Kern Regional Center

Financial Statements

June 30, 2016 and 2015

C O N T E N T S

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

Independent Auditors' Report

The Board of Directors
Kern Regional Center
Bakersfield, California

We have audited the accompanying financial statements of Kern Regional Center (a California nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on page 23 are presented for purposes of additional analysis and are 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 March 15, 2017, 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 15, 2017

Kern Regional Center

Statements of Financial Position
June 30, 2016 and 2015

ASSETS	***2016***	***2015***
Current Assets		
Cash and cash equivalents	$ 7,369,113	$ 853,516
State reimbursement claims	3,877,076	9,987,376
Receivable - ICF providers	1,383,562	2,843,616
Accounts receivable, related parties	(523)	1,500
Other receivables	16,139	47,450
Prepaid expenses	419,378	522,432
Due from client trust accounts	187,283	223,131
Client receivables	1,191,950	408,941
	14,443,978	14,887,962
Property and Equipment , net of accumulated depreciation		
Office equipment	1,378,234	1,855,137
Noncurrent Assets		
Cash and cash equivalents - client trust funds	1,102,014	1,194,122
Contracts receivable - unfunded defined and post retirement benefit liability, accrued vacation/sick pay, retirement payable	60,290,823	48,362,199
Due from vendors	169,308	241,332
Deposits	16,350	16,350
	61,578,495	49,814,003
	$ 77,400,707	$ 66,557,102

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	***2016***	***2015***
Current Liabilities		
Current maturities of long-term debt	$ 139,091	$ 182,742
Accounts payable	13,623,926	13,033,832
Payable to DDS - ICF providers	255,381	1,879,334
Payable to DDS	517,472	759,118
Accrued expenses	665,752	470,652
	15,201,622	16,325,678
Long-Term Liabilities and Reserves		
Long-term debt, less current maturities	42,752	106,039
Defined benefit and post retirement plan unfunded liability	57,429,737	46,008,413
Reserve for investment in equipment	1,378,234	1,379,451
Accrued vacation and sick pay	1,023,066	1,103,126
Client trust liability	2,293,964	1,603,063
	62,167,753	50,200,092
Commitments		
Net Assets		
Unrestricted	31,332	31,332
	$ 77,400,707	$ 66,557,102

Kern Regional Center

Statements of Activities
Years Ended June 30, 2016 and 2015

	2016	2015
Changes in unrestricted net assets:		
Revenues		
Reimbursement from State of California	$ 158,003,739	$ 153,127,274
Contributions	-	40,396
Interest income	52,357	42,152
Other income	5,973	15,149
	158,062,069	153,224,971
Expenses		
Program Services		
Purchase of services:		
Out of home	31,588,405	31,051,601
Day programs	26,924,133	24,964,701
Other services	80,854,071	79,526,412
	139,366,609	135,542,714
Support Services		
Intake and assessment	1,447,955	1,356,229
Case management	12,064,720	11,005,342
Program development	624,460	514,510
Other client services	132,521	529,970
Grants and special projects	868,238	1,179,993
	15,137,894	14,586,044
Operating Expenses	3,557,566	3,509,344
Total expenses	158,062,069	153,638,102
Change in net assets	-	(413,131)
Net assets, beginning of the year	31,332	444,463
Net assets, end of the year	$ 31,332	$ 31,332

See Notes to Financial Statements.

Kern Regional Center

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	$ -	$ (413,131)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	-	154,023
Equipment reserve	475,686	-
Changes in operating assets and liabilities		
State reimbursement claims	6,110,300	(2,709,443)
Receivable- ICF providers	1,460,054	2,279,830
Accounts receivable, related parties	2,023	-
Other receivables	31,311	100,610
Prepaid expenses and deposits	103,054	(144,196)
Due from client trust accounts	35,848	14,765
Client accounts	(92,108)	(175,233)
Due from vendors	72,024	(34,593)
Accounts payable	38,734	(523,960)
Payable to DDS-ICF providers	(1,623,953)	(2,069,191)
DDS payable	(241,646)	478,081
Accrued expenses	159,100	100,740
Net provided by (used in) operating activities	6,530,427	(2,941,698)
Cash flows used in investing activities:		
Purchases of property and equipment	-	(74,542)
Cash flows used in financing activities:		
Payments on long-term debt	(106,938)	(187,639)

See Notes to Financial Statements.

