KERN REGIONAL CENTER

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

FARBER HASS HURLEY LLP
CERTIFIED PUBLIC ACCOUNTANTS

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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), which comprise the statement of financial position as of June 30, 2022, 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, 2022, 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.

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2023, 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.

Farber Hass Hurley LLP

Farber Hass Hurley LLP

Chatsworth, CA
April 14, 2023

KERN REGIONAL CENTER
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2022

ASSETS		2022
Cash and cash equivalents	$	28,688,207
Receivable - Intermediate Care Facility ("ICF") providers		1,272,919
Prepaid expenses and other receivables		59,097
Receivables from the State for accrued payroll and vacation benefits		1,955,169
Receivables from the State for deferred rent		1,332,585
Receivables from the State for defined benefit pension plan		14,973,977
Receivables from the State for post-retirement benefits		27,221,000
TOTAL ASSETS	$	75,502,954
LIABILITIES		
Accounts payable		22,685,078
State reimbursement claims payable, net		7,025,984
Accrued salaries and vacation benefits		1,955,169
Deferred rent liability		1,332,585
Defined benefit pension plan liability		14,973,977
Post-retirement benefit liability		27,221,000
Due from client trust accounts		11,437
TOTAL LIABILITIES		75,205,230
COMMITMENT AND CONTINGENCIES (NOTE 10)		
NET ASSETS		
Without donor restrictions		297,724
With donor restrictions		-
TOTAL NET ASSETS		297,724
TOTAL LIABILITIES AND NET ASSETS	$	75,502,954

See accompanying notes to the financial statements.

KERN REGIONAL CENTER
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2022

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2022
SUPPORT			
Reimbursement from State of California	$ 231,537,825	$ -	$ 231,537,825
Interest income	12,485	-	12,485
Other income	401,059	-	401,059
Total unrestricted support	231,951,369	-	231,951,369
TOTAL SUPPORT	231,951,369	-	231,951,369
EXPENSES			
Program services:			
Out of home	52,517,062	-	52,517,062
Day programs	32,809,036	-	32,809,036
Other services	121,113,963	-	121,113,963
	206,440,061	-	206,440,061
Direct services	21,510,933	-	21,510,933
Community Placement Plan ("CPP")	1,085,137	-	1,085,137
Grants and special projects	141,321	-	141,321
Total program services	229,177,452	-	229,177,452
Operating expenses:			
General and administrative	2,498,337	-	2,498,337
TOTAL EXPENSES	231,675,789	-	231,675,789
CHANGE IN NET ASSETS	275,580	-	275,580
NET ASSETS, BEGINNING	22,144	-	22,144
NET ASSETS, ENDING	$ 297,724	$ -	$ 297,724

See accompanying notes to the financial statements.

KERN REGIONAL CENTER
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	Program Services							Operating Expenses	June 30, 2022
	Direct Services	CPP	Special Projects and Grants	Out of home	Day Programs	Other Services	Total Program and Support	General and Admin	Total Expenses
Salaries	$ 11,117,406	$ 560,826	$ 73,038	$ -	$ -	$ -	$ 11,751,270	$ 1,291,205	$ 13,042,475
Pension expense	1,262,008	63,663	8,291	-	-	-	1,333,962	146,573	1,480,535
Other employee benefit	3,300,849	166,514	21,686	-	-	-	3,489,049	383,369	3,872,418
Payroll taxes	294,799	14,871	1,937	-	-	-	311,607	34,239	345,846
Total Salaries and Related Expenses	15,975,062	805,874	104,952	-	-	-	16,885,888	1,855,386	18,741,274
Purchase of services	-	-	-	52,517,062	32,809,036	121,113,963	206,440,061	-	206,440,061
Facility rent	1,735,784	87,563	11,404	-	-	-	1,834,751	201,599	2,036,350
Repairs and maintenance	290,005	14,630	1,905	-	-	-	306,540	33,682	340,222
Bad debt expense	26,846	1,354	176	-	-	-	28,376	3,118	31,494
Communications	85,198	4,298	560	-	-	-	90,056	9,895	99,951
Contract labor	173,020	8,728	1,137	-	-	-	182,885	20,095	202,980
Office expense	78,432	3,957	515	-	-	-	82,904	9,109	92,013
Data processing	787,472	39,725	5,173	-	-	-	832,370	91,459	923,829
Insurance	344,418	17,374	2,263	-	-	-	364,055	40,002	404,057
Workers comp insurance	179,320	9,046	1,178	-	-	-	189,544	20,827	210,371
Utilities	193,488	9,761	1,271	-	-	-	204,520	22,472	226,992
Professional services	978,375	49,355	6,428	-	-	-	1,034,158	113,631	1,147,789
Other expenses	404,327	20,397	2,656	-	-	-	427,380	46,960	474,340
Travel	105,133	5,304	691	-	-	-	111,128	12,210	123,338
Capital expenditures	154,053	7,771	1,012	-	-	-	162,836	17,892	180,728
Total Expenses	$ 21,510,933	$ 1,085,137	$ 141,321	$ 52,517,062	$ 32,809,036	$ 121,113,963	$ 229,177,452	$ 2,498,337	$ 231,675,789

