Kern Regional Center

Financial Statements

June 30, 2015 and 2014

C O N T E N T S

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, 2015 and 2014, 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, 2015 and 2014, 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 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 is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also 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 March 22, 2016, 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
March 22, 2016

Kern Regional Center

Statements of Financial Position
June 30, 2015 and 2014

ASSETS	2015	2014
Current Assets		
Cash and cash equivalents	$ 853,516	$ 3,882,162
State reimbursement claims	9,987,376	7,203,391
Receivable - ICF providers	2,843,616	5,123,446
Accounts receivable, related parties	1,500	1,500
Other receivables	47,450	148,060
Prepaid expenses	522,432	309,837
Due from client trust accounts	223,131	237,896
	14,479,021	16,906,292
Property and Equipment , net of accumulated depreciation		
Office equipment	1,855,137	2,059,513
Noncurrent Assets		
Restricted cash	1,194,122	1,369,355
Contracts receivable - unfunded defined and post retirement benefit liability, accrued vacation/sick pay, retirement payable	48,362,199	35,026,151
Due from vendors	241,332	206,739
Deposits	16,350	84,749
	49,814,003	36,686,994
	$ 66,148,161	$ 55,652,799

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	*2015*	*2014*
Current Liabilities		
Current maturities of long-term debt	$ 182,742	$ 109,409
Accounts payable	13,033,832	12,672,132
Payable to DDS - ICF providers	1,879,334	3,948,525
Payable to DDS	759,118	281,037
Accrued expenses	470,652	274,912
	16,325,678	17,286,015
Long-Term Liabilities and Reserves		
Long-term debt, less current maturities	106,039	367,011
Defined benefit and post retirement plan unfunded liability	46,008,413	33,664,670
Reserve for investment in equipment	1,379,451	1,429,804
Accrued vacation and sick pay	1,103,126	1,091,481
Client trust liability	1,194,122	1,369,355
	49,791,151	37,922,321
Commitments		
Net Assets		
Unrestricted	31,332	444,463
	$ 66,148,161	$ 55,652,799

Kern Regional Center

Statements of Activities
Years Ended June 30, 2015 and 2014

	2015	2014
Changes in unrestricted net assets:		
Revenues		
Reimbursement from State of California	$ 153,127,274	$ 147,455,305
Contributions	40,396	5,105
Interest income	42,152	41,733
Other income	15,149	159,020
	153,224,971	147,661,163
Expenses		
Program Services		
Purchase of services:		
Out of home	31,051,601	30,088,194
Day programs	24,964,701	23,547,170
Other services	79,526,412	77,147,573
	135,542,714	130,782,937
Support Services		
Intake and assessment	1,356,229	1,306,201
Case management	11,005,342	10,612,362
Program development	514,510	319,296
Other client services	529,970	491,617
Grants and special projects	1,179,993	878,122
	14,586,044	13,607,598
Operating Expenses	3,509,344	3,405,929
Total expenses	153,638,102	147,796,464
Change in net assets	(413,131)	(135,301)
Net assets, beginning of the year	444,463	579,764
Net assets, end of the year	$ 31,332	$ 444,463

See Notes to Financial Statements.

Kern Regional Center

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Change in net assets	$ (413,131)	$ (135,301)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	154,023	140,406
Changes in operating assets and liabilities		
State reimbursement claims	(2,709,443)	4,331,821
Receivable- ICF providers	2,279,830	643,747
Receivable, related parties	-	12,043
Other receivables	100,610	(80,306)
Prepaid expenses and deposits	(144,196)	(51,215)
Due from client trust accounts	14,765	(83,672)
Due from vendors	(34,593)	415,448
Accounts payable	(523,960)	444,127
Payable to DDS-ICF providers	(2,069,191)	(665,460)
DDS payable	478,081	(341,150)
Accrued expenses	100,740	(39,421)
Client trust liability	(175,233)	38,517
Net provided by (used in) operating activities	(2,941,698)	4,629,584
Cash flows used in investing activities:		
Purchases of property and equipment	(74,542)	(21,653)
Cash flows used in financing activities:		
Payments on long-term debt	(187,639)	(180,897)
Net payments on line of credit	-	(2,200,000)
Net cash used in financing activities	(187,639)	(2,380,897)

See Notes to Financial Statements.

