

KERN REGIONAL CENTER

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

## TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	5
Statement of Cash Flows	6
Notes to Financial Statements	7 - 17
SUPPLEMENTAL INFORMATION	
Statement of Functional Expenses	18
Independent Auditor's 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	19 - 20

# ROLAND ROOS & COMPANY

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## INDEPENDENT AUDITOR'S REPORT

To Board of Directors of  
Kern Regional Center

### Report on the Financial Statements

We have audited the accompanying financial statements of Kern Regional Center (a California nonprofit organization), which comprise the statement of financial position as of June 30, 2017 and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements. The financial statements of Kern Regional Center as of June 30, 2016 were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 15, 2017.

### 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.

### Auditor's Responsibility

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

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, 2017, and the changes in its net assets and its cash flows for the years then ended in accordance 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 as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2018, 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.

Bakersfield, California  
January 24, 2018

*Reel Run and Company*

KERN REGIONAL CENTER  
Statement of Financial Position  
June 30, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$10,921,357	\$ 7,369,113
State Reimbursement Claims, Net	-	3,877,076
Receivable - ICF Providers	1,195,713	1,383,562
Accounts Receivable - Related Parties	-	(523)
Other Receivables	67,001	16,139
Prepaid Expenses	509,619	419,378
Due from Client Trust Accounts	<u>344,468</u>	<u>187,283</u>
Current Assets	<u>13,038,158</u>	<u>13,252,028</u>
Property and Equipment, Net	<u>1,538,388</u>	<u>1,378,234</u>
Deposits	16,350	16,350
Due from Vendors	-	169,308
Accrued Vacation/Sick Pay	1,031,226	1,023,066
Net Projected Pension Plan -		
Benefit Obligation	25,611,078	35,717,737
Current Year Employer Contributions	1,702,093	1,437,020
Net Accumulated Postretirement Health -		
Benefit Obligation	<u>26,592,000</u>	<u>22,113,000</u>
Noncurrent Assets	<u>54,952,747</u>	<u>60,476,481</u>
Total Assets	<u>\$69,529,293</u> =====	<u>\$75,106,743</u> =====

See Accompanying Notes to Financial Statements

KERN REGIONAL CENTER  
Statement of Financial Position  
June 30, 2017 and 2016

<u>LIABILITIES AND NET ASSETS</u>	<u>2017</u>	<u>2016</u>
Accounts Payable	\$13,047,815	\$13,623,926
State Reimbursement Claims Payable, Net	1,078,411	-
Current Maturities of Long -Term Debt	42,752	139,091
Payable to DDS - ICF Providers	252,990	255,381
Payable to DDS	-	517,472
Accrued Expenses	<u>847,241</u>	<u>665,752</u>
Current Liabilities	<u>15,269,209</u>	<u>15,201,622</u>
Long-Term Debt, Less Current Maturities	-	42,752
Reserve for Investment in Equipment	1,495,636	1,378,234
Accrued Vacation and Sick Pay	1,031,226	1,023,066
Net Projected Pension Plan - Benefit Obligation	25,611,078	35,717,737
Net Accumulated Postretirement Health - Benefit Obligation	<u>26,100,000</u>	<u>21,712,000</u>
Non-Current Liabilities	<u>54,237,940</u>	<u>59,873,789</u>
Total Liabilities	69,507,149	75,075,411
Total Unrestricted Net assets	<u>22,144</u>	<u>31,332</u>
Total Liabilities and Unrestricted Net Assets	<u>\$69,529,293</u> =====	<u>\$75,106,743</u> =====

See Accompanying Notes to Financial Statements

KERN REGIONAL CENTER  
Statement of Activities  
Twelve months ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>SUPPORT</b>		
Reimbursement From State of California	\$169,859,022	\$158,003,739
Interest Income	65,711	52,357
Other Income	<u>18,294</u>	<u>5,973</u>
Total Unrestricted Support	<u>169,943,027</u>	<u>158,062,069</u>
<b>EXPENSES</b>		
Program Services:		
Out of Home	35,111,185	31,588,405
Day Programs	29,245,082	26,924,133
Other Services	<u>84,720,568</u>	<u>80,854,071</u>
Total Program Services	<u>149,076,835</u>	<u>139,366,609</u>
Support Services:		
Intake and Assessment	896,325	1,447,955
Case Management	15,112,599	12,064,720
Program Development	1,089,612	624,460
Other Client Services	151,125	132,521
Grants and Special Projects	<u>1,333,544</u>	<u>868,238</u>
Total Support Services	<u>18,583,205</u>	<u>15,137,894</u>
Operating Expenses:		
General and Administrative	<u>2,292,175</u>	<u>3,557,566</u>
Total Expenses	<u>169,952,215</u>	<u>158,062,069</u>
Change in Net Assets	(9,188)	-
Net Assets, Beginning of the Year	<u>31,332</u>	<u>31,332</u>
Net Assets (Deficit), End of Year	\$ 22,144 =====	\$ 31,332 =====

