



KERN REGIONAL CENTER
(A California Nonprofit Organization)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2025
WITH SUMMARIZED INFORMATION FOR THE
YEAR ENDED JUNE 30, 2024

FARBER HASS HURLEY LLP
CERTIFIED PUBLIC ACCOUNTANTS

KERN REGIONAL CENTER
JUNE 30, 2025

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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) (the "Organization"), which comprise the statements of financial position as of June 30, 2025, 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, 2025, 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.

Report on Summarized Comparative Information

We have previously audited Kern Regional Center’s 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 12, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2024, 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 March 26, 2026, 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

Chatsworth, CA
March 26, 2026

**KERN REGIONAL CENTER
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2025 AND 2024**

ASSETS	2025	2024
Cash	\$ 15,734,859	\$ 22,960,230
Receivable - Intermediate Care Facility ("ICF") providers	759,139	1,351,299
Prepaid expenses and other receivables	1,842,303	24,967
Receivables from the State for accrued payroll and vacation benefits	3,163,756	2,436,173
Receivables from the State for post-retirement benefits	21,053,000	20,175,000
Operating lease right-of-use asset	42,492,710	40,870,338
TOTAL ASSETS	\$ 85,045,767	\$ 87,818,007
 LIABILITIES		
Accounts payable	\$ 8,707,947	6,789,368
State reimbursement claims payable, net	8,581,083	17,054,503
Accrued salaries and vacation benefits	3,163,756	2,436,173
Post-retirement benefit liability	21,053,000	20,175,000
Operating lease liabilities	44,172,162	41,996,990
TOTAL LIABILITIES	85,677,948	88,452,034
 NET ASSETS		
Without donor restrictions	(632,181)	(634,027)
With donor restrictions	-	-
TOTAL NET DEFICIT	(632,181)	(634,027)
 TOTAL LIABILITIES AND NET ASSETS	 \$ 85,045,767	 \$ 87,818,007

The accompanying notes are an integral part of these financial statements.

KERN REGIONAL CENTER
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2025
(SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2024)

	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>2025</u>	<u>2024</u>
SUPPORT				
Reimbursement from State of California	\$ 376,228,059	\$ -	\$ 376,228,059	\$ 326,369,098
Interest income	1,256,627	-	1,256,627	1,549,980
Other income	1,845,360	-	1,845,360	925,119
Total unrestricted support	<u>379,330,046</u>	<u>-</u>	<u>379,330,046</u>	<u>328,844,197</u>
TOTAL SUPPORT	<u>379,330,046</u>	<u>-</u>	<u>379,330,046</u>	<u>328,844,197</u>
EXPENSES				
Program services:				
Third-party providers:				
Out of home	77,369,439	-	77,369,439	69,150,588
Day programs	67,064,812	-	67,064,812	51,481,030
Other services	191,574,352	-	191,574,352	157,677,540
	<u>336,008,603</u>	<u>-</u>	<u>336,008,603</u>	<u>278,309,158</u>
Kern Regional Center:				
Direct services	36,984,761	-	36,984,761	42,147,466
Community Placement Plan ("CPP")	1,359,465	-	1,359,465	2,221,417
Grants and special projects	226,576	-	226,576	360,694
	<u>38,570,802</u>	<u>-</u>	<u>38,570,802</u>	<u>44,729,577</u>
Total program services	<u>374,579,405</u>	<u>-</u>	<u>374,579,405</u>	<u>323,038,735</u>
Operating expenses:				
General and administrative	4,748,795	-	4,748,795	5,805,462
TOTAL EXPENSES	<u>379,328,200</u>	<u>-</u>	<u>379,328,200</u>	<u>328,844,197</u>
CHANGE IN NET ASSETS	<u>1,846</u>	<u>-</u>	<u>1,846</u>	<u>-</u>
NET ASSETS, BEGINNING	<u>(634,027)</u>	<u>-</u>	<u>(634,027)</u>	<u>(634,027)</u>
NET ASSETS, ENDING	<u>\$ (632,181)</u>	<u>\$ -</u>	<u>\$ (632,181)</u>	<u>\$ (634,027)</u>

The accompanying notes are an integral part of these financial statements.