	2015	2014
Net increase (decrease) in cash and cash equivalents	$ (3,203,879)	$ 2,227,034
Cash and cash equivalents at beginning of the year	5,251,517	3,024,483
Cash and cash equivalents at end of the year	$ 2,047,638	$ 5,251,517
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	$ 853,516	$ 3,882,162
Restricted cash	1,194,122	1,369,355
	$ 2,047,638	$ 5,251,517
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 28,541	$ 40,982
Noncash investing and financing activities:		
Debt incurred for the purchase of property and equipment	$ -	$ 204,251

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 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, 2015 and 2014 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. A majority 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. Balances that are still outstanding after management has used reasonable collection efforts are written off to bad debt expense.

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, 2015 and 2014, depreciable assets were $770,114. Total accumulated depreciation was $294,429 and $140,406, respectively. Depreciation of equipment is computed on the straight-line method over the estimated useful lives, which is 5 years. Depreciation expense was $154,023 and $140,406 for the years ended June 30, 2015 and 2014, respectively.

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, DDS shall pay accrued benefits pursuant to the contract of employment of each terminated employee.

Accrued vacation and sick leave at June 30, 2015 and 2014 was $1,103,126 and $1,091,481, 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 2012 and 2011 for state filings.

Reclassifications:

Certain reclassifications have been made to the June 30, 2014 financial statements in order to conform to the June 30, 2015 presentation.

Note 2. Cash and Cash Equivalents

Cash accounts at June 30, 2015 and 2014 included the following:

	2015	2014
Unrestricted cash:		
Petty cash	$ 933	$ 1,500
General checking account	722,678	3,352,655
Payroll checking account	119,592	350,693
Special projects account	10,313	177,314
	853,516	3,882,162
Restricted cash:		
Money management checking account	1,108,503	1,267,298
Money management savings account	85,619	102,057
	1,194,122	1,369,355
	$ 2,047,638	$ 5,251,517

Note 3. Agency Transactions

The Organization acts as a fiduciary for the client support funds received directly from clients. The Organization held $1,194,122 and $1,369,355 at June 30, 2015 and 2014, respectively, on behalf of clients. The cash held is included as restricted cash at June 30, 2015 and 2014 on the statements of financial position. The Organization is acting as an agent in processing these transactions, therefore no revenue or expenses are reflected on the statements of activities.

Note 4. Contract with DDS

The Organization's major source of revenue is from the DDS. Each fiscal year, the Organization is notified by DDS of 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, 2015 and 2014 consisted of the following:

	2015	2014
Contract billing - current contract	$ 8,984,967	$ 36,050,024
Contractual receivable from prior years	1,652,667	5,792,238
Less: outstanding cash advanced by State	(650,258)	(34,638,871)
Net due from the State of California	$ 9,987,376	$ 7,203,391

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 $148,472,830.

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, 2015 and 2014, amounts due from vendors and payable to the DDS are as follows:

	2015	2014
Receivable from vendors:		
Beginning balance	$ 5,123,446	$ 5,767,193
Amounts remitted by vendors	(5,530,371)	(4,474,907)
Amounts billed to vendors	3,250,541	3,155,718
Amounts billed to DDS	-	675,442
	$ 2,843,616	$ 5,123,446
Payable to DDS:		
Due to DDS	$ 1,935,250	$ 3,995,862
Administrative fee recognized	(55,916)	(47,337)
	$ 1,879,334	$ 3,948,525

Note 6. Line of Credit

The Organization entered into a line of credit agreement for a total commitment of $15,000,000 and $23,000,000, respectively, at June 30, 2015 and 2014, 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, 2015 and 2014 was $-0-. The line of credit expires September 30, 2016.

Note 7. Notes Payable

Notes payable consisted of the following at June 30, 2015 and 2014:

	2015	2014
Note payable, Great American Financial, 8%, collateralized by equipment, due in monthly payments of $6,272 including interest, due February 2018	$ 169,998	$ 229,051
Note payable, Wells Fargo Bank, 7.6%, collateralized by equipment, due in monthly payments of $5,562 including interest, due March 2016	48,506	109,033
Note payable, Hewlett-Packard Financial Services Co., 3.25%, collateralized by equipment, due in annual payments of $72,554 including interest, due September 2016	70,277	138,336
	288,781	476,420

Less current maturities	$	182,742	$	109,409
	$	106,039	$	367,011

Aggregate maturities of notes payable at June 30, 2015 are as follows:

Year ending June 30,		
2016	$	182,742
2017		69,273
2018		36,766
	$	288,781

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 2015, DDS conducted such an audit for fiscal year 2011. As a result, approximately $3,700,000 of findings/unallowable costs were noted during the audit. The Organization has contested the findings and is in the appeals process with DDS. The effect of the disallowed costs would be immaterial to the financial statements at June 30, 2015, and for the year then ended.