	2016	2015
Net increase (decrease) in cash and cash equivalents	$ 6,423,489	$ (3,203,879)
Cash and cash equivalents at beginning of the year	2,047,638	5,251,517
Cash and cash equivalents at end of the year	$ 8,471,127	$ 2,047,638
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	$ 7,369,113	$ 853,516
Restricted cash	1,102,014	1,194,122
	$ 8,471,127	$ 2,047,638
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest expense	$ 12,106	$ 28,541

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 Developmental 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.

State of California contract:

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. The Organization submits claims for the current contract year and can submit claims against the contract for 2 years subsequent to the end of the contract year. In the event of termination or nonrenewal of the contract, the State of California maintains the right to assume control of the Organization's operations and the obligation of its 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, 2016 and 2015 were unrestricted.

Revenue recognition:

Revenue from the DDS contract is recognized monthly upon submission of a claim for reimbursement of actual expenses (purchase of services and operations) to the DDS.

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. Cash and cash equivalents are concentrated in institutions in excess of the related insurance coverage at June 30, 2016.

Receivables:

Receivables are stated at the amount management expects to collect from balances outstanding at year end. The contract reimbursement receivable represents the cost-reimbursement provided under contract with the DDS. A majority of the Organization's receivables relate to the cost-reimbursement contract also. Based on management's assessment of receivables it has concluded that an allowance is not necessary at June 30, 2016 and 2015. 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. The Organization is required to track purchases of furniture and equipment with a cost value in excess of $5,000 and an estimated useful life of more than one year.

Equipment, purchased with non-DDS funds, is recorded at cost. During the year ended June 30, 2014 equipment was purchased with non-DDS funds at a cost of $770,114. As of July 1, 2015, the equipment was considered to be the property of the State of California. The equipment no longer was depreciated for the year ended June 30, 2016. At June 30, 2016 and 2015, depreciable assets were $-0- and $770,114, respectively. Total accumulated depreciation was $770,114 and $294,429, respectively. Depreciation of equipment was computed on the straight-line method over the estimated useful lives, which was 5 years. Depreciation expense was $-0- and $154,023 for the years ended June 30, 2016 and 2015, 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 carried 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, 2016 and 2015 was $1,023,066 and $1,103,126, 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 2013 and 2012 for state filings.

Reclassifications:

Certain reclassifications have been made to the June 30, 2015 financial statements in order to conform to the June 30, 2016 presentation.

Note 2. Cash and Cash Equivalents

Cash accounts at June 30, 2016 and 2015 included the following:

	2016	2015
Unrestricted cash:		
Petty cash	$ 934	$ 933
General checking account	7,311,160	722,678
Payroll checking account	57,019	119,592
Special projects account	-	10,313
	7,369,113	853,516
Cash - client trust accounts:		
Money management checking account	1,015,599	1,108,503
Money management savings account	86,415	85,619
	1,102,014	1,194,122
	$ 8,471,127	$ 2,047,638

Note 3. Agency Transactions

The Organization acts as a fiduciary for the client support funds received directly from clients. The Organization held $1,102,014 and $1,194,122 at June 30, 2016 and 2015, respectively, on behalf of clients. The cash held is included as cash and cash equivalents-client trust funds at June 30, 2016 and 2015 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 for the years ended June 30, 2016 and 2015.

Note 4. Contract with State of California - 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 reimbursement receivable from DDS at June 30, 2016 and 2015 consisted of the following:

	2016	2015
Contract reimbursement billing - current contract	$ 2,366,551	$ 8,984,967
Contractual receivable - prior years	2,704,030	1,652,667
Less: outstanding cash advanced by DDS	(1,193,505)	(650,258)
Net due from the State of California- DDS	$ 3,877,076	$ 9,987,376

The Organization has renewed its contract with the State through the fiscal year ending June 30, 2021. The State contract provides initial funding of $160,641,249, with subsequent amendments for an increased funding of $179,500,614.

Note 5. Intermediate Care Facility Billing

Retrofunding activities:

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.

The Organization's activities related to retro funding were as follows as of June 30, 2016 and 2015:

	2016	2015
Receivable balance	$ 1,743,516	$ 4,007,753
Amount remitted by vendors	(1,460,462)	(1,508,624)
Amounts credited by DDS	-	(755,613)
Receivable - ICF providers, retro	$ 283,054	$ 1,743,516
Due to DDS	$ 300,414	$ 1,935,250
Administrative fee recognized	(45,033)	(55,916)
Payable to DDS- ICF providers	$ 255,381	$ 1,879,334

Go Forward activities:

Effective July 1, 2012, the DDS directed the Organization to submit billings for these services on behalf of the ICFs and submit a separate state claim reimbursement for these services, in addition to paying the ICF directly for their services. Reimbursements will be received directly form the ICFs. The ICFs are required to pass on payments received to the Organization within 30 days of receipt of funds from the State Controller's Office.

