KERN REGIONAL CENTER

(A California Nonprofit Organization)

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2023

WITH SUMMARIZED INFORMATION FOR THE

YEAR ENDED JUNE 30, 2022

FARBER HASS HURLEY LLP
CERTIFIED PUBLIC ACCOUNTANTS

TABLE OF CONTENTS

FARBER HASS HURLEY LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Management of
Kern Regional Center

Opinion

We have audited the accompanying financial statements of Kern Regional Center (a nonprofit organization) (the "Organization"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

9301 Oakdale Avenue, Suite 230 Chatsworth, CA 91311
P 818-895-1943 **F** 818-727-7700
fhhcpas.com

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Kern Regional Center's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 14, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 29, 2024, 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 the effectiveness of the Organization's 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.

Farber Hass Hurley LLP

Farber Hass Hurley LLP

Chatsworth, CA
February 29, 2024

KERN REGIONAL CENTER
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2023 AND 2022

ASSETS	2023	2022
Cash and cash equivalents	$ 36,089,868	$ 28,688,207
Receivable - Intermediate Care Facility ("ICF") providers	1,618,195	1,272,919
Prepaid expenses and other receivables	17,514	59,097
Receivables from the State for accrued payroll and vacation benefits	2,403,882	1,955,169
Receivables from the State for deferred rent	-	1,332,585
Receivables from the State for defined benefit pension plan	6,540,704	14,973,977
Receivables from the State for post-retirement benefits	19,168,000	27,221,000
Right-of-use asset, net of amortization	38,970,971	-
TOTAL ASSETS	$ 104,809,134	$ 75,502,954
LIABILITIES		
Accounts payable	$ 25,784,703	$ 22,685,078
State reimbursement claims payable, net	11,976,661	7,025,984
Accrued salaries and vacation benefits	2,403,882	1,955,169
Deferred rent liability	-	1,332,585
Defined benefit pension plan liability	6,540,704	14,973,977
Post-retirement benefit liability	19,168,000	27,221,000
Other liabilities	-	11,437
Lease liabilities	39,569,211	-
TOTAL LIABILITIES	105,443,161	75,205,230
NET (DEFICIT) ASSETS		
Without donor restrictions	(634,027)	297,724
With donor restrictions	-	-
TOTAL NET (DEFICIT) ASSETS	(634,027)	297,724
TOTAL LIABILITIES AND NET (DEFICIT) ASSETS	$ 104,809,134	$ 75,502,954

See accompanying notes to the financial statements.

KERN REGIONAL CENTER
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2023
(SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2023	2022
SUPPORT				
Reimbursement from State of California	$ 291,649,656	$ -	$ 291,649,656	$ 231,537,825
Interest income	525,045	-	525,045	12,485
Other income	531,201	-	531,201	401,059
Total unrestricted support	292,705,902	-	292,705,902	231,951,369
TOTAL SUPPORT	292,705,902	-	292,705,902	231,951,369
EXPENSES				
Program services:				
Third-party providers:				
Out of home	63,492,594	-	63,492,594	52,517,062
Day programs	43,830,452	-	43,830,452	32,809,036
Other services	155,127,126	-	155,127,126	121,113,963
	262,450,172	-	262,450,172	206,440,061
Kern Regional Center:				
Direct services	26,441,913	-	26,441,913	21,510,933
Community Placement Plan ("CPP")	1,378,383	-	1,378,383	1,085,137
Grants and special projects	168,401	-	168,401	141,321
	27,988,697	-	27,988,697	22,737,391
Total program services	290,438,869	-	290,438,869	229,177,452
Operating expenses:				
General and administrative	3,198,784	-	3,198,784	2,498,337
TOTAL EXPENSES	293,637,653	-	293,637,653	231,675,789
CHANGE IN NET ASSETS	(931,751)	-	(931,751)	275,580
NET ASSETS, BEGINNING	297,724	-	297,724	22,144
NET ASSETS, ENDING	$ (634,027)	$ -	$ (634,027)	$ 297,724

See accompanying notes to the financial statements.

