

KERN REGIONAL CENTER

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
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, 2020 and June 30, 2019, 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, 2020 and 2019, 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 March 10, 2021, 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.

Roos & McNabb CPA's PC

Fresno, California
March 10, 2021

KERN REGIONAL CENTER
Statement of Financial Position
June 30, 2020 and 2019

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 8,539,258	\$ 8,418,137
Receivable - ICF Providers	1,068,146	1,174,430
Other Receivables	65,348	65,150
Prepaid Expenses	468	129,549
State Reimbursement Claims Receivables, Net	--	4,960,693
Due from Client Trust Accounts	<u>1,255,375</u>	<u>1,254,303</u>
Current Assets	<u>10,928,595</u>	<u>16,002,262</u>
Property and Equipment, Net	<u>2,122,366</u>	<u>2,113,042</u>
Deposits	17,330	17,330
Accrued Vacation/Sick Pay	1,101,952	1,015,325
Net Projected Pension Plan -		
Benefit Obligation	31,799,270	28,125,418
Current Year Employer Contributions	2,310,581	1,990,209
Net Accumulated Postretirement Health -		
Benefit Obligation	<u>23,151,000</u>	<u>26,592,000</u>
Noncurrent Assets	<u>58,380,133</u>	<u>57,740,282</u>
Total Assets	\$71,431,094 =====	\$75,855,586 =====

See Accompanying Notes to Financial Statements

KERN REGIONAL CENTER
Statement of Financial Position
June 30, 2020 and 2019

<u>LIABILITIES AND NET ASSETS</u>	<u>2020</u>	<u>2019</u>
Accounts Payable	\$ 2,275,161	\$17,565,370
State Reimbursement Claims Payable, Net	10,537,074	--
Payable to DDS - ICF Providers	247,826	247,826
Accrued Expenses	<u>174,301</u>	<u>666,461</u>
Current Liabilities	<u>13,234,362</u>	<u>18,479,657</u>
Reserve for Investment in Equipment	2,122,366	2,113,042
Accrued Vacation and Sick Pay	1,101,952	1,015,325
Net Projected Pension Plan - Benefit Obligation	31,799,270	28,125,418
Net Accumulated Postretirement Health - Benefit Obligation	<u>23,151,000</u>	<u>26,100,000</u>
Non-Current Liabilities	<u>58,174,588</u>	<u>57,353,785</u>
Total Liabilities	71,408,950	75,833,442
Total Net assets Without Donor Restrictions	<u>22,144</u>	<u>22,144</u>
Total Liabilities and Net Assets	\$71,431,094 =====	\$75,855,586 =====

See Accompanying Notes to Financial Statements

KERN REGIONAL CENTER
Statement of Activities
Twelve months ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
SUPPORT		
Reimbursement from State of California	\$201,226,047	\$206,461,270
Interest Income	103,544	116,237
Other Income	<u>41,416</u>	<u>90,445</u>
Total Unrestricted Support	<u>201,371,007</u>	<u>206,667,952</u>
EXPENSES		
Program Services:		
Out of Home	44,938,935	42,196,748
Day Programs	34,427,130	34,833,012
Other Services	<u>96,608,084</u>	<u>103,334,788</u>
Total Program Services	<u>175,974,149</u>	<u>180,364,548</u>
Support Services:		
Case Management	20,851,722	21,240,782
CPP	1,474,377	1,074,119
Community Services	119,900	940,600
Grants and Special Projects	<u>124,585</u>	<u>217,462</u>
Total Support Services	<u>22,570,584</u>	<u>23,472,963</u>
Operating Expenses:		
General and Administrative	<u>2,826,274</u>	<u>2,830,441</u>
Total Expenses	<u>201,371,007</u>	<u>206,667,952</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	\$ 22,144 =====	\$ 22,144 =====

See Accompanying Notes to Financial Statements

KERN REGIONAL CENTER
Statement of Cash Flows
Twelve months ended June 30, 2020 and 2019