In 2012, the DDS conducted an audit for the fiscal years 2009 and 2010. 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, 2015 and 2014, $581,233 and $206,739, respectively, were payable to DDS for findings/unallowable costs related to the 2012 DDS audit. The amounts due are to be recovered from the respective vendors. At June 30, 2015, the Organization determined it could not collect $339,901 in findings from one vendor. The Organization has written off this amount during the year ended June 30, 2015. At June 30, 2015 and 2014, $241,332 and $206,739, respectively, was receivable from vendors.

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, 2015 and 2014, employer contributions to the Plan were $195,103 and $194,035, 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 health insurance 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 following provides a reconciliation of benefit obligations, plan assets and funded status related to the qualified defined benefit pension plans as of June 30, 2015 and 2014:

Defined Benefit Plan:	***2015***	***2014***
Change in benefit obligation:		
Benefit obligation, July 1	$ 50,587,425	$ 26,482,283
Service cost	2,540,728	1,880,306
Interest cost	2,098,554	1,890,386
Plan participant contributions	474,839	466,097
Assumption changes	1,781,391	21,316,176
Actuarial (gain)/loss	(219,221)	(29,898)
Benefits paid	(1,456,553)	(1,417,925)
Benefit obligation, June 30	$ 55,807,163	$ 50,587,425

	2015	***2014***
Change in fair value of plan assets:		
Beginning fair value of plan assets	$ 29,377,754	$ 25,904,694
Actual return on plan assets	648,099	3,681,974
Employer contributions	993,856	750,000
Participant contributions	474,839	466,097
Expenses	(7,246)	(7,086)
Benefits paid to participants	(1,456,553)	(1,417,925)
Ending fair value of plan assets	$ 30,030,749	$ 29,377,754

Funded status:	***2015***	***2014***
Benefit obligation	$ (55,807,163)	$ (50,587,425)
Fair value of plan assets	30,030,749	29,377,754
Funded status	$ (25,776,414)	$ (21,209,671)

The Organization expects funding for the defined benefit plan during the year ending June 30, 2016 to be approximately $1,180,272.

Post Retirement Plan:	***2015***	***2014***
Change in benefit obligation:		
Benefit obligation, July 1	$ 12,725,000	$ 11,835,000
Service cost	601,000	573,000
Interest cost	610,000	569,000
Actuarial (gain)/loss	7,004,000	-
Benefits paid	(343,000)	(252,000)
Benefit obligation, June 30	$ 20,597,000	$ 12,725,000

	2015	***2014***
Change in fair value of plan assets:		
Beginning fair value of plan assets	$ -	$ 40,000
Actual return on plan assets	-	1,000
Employer contributions	343,000	211,000
Benefits paid to participants	(343,000)	(252,000)
Ending fair value of plan assets	$ -	$ -

Funded status:	***2015***	***2014***
Benefit obligation	$ (20,597,000)	$ (12,725,000)
Fair value of plan assets	-	-
Funded status	$ (20,597,000)	$ (12,725,000)

The Organization expects funding for the post retirement plan during the year ending June 30, 2016 to be approximately $365,000.

The following table summarizes the amounts recognized on the statement of financial position as of June 30, 2015 and 2014:

Defined Benefit Plan:	***2015***	***2014***
Noncurrent assets- contracts receivable	$ 25,776,414	$ 21,209,671
Current liabilities	-	-
Noncurrent liabilities	(25,776,414)	(21,209,671)
Net amount recognized	$ -	$ -

Post Retirement Plan:	***2015***	***2014***
Noncurrent assets- contracts receivable	$ 20,597,000	$ 12,725,000
Current liabilities- accrued expenses	(365,000)	(270,000)
Noncurrent liabilities	(20,232,000)	(12,455,000)
Net amount recognized	$ -	$ -

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

Years ending June 30,	***Defined Benefit Plan***	***Post Retirement***
2016	$ 1,588,206	$ 365,000
2017	1,699,570	401,000
2018	1,719,848	451,000
2019	1,835,075	505,000
2020	2,048,462	510,000
2021-2025	11,305,773	3,229,000
	$ 20,196,934	$ 5,461,000

The net periodic benefit cost for the plans included the following components for the year ended June 30, 2015:

Defined Benefit Plan:	***2015***	***2014***
Service cost	$ 2,540,728	$ 1,880,306
Interest cost	2,098,554	1,890,386
Expected return on plan assets	(2,111,117)	(1,852,495)
Amortization of net (gain) loss	1,223,288	987,383
Net periodic cost	$ 3,751,453	$ 2,905,580