As of June 30, 2016 and 2015, amounts due from vendors are as follows:

	2016	2015
Beginning balance	$ 1,100,100	$ 964,267
Amounts remitted by vendors	(3,288,311)	(3,117,487)
Billings processed	3,288,719	3,253,320
Receivable - ICF providers, go-forward	$ 1,100,508	$ 1,100,100

The receivables and payables are on the statements of financial position at June 30, 2016 and 2015.

Note 6. Line of Credit

The Organization entered into a line of credit agreement for a total commitment of $15,000,000 at June 30, 2016 and 2015, 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 contract. The line of credit bears interest at the bank's reference rate plus 5%. The balance outstanding at June 30, 2016 and 2015 was $-0-. The line of credit expired September 30, 2016 and is in current negotiations.

Note 7. Notes Payable

Notes payable consisted of the following at June 30, 2016 and 2015:

	2016	2015
Note payable, Great American Financial, 8%, collateralized by equipment, due in monthly payments of $6,272 including interest, due February 2018	$ 111,566	$ 169,998
Note payable, Wells Fargo Bank, 7.6%, collateralized by equipment, due in monthly payments of $5,562 including interest, paid in full	-	48,506
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	70,277
	181,843	288,781
Less current maturities	139,091	182,742
	$ 42,752	$ 106,039

Aggregate maturities of notes payable at June 30, 2016 are as follows:

Year ending June 30,		
2017	$	139,091
2018		42,752
	$	181,843

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, 2016, 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, 2016 and 2015, $509,209 and $581,233, respectively, were payable to DDS for findings/unallowable costs related to the 2012 DDS audit and is noted on the statements of financial position. 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 wrote off this amount during the year ended June 30, 2015. At June 30, 2016 and 2015, $169,308 and $241,332, 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. The Organization also maintains a 403(b) plan in a combination of custodial accounts. All employees of the Organization are eligible to participate in the Plan immediately upon employment.

403(b) Plan:

Participating employees are allowed to make contributions of their gross wages through payroll deductions, pursuant to certain Internal Revenue Code limitations. Effective January 1, 2009, employer contributions are no longer made to the Plan.

Money Purchase Pension Plan:

Union employee participants in the Money Purchase Pension Plan receive an employer contribution of 12.4% of compensation. Non-union employees receive an employer contribution of 10.9% of compensation, plus 4.3% of excess compensation. Excess compensation is defined as compensation in excess of $12,000. The Money Purchase Pension Plan allows for employee contributions. For the years ended June 30, 2016 and 2015, employer contributions to the Plan were $189,590 and $195,103, 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 Employment 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 employment benefit 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 defined benefit pension plans as of June 30, 2016 and 2015:

Defined Benefit Plan:	***2016***	***2015***
Change in benefit obligation:		
Benefit obligation, July 1	$ 55,807,163	$ 50,587,425
Service cost	2,413,523	2,540,728
Interest cost	2,369,005	2,098,554
Plan participant contributions	426,914	474,839
Assumption changes	8,353,730	1,781,391
Actuarial (gain)/loss	(1,169,684)	(219,221)
Benefits paid	(1,480,802)	(1,456,553)
Benefit obligation, June 30	$ 66,719,849	$ 55,807,163

	2016	***2015***
Change in fair value of plan assets:		
Beginning fair value of plan assets	$ 30,030,750	$ 29,377,755
Actual return on plan assets	849,915	648,099
Employer contributions	1,180,819	993,856
Participant contributions	426,914	474,839
Expenses	(5,484)	(7,246)
Benefits paid to participants	(1,480,802)	(1,456,553)
Ending fair value of plan assets	$ 31,002,112	$ 30,030,750

Funded status:	***2016***	***2015***
Benefit obligation	$ (66,719,849)	$ (55,807,163)
Fair value of plan assets	31,002,112	30,030,750
Funded status	$ (35,717,737)	$ (25,776,413)

The Organization expects funding for the defined benefit plan during the year ending June 30, 2017 to be approximately $1,640,203.