CASH FLOWS FROM OPERATING ACTIVITIES	<u>2020</u>	<u>2019</u>
Change in Net Assets	-	-
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
(Increase) Decrease in:		
State Reimbursement Claims	\$15,497,767	\$(6,941,964)
Receivable - ICF Providers	106,286	379,961
Other Receivables	(200)	11,760
Prepaid Expenses and Deposits	129,081	293,743
Due from Client Trust Accounts	(1,072)	(599,644)
Current Year Retirement Payment	(320,372)	373,024
Increase (Decrease) in:		
Accounts Payable	(15,290,209)	10,227,546
Payable to DDS -ICF Providers	-	-
Accrued Expenses	<u>(160)</u>	<u>(184,689)</u>
Net Cash Provided by (Used In) Operating Activities	<u>121,121</u>	<u>3,559,737</u>
Net Increase (Decrease) in Cash and Cash Equivalents	121,121	3,559,737
Cash and Cash Equivalents at Beginning of Year	<u>8,418,137</u>	<u>4,858,400</u>
Cash and Cash Equivalents at End of Year	\$ 8,539,258 =====	\$ 8,418,137 =====
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, 2020

	<u>Support Services</u>						<u>Operating Expenses</u>	<u>30-Jun-20</u>	<u>30-Jun-19</u>
	<u>Case Management</u>	<u>CPP</u>	<u>Community Services</u>	<u>Special Projects & Grants</u>	<u>Program Services</u>		<u>Total Program & Support</u>	<u>General and Admin</u>	<u>Total Expenses</u>
Personnel Expenses:									
1 Salaries	\$ 8,438,608	\$ 596,675	\$ 48,524	\$ 50,419	\$ -	\$ 9,134,226	\$ 1,143,782	\$ 10,278,008	\$ 9,380,606
2 Pension expense	4,856,929	343,423	27,928	29,019	-	5,257,299	658,316	5,915,615	6,561,598
3 Other employee benefit	3,074,864	217,417	17,681	18,372	-	3,328,334	416,772	3,745,106	4,333,037
4 Payroll Taxes	132,465	9,366	762	791	-	143,384	17,955	161,339	157,049
Total Salaries and Related Expenses	16,502,866	1,166,881	94,895	98,601	-	17,863,243	2,236,825	20,100,068	20,432,290
5 Purchase of services	-	-	-	-	175,974,149	175,974,149	-	175,974,149	180,364,548
6 Contracted Services	-	-	-	-	-	-	-	-	-
7 Facility rent	1,375,407	97,252	7,909	8,218	-	1,488,786	186,425	1,675,211	1,634,131
8 Repairs & maintenance	232,795	16,460	1,339	1,391	-	251,985	31,553	283,538	332,499
9 Bad debt expense	-	-	-	-	-	-	-	-	-
10 Communications	74,013	5,233	426	442	-	80,114	10,032	90,146	84,556
11 Contract labor	103,387	7,310	594	618	-	111,909	14,013	125,922	262,771
12 Office expense	224,405	15,867	1,290	1,341	-	242,903	30,416	273,319	242,901
13 Data Processing	372,891	26,366	2,144	2,228	-	403,629	50,542	454,171	485,124
14 Depreciation	-	-	-	-	-	-	-	-	-
15 General Insurance	266,820	18,866	1,534	1,594	-	288,814	36,165	324,979	358,505
16 Workers comp insurance	186,094	13,158	1,070	1,112	-	201,434	25,223	226,657	593,412
17 Utilities	169,247	11,967	973	1,011	-	183,198	22,940	206,138	217,765
18 Interest	-	-	-	-	-	-	-	-	-
19 Legal & accounting	308,056	21,782	1,771	1,841	-	333,450	41,754	375,204	377,578
20 General expense	733,765	51,883	4,219	4,384	-	794,251	99,456	893,707	760,328
21 Travel	239,988	16,969	1,380	1,434	-	259,771	32,528	292,299	351,874
22 Equipment purchased	61,988	4,383	356	370	-	67,097	8,402	75,499	169,670
Total Expenses	<u>\$ 20,851,722</u>	<u>\$ 1,474,377</u>	<u>\$ 119,900</u>	<u>\$ 124,585</u>	<u>\$ 175,974,149</u>	<u>\$ 198,544,733</u>	<u>\$ 2,826,274</u>	<u>\$ 201,371,007</u>	<u>\$ 206,667,952</u>

See Notes to Financial Statements

KERN REGIONAL CENTER
Notes to Financial Statements
June 30, 2020

1. ORGANIZATION AND NATURE OF ACTIVITIES

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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.