KERN REGIONAL CENTER
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023
(SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2022)

	Program Services							Operating Expenses	June 30, 2023	June 30, 2022
	Direct Services	CPP	Special Projects and Grants	Out of home	Day Programs	Other Services	Total Program Services	General and Admin	Total Expenses	Total Expenses Summarized
Salaries	$ 12,792,084	$ 666,836	$ 81,469	$ -	$ -	$ -	$ 13,540,389	$ 1,546,395	$ 15,086,784	$ 13,042,475
Pension expense	3,099,064	161,550	19,737	-	-	-	3,280,351	374,636	3,654,987	1,480,535
Workers comp insurance	187,255	9,761	1,193	-	-	-	198,209	22,637	220,846	210,371
Other employee benefit	3,917,214	204,200	24,947	-	-	-	4,146,361	473,540	4,619,901	3,872,418
Payroll taxes	314,660	16,403	2,004	-	-	-	333,067	38,038	371,105	345,846
Total Salaries and Related Expenses	20,310,277	1,058,750	129,350	-	-	-	21,498,377	2,455,246	23,953,623	18,951,645
Purchase of services	-	-	-	67,350,988	43,830,452	151,268,732	262,450,172	-	262,450,172	206,440,061
Facility rent	1,790,319	93,327	11,402	-	-	-	1,895,048	216,426	2,111,474	2,036,350
Repairs and maintenance	316,083	16,477	2,013	-	-	-	334,573	38,210	372,783	340,222
Communications	127,616	6,652	813	-	-	-	135,081	15,427	150,508	99,951
Contract labor	365,180	19,036	2,326	-	-	-	386,542	44,146	430,688	202,980
Office expense	42,223	2,201	269	-	-	-	44,693	5,104	49,797	92,013
Data processing	695,813	36,272	4,431	-	-	-	736,516	84,115	820,631	923,829
Insurance	358,000	18,662	2,280	-	-	-	378,942	43,278	422,220	404,057
Utilities	233,178	12,155	1,485	-	-	-	246,818	28,189	275,007	226,992
Professional services	1,096,082	57,137	6,981	-	-	-	1,160,200	132,502	1,292,702	1,147,789
Other expenses	643,368	33,538	4,097	-	-	-	681,003	80,077	761,080	474,340
Travel	244,013	12,720	1,554	-	-	-	258,287	29,498	287,785	123,338
Capital expenditures	219,761	11,456	1,400	-	-	-	232,617	26,566	259,183	180,728
Total Expenses	$ 26,441,913	$ 1,378,383	$ 168,401	$ 67,350,988	$ 43,830,452	$ 151,268,732	$ 290,438,869	$ 3,198,784	$ 293,637,653	$ 231,675,789

See accompanying notes to the financial statements.

KERN REGIONAL CENTER
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	$ (931,751)	$ 275,580
Adjustments to reconcile change in net assets to provided by operating activities:		
Amortization of right-of-use asset	1,126,459	-
Increase (decrease) changes in:		
State reimbursement claims	4,950,677	(7,834,984)
Receivables - Intermediate Care Facility ("ICF") providers	(345,276)	(43,941)
Prepaid expenses and other assets	41,583	24,049
Receivable from the State for accrued payroll and vacation benefits	(448,713)	(139,103)
Receivables from the State for deferred rent	1,332,585	(510,646)
Receivable from the State for defined benefit plan	8,433,273	6,440,187
Receivable from the State for post-retirement benefits	8,053,000	(1,247,000)
Accounts payable	3,099,625	22,523,392
Payable to DDS - Intermediate Care Facility ("ICF") providers	-	(247,826)
Accrued salaries and vacation benefits	448,713	139,103
Deferred rent liability	(1,332,585)	510,646
Defined benefit pension plan liability	(8,433,273)	(6,440,187)
Post-retirement benefits liability	(8,053,000)	1,247,000
Other liability	(11,437)	23,272
Lease liabilities	(528,219)	-
Net cash provided by operating activities	7,401,661	14,719,542
Net Increase In Cash	7,401,661	14,719,542
Cash and Cash Equivalents, Beginning of Year	28,688,207	13,968,665
Cash and Cash Equivalents, End of Year	$ 36,089,868	$ 28,688,207
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash Paid During the Year For:		
Interest Expenses	$ -	$ -
Right-of-use asset - operating for $40,277,153 net of accumulated amortization of $1,306,182	$ 38,970,971	$ -
Lease liabilities of $39,569,211 net of lease payments	$ 39,569,211	$ -

See accompanying notes to the financial statements.