See Accompanying Notes to Financial Statements

KERN REGIONAL CENTER  
Statement of Cash Flows  
Twelve months ended June 30, 2017 and 2016

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2017</u>	<u>2016</u>
Change in Net Assets	\$ ( 9,188)	\$ -
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
(Increase) Decrease in:		
State Reimbursement Claims	4,955,487	6,110,300
Receivable - ICF Providers	187,849	1,460,054
Accounts Receivable - Related Parties	( 523)	2,023
Other Receivables	( 50,862)	31,311
Capital Leases	( 42,752)	-
Prepaid Expenses and Deposits	( 90,241)	103,054
Due from Client Trust Accounts	( 157,185)	35,848
Due from Vendors	169,308	72,024
Current Year Retirement Payment	( 265,073)	-
Equipment Reserve	-	475,686
Increase (Decrease) in:		
Accounts Payable	( 576,111)	38,734
Payable to DDS -ICF Providers	( 2,391)	(1,623,953)
DDS Payable	( 517,472)	( 241,646)
Accrued Expenses	<u>90,489</u>	<u>159,100</u>
Net Cash Provided by (Used In) Operating Activities	<u>3,691,335</u>	<u>6,622,535</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	<u>( 139,091)</u>	<u>( 106,938)</u>
Net Increase (Decrease) in Cash	3,552,244	6,515,597
Cash at Beginning of Year	<u>7,369,113</u>	<u>853,516</u>
Cash at End of Year	<u>\$10,921,357</u>	<u>\$7,369,113</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash Paid During the Year For:

Interest Expense	\$ -	\$ 12,106
	=====	=====

See Accompanying Notes to Financial Statements

KERN REGIONAL CENTER  
Notes to Financial Statements  
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

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 Lanterman 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 Lanterman Developmental Disabilities Services Act.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting as prescribed by generally accepted accounting principles in the United States of America. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization did not have any temporarily restricted or permanently restricted net assets during 2017 or 2016. All donors restricted and government-sourced client support is reported as agency transactions, therefore there are no temporarily or permanently restricted support amounts in KRC's activity.

State of California Contract

The Organization operates under an annual contract with the Department of Developmental Services of California, under the Lanterman 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.

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.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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, 2017.

Contracts Receivable

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, 2017 and 2016. 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, 2017 and 2016, 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, 2017 and 2016 was \$1,031,226 and \$1,023,066, respectively.

Reclassifications

Certain reclassifications have been made to the June 30, 2016 financial statements in order to conform to the June 30, 2017 presentation.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Tax Status

KRC is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and under Section 23701(d) of the State Revenue and Taxation Code, therefore no provisions for federal or state income taxes have been made. Management is of the opinion that there is no unrelated business income subject to taxation. Management is also of the opinion that there are no material uncertain tax positions. The federal income tax returns are subject to examination by the IRS, generally for three years after they were filed. All tax returns have been appropriately filed by the Organization.

2. CASH AND CASH EQUIVALENTS

Cash accounts at June 30, 2017 and 2016 included the following:

	<u>2017</u>	<u>2016</u>
Petty Cash	\$ 933	\$ 934
General Checking Account	10,754,852	7,311,160
Payroll Checking Account	<u>165,572</u>	<u>57,019</u>
Cash and Cash Equivalents	<u>\$ 10,921,357</u>	<u>\$ 7,369,113</u>
	=====	=====

3. CONCENTRATION OF CREDIT RISK

In accordance with its State Contract, KRC maintains cash balances at one bank. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2017, deposits at this institution exceeded the \$250,000 limit by \$10,534,200.