Basis of Presentation

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.

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

KERN REGIONAL CENTER
Notes to Financial Statements - continued
June 30, 2020

2. 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 Lanterman Act. Maximum expenditures under the contract are limited to contract amount plus interest earned and other income. 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 on June 30, 2020.

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 on June 30, 2020 and 2019. 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, 2020 and 2019, respectively.

KERN REGIONAL CENTER
Notes to Financial Statements - continued
June 30, 2020

2. 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 on June 30, 2020 and 2019 was \$1,101,952 and \$1,015,325, respectively.

Reclassifications

Certain reclassifications have been made to the June 30, 2019 financial statements in order to conform to the June 30, 2020 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, 2020

3. CASH AND CASH EQUIVALENTS

Cash accounts on June 30, 2020 and 2019 included the following:

	<u>2020</u>	<u>2019</u>
Petty Cash	\$ 1,100	\$ 1,100
General Checking Account	8,543,456	8,104,026
Payroll Checking Account	<u>(5,298)</u>	<u>313,011</u>
Cash and Cash Equivalents	\$ 8,539,258	\$ 8,418,137
	=====	=====

4. 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. On June 30, 2020, deposits at this institution exceeded the \$250,000 limit by \$8,289,258.

5. 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 on June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Contract Reimbursement Billing – Current Contract	\$ 37,678,625	\$ 11,208,891
Contractual Receivable – Prior Years	17,193,051	3,133,783
Less: Outstanding Cash Advanced by DDS	<u>(65,408,750)</u>	<u>(9,381,981)</u>
Net Due/ (Payable) From – DDS	\$ (10,537,074)	\$ 4,960,693
	=====	=====

The Organization has renewed its contract with the State through the fiscal year ending June 30, 2021. The State contract provides initial funding of \$161,219,399, with subsequent amendments for an increased funding of \$222,203,436.

KERN REGIONAL CENTER
Notes to Financial Statements - continued
June 30, 2020

6. 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Receivable balance	\$ 283,054	\$ 283,054
Amount Remitted by Vendors	(3,733)	(3,733)
Amount Credited by DDS	<u>-</u>	<u>-</u>
Receivable – ICF providers, retro	\$ 279,321	\$ 279,321
	=====	=====
Payable to DDS – ICF Providers	\$ 247,826	\$ 247,826
	=====	=====

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, 2020 and 2019, amounts due from vendors are as follows:

	<u>2020</u>	<u>2019</u>
Beginning Balance	\$ 895,111	\$ 1,275,072
Timing Difference	(199,483)	15,281
Amounts Remitted by Vendors	(3,633,221)	(4,147,970)
Amount Credited by DDS	3,777,411	3,787,619
Administrative Fee Recognized	<u>(50,993)</u>	<u>(34,891)</u>
Receivable – ICF providers, go forward	\$ 788,825	\$ 895,111
	=====	=====

The ICF receivables of \$1,068,146 and \$1,174,432 and payable of \$247,826 are on the statements of financial position on June 30, 2020 and 2019.

KERN REGIONAL CENTER
Notes to Financial Statements - continued
June 30, 2020

7. LINE OF CREDIT

The Organization obtained a line of credit agreement for a total commitment of \$15,000,000 to ensure no disruption in meeting cash requirement needs of its daily operations. The line of credit is collateralized by all of the Organization's assets, including rights to payment under the DDS contract. The line of credit bears interest at the bank's reference rate plus 5%. The balance outstanding on June 30, 2020 and 2019 was \$0.