Post Retirement Plan:	***2015***	***2014***
Service cost	$ 601,000	$ 573,000
Interest cost	610,000	569,000
Expected return on plan assets	-	(1,000)
Amortization of:		
Unrecognized transition costs	-	-
Unrecognized prior service costs	826,000	826,000
Unrecognized (gain) loss	(35,000)	(42,000)
Net periodic cost	$ 2,002,000	$ 1,925,000

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, Defined Benefit Plan
Benefit obligations:	
Discount rate	4.40%
Rate of compensation increase	4%
Net periodic benefit cost:	
Discount rate	4.23%
Expected rate return on plan assets	7.25%
Rate of compensation increase	4%

	June 30, Defined Benefit Plan
Benefit obligations:	
Discount rate	4.23%
Rate of compensation increase	4%
Net periodic benefit cost:	
Discount rate	4.69%
Expected rate return on plan assets	7.25%
Rate of compensation increase	4%

During the year ended June 30, 2015, the mortality table was changed from the 2000 Mortality Tables for Annuitants and Non-Annuitants to the RP-2014 Mortality Tables for Annuitants and Non-Annuitants. The postretirement cost of living adjustment has been changed from 2.0% to 2.5%. 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, 2015 and 2014:

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 $28,240,168 and $28,190,868 at June 30, 2015 and 2014, respectively. The mutual funds are considered Level 1 assets. The fair value of the general investment contract was $1,790,582 and $1,186,887 at June 30, 2015 and 2014, respectively. The investment contract is considered a Level 2 asset.

Note 10. 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, 2015 and 2014, the Organization received $40,396 and $5,105, respectively, in contributions from the Foundation.

In May 2009, the Organization entered into an operating lease agreement with the Foundation, see Note 11.

Note 11. Commitments and Contingencies

Operating leases:

The Organization leases two office in Bakersfield, California to house its operations. These leases have an original term of 30 years with 23years remaining and increase annually based on consumer price index. Rent expense for the years ended June 30, 2015 and 2014 was $1,144,994 and $1,122,596, respectively. The lease expires June 1, 2039.

In addition, the Organization leases office spaces in outlying cities within Kern County for its various locations. These leases have expiration dates ending through December 2016, but may be renewed. Rent expense for these leases for years ended June 30, 2015 and 2014 was $290,826 and $206,160, 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, 2015:

Year Ending June 30,		
2016	$	1,409,378
2017		1,306,596
2018		1,315,452
2019		1,340,847
2020		1,362,144
Thereafter		36,353,556
	$	43,087,973

Note 12. Concentrations

Concentration of labor:

The Organization's employees, representing approximately 79% and 86% at June 30, 2015 and 2014, 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, 2016. The Organization's other employees are not represented by a union.

Note 13. Subsequent Events

The Organization has evaluated events and transactions subsequent to June 30, 2015 through March 22, 2016, 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, 2015

	Support Services							***Operating Expenses***	***June 30, 2015***	***June 30, 2014***
	Intake & 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	$ 646,001	$ 5,242,079	$ 245,072	$ 252,435	$ 562,056	$ -	$ 6,947,642	$ 1,671,575	$ 8,619,217	$ 8,562,260
Pension expense	95,292	773,265	36,151	37,237	82,910	-	1,024,855	246,575	1,271,430	1,545,448
Other employee benefit	253,250	2,055,038	96,075	98,961	220,341	-	2,723,665	655,303	3,378,968	3,576,158
Payroll taxes	10,206	82,815	3,872	3,988	8,879	-	109,760	26,408	136,168	104,354
	1,004,749	8,153,197	381,170	392,621	874,186	-	10,805,922	2,599,861	13,405,783	13,788,220
Purchase of service	-	-	-	-	-	135,542,714	135,542,714	-	135,542,714	130,782,937
Rent	103,784	842,170	39,372	40,555	90,298	-	1,116,179	268,548	1,384,727	1,116,225
Repairs & maintenance	17,377	141,010	6,592	6,790	15,119	-	186,888	44,965	231,853	203,009
Bad debt expense	25,475	206,723	9,664	9,955	22,165	-	273,982	65,919	339,901	-
Communications	4,651	37,744	1,765	1,818	4,047	-	50,025	12,035	62,060	53,003
Contract labor	6,784	55,051	2,574	2,651	5,903	-	72,963	17,554	90,517	11,158
Office expense	23,438	190,191	8,892	9,159	20,392	-	252,072	60,647	312,719	261,914
Data processing	18,597	150,908	7,055	7,267	16,180	-	200,007	48,122	248,129	156,765
Depreciation	11,544	93,674	4,379	4,511	10,044	-	124,152	29,871	154,023	140,406
General insurance	16,275	132,069	6,174	6,360	14,160	-	175,038	42,115	217,153	201,595
Workers comp insurance	33,472	271,612	12,698	13,080	29,122	-	359,984	86,611	446,595	176,622
Utilities	16,863	136,839	6,397	6,590	14,672	-	181,361	43,635	224,996	168,196
Interest	2,139	17,358	812	836	1,861	-	23,006	5,535	28,541	40,982
Legal & accounting	18,299	148,490	6,942	7,151	15,921	-	196,803	47,350	244,153	133,128
General expense	20,813	168,887	7,896	8,133	18,108	-	223,837	53,853	277,690	190,583
Travel	25,572	207,508	9,701	9,993	22,249	-	275,023	66,170	341,193	332,214
Equipment purchased	6,397	51,910	2,427	2,500	5,566	-	68,800	16,553	85,353	39,507
	$ 1,356,229	$ 11,005,341	$ 514,510	$ 529,970	$ 1,179,993	$ 135,542,714	$ 150,128,756	$ 3,509,344	$ 153,638,100	$ 147,796,464