See accompanying notes to the financial statements.

KERN REGIONAL CENTER
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in net assets	$ 275,580
Adjustments to reconcile change in net assets to	
net cash provided by operating activities	
Increase (decrease) changes in:	
State reimbursement claims	(7,834,984)
Receivables - Intermediate Care Facility ("ICF") providers	(43,941)
Prepaid expenses and other assets	24,049
Due from client trust accounts	23,272
Receivable from the State for accrued payroll and vacation benefits	(139,103)
Receivables from the State for deferred rent	(510,646)
Receivable from the State for defined benefit plan	6,440,187
Receivable from the State for post-retirement benefits	(1,247,000)
Accounts payable	22,523,392
Payable to DDS - Intermediate Care Facility ("ICF") providers	(247,826)
Accrued salaries and vacation benefits	139,103
Deferred rent liability	510,646
Defined benefit pension plan	(6,440,187)
Post-retirement benefits	1,247,000
Net cash provided by operating activities	14,719,542
Net Increase In Cash	14,719,542
Cash and Cash Equivalents, Beginning of Year	13,968,665
Cash and Cash Equivalents, End of Year	$ 28,688,207

SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash Paid During the Year For:	
Interest Expenses	$ -

See accompanying notes to the financial statements.

KERN REGIONAL CENTER
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

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

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

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 are 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, 2022, the Organization had no net assets with donor restrictions.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 allocations 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 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
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, 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, 2022. Balances that are still outstanding after management has used reasonable collection efforts are written off to bad debt expense.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, office equipment purchased by KRC was approximately $180,000. 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.

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 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, 2022, accrued vacation and sick leave benefits were $1,363,042.

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 2019 or state examinations for years before 2018.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements Not Yet Effective

In February 2016, Financial Accounting Standard Board ("FASB") issued Accounting Standard Update ("ASU") 2016-02, Leases (Topic 842), which requires lessees to recognize lease liabilities and corresponding right-of-use assets for those leases classified as operating leases under previous U.S. GAAP to increase transparency and comparability. Under the new standard, enhanced disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from the leases. The new standard requires to use a modified retrospective approach including a number of optional practical expedients and will be effective for fiscal years beginning after December 15, 2021. The Organization is evaluating the impact of adopting this guidance to the Organization's financial statements.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash accounts on June 30, 2022 included the following:

		2022
General checking account	$	28,637,845
Payroll checking account		49,412
Petty cash		950
Cash and cash equivalents	$	28,637,845

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, 2022, 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 Department of Developmental Services ("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.

NOTE 5 – CONTRACT WITH STATE OF CALIFORNIA – DDS (continued)

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

		2022
Contract reimbursement billing - current contract	$	65,733,345
Contractual receivable - prior years		1,196,951
Less: Outstanding cash advanced by DDS		(73,956,281)
Net due/(payable) from - DDS	$	(7,025,985)

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

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. During the current fiscal year, Management assessed collectability of the funds; and determined that the remaining balance of $279,321 was not collectible and was written off during the fiscal year-end.