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Kern Regional Center ("Organization" or "KRC") was incorporated on July 23, 1973 as a California nonprofit organization under contract with the State of California Department of Developmental Services ("DDS"). The Organization provides a central point for individuals with developmental disabilities, or their families to obtain or be referred to needed services. The Organization further offers diagnosis and coordination of resources, such as education, health, welfare, rehabilitation, and recreation for residents with developmental disabilities in the counties of Kern, Inyo, and Mono.

The Organization was organized in accordance with provisions of the Lanternman Developmental Disabilities Services Act of the Welfare and Institutions Code of the State of California. The Organization receives a major portion of its program revenue from contracts with the State of California Department of Developmental Services ("DDS") under the Lanternman Developmental Disabilities Services Act.

NOTE 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 ("U.S. GAAP").

Basis of Presentation
Net assets, revenues, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the 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. Account in this fund is used to record primary activities of KRC, which are carried out under the DDS contract. These accounts also record the activities of the Community Placement Plan ("CPP") and other special projects and grants.

- *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 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. As of June 30, 2023 and 2022, the Organization had no net assets with donor restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification
Certain prior year balances have been reclassified to conform to the current year financial statements. These reclassifications had no impact on net assets or the change in net assets.

Summarized 2022 Financial Information
The accompanying 2023 financial statements include selected comparative summarized financial information for 2022. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2022, from which the summarized financial information was derived.

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. Principal areas requiring the use of estimates are assumptions utilized for the defined benefit plan, post-retirement benefits and the functional allocation of expenses. Actual results could differ from those estimates.

State of California Contract
The Organization operates under an annual contract with the Department of Developmental Services ("DDS") of California, under the Lanternman 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 two 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
The Company recognizes revenues in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606 and the related amendments ("ASC 606"). Pursuant to ASC 606, revenues are recognized upon applying the following steps:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

- Identification of the contract(s) with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to performance obligations in the contract;
- Recognition of revenues when, or as, the contractual obligations are satisfied.

Amounts received from the DDS contracts are recognized as revenue when KRC has incurred qualifying operational expenditures per the DDS contracts. Amounts received prior to incurring qualifying operational expenditures are recorded as contract advances and are included with state reimbursement claims payables on the statement of financial position (NOTE 5).

Cash and Cash Equivalents

For the purpose of the financial statements, the Organization considers all cash on hand and investments purchased with a maturity date of three months or less to be 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 as of June 30, 2023 and 2022.

Contracts Receivables

Receivables are stated at the amount management expects to collect from balances outstanding at year end. The contract reimbursement receivable represents the cost reimbursement provided under contract with the DDS. A majority of the Organization's receivables relate to the cost-reimbursement contract with the DDS. Based on management's assessment of receivables it has concluded that an allowance is not necessary as of June 30, 2023 and 2022 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 pursuant to the terms of the State of California. During the fiscal year-end June 30, 2023 and 2022, office equipment purchased by KRC were approximately $385,000 and $180,000, respectively. 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 all sensitive equipment of an estimated useful life of more than one year.

Vacation and Paid Leave Benefits

The Organization's policy and union contract allow employees to accumulate vacation and sick leave benefits based on the length of service, position, and other factors. Accrual of vacation and sick leave benefits 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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Vacation and Paid Leave Benefits (continued)

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. As of June 30, 2023 and 2022 , accrued vacation and sick leave benefits were $1,564,656 and $1,363,042, respectively.

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. The accounting principles of U.S. GAAP provides accounting and disclosure guidance about positions taken by an organization in its exempt tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its Federal and State exempt organization returns are more likely than not to be sustained upon examination. The Organization is generally no longer subject to U.S. federal income tax examinations for years before 2020 or state examinations for years before 2019.

