Center

Statements of Financial Position
June 30, 2013 and 2012

ASSETS	***2013***	***2012***
Current Assets		
Cash and cash equivalents	$ 1,653,162	$ 165,869
State reimbursement claims	11,535,212	11,005,314
Receivable - ICF providers	5,767,193	5,472,597
Accounts receivable, related parties	13,543	-
Other receivables	67,754	47,877
Prepaid expenses	340,967	254,084
Due from client trust accounts	154,224	119,655
	19,532,055	17,065,396
Property and Equipment, at cost, net of accumulated depreciation		
Office equipment	1,974,015	1,686,378
Noncurrent Assets		
Restricted cash	1,371,321	1,895,059
Contracts receivable - unfunded defined and post retirement benefit liability, accrued vacation/sick pay, retirement payable	14,147,684	14,092,956
Due from vendors	622,187	657,583
Deposits	2,404	13,063
Client receivables	-	129,730
	16,143,596	16,788,391
	$ 37,649,666	$ 35,540,165

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2013	2012
Current Liabilities		
Line of credit	$ 2,200,000	$ -
Current maturities of long-term debt	105,589	-
Accounts payable	12,978,005	12,158,890
Payable to DDS - ICF providers	4,613,985	5,391,721
Payable to DDS	622,187	657,583
Accrued expenses	277,986	222,236
	20,797,752	18,430,430
Long-Term Liabilities and Reserves		
Long-term debt, less current maturities	347,477	-
Defined benefit and post retirement plan unfunded liability	12,160,136	12,061,999
Reserve for investment in equipment	1,408,151	1,686,378
Accrued vacation and sick pay	1,025,548	1,155,219
Client trust liability	1,330,838	1,983,263
	16,272,150	16,886,859
Commitments		
Net Assets		
Unrestricted	579,764	222,876
	$ 37,649,666	$ 35,540,165

Kern Regional Center

Statements of Activities
Years Ended June 30, 2013 and 2012

	2013	2012
Changes in unrestricted net assets:		
Revenues		
Reimbursement from State of California	$ 144,929,468	$ 140,392,126
Contributions	250,000	215,000
Management fee	106,888	-
Interest income	44,698	50,331
Other income	223,044	158,518
	145,554,098	140,815,975
Expenses		
Program Services		
Purchase of services:		
Out of home	30,025,774	29,605,684
Day programs	22,565,029	19,293,867
Other services	77,406,697	75,956,765
	129,997,500	124,856,316
Intake and assessment	1,089,128	1,102,697
Case management	7,315,549	6,871,849
Program development	681,622	936,938
Other client services	671,510	1,076,871
Grants and special projects	612,539	714,085
	10,370,348	10,702,440
Operating Expenses	4,829,362	5,042,219
Total expenses	145,197,210	140,600,975
Change in net assets	356,888	215,000
Net assets, beginning of the year	222,876	7,876
Net assets, end of the year	$ 579,764	$ 222,876

See Notes to Financial Statements.

Kern Regional Center

Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 356,888	$ 215,000
Adjustments to reconcile change in net assets to net cash used in operating activities:		
State reimbursement claims	(529,898)	(3,906,634)
Accounts receivable- ICF providers	(294,596)	(628,407)
Accounts receivable, related parties	(13,543)	-
Other receivables	(19,877)	(28,768)
Prepaid expenses and deposits	(76,224)	(110,794)
Due from vendors	35,396	(657,583)
Other assets	95,161	(8,883)
Accounts payable	770,853	629,893
Payable to DDS-ICF providers	(777,736)	163,087
DDS payable	(35,396)	657,583
Accrued expenses	17,750	40,762
Client trust liability	(652,425)	588,839
Net cash used in operating activities	(1,123,647)	(3,045,905)
Cash flows used in investing activities:		
Purchases of property and equipment	(77,493)	-
Cash flows used in financing activities:		
Payments on long-term debt	(35,305)	-
Net borrowings on line of credit	2,200,000	-
Net cash provided by financing activities	2,164,695	-
Net increase (decrease) in cash and cash equivalents	963,555	(3,045,905)
Cash and cash equivalents at beginning of the year	2,060,928	5,106,833
Cash and cash equivalents at end of the year	$ 3,024,483	$ 2,060,928
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	$ 1,653,162	165,869
Restricted cash	1,371,321	1,895,059
	$ 3,024,483	$ 2,060,928

See Notes to Financial Statements.

	2013	2012
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 17,432	$ 4,198
Noncash investing and financing activities:		
Debt incurred for the purchase of property and equipment	$ 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.

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.

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, 2013. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2013 and 2012.