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, 2022, amounts due from vendors are as follows:

		2022
Beginning balance	$	949,657
Amounts remitted by vendors		(2,246,493)
Amount credited by DDS		2,613,785
Administrative fee recognized		(44,030)
Receivable – ICF providers, go forward	$	1,272,919

The ICF receivable of $1,272,919 is on the statement of financial position as of June 30, 2022.

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 balance outstanding as of June 30, 2022 was $-. The line of credit expires on September 30, 2022. Subsequent to September 30, 2022, the Organization has an uncommitted line of credit from October 1, 2022 through May 31, 2023 and is currently working with the bank to renew the line of credit that will be effective on June 1, 2023.

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 11.

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.

		2022
Cash and cash equivalents	$	28,688,207
Receivable - Intermediate Care Facility ("ICF") providers		1,332,016
Prepaid expenses and other receivables		59,097
Assets available within one year	$	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 one hundred percent of the enacted budget for operations and ninety-nine percent 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 two years after the close of each fiscal year.

In addition, the Organization has a line of credit available to meet cash flow needs for general expenditures, see NOTE 7.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Commitments

KRC leases multiple offices under a lease agreement that is subject to schedule acceleration of rental payments and rent abatements. The schedule rent increases are amortized evenly over the life of the lease. The deferred rent liability represents the difference between the cash payments made and the amount expensed since the inception of the lease. The Organization has recorded a receivable from the State for the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized.

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 expense for the year ended June 30, 2022 was $1,935,109.

NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

In addition, the Organization leases office spaces in outlying cities within Kern County for its various service locations. These leases have various expiration dates ending through 2049. Rent expense for the year ended June 30, 2022 was $101,241.

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, 2022:

Years ending in June 30,		
2023	$	1,734,241
2024		1,733,749
2025		1,768,253
2026		1,803,444
2027		1,842,352
Thereafter		51,638,679
	$	60,520,718

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, 2022.

NOTE 11 – CONCENTRATION OF LABOR

The Organization's employees, representing approximately 80% on June 30, 2022, 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, employee contribution was approximately $119,000.

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, employee contribution was approximately $791,000 and employer contribution was $465,000.

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.

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.*

NOTE 12 – PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

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

Defined Benefit Plan		
		2022
Change in benefit obligation:		
Benefit obligation at beginning of year	$	72,109,841
Service cost		-
Interest cost		2,140,731
Employee contributions		-
Assumption changes		(15,753,676)
Actuarial (gain)/loss		(123,168)
Benefits paid		(2,326,898)
Benefit obligation at end of year	$	56,046,830
		2022
Change in plan assets:		
Fair value of plan assets at beginning of year	$	50,695,677
Actual return on plan assets		(8,099,772)
Employer contribution		989,550
Employee contribution		-
Expenses		(185,704)
Benefits paid		(2,326,898)
Fair value of plan assets at end of year	$	41,072,853
		2022
Funded status:		
Benefit obligation	$	(56,046,830)
Fair value of plan assets		41,072,853
Funded Status at end of Year	$	(14,973,977)

The Organization expects to contribute $- to its pension plan in the fiscal year beginning July 1, 2022 June 30, 2023. Employee contributions have been discontinued.

NOTE 12 – PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)
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 $10,409,186 as of June 30, 2022.

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 amount contributed by KRC to CalPERS Retirement Plan for the year ended June 30, 2022 was approximately $547,000.

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

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

NOTE 12 – PENSION PLAN (continued)

Post-Retirement Benefits (continued)
The Organization expects funding for the post-employment plan during the year ending June 30, 2023 to be approximately $648,000.

