

KERN REGIONAL CENTER

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

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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, 2019 and June 30, 2018, and the related statements of activities, cash flows, and functional expenses 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.

### ***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, 2019 and 2018, 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2020, 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.

Fresno, California  
February 17, 2020

*Rae Row and Company*

KERN REGIONAL CENTER  
Statement of Financial Position  
June 30, 2019 and 2018

ASSETS	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 8,418,137	\$ 4,858,400
Receivable - ICF Providers	1,174,430	1,554,393
Other Receivables	65,150	76,908
Prepaid Expenses	129,549	432,292
State Reimbursement Claims Receivables, Net	4,960,693	-
Due from Client Trust Accounts	<u>1,254,303</u>	<u>654,659</u>
Current Assets	<u>16,002,262</u>	<u>7,567,652</u>
Property and Equipment, Net	<u>2,113,042</u>	<u>1,946,473</u>
Deposits	17,330	17,330
Accrued Vacation/Sick Pay	1,015,325	895,434
Net Projected Pension Plan -		
Benefit Obligation	28,125,418	21,050,215
Current Year Employer Contributions	1,990,209	2,363,233
Net Accumulated Postretirement Health -		
Benefit Obligation	<u>26,592,000</u>	<u>26,592,000</u>
Noncurrent Assets	<u>57,740,282</u>	<u>50,918,212</u>
Total Assets	\$75,855,586 =====	\$60,432,337 =====

See Accompanying Notes to Financial Statements

KERN REGIONAL CENTER  
Statement of Financial Position  
June 30, 2019 and 2018

<u>LIABILITIES AND NET ASSETS</u>	<u>2019</u>	<u>2018</u>
Accounts Payable	\$17,565,370	\$ 7,337,823
State Reimbursement Claims Payable, Net	-	1,981,271
Payable to DDS - ICF Providers	247,826	247,826
Accrued Expenses	<u>666,461</u>	<u>851,150</u>
Current Liabilities	<u>18,479,657</u>	<u>10,418,070</u>
Reserve for Investment in Equipment	2,113,042	1,946,473
Accrued Vacation and Sick Pay	1,015,325	895,435
Net Projected Pension Plan - Benefit Obligation	28,125,418	21,050,215
Net Accumulated Postretirement Health - Benefit Obligation	<u>26,100,000</u>	<u>26,100,000</u>
Non-Current Liabilities	<u>57,353,785</u>	<u>49,992,123</u>
Total Liabilities	75,833,442	60,410,193
Total Net assets Without Donor Restrictions	<u>22,144</u>	<u>22,144</u>
Total Liabilities and Net Assets	<u>\$75,855,586</u> =====	<u>\$60,432,337</u> =====

See Accompanying Notes to Financial Statements

KERN REGIONAL CENTER  
Statement of Activities  
Twelve months ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>SUPPORT</b>		
Reimbursement From State of California	\$206,461,270	\$171,710,289
Interest Income	116,237	75,170
Other Income	<u>90,445</u>	<u>25,464</u>
Total Unrestricted Support	<u>206,667,952</u>	<u>171,810,923</u>
<b>EXPENSES</b>		
Program Services:		
Out of Home	42,196,748	33,543,069
Day Programs	34,833,012	28,122,892
Other Services	<u>103,334,788</u>	<u>85,691,815</u>
Total Program Services	<u>180,364,548</u>	<u>147,357,776</u>
Support Services:		
Case Management	21,240,782	17,093,611
CPP	1,074,119	839,015
Community Services	940,600	-
Grants and Special Projects	<u>217,462</u>	<u>107,777</u>
Total Support Services	<u>23,472,963</u>	<u>18,040,403</u>
Operating Expenses:		
General and Administrative	<u>2,830,441</u>	<u>6,412,744</u>
Total Expenses	<u>206,667,952</u>	<u>171,810,923</u>
Change in Net Assets without Donor Restrictions	-	-
Net Assets, Beginning of the Year	<u>22,144</u>	<u>22,144</u>
Net Assets, End of Year	\$ <u>22,144</u> =====	\$ <u>22,144</u> =====