**KERN REGIONAL CENTER
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2025
(SUMMARIZED TOTALS FOR THE YEAR ENDED JUNE 30, 2024)**

	Program Services						Total Program Services	Operating Expenses General and Admin	June 30, 2025 Total Expenses	June 30, 2024 Total Expenses Summarized
	Direct Services	CPP	Special Projects and Grants	Out of home	Day Programs	Other Services				
Salaries	\$ 18,534,262	\$ 703,256	\$ 117,209	\$ -	\$ -	\$ -	\$ 19,354,727	\$ 2,350,697	\$ 21,705,424	\$ 19,221,403
Pension expense	1,191,886	45,224	7,537	-	-	-	1,244,647	151,167	1,395,814	8,742,019
Workers compensation insurance	101,636	3,856	643	-	-	-	106,135	12,891	119,026	273,682
Other employee benefit	5,282,692	200,444	33,407	-	-	-	5,516,543	670,003	6,186,546	4,809,278
Payroll taxes	401,564	15,237	2,539	-	-	-	419,340	50,930	470,270	427,567
Total salaries and Related Expenses	25,512,040	968,017	161,335	-	-	-	26,641,392	3,235,688	29,877,080	33,473,949
Purchase of services	-	-	-	77,369,439	67,064,812	191,574,352	336,008,603	-	336,008,603	278,309,158
Facility rent	2,079,655	95,576	15,930	-	-	-	2,191,161	319,470	2,510,631	2,522,283
Repairs and maintenance	20,585	781	130	-	-	-	21,496	2,611	24,107	108,453
Communications	191,848	7,279	1,213	-	-	-	200,340	24,332	224,672	182,919
Contract labor	273,466	10,376	1,729	-	-	-	285,571	34,684	320,255	159,486
Office expense	110,026	4,175	696	-	-	-	114,897	13,955	128,852	93,897
Data processing	1,188,575	45,099	7,516	-	-	-	1,241,190	150,747	1,391,937	1,225,749
Insurance	421,620	15,998	2,666	-	-	-	440,284	53,474	493,758	428,460
Utilities	332,902	12,631	2,105	-	-	-	347,638	42,222	389,860	317,229
Professional services	2,931,944	50,715	8,453	-	-	-	2,991,112	374,172	3,365,284	8,218,709
Other expenses	2,792,449	105,955	17,659	-	-	-	2,916,063	354,166	3,270,229	2,628,164
Travel	480,325	18,225	3,038	-	-	-	501,588	60,920	562,508	469,196
Office equipment and furniture	649,326	24,638	4,106	-	-	-	678,070	82,354	760,424	706,545
Total Expenses	\$ 36,984,761	\$ 1,359,465	\$ 226,576	\$ 77,369,439	\$ 67,064,812	\$ 191,574,352	\$ 374,579,405	\$ 4,748,795	\$ 379,328,200	\$ 328,844,197

The accompanying notes are an integral part of these financial statements.

**KERN REGIONAL CENTER
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2025 AND 2024**

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,846	\$ -
Adjustments to reconcile change in net assets to provided by operating activities:		
(Increase) decrease in:		
Receivables - Intermediate Care Facility ("ICF") providers	592,160	266,896
Prepaid expenses and other assets	(1,817,336)	(7,453)
Receivable from the State for accrued payroll and vacation benefits	(727,583)	(32,291)
Receivable from the State for defined benefit plan	-	6,540,704
Receivable from the State for post-retirement benefits	(878,000)	(1,007,000)
Increase (decrease) in:		
Accounts payable	1,918,579	(18,995,335)
State reimbursement claims payable, net	(8,473,420)	5,077,842
Accrued salaries and vacation benefits	727,583	32,291
Defined benefit pension plan liability	-	(6,540,704)
Post-retirement benefits liability	878,000	1,007,000
Operating lease assets and liabilities	552,800	528,412
Net cash used for Operating Activities	(7,225,371)	(13,129,638)
Net decrease in cash	(7,225,371)	(13,129,638)
Cash, Beginning of Year	22,960,230	36,089,868
Cash, End of Year	\$ 15,734,859	\$ 22,960,230
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Noncash Operating Activities		
Operating lease right-of-use asset	\$ 2,943,746	\$ 3,173,729

The accompanying notes are an integral part of these financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

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.