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 management's allocation to functional areas.

The Other services category is a grouping of services which includes: medical, non-medical, transportation, money management, purchase reimbursement and consumer benefit (P&I, SSP).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842): Amendments to the FASB Accounting Standards Codification* ("ASC"), to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016- 02 establishes a right-of-use ("ROU") model that requires lessees to record a ROU asset and a lease liability in the statement of financial position for all leases with terms longer than twelve months (the standard may optionally be applied to leases with terms of twelve months or less). Leases will be classified as either finance leases or operating leases depending on the characteristics of the lease. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from the lease will depend on the lease classification. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021, and early adoption is permitted. The new standard provides optional practical expedients in transition. The Organization will only elect the package of practical expedients where, under the new standard, prior conclusions about lease identification, lease classification and initial direct costs do not need to be reassessed. The new standard also provides practical expedients for ongoing accounting where the management elected the practical expedients on adoption and did not record any ROU asset with terms of less than twelve months. The Organization has adopted ASC 842 as of July 1, 2022, which is presented in the above financial statements and resulted in the recognition of the right of use asset and lease liability on the balance sheet. The Organization's net right-of-use asset and lease liabilities are reflected in the statement of financial position. See NOTE 10 for further discussion on net right-of-use asset and lease liabilities.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash accounts on June 30, 2023 and 2022 included the following:

	2023	2022
General checking account	$ 34,694,936	$ 28,637,845
Payroll checking account	1,393,982	49,412
Petty cash	950	950
Cash and cash equivalents	$ 36,089,868	$ 28,688,207

NOTE 4 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash and cash equivalents. The Organization maintain its cash and cash equivalents at one financial institution that, at times may exceed federally insured limits. The Organization's cash and cash equivalents are maintained at a high-quality financial institution as of June 30, 2023, and the Organization believes the risk of nonperformance of this financial institution is remote.

NOTE 5 – CONTRACT WITH STATE OF CALIFORNIA - DDS

The Organization's primary source of revenue is from the State of California. Subject to renewal, KRC enters into a five-year contract with the State of California's DDS that is subject to annual appropriations by the State. Revenue from the State is recognized monthly when a claim (invoice) for reimbursement of actual expenses is submitted to DDS for payment. These claims are paid at the State's discretion either through a direct payment to KRC or by offsetting the claim against the cash advances received by KRC from the State.

The net contract reimbursement receivable/(payable) from DDS as of June 30, 2023 and 2022 consisted of the following:

		2023		2022
Contract reimbursement billing - current contract	$	68,528,925	$	65,733,345
Contractual receivable - prior years		1,000,566		1,196,951
Less: Outstanding cash advanced by DDS		(81,506,152)		(73,956,281)
Net due to/(due from) - DDS	$	(11,976,661)	$	(7,025,985)

The term of the contract is from July 1, 2019 through June 30, 2026. The total amount payables to the Contractor under this contract shall not exceed $282,279,292 and $282,651,792 for fiscal year 2023 and 2022, respectively.

NOTE 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.

Go Forward Activities
Effective July 1, 2012, DDS directed the Organization to submit billings for these services on behalf of the ICF 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 ICF. The ICF are required to pass on payments received to the Organization within 30 days of receipt of funds from the State Controller's Office.

NOTE 6 – INTERMEDIATE CARE FACILITY BILLING (continued)

Go Forward Activities (continued)

As of June 30, 2023 and 2022, amounts due from vendors are as follows:

	2023	2022
Beginning balance	$ 1,272,919	$ 949,657
Amounts remitted by vendors	(2,982,175)	(2,246,493)
Amount credited by DDS	3,376,625	2,613,785
Administrative fee recognized	(49,174)	(44,030)
Receivable – ICF providers, go forward	$ 1,618,195	$ 1,272,919

The ICF receivables of $1,618,195 and $1,272,919 are on the statement of financial position as of June 30, 2023 and 2022, respectively.

NOTE 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 the Organization's general funds, including rights to payment under the DDS contract. The line of credit bears interest at the bank's reference rate plus 5%. The line of credit expired on September 30, 2022. During the current fiscal year, KRC did not renew the line of credit.