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/ (payable) from DDS at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Contract Reimbursement Billing – Current Contract	\$ 6,648,868	\$ 2,366,551
Contractual Receivable – Prior Years	315,507	2,704,030
Less: Outstanding Cash Advanced by DDS	<u>( 8,042,786)</u>	<u>( 1,193,505)</u>
Net Due/ (Payable) From – DDS	<u>\$ ( 1,078,411)</u>	<u>\$ 3,877,076</u>
	=====	=====

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 \$182,232,066.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2017

5. INTERMEDIATE CARE FACILITY BILLING

**Retro Funding 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 the 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Receivable balance	\$ 283,054	\$ 1,743,516
Amount Remitted by Vendors	( 3,733)	( 1,460,462)
Amount Credited by DDS	-	-
Receivable – ICF providers, retro	<u>\$ 279,321</u>	<u>\$ 283,054</u>
	=====	=====
Payable to DDS – ICF Providers	252,990	255,381
Administrative fee recognized	( 48,980)	( 45,033)
Due to DDS	<u>\$ 204,010</u>	<u>\$ 210,348</u>
	=====	=====

**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 from 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, 2017 and 2016, amounts due from vendors are as follows:

	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 1,100,508	\$ 1,100,100
Timing Difference	( 1,160)	-
Amounts Remitted by Vendors	( 3,446,811)	( 3,288,311)
Amount Credited by DDS	<u>3,263,855</u>	<u>3,288,719</u>
Receivable – ICF providers, retro	<u>\$ 916,392</u>	<u>\$ 1,100,508</u>
	=====	=====

The ICF receivables and payables are on the statements of financial position at June 30, 2017 and 2016.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2017

6. LINE OF CREDIT

The Organization entered into a line of credit agreement for a total commitment of \$15,000,000 at June 30, 2017 and 2016, 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, 2017 and 2016 was \$0.

7. NOTES PAYABLE

Notes payable consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Great American Financial	\$ 42,752	\$ 111,566
Hewlett-Packard Financial Services Co.	-	70,277
	<u>\$ 42,752</u>	<u>\$ 181,843</u>
 Less Current Maturities	 <u>42,752</u>	 <u>139,091</u>
	<u>\$ -</u>	<u>\$ 42,752</u>
	=====	=====

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 was 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, 2017 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, 2017 and 2016 \$0 and \$509,209, 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, 2017 and 2016, \$0 and \$169,308, respectively, was receivable from vendors.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2017

9. 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.

In May 2009, the Organization entered into an operating lease agreement with the Foundation, see Note 10.

10. 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 21 years remaining. Rent expense for the years ended June 30, 2017 and 2016 was \$1,218,587 and \$1,210,244, 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 the years ended June 30, 2017 and 2016 was \$205,122 and \$288,311, 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, 2017:

Years ending in June 30,	
2018	1,441,736
2019	1,498,484
2020	1,538,157
2021	1,579,021
Thereafter	<u>34,950,562</u>
	\$41,007,960
	=====

11. Concentration of Labor

The Organization's employees, representing approximately 87% and 83% at June 30, 2017 and 2016, 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.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2017

12. 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, 2017 and 2016, employer contributions to the Plan were \$188,142 and \$189,590, 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.

The following provides a reconciliation of benefit obligations, plan assets and funded status related to the defined benefit pension plans as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Change in Benefit Obligation:		
Benefit Obligation at beginning of Year	\$ 66,719,849	\$ 55,807,163
Service Cost	2,516,164	2,413,523
Interest Cost	2,325,496	2,369,005
Employee Contributions	462,165	426,914
Assumption Changes	( 9,767,339)	8,353,730
Actuarial (Gain)/Loss	( 743,101)	( 1,169,684)
Benefits Paid	<u>( 1,619,176)</u>	<u>( 1,480,802)</u>
Benefit Obligation at end of Year	\$ 59,894,058	\$ 66,719,849

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2017

	<u>2017</u>	<u>2016</u>
Change in Plan Assets:		
Fair Value of Plan Assets at beginning of Year	\$ 31,002,112	\$ 30,030,750
Actual Return on Plan Assets	3,086,007	849,915
Employer Contribution	1,486,837	1,180,819
Employee Contributions	462,165	426,914
Expenses	( 134,965)	( 5,484)
Benefits Paid	( 1,619,176)	( 1,480,802)
Fair Value of Plan Assets at end of Year	<u>\$ 34,282,980</u>	<u>\$ 31,002,112</u>
Funded Status:		
Benefit Obligation	\$ ( 59,894,058)	\$ ( 66,719,849)
Fair Value of Plan Assets	<u>34,282,980</u>	<u>31,002,112</u>
Funded Status at end of Year	<u>\$ ( 25,611,078)</u>	<u>\$ ( 35,717,737)</u>

The Organization expects funding for the defined benefit plan during the year ending June 30, 2018 to be approximately \$2,150,336.