KRC was organized in accordance with provisions of the Lanterman Developmental Disabilities Services Act of the Welfare and Institutions Code of the State of California. The Organization receives all of its program revenue from contracts with DDS under the Lanterman 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”). Accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Reimbursements from the State are considered earned when the qualifying expense is incurred.

Basis of Presentation

The KRC’s financial statements are presented in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 958, Not-for-Profit Entities. Under FASB ASC Topic 958, KRC is required to report information regarding its financial position and activities according to two (2) classes of net assets based upon the existence or absence of donor-imposed restrictions, 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. Accounts 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.

See accompanying financial statements.

KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

- *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, whereby the donor has stipulated that 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, 2025, the Organization had no net assets with donor restrictions.

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 2024 Financial Information

The accompanying 2025 financial statements include selected comparative summarized financial information for 2024. 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, 2024, 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.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The carrying amounts of receivable and accounts payable approximate fair value because of the short maturity of these instruments.

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

State of California Contract

The Organization operates under an annual contract with DDS of California, under the Lanterman Act. The maximum expenditure under the contract is limited to the 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 (2) years subsequent to the end of the contract year. In the event of termination or nonrenewal of the contract, the State of California maintains the right to assume control of the Organization's operations and the obligation of its liabilities.

Cash

Cash consists of cash on hand and funds on deposit with financial institutions.

Significant Concentration of Credit Risk

Due to the unique requirements of DDS and the large fluctuations in account balances KRC can have during the year, it is not feasible for the Organization to diversify its cash balances among various financial institutions. Therefore, KRC maintains all of its cash in one (1) financial institution that, at times, may exceed federally insured limits. The Organization's cash is maintained at a high-quality financial institution as of June 30, 2025, and KRC believes the risk of nonperformance of this financial institution is remote.

State Regional Center Contract Receivables and Advances

Contract receivables represent amounts due from the State for reimbursement of expenditures made by KRC under the annual regional center contracts. KRC considers all receivable under grant contracts to be collectible; accordingly, no allowance for doubtful accounts exists.

The contract advance balance represents cash advances received by KRC under the annual regional center contracts. Amounts due from the State are offset against advances payable when the State notifies KRC that the right of offset exists.

Receivables from Intermediate Care Facilities Vendors ("ICF")

The Centers for Medicare and Medicaid Services ("CMS") approved federal financial participation in the funding of day and related transportation services purchased by KRC for consumers who reside in Intermediate Care Facilities ("ICF"). CMS agreed that the day and related transportation services are part of the ICF service; however, the federal rules allow for only one (1) provider of the ICF service. Accordingly, all the funding for the ICF residents must go through the applicable ICF provider.

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables from Intermediate Care Facilities Vendors ("ICF") (continued)

DDS has directed KRC to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. KRC is directed to reduce the amount of their regular state claim to DDS by the dollar amount of these services. Reimbursement for these services are received from the ICFs. DDS advances the amount according to the state claim to the ICFs. The ICFs are then required to pass on the payments received, as well as the Organization's administrative fee, to KRC within thirty (30) days of receipt of funds from the State Controller's office. KRC receives a one-and-a-half percent (1.5%) administrative fee based on the funds received to cover the additional workload.

The net receivable from ICF in the amount of \$759,139 at June 30, 2025 represents the amount DDS paid or will pay to the ICF's net of ICF's administrative fee and Quality Assurance fee.

Allowance for Credit Losses

The KRC uses the current expected credit loss method ("CECL") to recognize bad debt. The California state government issues an annual budget for the program, which is distributed ratably to each of the twenty one (21) regional centers throughout the state. The individual budgets established by DDS for each regional center are cost-reimbursement-based contracts that allow regional centers to submit claims for reimbursement for their expenditures, resulting in a corresponding receivable. Management believes the likelihood of DDS denying reimbursement or defaulting on the receivable is remote. Similarly, KRC has receivables from ICFs, which will subsequently be reimbursed once the ICF is paid by DDS. In the event an ICF defaults on a receivable, DDS would reimburse KRC directly and collect the amount from the ICF vendor's future Medi-Cal payments. As such, management believes the likelihood of ICF receivables becoming uncollectable is also remote. KRC has not established an allowance for credit losses for the year ended June 30, 2025, as management believes all receivables are fully collectible.