NOTE 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.

The Organization entered into an operating lease agreement with the Foundation for the period July 25, 2019 to December 31, 2049, see NOTE 10.

NOTE 9 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects 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.

	2023	2022
Cash and cash equivalents	$ 36,089,868	$ 28,688,207
Receivable - Intermediate Care Facility ("ICF") providers	1,618,195	1,332,016
Prepaid expenses and other receivables	17,514	59,097
Due from client trust accounts	-	-
Assets available within one year	$ 37,725,577	$ 30,079,320

Each regional center submits a monthly purchase of service expenditure projection to DDS, beginning December of each fiscal year. By February 1st of each year, DDS shall allocate to all regional centers no less than 100% of the enacted budget for operations and 99% of the enacted budget for "Purchase of Service". To do this, it may be necessary to amend the Organization's contract in order to allocate funds made available from the budget augmentations and to move funds among regional centers. In the event that DDS determined that a regional center has sufficient funds to meet its contractual obligation, DDS shall make best efforts to secure additional funds and/or provide regional center with regulatory and statutory relief. The contract with DDS allows adjustments to KRC's allocations and for the payment of claims up to 2 years after the close of each fiscal year.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Leases

KRC leases multiple offices under a lease agreement that is subject to schedule acceleration of rental payments and rent abatements. The Organization leases from the Foundation an office in Bakersfield, California, to house its operations. This lease 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 expenses for the year ended June 30, 2023 and 2022 were $2,043,566 and 1,935,109, respectively.

The Organization leases office spaces in outlying cities within Kern County for its various service locations. These leases have various expiration dates. The three office locations are paid in a month-to-month basis, and one of the lease offices was formed by members of the Organization's Board of Directors in 1994, See NOTE 8. The lease agreements generally do not contain any material residual value guarantees or material restrictive covenants.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Leases (continued)

Leases, Prior to June 30, 2022

Minimum base rent for operating leases, which generally have escalating rentals over the term of the leases, are recorded on a straight-line basis over the initial lease term and those renewal periods that are reasonably assured. Monthly fixed payments for capital leases, principal payments and interest expenses are recorded separately.

Leases, June 30, 2022 and after

Right-of-use assets represent the Organization's right to use of an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Organization's sole discretion. The Organization regularly evaluates the renewal and early termination options when they are reasonably certain to exercise, the Organization includes such options in the lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization uses the rate implicit in the lease, or if not readily available, the Organization uses a risk-free rate at the date of the initial lease term.

Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Company reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified, and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Organization made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Organization:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Organization obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights;
- Determined whether contracts contain embedded leases;
- Evaluated leases with similar commencement dates, lengths of term, renewal options or other contract terms, which therefore meet the definition of a portfolio of leases, whether to apply the portfolio approach to such leases;
- Determined the discount rate used to measure the lease liability.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Leases (continued)
The following table summarizes the operating lease liabilities as of June 30:

2024	$	1,822,444
2025		1,858,938
2026		1,894,846
2027		1,889,221
Thereafter		51,529,016
Future minimum lease payments		58,994,465
Less: Present value discount		(19,425,254)
Total lease liabilities	$	39,569,211

Total lease payments during the year ended June 30, 2023 was $1,777,336

Weighted average remaining lease terms (in years):	
Operating lease	9.69
Weighted average discount rate:	
Operating lease	3%

Contingencies
KRC is dependent on continued funding provided by the DDS to operate and provide services for its client. KRC's contract with the DDS provides funding for services under the Lanterman Act. In the event that the operations of the Organization result in a deficit position at the end of any contract year, the DDS may reallocate surplus funds within the State of California system to supplement the Organization's funding. Should a system-wide deficit system occur, the DDS is required to report to the governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. The DDS's recommendations are subsequently reviewed by the governor and the Legislature and a decision is made with regard to specific actions.

In accordance with the terms of the DDS contract, a fiscal audit may be performed by an authorized State representative. Should the audit disclose any unallowable costs, the Organization may be liable to the State for reimbursement of such costs. Based on management opinion, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2023.