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 2009 and 2008 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 are 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, 2013 and 2012 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 represent 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, 2013 and 2012 was $1,025,548 and $1,155,219, respectively.

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. For the years ended June 30, 2013 and 2012, costs for purchased assets were $565,864 and $-0-, respectively. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives.

Reclassifications:

Certain reclassifications have been made to the June 30, 2012 financial statements in order to conform to the June 30, 2013 presentation.

Note 2. Cash and Cash Equivalents

Cash accounts at June 30, 2013 and 2012 included the following:

	2013	2012
Unrestricted cash:		
Petty cash	$ 1,650	$ 1,650
General checking account	1,195,609	164,219
Special projects account	455,903	-
	1,653,162	165,869
Restricted cash:		
Investments with financial institutions	40,483	40,453
Money management checking account	1,219,760	1,749,669
Money management savings account	111,078	104,937
	1,371,321	1,895,059
	$ 3,024,483	$ 2,060,928

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, 2013 and 2012 consisted of the following:

	2013	2012
Contract billing - current contract	$ 30,536,109	$ 20,072,226
Contractual receivable from prior years	888,621	378,577
Less: outstanding cash advanced by State	(19,889,518)	(9,445,489)
Net due from the State of California	$ 11,535,212	$ 11,005,314

The Organization has renewed its contract with the State for the fiscal year ending June 30, 2014. The State contract provides initial funding of $102,930,976, with subsequent amendments for an increased funding of $143,311,391.

Note 4. Agency Transactions

The Organization acts a fiduciary for the client support funds received directly from clients. The Organization held $1,330,838 and $1,983,263 at June 30, 2013 and 2012, 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.

As of June 30, 2013 and 2012, amounts due from vendors and payable to the DDS are as follows:

	2013	***2012***
Receivable from vendors:		
Beginning balance	$ 5,472,597	$ 4,844,192
Amounts remitted by vendors	(3,159,719)	(6,608,860)
Amounts billed to vendors	2,370,317	7,237,265
Amounts billed to DDS	1,083,998	-
	$ 5,767,193	$ 5,472,597
Payable to DDS:		
Due to DDS	$ 4,694,973	5,472,597
Administrative fee recognized	(80,988)	(80,876)
	$ 4,613,985	$ 5,391,721

Note 6. Line of Credit

The Organization entered into a line of credit agreement on October 26, 2012 for a total commitment of $21,400,000, 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, 2013 and 2012 was $2,200,000 and $-0-, respectively. The line of credit expired October 15, 2013. A new line of credit was obtained on January 1, 2014, for a total commitment of $23,000,000.

Subsequent to year-end, the balance on the line of credit was paid in full.

Note 7. Notes Payable

Notes payable consisted of the following at June 30, 2013 and 2012:

	2013	*2012*
Note payable, Great American Financial, 8%, collateralized by equipment, due in monthly payments of $6,272 including interest, due February 2018	$ 287,925	$ -
Note payable, Wells Fargo Bank, 7.6%, collateralized by equipment, due in monthly payments of $5,562 including interest, due March 2016	165,141	-
	453,066	-
Less current maturities	105,589	-
	$ 347,477	$ -

Aggregate maturities of notes payable at June 30, 2013 are as follows:

Year ending June 30,	
2014	$ 105,589
2015	118,802
2016	111,620
2017	68,358
2018	48,697
	$ 453,066

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 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. At June 30, 2013 and 2012, $622,187 and $657,583, 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 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 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, 2013 and 2012, employer contributions to the Plan were $232,616 and $224,136, 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 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, 2013 and 2012.

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, 2013 and 2012:

Defined Benefit Plan:	***2013***	***2012***
Change in benefit obligation:		
Benefit obligation, July 1	$ 25,056,229	$ 22,195,932
Service cost	1,077,879	1,131,418
Interest cost	1,477,943	1,306,326
Plan participant contributions	478,815	501,494
Actuarial (gain)/loss	(487,031)	771,064
Benefits paid	(1,121,552)	(850,005)
Benefit obligation, June 30	$ 26,482,283	$ 25,056,229

	2013	***2012***
Change in fair value of plan assets:		
Beginning fair value of plan assets	$ 23,299,777	$ 21,782,678
Actual return on plan assets	2,546,955	865,610
Employer contributions	706,307	1,000,000
Participant contributions	478,815	501,494
Expenses	(5,608)	-
Benefits paid to participants	(1,121,552)	(850,005)
Ending fair value of plan assets	$ 25,904,694	$ 23,299,777