See Accompanying Notes to Financial Statements

KERN REGIONAL CENTER  
Statement of Cash Flows  
Twelve months ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	-	-
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
(Increase) Decrease in:		
State Reimbursement Claims	( 6,941,964)	902,860
Receivable - ICF Providers	379,961	( 358,680)
Other Receivables	11,760	( 9,907)
Deposit	-	( 980)
Prepaid Expenses and Deposits	293,743	86,327
Due from Client Trust Accounts	( 599,644)	( 310,191)
Current Year Retirement Payment	373,024	( 661,140)
Increase (Decrease) in:		
Accounts Payable	10,227,546	( 5,709,991)
Payable to DDS -ICF Providers	-	( 5,164)
Accrued Expenses	<u>( 184,689)</u>	<u>3,909</u>
Net Cash Provided by (Used In) Operating Activities	<u>3,559,737</u>	<u>(6,062,957)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Long-Term Debt	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,559,737	( 6,062,957)
Cash and Cash Equivalents at Beginning of Year	<u>4,858,400</u>	<u>10,921,357</u>
Cash and Cash Equivalents at End of Year	<u>\$ 8,418,137</u> =====	<u>\$ 4,858,400</u> =====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash Paid During the Year For:		
Interest Expense	\$ - =====	\$ - =====

See Accompanying Notes to Financial Statements



**KERN REGIONAL CENTER**  
**Statement of Functional Expenses**  
**Twelve months ended June 30, 2019**

	Support Services				Total Program & Support	Operating Expenses		30-Jun-19	30-Jun-18
	Case Management	CPP	Community Services	Special Projects & Grants		Program Services	General and Admin	Total Expenses	Total Expenses Summarized
Personnel Expenses:									
1 Salaries	\$ 7,575,118	\$ 383,065	\$ 335,447	\$ 77,554	\$ -	\$ 8,371,184	\$ 1,009,422	\$ 9,380,606	\$ 9,175,707
2 Pension expense	5,298,686	267,948	234,640	54,248	-	5,855,522	706,076	6,561,598	4,352,147
3 Other employee benefit	3,499,056	176,943	154,948	35,823	-	3,866,770	466,267	4,333,037	3,846,680
4 Payroll Taxes	126,822	6,413	5,616	1,298	-	140,149	16,900	157,049	172,146
Total Salaries and Related Expenses	16,499,682	834,369	730,651	168,923	-	18,233,625	2,198,665	20,432,290	17,546,680
5 Purchase of services	-	-	-	-	180,364,548	180,364,548	-	180,364,548	147,357,776
6 Contracted Services	-	-	-	-	-	-	-	-	-
7 Facility rent	1,319,609	66,731	58,436	13,510	-	1,458,286	175,845	1,634,131	1,554,575
8 Repairs & maintenance	268,503	13,578	11,890	2,749	-	296,720	35,779	332,499	357,939
9 Bad debt expense	-	-	-	-	-	-	-	-	-
10 Communications	68,281	3,453	3,024	699	-	75,457	9,099	84,556	80,439
11 Contract labor	212,196	10,730	9,397	2,172	-	234,495	28,276	262,771	431,327
12 Office expense	196,152	9,917	8,686	2,008	-	216,763	26,138	242,901	251,021
13 Data Processing	391,752	19,810	17,348	4,011	-	432,921	52,203	485,124	464,156
14 Depreciation	-	-	-	-	-	-	-	-	-
15 General Insurance	289,503	14,640	12,820	2,964	-	319,927	38,578	358,505	325,857
16 Workers comp insurance	479,198	24,232	21,220	4,906	-	529,556	63,856	593,412	573,126
17 Utilities	175,852	8,893	7,787	1,800	-	194,332	23,433	217,765	184,594
18 Interest	-	-	-	-	-	-	-	-	-
19 Legal & accounting	304,905	15,419	13,502	3,122	-	336,948	40,630	377,578	154,088
20 General expense	613,987	31,049	27,189	6,286	-	678,511	81,817	760,328	1,798,959
21 Travel	284,149	14,369	12,583	2,909	-	314,010	37,864	351,874	339,733
22 Equipment purchased	137,013	6,929	6,067	1,403	-	151,412	18,258	169,670	390,653
Total Expenses	\$ 21,240,782	\$ 1,074,119	\$ 940,600	\$ 217,462	\$ 180,364,548	\$ 203,837,511	\$ 2,830,441	\$ 206,667,952	\$ 171,810,923

See Notes to Financial Statements

KERN REGIONAL CENTER  
Notes to Financial Statements  
June 30, 2019

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 of the Organization have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations" (the "Guide"). (ASC) 958-205 was effective January 1, 2018.