NOTE 11 – CONCENTRATION OF LABOR

The Organization's employees, representing approximately 86% and 80% on June 30, 2023 and 2022, respectively, are covered by a collective bargaining agreement with the Social Services Union Local 521, Service Employees International Union, and AFL-CIO-CCL. The Organization's current collective bargaining covers the period April 1, 2022 through March 3, 2027. The Organization's other employees are not covered by a collective bargaining agreement.

NOTE 12 – PENSION PLAN

403(b) Plan
Participating employees are allowed to make contributions of their gross wages through payroll deductions, pursuant to certain Internal Revenue Code ("IRC") limitations. No employer matching. During the fiscal year-end June 30, 2023 and 2022, employee contributions were approximately $85,936 and $119,000, respectively.

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 are required to make pre-tax contributions equal to 6.2% of their eligible compensation, as defined by the Plan, subject to limitations under the IRC. In addition, the Organization makes a nonelective contribution amount equal to 6.2% of eligible compensation effective April 2022. During the fiscal year-end June 30, 2023 and 2022, employee contributions were approximately $939,640 and $791,000 and employer contributions were $939,640 and $465,000, respectively.

Defined Benefit Pension Plan
The Organization maintains a defined benefit pension plan. Benefits under the Plan are based on the employees' years of benefit 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.

NOTE 12 – PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

The Net Periodic Pension Cost for the fiscal year beginning July 1, 2023 is developed using census data as of July 1, 2022 and for the fiscal year beginning July 1, 2022 is developed using census data as of July 1, 2021.

As a nonprofit organization, the Organization is required to follow the accounting framework based on standards promulgated by FASB and ASU 715 – *Compensation: Retirement Benefits – Defined Benefit Pension Plans.*

The following provides a reconciliation of benefit obligations, plan assets and funded status related to the defined benefit pension plans as of June 30, 2023 and 2022:

Defined Benefit Plan	2023	2022
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 56,046,830	$ 72,109,841
Service cost	-	-
Interest cost	2,470,430	2,140,731
Employee contributions	-	-
Assumption changes	(4,220,024)	(15,753,676)
Actuarial (gain)/loss	(261,201)	(123,168)
Benefits paid	(2,595,545)	(2,326,898)
Benefit obligation at end of year	$ 51,440,490	$ 56,046,830
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 41,072,853	$ 50,695,677
Actual return on plan assets	4,009,761	(8,099,772)
Employer contribution	2,601,367	989,550
Employee contribution	-	-
Expenses	(188,650)	(185,704)
Benefits paid	(2,595,545)	(2,326,898)
Fair value of plan assets at end of year	$ 44,899,786	$ 41,072,853
Funded status:		
Benefit obligation	$ (51,440,490)	$ (56,046,830)
Fair value of plan assets	44,899,786	41,072,853
Funded Status at end of Year	$ (6,540,704)	$ (14,973,977)

NOTE 12 – PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

The Organization expects to contribute minimum $5.5 million to its pension plan in the fiscal year beginning July 1, 2023 to June 30, 2024. Employee contributions have been discontinued.

All previously unrecognized actuarial gains or losses are reflected in the statement 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 $4,420,221 and $10,409,186 as of June 30, 2023 and 2022, respectively.

Post-Retirement Benefits

An employee must enroll in California Public Employee's Retirement System ("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 with a minimum of eight years of employment. The amounts contributed by KRC to CalPERS Retirement Plan for the year ended June 30, 2023 and 2022 were approximately $584,000 and $547,000, respectively.

The following provides a reconciliation of benefit obligations, plan assets and funded status related to the post-employment benefits as of June 30, 2023 and 2022. The numbers were projected based on prior year information since actuarial valuations are performed every other year.