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 \$15,520,250 and \$28,580,580 at June 30, 2017 and 2016, respectively.

**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 amount contributed by KRC to CALPERS Retirement Plan for the years ended June 30, 2017 and 2016 was \$473,000 and \$365,000 respectively.

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 following provides a reconciliation of benefit obligations, plan assets and funded status related to the defined benefit pension plans as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Change in Benefit Obligation:		
Benefit Obligation at beginning of Year	\$ 22,113,000	\$ 20,597,000
Service Cost	1,001,000	958,000
Interest Cost	989,000	923,000
Actual (Gain)/Loss	2,962,000	-
Benefits Paid	( 473,000)	( 365,000)
Benefit Obligation at end of Year	<u>\$ 26,592,000</u>	<u>\$ 22,113,000</u>

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2017

	<u>2017</u>	<u>2016</u>
Change in Plan Assets:		
Fair Value of Plan Assets at beginning of Year	\$ -	\$ -
Actual Return on Plan Assets	-	-
Employer Contribution	473,000	365,000
Benefits Paid to Participants	<u>( 473,000)</u>	<u>( 365,000)</u>
Fair Value of Plan Assets at end of Year	\$ - =====	\$ - =====
Funded Status:		
Benefit Obligation	\$ ( 26,592,000)	\$ ( 22,113,000)
Fair Value of Plan Assets	-	-
Funded Status at end of Year	<u>\$ ( 26,592,000)</u> =====	<u>\$ ( 22,113,000)</u> =====

The Organization expects funding for the post-employment plan during the year ending June 30, 2018 to be approximately \$492,000.

The post-employment plan items not yet recognized as a component of periodic plan expenses are unamortized prior service cost and net loss of \$8,315,000 and \$6,380,000 at June 30, 2017 and June 30, 2016, respectively.

**Estimated Future Benefit Payments:**

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

	<u>Defined Benefit Plan</u>	<u>Post Retirement</u>
Years Ending June 30:		
2018	\$ 1,756,600	\$ 492,000
2019	1,844,963	523,000
2020	2,061,715	530,000
2021	2,133,812	592,000
2022	2,190,632	627,000
2023-2027	<u>12,544,743</u>	<u>4,153,000</u>
	\$ 22,532,465 =====	\$ 6,917,000 =====

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2017

**Weighted-Average Assumptions:**

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

Defined Benefit Plan	2017	2016
Benefit Obligations:		
Discount Rate	4.32%	3.57%
Rate of Compensation Increase	4.00%	4.00%
Net Periodic Benefit Cost:		
Discount Rate	3.57%	4.40%
Expected Rate of Return on Plan Assets	7.25%	7.25%
Rate of Compensation Increase	4.00%	4.00%

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

Post Retirement Plan	2017	2016
Post Retirement Obligations:		
Discount Rate	3.91%	4.52%
Rate of Compensation Increase	Not Applicable	Not Applicable
Net Periodic Benefit Cost:		
Discount Rate	4.52%	4.52%
Expected Rate of Return on Plan Assets	Not Applicable	Not Applicable
Rate of Compensation Increase	Not Applicable	Not Applicable

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2017

13. AGENCY TRANSACTIONS-CLIENT TRUST FUNDS

KRC is reporting all activity as KRC activity except when KRC does not have variance power to distribute assets to another beneficiary than as specified by the source of funds provider. These agency transactions, which encompass client Trust Funds, are presented as follows:

Client Trust Funds  
Summary of Financial Position  
June 30, 2017 and 2016

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Cash	\$ 1,251,860	\$ 1,102,014
Client support receivables	<u>113,150</u>	<u>978,110</u>
Total Assets	\$ 1,365,010 =====	\$ 2,080,124 =====
<u>Liabilities &amp; Net Assets</u>		
Restricted Net Assets	<u>1,365,010</u>	<u>2,080,124</u>
Total Liabilities & Restricted Net Assets	\$ 1,365,010 =====	\$ 2,080,124 =====