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 \$2,849,535 of findings/unallowable costs is due to DDS. The audit was closed in August, 2018. The effect of the disallowed costs would be immaterial to the financial statements on June 30, 2020 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.

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.

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

KERN REGIONAL CENTER
Notes to Financial Statements - continued
June 30, 2020

10. COMMITMENTS AND CONTINGENCIES

Operating Leases:

The Organization leases from the Foundation two offices in Bakersfield, California to house its operations. These leases had an original term of 30 years with 18 years remaining. The first amendment to the office lease was effective July 25, 2019 and the original term is extended until December 31, 2049. Rent expense for the years ended June 30, 2020 and 2019 was \$1,375,908 and \$1,322,466, respectively.

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, 2020 and 2019 was \$220,422 and \$182,878, 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, 2020:

Years ending in June 30,	
2021	\$ 1,237,410
2022	1,262,158
2023	1,287,401
2024	1,313,149
2025	1,339,412
Thereafter	<u>42,650,199</u>
	\$49,089,729
	=====

11. CONCENTRATION OF LABOR

The Organization's employees, representing approximately 90% on June 30, 2020 and 2019, respectively, are covered by a collective bargaining agreement with the Social Services Union Local 521, Service Employees International Union, AFL-CIO-CCL. The Organization's current collective bargaining covers the period 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, 2020

12. PENSION PLANS

403(b) Plan:

Participating employees are allowed to make contributions of their gross wages through payroll deductions, pursuant to certain Internal Revenue Code limitations. No employer match.

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. No further contributions are allowed.

401(a) Defined Contribution Plan:

All employees make contributions from their gross wages of 6.2%. The employer provides a 3% matching contribution.

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Change in Benefit Obligation:		
Benefit Obligation at beginning of Year	\$ 68,763,937	\$ 58,356,770
Service Cost	-	-
Interest Cost	2,393,567	2,565,997
Employee Contributions	-	41,305
Assumption Changes	5,916,163	8,647,663
Actuarial (Gain)/Loss	(435,097)	1,277,082
Benefits Paid	<u>(2,225,304)</u>	<u>(2,124,880)</u>
Benefit Obligation at end of Year	\$ 74,413,266 =====	\$ 68,763,937 =====

KERN REGIONAL CENTER
Notes to Financial Statements - continued
June 30, 2020

	<u>2020</u>	<u>2019</u>
Change in Plan Assets:		
Fair Value of Plan Assets at beginning of Year	\$ 40,638,519	\$ 37,306,555
Actual Return on Plan Assets	2,436,420	2,935,342
Employer Contribution	1,954,848	2,658,103
Employee Contributions	-	41,305
Expenses	(190,487)	(177,906)
Benefits Paid	<u>(2,225,304)</u>	<u>(2,124,880)</u>
Fair Value of Plan Assets at end of Year	\$ 42,613,996 =====	\$ 40,638,519 =====
Funded Status:		
Benefit Obligation	\$ (74,413,266)	\$ (68,763,937)
Fair Value of Plan Assets	<u>42,613,996</u>	<u>40,638,519</u>
Funded Status at end of Year	\$ (31,799,270) =====	\$ (28,125,418) =====

The Organization expects funding for the defined benefit plan during the year ending June 30, 2021 to be approximately \$2,310,581. Employee contributions have been discontinued.

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 \$24,209,099 and \$19,108,034 on June 30, 2020 and 2019, respectively. No further contributions are allowed.

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, 2019 and 2018 was \$570,000 and \$492,000, 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Change in Benefit Obligation:		
Benefit Obligation at beginning of Year	\$ 28,382,000	\$ 26,592,000
Service Cost	1,301,000	1,252,000
Interest Cost	1,099,000	1,030,000
Actual (Gain)/Loss	(7,061,000)	-
Benefits Paid	<u>(570,000)</u>	<u>(492,000)</u>
Benefit Obligation at end of Year	\$ 23,151,000 =====	\$ 28,382,000 =====