Post-Retirement Benefits		2023		2022
Change in benefit obligation:				
Benefit obligation at beginning of year	$	27,221,000	$	25,974,000
Service cost		1,198,000		1,165,000
Interest cost		750,000		716,000
Actuarial (gain)/loss		(9,417,000)		-
Benefits paid		(584,000)		(634,000)
Benefit obligation at end of year	$	19,168,000	$	27,221,000
Change in plan assets:				
Fair value of plan assets at beginning of year	$	-	$	-
Actual return on plan assets		-		-
Employer contribution		584,000		634,000
Benefits paid to participants		(584,000)		(634,000)
Fair value of plan assets at end of year	$	-	$	-
Funded status:				
Benefit obligation	$	19,168,000	$	27,221,000
Fair value of plan assets		-		-
Funded Status at end of Year	$	19,168,000	$	27,221,000

NOTE 12 – PENSION PLAN (continued)

Post-Retirement Benefits (continued)

The Organization expects funding for the post-employment plan for the fiscal year ending June 30, 2024 to be approximately $695,000.

Estimated Future Benefit Payments

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

	Defined Benefit Plan
Years ending in June 30,	
2024	$ 2,571,953
2025	2,642,641
2026	2,768,673
2027	2,827,069
2028	2,825,944
2029 - 2033	15,547,057
	$ 29,183,337

	Post-Retirement Benefits
Years ending in June 30,	
2024	$ 695,000
2025	729,000
2026	791,000
2027 - 2031	6,897,000
	$ 9,112,000

Weighted-Average Assumptions

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

NOTE 12 – PENSION PLAN (continued)

Weighted-Average Assumptions (continued)

Defined Benefit Plan	2023	2022
Benefit obligation:		
Discount rate	5.10%	4.51%
Rate of compensation increase	3.00%	4.00%
Net periodic benefit cost:		
Discount rate	4.51%	3.02%
Expected rate of return on plan assets	7.00%	7.25%
Rate of compensation increase	3.00%	4.00%
Inflation	2.33%	2.40%
Cost of Living Adjustment	2%	2%
Accumulated Employee Contribution Lump Sum Conversation Rate	5.10%	4.51%

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

Post-Retirement Benefits	2023	2022
Benefit obligation:		
Discount rate	4.90%	2.79%
Expected rate of return on plan assets	Not Applicable	Not Applicable
Net periodic benefit cost:		
Discount rate	2.79%	2.79%
Expected rate of return on plan assets	Not Applicable	Not Applicable
Measurement date	July 1, 2023	July 1, 2022

NOTE 13 – AGENCY TRANSACTIONS-CLIENT TRUST FUNDS

The Organization serves as representative payee for a portion of its clients. In this fiduciary capacity, it receives social security benefits and other sources of income and makes payments on behalf of certain developmentally disabled clients who are deemed unable to administer the funds themselves. Client trust fund transactions are not considered revenue or expenses of the Organization.

Client Trust Funds
Summary of Financial Position
June 30, 2023 And 2022

Assets	2023	2022
Cash	$ 10	$ (1,110)
Client support receivables	766	766
Total Assets	$ 776	$ (344)
Liabilities & Net Assets		
Restricted net assets	$ 776	$ (344)
Total Liabilities & Restricted Net Assets	$ 776	$ (344)

Client Trust Funds
Summary of Activities
June 30, 2023 And 2022

	2023	2022
Designated client support	$ (17,484)	$ (905)
Total Restricted Support	(17,484)	(905)
Money management expense	16,364	46,914
Other expenses	-	(12,726)
Total Expenses	16,364	34,188
Increase (decrease) in restricted net assets	1,120	(33,283)
Restricted Net Assets		
Beginning of year	(344)	32,939
End of year	$ 776	$ (344)

NOTE 14 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 29, 2024, the date which the financial statements were available to be issued and determined no events have occurred subsequent to June 30, 2023 that would require adjustment to, or disclosure to the accompanying financial statements.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors and Management of
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 ("the Organization" or "KRC", a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 29, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 the Organization'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 financial statements. 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.

Farber Hass Hurley LLP

Farber Hass Hurley LLP

Chatsworth, California
February 29, 2024

Summary Schedule of Prior Audit Findings

Finding 2022-001	Monitoring of fixed assets No similar findings were noted in the current year. This item has been satisfactorily addressed.
Finding 2022-002	Documentation of accounting procedures and processes No similar findings were noted in the current year. This item has been satisfactorily addressed.