Client Trust Funds  
Summary of Activities  
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Designated Client Support	\$ 7,091,412	\$ 8,898,099
Total Restricted Support	<u>7,091,412</u>	<u>8,898,099</u>
Money Management Expense	5,827,853	6,344,442
Other Expenses	<u>1,978,673</u>	<u>2,767,499</u>
Total Expenses	<u>7,806,526</u>	<u>9,111,941</u>
Increase (Decrease) in Restricted Net Assets	( 715,114)	( 213,842)
Restricted Net Assets		
Beginning of Year	<u>2,080,124</u>	<u>2,293,966</u>
End of Year	\$ 1,365,010 =====	\$ 2,080,124 =====

14. EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 24, 2018, the date which the financial statements were available to be issued

**SUPPLEMENTAL INFORMATION**

**KERN REGIONAL CENTER**  
**Statement of Functional Expenses**  
**Twelve months ended June 30, 2017**

	Support Services					Operating Expenses		30-Jun-17	30-Jun-16
	Intake & Assessment	Case Management	Program Development	Other Client Services	Special Projects & Grants	Purchase Of Services	Total Program	General and Admin	Total Expenses Summarized
Personnel Expenses:									
1 Salaries	\$ 386,024	\$ 6,508,615	\$ 469,269	\$ 65,086	\$ 574,324	\$ -	\$ 8,003,318	\$ 987,184	\$ 8,552,842
2 Pension expense	145,937	2,460,587	177,407	24,606	217,124	-	3,025,661	373,206	1,826,190
3 Other employee benefit	143,581	2,420,865	174,544	24,208	213,617	-	2,976,815	367,181	3,304,027
4 Payroll Taxes	5,697	96,052	6,925	961	8,476	-	118,111	14,568	124,058
<b>Total Salaries and Related Expenses</b>	<b>681,239</b>	<b>11,486,119</b>	<b>828,145</b>	<b>114,861</b>	<b>1,013,541</b>	<b>-</b>	<b>14,123,905</b>	<b>1,742,139</b>	<b>13,807,117</b>
5 Purchase of services	-	-	-	-	-	149,076,835	149,076,835	-	139,366,609
6 Contracted Services	-	-	-	-	-	-	-	-	-
7 Facility rent	67,082	1,131,039	81,548	11,310	99,803	-	1,390,782	171,549	1,494,722
8 Repairs & maintenance	9,416	158,754	11,446	1,588	14,009	-	195,213	24,079	204,435
9 Bad debt expense	-	-	-	-	-	-	-	-	-
10 Communications	3,931	66,284	4,779	663	5,849	-	81,506	10,054	57,020
11 Contract labor	3,685	62,125	4,479	621	5,482	-	76,392	9,423	85,815
12 Office expense	12,216	205,990	14,850	2,060	18,175	-	253,291	31,244	271,877
13 Data Processing	11,842	199,668	14,396	1,997	17,619	-	245,522	30,284	233,478
14 Depreciation	-	-	-	-	-	-	-	-	-
15 General Insurance	13,564	228,691	16,489	2,287	20,180	-	281,211	34,666	325,315
16 Workers comp insurance	25,749	434,138	31,301	4,341	38,309	-	533,638	65,847	473,106
17 Utilities	8,220	138,594	9,893	1,386	12,230	-	170,423	21,020	195,020
18 Interest	-	-	-	-	-	-	-	-	12,106
19 Legal & accounting	11,084	186,876	13,474	1,869	16,490	-	229,793	28,344	438,584
20 General expense	32,982	556,090	40,094	5,561	49,070	-	683,797	84,344	318,101
21 Travel	9,811	165,423	11,927	1,654	14,597	-	203,412	25,089	273,203
22 Equipment purchased	5,504	92,808	6,691	927	8,190	-	114,120	14,073	482,565
<b>Total Expenses</b>	<b>\$ 896,325</b>	<b>\$ 15,112,599</b>	<b>\$ 1,089,612</b>	<b>\$ 151,125</b>	<b>\$ 1,333,544</b>	<b>\$ 149,076,835</b>	<b>\$ 167,660,040</b>	<b>\$ 2,292,175</b>	<b>\$ 158,062,069</b>

See Notes to Financial Statements

# ROLAND ROOS & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S 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

To the Board of Directors  
KERN Regional CENTER  
Fresno, 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 ("KRC", a non-profit public benefit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2018.

### **Internal Control over Financial Reporting**

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

### **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Roll Ross and Company*

Fresno, California  
January 24, 2018