Under the provisions of the Guide, net assets and revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Non-Profit Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

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, 2019.

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, 2019 and 2018. 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 was not depreciated for the year ended June 30, 2019 and 2018, respectively.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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, 2019 and 2018 was \$1,015,325 and \$895,435, respectively.

Reclassifications

Certain reclassifications have been made to the June 30, 2018 financial statements in order to conform to the June 30, 2019 presentation.

Income Taxes

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.

Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Such expenses are charged to grant programs and supporting services on the basis of program costs. General and administrative costs include those expenses that are not directly identifiable with any specific program but provide for the overall support of the Organization. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

Salaries and benefits are charged directly to the program for which work has been done based on time and effort. Other expenses and overhead costs are based on staff allocation to functional areas.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2019

2. CASH AND CASH EQUIVALENTS

Cash accounts at June 30, 2019 and 2018 included the following:

	<u>2019</u>	<u>2018</u>
Petty Cash	\$ 1,100	\$ 1,100
General Checking Account	8,104,026	4,707,745
Payroll Checking Account	<u>313,011</u>	<u>149,555</u>
Cash and Cash Equivalents	<u>\$ 8,418,137</u>	<u>\$ 4,858,400</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, 2019, deposits at this institution exceeded the \$250,000 limit by \$8,168,137.

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, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Contract Reimbursement Billing – Current Contract	\$ 11,208,891	\$ 5,918,511
Contractual Receivable – Prior Years	3,133,783	2,439,925
Less: Outstanding Cash Advanced by DDS	<u>( 9,381,981)</u>	<u>( 10,339,707)</u>
Net Due/ (Payable) From – DDS	<u>\$ 4,960,693</u>	<u>\$ ( 1,981,271)</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 \$150,079,134, with subsequent amendments for an increased funding of \$188,742,543.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2019

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Receivable balance	\$ 283,054	\$ 283,054
Amount Remitted by Vendors	( 3,733)	( 3,733)
Amount Credited by DDS	-	-
Receivable – ICF providers, retro	\$ 279,321	\$ 279,321
	=====	=====
Payable to DDS – ICF Providers	247,826	247,826
Administrative fee recognized	( 34,891)	( 52,003)
Due to DDS	\$ 212,935	\$ 195,823
	=====	=====

**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, 2019 and 2018, amounts due from vendors are as follows:

	<u>2019</u>	<u>2018</u>
Beginning Balance	\$ 1,275,072	\$ 916,392
Timing Difference	( 19,610)	6,632
Amounts Remitted by Vendors	( 4,147,970)	( 3,495,001)
Amount Credited by DDS	3,787,619	3,847,050
Receivable – ICF providers, go forward	\$ 895,111	\$ 1,275,073
	=====	=====

The ICF receivables of \$1,174,432 and \$1,554,394 and payables of \$212,935 and \$195,823 are on the statements of financial position at June 30, 2019 and 2018.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2019

6. LINE OF CREDIT

The Organization entered into a line of credit agreement for a total commitment of \$15,000,000 at June 30, 2019 and 2018, 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, 2019 and 2018 was \$0.

7. 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, 2019 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.

8. 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.

In May 2009, the Organization entered into an operating lease agreement with the Foundation, see Note 9.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2019

9. 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 19 years remaining. Rent expense for the years ended June 30, 2019 and 2018 was \$1,322,466 and \$1,319,256, 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 but may be renewed. Rent expense for the years ended June 30, 2019 and 2018 was \$182,878 and \$182,920, 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, 2019:

Years ending in June 30,	
2020	1,557,267
2021	1,432,788
2022	1,471,354
2023	1,508,016
Thereafter	<u>45,302,760</u>
	<u>\$51,272,185</u>
	=====

10. CONCENTRATION OF LABOR

The Organization's employees, representing approximately 90% and 90% at June 30, 2019 and 2018, 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, 2019

11. 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.