KERN REGIONAL CENTER
Notes to Financial Statements - continued
June 30, 2020

	<u>2019</u>	<u>2018</u>
Change in Plan Assets:		
Fair Value of Plan Assets at beginning of Year	\$ -	\$ -
Actual Return on Plan Assets	-	-
Employer Contribution	570,000	492,000
Benefits Paid to Participants	<u>(570,000)</u>	<u>(492,000)</u>
Fair Value of Plan Assets at end of Year	\$ - =====	\$ - =====
Funded Status:		
Benefit Obligation	\$ (23,151,000)	\$ (28,382,000)
Fair Value of Plan Assets	<u>-</u>	<u>-</u>
Funded Status at end of Year	\$ (23,151,000) =====	\$ (28,382,000) =====

The Organization expects funding for the post-employment plan during the year ending June 30, 2021 to be approximately \$663,000.

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, 2019 and June 30, 2018, 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:	
2021	\$ 2,413,707
2022	2,447,163
2023	2,519,305
2024	2,546,583
2025	2,621,195
2026-2030	<u>14,338,647</u>
	\$ 24,265,405 =====
	<u>Post Retirement</u>
Years Ending June 30:	
2021	\$ 663,000
2022	656,000
2023	690,000
2024	767,000
2025-2029	<u>4,808,000</u>
	\$ 7,584,000 =====

KERN REGIONAL CENTER
Notes to Financial Statements - continued
June 30, 2020

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	2020
Benefit Obligations:		
Discount Rate	3.54%	2.91%
Rate of Compensation Increase	4.00%	4.00%
Net Periodic Benefit Cost:		
Discount Rate	4.38%	3.54%
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	2018	2019
Post Retirement Obligations:		
Discount Rate	3.91%	3.46%
Rate of Compensation Increase	Not Applicable	Not Applicable
Net Periodic Benefit Cost:		
Discount Rate	3.91%	3.46%
Expected Rate of Return on Plan Assets	Not Applicable	Not Applicable
Rate of Compensation Increase	Not Applicable	Not Applicable

13. 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>2019</u>
Cash and Cash Equivalents	\$ 8,539,258	\$ 8,418,137
Receivable, net	1,133,494	6,200,273
Prepaid Expenses	468	129,549
Due from Client Trust Accounts	<u>1,255,375</u>	<u>1,254,303</u>
Cash and Cash Equivalents	<u>\$ 10,928,595</u>	<u>\$ 16,002,262</u>
	=====	=====

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, 2020

14. 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, 2020 and 2019

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Cash	\$ 117,649	\$ 1,503,711
Client support receivables	<u>4,012,636</u>	<u>80,185</u>
Total Assets	\$ <u>4,130,285</u>	\$ <u>1,583,896</u>
	=====	=====
<u>Liabilities & Net Assets</u>		
Restricted Net Assets	<u>4,130,285</u>	<u>1,583,896</u>
Total Liabilities & Restricted Net Assets	\$ <u>4,130,285</u>	\$ <u>1,583,896</u>
	=====	=====

Client Trust Funds
Summary of Activities
June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Designated Client Support	<u>\$ 4,978,930</u>	<u>\$ 8,080,352</u>
Total Restricted Support	<u>4,978,930</u>	<u>8,080,352</u>
Money Management Expense	2,521,199	5,545,102
Other Expenses	<u>(88,658)</u>	<u>2,395,429</u>
Total Expenses	<u>2,432,541</u>	<u>7,940,531</u>
Increase (Decrease) in Restricted Net Assets	2,546,389	139,821
Restricted Net Assets		
Beginning of Year	<u>1,583,896</u>	<u>1,444,075</u>
End of Year	\$ <u>4,130,285</u>	\$ <u>1,583,896</u>
	=====	=====

Disclaimer: The numbers displayed above include a system error which is overestimating Clients Support Receivables for Fiscal Year 2019/2020. Kern Regional Center is working in collaboration with the Department of Development Services to fix the issue.

15. EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 10, 2021, the date which the financial statements were available to be issued



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

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, 2020, 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 March 10, 2021.

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.

Roos & McNabb CPA's PC

Fresno, California
March 10, 2021