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,		
2023	$	2,568,545
2024		2,587,904
2025		2,660,284
2026		2,786,684
2027		2,845,026
2028 - 2032		15,157,609
	$	28,606,052

		Post Retirement
Years ending in June 30,		
2023	$	697,000
2024		728,000
2025		790,000
2026 - 2031		4,587,000
	$	6,802,000

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	2022
Benefit obligation:	
Discount rate	4.51%
Rate of compensation increase	4.00%
Net periodic benefit cost:	
Discount rate	3.02%
Expected rate of return on plan assets	7.25%
Rate of compensation increase	4.00%

NOTE 12 – PENSION PLAN (continued)

Weighted-Average Assumptions (continued)
The weighted-average actuarial assumptions used to determine the post-retirement obligation and the assumptions used to determine net benefit cost:

Post-Employment Benefits	2022
Benefit obligation:	
Discount rate	2.79%
Rate of compensation increase	Not Applicable
Net periodic benefit cost:	
Discount rate	2.79%
Expected rate of return on plan assets	Not Applicable
Rate of compensation increase	Not Applicable

NOTE 13 – PROVIDER RELIEF FUND

On April 10, 2020, the Department of Health and Human Services ("HHS") announced the disbursement of the first $30 billion of the $100 billion that congress allocated to hospitals, physicians, and other health care providers in the Public Health and Social Services Emergency Fund in the Coronavirus Aid, Relief and Economic Security Act, also known as the Provider Relief Fund ("PRF") Provider Relief Fund may be used to cover lost revenue attributable to COVID-19 or health-related purchased to prevent, prepare for, and respond to COVID-19, including, but not limited to:

- Supplies and equipment used to provide health care services for possible or actual COVID-19 patients.
- Workforce training.
- Reporting COVID-19 test results to federal, state, and local governments.
- Acquiring additional resources, including facilities, equipment, supplies, health care practices, staff, and technology to expand or preserve care delivery.

The Organization submitted an application and received a total of approximately $346,000 in Provider Relief Funding. For the year ended June 30, 2022, KRC incurred $346,000 in qualifying expenses and recognized the entire funding as other income during the fiscal year.

NOTE 14 – 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, 2022

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

Client Trust Funds
Summary of Activities
June 30, 2022

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

NOTE 15 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through April 14, 2023, the date which the financial statements were available to be issued and determined no events have occurred subsequent to June 30, 2022 that would require adjustment to, or disclosure to the accompanying financial statements.

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

To the Board of Directors 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, 2022, 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 April 14, 2023.

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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002 that we consider to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and questioned costs as items 2022-001 through 2022-002.

The Organization's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
April 14, 2023

Significant Deficiency

2022-001	Monitoring of fixed assets.
Criteria	State Equipment Management System Guidelines issued by DDS requires the Orgnization to perform a the required comprehensive physical inventory at least once within the last three years.
Condition	Management did not monitor their fixed assets as required by the state's guidelines.
Cause	Property custodian position is vacant, as such the required monitoring and comprehensive physical inventory were not performed.
Effect	The Organization is not incompliance with the State's Equipment Management System Guideline to properly monitor and perform a comprehensive physical inventory.
Recommendation	We recommend the Organization to assign this responsibility to another employee in order to comply with the state guidelines.
Views of Responsible Officials and Planned Corrective Actions:	The Organization will hire someone to take care of monitoring fixed assets. We plan on performing an annual physical inventory of fixed assets and design procedures to control and maintain records.

KERN REGIONAL CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022

Significant Deficiency

2022-002	Documentation of accounting procedures and processes.
Criteria	The Organization shoud communicate its policies and procedures to its personnel at least in writing. Setting a documented policies and objectives for the Organization will avoid miscommunications to occur and ensure accounting policies and procedures are being followed consistenly.
Condition	Missing documented accounting procedures and processes.
Cause	Due to lack of manpower and resources, the Organization is still in the process of documenting their accounting policies and procedures.
Effect	Although we didn't identify several issues (except for item 2022-001) we determined that having a documented accounting policies and procedures helps ensure that proper procedures and related internal controls are in place and consistently followed.
Recommendation	We suggest that a formal accounting policies and procedures manual be developed, documented, and distributed to all employees. Additionally, we recommend the Organization to designate an individual and allocate few hours of the week to complete the accounting policies and procedures as soon as practicable.
Views of Responsible Officials and Planned Corrective Actions:	The Organization is aware of the need of documented procedures in the financa area. The Organization will be hiring a temporary person to help out with the writing of procedures, not only for finance but also for other departments.