Post Retirement Plan:	***2016***	***2015***
Change in benefit obligation:		
Benefit obligation, July 1	$ 20,597,000	$ 12,725,000
Service cost	958,000	601,000
Interest cost	923,000	610,000
Actuarial (gain)/loss	-	7,004,000
Benefits paid	(365,000)	(343,000)
Benefit obligation, June 30	$ 22,113,000	$ 20,597,000

	2016	***2015***
Change in fair value of plan assets:		
Beginning fair value of plan assets	$ -	$ -
Actual return on plan assets	-	-
Employer contributions	365,000	343,000
Benefits paid to participants	(365,000)	(343,000)
Ending fair value of plan assets	$ -	$ -

Funded status:	***2016***	***2015***
Benefit obligation	$ (22,113,000)	$ (20,597,000)
Fair value of plan assets	-	-
Funded status	$ (22,113,000)	$ (20,597,000)

The Organization expects funding for the post employment plan during the year ending June 30, 2017 to be approximately $365,000.

The following table summarizes the amounts recognized on the statement of financial position as of June 30, 2016 and 2015:

Defined Benefit Plan:	***2016***	***2015***
Noncurrent assets- contracts receivable	$ 35,717,737	$ 25,776,413
Current liabilities	-	-
Noncurrent liabilities	(35,717,737)	(25,776,413)
Net amount recognized	$ -	$ -

Post Retirement Plan:	***2016***	***2015***
Noncurrent assets- contracts receivable	$ 22,113,000	$ 20,597,000
Current liabilities- accrued expenses	(401,000)	(365,000)
Noncurrent liabilities	(21,712,000)	(20,232,000)
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
2017	$ 1,671,737	$ 401,000
2018	1,692,037	451,000
2019	1,812,272	505,000
2020	2,033,611	510,000
2021	2,111,145	510,000
2022-2026	11,830,868	2,354,000
	$ 21,151,670	$ 4,731,000

The net periodic benefit cost for the plans included the following components for the year ended June 30, 2016 and 2015:

Defined Benefit Plan:	***2016***	***2015***
Service cost	$ 2,413,523	$ 2,540,728
Interest cost	2,369,005	2,098,554
Expected return on plan assets	(2,177,937)	(2,111,117)
Amortization of net (gain) loss	1,266,742	1,223,288
Net periodic cost	$ 3,871,333	$ 3,751,453

Post Retirement Plan:	***2016***	***2015***
Service cost	$ 958,000	$ 601,000
Interest cost	923,000	610,000
Expected return on plan assets	-	-
Amortization of:		
Unrecognized transition costs	-	-
Unrecognized prior service costs	826,000	826,000
Unrecognized (gain) loss	220,000	(35,000)
Net periodic cost	$ 2,927,000	$ 2,002,000

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.

All previously unrecognized actuarial gains or losses are reflected in the statements of financial position. The plan items not yet recognized as a component of periodic plan expenses for the defined benefit plan are unamortized net loss of $28,580,580 and $21,329,770 at June 30, 2016 and 2015, respectively. The post employment plan items not yet recognized as a component of periodic plan expenses are unamortized prior service cost and net loss of $6,380,000 and $7,426,000 at June 30, 2016 and 2015, respectively.

The estimated net loss and prior service cost for the defined benefit plan that will be amortized into net periodic benefit cost over the next fiscal year are $1,888,672 and $-0- at June 30, 2016 and 2015, respectively.

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

	June 30, 2016	
	Defined Benefit Plan	***Post Retirement***
Benefit obligations:		
Discount rate	3.57%	4.52%
Rate of compensation increase	4%	not applicable
Net periodic benefit cost:		
Discount rate	4.40%	4.52%
Expected rate of return on plan assets	7.25%	4.50%
Rate of compensation increase	4%	not applicable

	June 30, 2015	
	Defined Benefit Plan	***Post Retirement***
Benefit obligations:		
Discount rate	4.40%	4.52%
Rate of compensation increase	4%	not applicable
Net periodic benefit cost:		
Discount rate	4.23%	4.86%
Expected rate of return on plan assets	7.25%	4.50%
Rate of compensation increase	4%	not applicable

During the year ended June 30, 2016, the mortality table was changed from the RP-2014 Mortality Tables for Annuitants and Non-Annuitants Fully Generational with Scale MP-2014 to MP-2015. The postretirement cost of living adjustment was not changed from the prior year rate of 2.0%. The discount rate was changed in accordance with an average rate used in the industry.