Funded status:	***2013***	***2012***
Benefit obligation	$ (26,482,283)	$ (25,056,229)
Fair value of plan assets	25,904,694	23,299,777
Funded status	$ (577,589)	$ (1,756,452)

Post Retirement Plan:	***2013***	***2012***
Change in benefit obligation:		
Benefit obligation, July 1	$ 10,520,000	$ 9,700,000
Service cost	509,000	481,000
Interest cost	597,000	552,000
Actuarial (gain)/loss	471,000	-
Benefits paid	(262,000)	(213,000)
Benefit obligation, June 30	$ 11,835,000	$ 10,520,000

	2013	***2012***
Change in fair value of plan assets:		
Beginning fair value of plan assets	$ 42,000	$ 40,000
Actual return on plan assets	(2,000)	2,000
Employer contributions	262,000	213,000
Benefits paid to participants	(262,000)	(213,000)
Ending fair value of plan assets	$ 40,000	$ 42,000

Funded status:	***2013***	***2012***
Benefit obligation	$ (11,835,000)	$ (10,520,000)
Fair value of plan assets	40,000	42,000
Funded status	$ (11,795,000)	$ (10,478,000)

The following table summarizes the amounts recognized on the statement of financial position as of June 30, 2013 and 2012:

Defined Benefit Plan:	***2013***	***2012***
Noncurrent assets	$ 577,589	$ 1,756,452
Current liabilities	-	-
Noncurrent liabilities	(577,589)	(1,756,452)
Net amount recognized	$ -	$ -

Post Retirement Plan:	***2013***	***2012***
Noncurrent assets	$ 11,794,547	$ 10,479,547
Current liabilities	(212,000)	(174,000)
Noncurrent liabilities	(11,582,547)	(10,305,547)
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***
2014	$ 1,456,064	$ 252,000
2015	1,513,930	270,000
2016	1,617,329	294,000
2017	1,705,391	322,000
2018	1,839,587	360,000
2019-2023	10,760,578	2,389,000
	$ 18,892,879	$ 3,887,000

The net periodic benefit cost for the plans included the following components for the year ended June 30, 2013:

Defined Benefit Plan:	***2013***	***2012***
Service cost	$ 1,077,879	$ 1,131,418
Interest cost	1,477,943	1,306,326
Expected return on plan assets	(1,427,700)	(1,345,783)
Net periodic cost	$ 1,128,122	$ 1,091,961

Post Retirement Plan:	***2013***	***2012***
Service cost	$ 509,000	$ 481,000
Interest cost	597,000	552,000
Expected return on plan assets	(2,000)	(2,000)
Amortization of:		
Unrecognized transition costs	-	-
Unrecognized prior service costs	826,000	826,000
Unrecognized (gain) loss	(97,000)	(103,000)
Net periodic cost	$ 1,833,000	$ 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:

	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

	June 30, 2012	
	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, 2013 and 2012:

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, 2013 and 2012:

		June 30, 2013		
	Fair Value	***Level 1***	***Level 2***	***Level 3***
Registered investment companies:				
New horizons fund	$ 1,030,381	$ 1,030,381	$ -	$ -
Small capital value fund	1,023,736	1,023,736	-	-
Diversified equity income fund	746,346	746,346	-	-
Select growth opportunities fund	735,346	735,346	-	-
Growth fund	749,316	749,316	-	-
Value fund	758,112	758,112	-	-
Total return fund	501,940	501,940	-	-
Fundamental investors fund	1,993,169	1,993,169	-	-
Extended duration bond	1,199,289	1,199,289	-	-
Premier short-duration bond	1,283,530	1,283,530	-	-
Select PIMCO total return fund	5,815,673	5,815,673	-	-
Premier inflation-protected bond fund	1,214,870	1,214,870	-	-
Long-term US government fund	1,207,882	1,207,882	-	-
High yield bond fund	1,238,909	1,238,909	-	-
International new discovery fund	1,223,131	1,223,131	-	-
Global opportunities fund	1,303,688	1,303,688	-	-
Developing markets fund	1,191,944	1,191,944	-	-
Real estate fund	1,145,933	1,145,933	-	-
Total registered investment companies	24,363,195	24,363,195	-	-
Investment contract:				
General investment account	1,541,499	-	1,541,499	-
Total assets at fair value	$ 25,904,694	$ 24,363,195	$ 1,541,499	$ -

		June 30, 2012		
	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	-	
Fundamental investors fund	2,049,009	2,049,009	-	
Extended duration bond fund	1,261,557	1,261,557	-	
Premier short-duration bond fund	1,321,865	1,321,865	-	
Select PIMCO total return fund	2,984,070	2,984,070	-	
Premier inflation-protected bond fund	1,476,854	1,476,854	-	
Long-term US government fund	1,320,085	1,320,085	-	
High yield bond fund	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	15,751	-	15,751	
Total assets at fair value	$ 23,299,776	$ 23,284,025	$ 15,751	$