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, 2015 and 2014, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 22, 2016.

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 Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Kern Regional Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings to be material weaknesses.

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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. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies.

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 audits, 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*.

Kern Regional Center's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Organization'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
March 22, 2016

Kern Regional Center

Schedule of Findings
Year Ended June 30, 2015

Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of Kern Regional Center.
2. No instances of noncompliance material to the financial statements of Kern Regional Center were disclosed during the audit.

Findings Financial Statement Audit

Material Weaknesses

Finding/Observation 1

During our cash disbursement walk-through, we noted the Organization maintains a cash account designated for emergency purposes, which is not recorded or maintained on the Organization's accounting system. The transactions for this account are maintained "offline" through Quickbooks.

Recommendation 1

This account is outside the scope of the Organization's internal control structure. We recommend an account number be added to the chart of accounts and the transactions be accounted for through the Organization's accounting system.

Response 1

This situation has since been remedied as the Department of Developmental Services (DDS) has instructed the Organization to close the vendor number, which is the client emergency fund. No activity has occurred in the account as of calendar year-end December 2014.

Finding/Observation 2

We noted in three instances in which the Organization did not have a current vendor payment agreement or contract as required by DDS.

Recommendation 2

We recommend the Organization obtain up-to-date vendor contracts and agreements as required by DDS.

Response 2

The Organization continues to work on maintaining the vendor files with the most current contract(s) and relevant information.

Significant Deficiencies

Finding /Observation 3

We noted the Payroll Manager initiates the payroll process, and also distributes manual payroll checks without supervisor or manager oversight. This creates a lack of segregation of duties.

Recommendation 3

Segregation of duties, thus internal control, could be improved if the accounting manager/controller were to distribute the manual payroll checks.

Response 3

All of the staff are now on direct deposit and are able to access remittance advices using the online system.

Finding/Observation 4

During our cash disbursement testing, it was noted a vendor submitted an erroneous mileage rate, and was paid the incorrect rate. The vendor contract maintained by the Organization noted the correct rate and nonetheless was paid the erroneous rate submitted. In this case, the staff utilized an override function to be able to pay the erroneous rate.

Recommendation 4

We recommend the Organization obtain up-to-date vendor contracts and agreements as required by DDS.

Response 4

The Organization continues to work on maintaining the vendor files with the most current contract(s) and relevant information.

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, 2015. Kern Regional Center's major federal programs are identified in the summary of auditors' 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.

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, 2015.

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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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

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.

ABC Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. ABC Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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
March 22, 2016

Kern Regional Center

Schedule of Expenditures of Federal Awards
June 30, 2015

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	$ 484,097
Corporation for National and Community Services Passed through the State of California Department of Developmental Services, Contract HD099009	94.011	93,947
		$ 578,044

See Notes to Schedule of Expenditures of Federal Awards.

Kern Regional Center

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

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, 2015. 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, 2015

Summary of Auditors' Results

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

2. Both significant deficiencies and material weaknesses relating to the audit of the financial statements were 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. One material weakness was 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 program was: 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

See documentation of material weaknesses and significant deficiencies on pages 24-25.

Federal Awards - Findings and Questioned Costs

Finding #2015-001: See Finding 2 on the Schedule of Findings – Financial Statement Audit.