Plan assets:

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

The expected returns 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, 2016 and 2015:

> *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 $29,632,962 and $28,240,168 at June 30, 2016 and 2015, respectively. The mutual funds are considered Level 1 assets. The fair value of the general investment contract was $1,369,151 and $1,790,582 at June 30, 2016 and 2015, 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, 2016 and 2015, the Organization received $-0- and $40,396, 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 from the Foundation two offices in Bakersfield, California to house its operations. These leases have an original term of 30 years with 22 years remaining and increase annually based on consumer price index. Rent expense for the years ended June 30, 2016 and 2015 was $1,210,244 and $1,144,994, respectively. The lease expires June 1, 2039.

In addition, the Organization leases office spaces in outlying cities within Kern County for its various service locations. These leases have various expiration dates ending through July 2019, but may be renewed. Rent expense for these leases for years ended June 30, 2016 and 2015 was $288,311 and $290,826, 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, 2016:

Year Ending June 30,	
2017	$ 1,393,285
2018	1,403,227
2019	1,397,172
2020	1,365,855
2021	1,403,004
Thereafter	34,950,552
	$ 41,913,095

Note 12. Concentrations

Concentration of labor:

The Organization's employees, representing approximately 83% and 79% at June 30, 2016 and 2015, 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 previous collective bargaining covered the period October 1, 2011 through September 30, 2014. A new agreement was signed in February 2017, and covers the period December 16, 2016 through December 15, 2019. The Organization's other employees are not covered by a collective bargaining agreement.

Note 13. Subsequent Events

The Organization has evaluated events and transactions subsequent to June 30, 2016 through March 15, 2017, 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, 2016

	Support Services							***Operating Expenses***	***June 30, 2016***	***June 30, 2015***
	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	$ 662,414	$ 5,519,396	$ 285,680	$ 60,626	$ 397,204	$ -	$ 6,925,320	$ 1,627,522	$ 8,552,842	$ 8,619,217
Pension expense	141,438	1,178,493	60,998	12,945	84,810	-	1,478,684	347,506	1,826,190	1,271,430
Other employee benefit	255,895	2,132,184	110,360	23,420	153,443	-	2,675,302	628,725	3,304,027	3,378,968
Payroll taxes	9,608	80,058	4,144	879	5,761	-	100,450	23,608	124,058	136,168
	1,069,355	8,910,131	461,182	97,870	641,218	-	11,179,756	2,627,361	13,807,117	13,405,783
Purchase of service	-	-	-	-	-	139,366,609	139,366,609	-	139,366,609	135,542,714
Contracted services	-	-	-	-	-	-	-	-	-	-
Rent	115,766	964,587	49,926	10,595	69,417	-	1,210,291	284,431	1,494,722	1,384,727
Repairs & maintenance	15,833	131,928	6,828	1,449	9,494	-	165,532	38,903	204,435	231,853
Bad debt expense	-	-	-	-	-	-	-	-	-	339,901
Communications	4,416	36,797	1,905	404	2,648	-	46,170	10,850	57,020	62,060
Contract labor	8,427	70,219	3,634	771	5,053	-	88,104	20,707	108,811	90,517
Office expense	21,057	175,450	9,081	1,927	12,626	-	220,141	51,736	271,877	312,719
Data processing	18,083	150,670	7,799	1,655	10,843	-	189,050	44,428	233,478	248,129
Depreciation	-	-	-	-	-	-	-	-	-	154,023
General insurance	25,196	209,935	10,866	2,306	15,108	-	263,411	61,904	325,315	217,153
Workers comp insurance	36,642	305,309	15,803	3,354	21,972	-	383,080	90,026	473,106	446,595
Utilities	15,104	125,852	6,514	1,382	9,057	-	157,909	37,111	195,020	224,996
Interest	938	7,812	404	86	562	-	9,802	2,304	12,106	28,541
Legal & accounting	33,968	283,031	14,649	3,109	20,368	-	355,125	83,459	438,584	244,153
General expense	24,637	205,280	10,625	2,255	14,773	-	257,570	60,531	318,101	277,692
Travel	21,159	176,306	9,125	1,937	12,688	-	221,215	51,988	273,203	341,193
Equipment purchased	37,374	311,413	16,119	3,421	22,411	-	390,738	91,827	482,565	85,353
	$ 1,447,955	$ 12,064,720	$ 624,460	$ 132,521	$ 868,238	$ 139,366,609	$ 154,504,503	$ 3,557,566	$ 158,062,069	$ 153,638,102

BARBICH HOOPER KING
DILL HOFFMAN
ACCOUNTANCY CORPORATION

<u>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</u>

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, 2016 and 2015, 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 15, 2017.

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.

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 entity's financial statements 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses

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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 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*.

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 15, 2017