Note 10. Concentrations

Concentration of labor:

The Organization's employees (representing approximately 87% and 84% at June 30, 2013 and 2012, 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. 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, 2013 and 2012, the Organization received $250,000 and $215,000, 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, is a building management fee paid by the Foundation to the Organization. For the years ended June 30, 2013 and 2012, the Foundation paid $106,888 and $-0-, respectively 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 for two buildings for thirty years. The Organization pays $50,484 and $43,065, respectively, monthly to lease each building. The monthly rent is increased on an annual basis. Rent expense for the years ended June 30, 2013 and 2012 was $1,122,588 and $1,089,895, respectively. The lease expires June 1, 2039.

In addition, the Organization leased four and five office spaces, for the years ended June 30, 2013 and 2012, respectively, in outlying cities within Kern County, which have expiration dates ranging through July 2016. Rent expense for years ended June 30, 2013 and 2012 was $113,318 and $224,686, 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, 2013:

Year Ending June 30,		
2014	$	1,350,864
2015		1,389,858
2016		1,381,970
2017		1,278,040
2018		1,301,400
Thereafter		38,446,890
	$	45,149,021

Note 13. Subsequent Events

The Organization has evaluated events and transactions subsequent to June 30, 2013 through June 16, 2014, 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, 2013

	Program Services							***Operating Expenses***	***June 30, 2013***	***June 30, 2012***
	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	$ 629,698	$ 4,229,609	$ 394,092	$ 388,244	$ 354,150	$ -	$ 5,995,793	$ 2,792,179	$ 8,787,972	9,032,243
Pension expense	23,060	154,891	14,432	14,218	12,969	-	219,570	102,251	321,821	1,007,008
Other employee benefit	213,161	1,431,776	133,405	131,425	119,884	-	2,029,651	945,189	2,974,840	2,953,690
Payroll taxes	13,095	87,956	8,195	8,074	7,365	-	124,685	58,064	182,749	161,854
	879,014	5,904,232	550,124	541,961	494,368	-	8,369,699	3,897,683	12,267,382	13,154,795
Purchase of service	-	-	-	-	-	129,997,500	129,997,500	-	129,997,500	124,856,316
Rent	92,807	623,375	58,083	57,221	52,196	-	883,682	411,520	1,295,202	1,097,523
Repairs & maintenance	17,180	115,397	10,752	10,593	9,662	-	163,584	76,180	239,764	158,462
Communications	3,880	26,062	2,428	2,392	2,182	-	36,944	17,205	54,149	95,697
Office expense	14,876	99,922	9,310	9,172	8,367	-	141,647	65,963	207,610	293,717
Data processing	6,095	40,938	3,814	3,758	3,428	-	58,033	27,024	85,057	89,308
General insurance	13,131	88,199	8,218	8,096	7,385	-	125,029	58,225	183,254	182,218
Workers comp insurance	10,206	68,555	6,388	6,293	5,740	-	97,182	45,256	142,438	117,342
Utilities	10,083	67,727	6,310	6,217	5,671	-	96,008	44,710	140,718	137,089
Interest	1,249	8,390	782	770	702	-	11,893	5,539	17,432	4,198
Legal & accounting	7,055	47,385	4,415	4,350	3,968	-	67,173	31,280	98,453	76,567
General expense	11,219	75,358	7,021	6,917	6,310	-	106,825	49,749	156,574	29,075
Travel	21,652	145,433	13,551	13,350	12,177	-	206,163	96,006	302,169	295,535
Equipment purchased	681	4,576	426	420	383	-	6,486	3,022	9,508	13,133
	$ 1,089,128	$ 7,315,549	$ 681,622	$ 671,510	$ 612,539	$ 129,997,500	$ 140,367,848	$ 4,829,362	$ 145,197,210	$ 140,600,975

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, 2013 and 2012, 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 16, 2014.

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 16, 2014

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, 2013. 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, 2013.

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 16, 2014

Kern Regional Center

Schedule of Expenditures of Federal Awards
June 30, 2013

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	$ 753,756
Corporation for National and Community Services Passed through the State of California Department of Developmental Services, Contract HD099009	94.011	100,607
		$ 854,363

See Notes to Schedule of Expenditures of Federal Awards.

Kern Regional Center

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant acitivy of Kern Regional Center under programs of the federal government for the year ended June 30, 2013. 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, 2013

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.