**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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Change in Benefit Obligation:		
Benefit Obligation at beginning of Year	\$ 58,356,770	\$ 59,894,058
Service Cost	-	2,450,042
Interest Cost	2,565,997	2,610,930
Employee Contributions	41,305	505,974
Curtailment	-	( 5,530,778)
Assumption Changes	8,647,663	( 1,150,239)
Actuarial (Gain)/Loss	1,277,082	1,377,896
Benefits Paid	<u>( 2,124,880)</u>	<u>( 1,801,113)</u>
Benefit Obligation at end of Year	\$ <u>68,763,937</u>	\$ <u>58,356,770</u>
	=====	=====

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2019

	<u>2019</u>	<u>2018</u>
Change in Plan Assets:		
Fair Value of Plan Assets at beginning of Year	\$ 37,306,555	\$ 34,282,980
Actual Return on Plan Assets	2,935,342	2,322,496
Employer Contribution	2,658,103	2,150,336
Employee Contributions	41,305	505,974
Expenses	( 177,906)	( 154,118)
Benefits Paid	<u>( 2,124,880)</u>	<u>( 1,801,113)</u>
Fair Value of Plan Assets at end of Year	\$ <u>40,638,519</u>	\$ <u>37,306,555</u>
	=====	=====
Funded Status:		
Benefit Obligation	\$ ( 68,763,937)	\$ ( 58,356,770)
Fair Value of Plan Assets	<u>40,638,519</u>	<u>37,306,555</u>
Funded Status at end of Year	\$ ( <u>28,125,418</u> )	\$ ( <u>21,050,215</u> )
	=====	=====

The Organization expects funding for the defined benefit plan during the year ending June 30, 2020 to be approximately \$1,990,209.

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 \$19,108,034 and \$9,654,586 at June 30, 2019 and 2018, respectively.

**Post-Employment Benefits:**

The report uses prior year information because actuarial valuation report was not available presently. 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	<u>( 473,000)</u>	<u>( 365,000)</u>
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, 2019

	<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	<u>-</u>	<u>-</u>
Funded Status at end of Year	\$ ( 26,592,000) =====	\$ ( 22,113,000) =====

The Organization expects funding for the post-employment plan during the year ending June 30, 2020 to be approximately \$530,000.

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>
Years Ending June 30:	
2020	\$ 2,298,112
2021	2,374,836
2022	2,435,000
2023	2,551,416
2024	2,577,864
2025-2029	<u>14,297,896</u>
	\$ 26,535,124 =====
	<u>Post Retirement</u>
Years Ending June 30:	
2020	\$ 530,000
2021	592,000
2022	627,000
2023-2027	<u>4,153,000</u>
	\$ 5,902,000 =====

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2019

**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	2019	2018
Benefit Obligations:		
Discount Rate	3.54%	4.38%
Rate of Compensation Increase	4.00%	4.00%
Net Periodic Benefit Cost:		
Discount Rate	4.38%	4.32%
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

12. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the KRC's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations. There are no amounts reduced and not available for general use because of donor-imposed restrictions or long-term investments.

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 8,418,137	\$ 4,858,400
Receivable, net	6,200,273	1,631,301
Prepaid Expenses	129,549	432,292
Due from Client Trust Accounts	<u>1,254,303</u>	<u>654,659</u>
Cash and Cash Equivalents	\$ 16,002,262	\$ 7,567,652
	=====	=====

In addition, the Organization has a line of credit available to meet cash flow needs for general expenditures.

KERN REGIONAL CENTER  
Notes to Financial Statements - continued  
June 30, 2019

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, 2019 and 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Cash	\$ 1,503,711	\$ 1,344,868
Client support receivables	<u>80,185</u>	<u>99,207</u>
Total Assets	\$ 1,583,896 =====	\$ 1,444,075 =====
 <u>Liabilities &amp; Net Assets</u>		
Restricted Net Assets	<u>1,583,896</u>	<u>1,444,075</u>
Total Liabilities & Restricted Net Assets	\$ 1,583,896 =====	\$ 1,444,075 =====

Client Trust Funds  
Summary of Activities  
June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Designated Client Support	\$ 8,080,352	\$ 7,792,565
Total Restricted Support	<u>8,080,352</u>	<u>7,792,565</u>
Money Management Expense	5,545,102	5,642,801
Other Expenses	<u>2,395,429</u>	<u>2,070,699</u>
Total Expenses	<u>7,940,531</u>	<u>7,713,500</u>
Increase (Decrease) in Restricted Net Assets	139,821	79,065
Restricted Net Assets		
Beginning of Year	<u>1,444,075</u>	<u>1,365,010</u>
End of Year	\$ 1,583,896 =====	\$ 1,444,075 =====

14. EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 17, 2020, the date which the financial statements were available to be issued

# ROLAND ROOS & COMPANY

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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, 2019, 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 February 17, 2020.

#### **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.

*Ruell Ross and Company*

Fresno, California  
February 17, 2020