Prepaid Expenses

Payments made to vendors for services that will benefit the Organization for periods beyond the current fiscal year are recorded as prepaid expenses.

Property and Equipment

In accordance with the State Regional Center contracts, all equipment purchased with contract funds is the property of the State. KRC is required to maintain memorandum records of equipment purchases and dispositions. Equipment purchases are recorded as supporting or program service expenses when they are incurred. The cost basis of the property utilized by KRC and owned by the state was \$509,953 for 2025. These balances include only the equipment that is sensitive or exceeds \$5,000 as required by State Administrative Manual ("SAM") guidelines.

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

KRC accounts for leases in accordance with FASB ASC 842. The Organization is a lessee in noncancellable operating leases for office space. KRC determines if an arrangement is a lease, or contains a lease, at the inception of a contract and when the terms of an existing contract are changed. KRC determines if an arrangement conveys the right to use an identified asset and whether KRC obtains all of the economic benefits and has the ability to direct the use of the asset. KRC recognizes a lease liability and right-of-use asset at the commencement date of the lease.

- *Operating Lease Liabilities* - A lease liability is measured based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable lease payments depend on an index or rate and are measured using the index or rate at the commencement date. Lease payments, including variable payments made based on an index or rate, are remeasured when any of the following occur: (1) the lease is modified (and the modification is not accounted for as a separate contract), (2) certain contingencies related to variable lease payments are resolved, or (3) there is a reassessment of any of the following: the lease term, purchase options, or amounts that are probable of being owed under a residual value guarantee. The discount rate is the rate implicit in the lease if it is readily determinable; However, KRC has elected to use the risk-free borrowing rate per Accounting Standards Update (“ASU”) No. 2021-09, Leases (Topic 842): Discount Rate for Lessees That are Not Public Business Entities. KRC has elected to use this rate for all classes of underlying assets.
- *Operating Lease – Right-of-Use Asset* - A Right-of-Use asset is measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after the commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, the Right-of-Use asset is subsequently measured throughout the lease term at the amount of the lease liability (that is, the present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost for lease payments is recognized on a straight-line basis over the lease term. Right-of-Use assets are assessed for impairment in accordance with the Organization's long-lived asset policy.

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;

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

- 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, and whether to apply the portfolio approach to such leases;
- Determined the discount rate used to measure the lease liability.

Vacation and Paid Leave Benefits

The Organization's policy and union contract allows 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 is 350 hours. An employee leaving the Organization shall be entitled to payment of all accrued vacation. Only employees leaving the Organization after two (2) years of continuous employment shall be entitled to half of their unused accumulated sick leave, not to exceed 180 hours. 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, 2025, accrued vacation and sick leave benefits were \$1,770,244.

Revenue and Revenue Recognition

KRC recognizes revenues in accordance with FASB ASC Topic 606 and the related amendments ("ASC 606"). Pursuant to ASC 606, revenues are recognized upon applying the following steps:

- 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 the state reimbursement claims payable on the statement of financial position (NOTE 4).

Revenue Concentration

State Regional Center contract revenue is revenue received under an annual cost reimbursement contract from the State of California in accordance with the Lanterman Act. Approximately ninety-nine percent (99%) of revenue is derived from this source. These reimbursement claims are paid at the state's discretion either through direct payments to KRC or by applying the claims reimbursements against advances already made to KRC. The maximum expenditure under the contract is limited to the allocation amount.

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Labor Concentration

The Organization's employees, representing approximately 85% as of June 30, 2025, are covered by a collective bargaining agreement with the Service Employees International Union. The Organization's current collective bargaining covers the period from April 1, 2022, through March 31, 2027. The Organization's other employees are not covered by a collective bargaining agreement.

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 provide 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 2022 or state examinations for years before 2021.

Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one (1) 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 statements of activities. The statements 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 based on an analysis of staff time.

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 covers a broad range of support services, including medical and non-medical assistance, transportation services, financial management, reimbursement for purchases, and consumer benefit programs.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 3 – CASH

Cash accounts on June 30, 2025 included the following:

	2025
General checking account	\$ 14,990,075
Payroll checking account	743,534
Petty cash	1,250
Cash	\$ 15,734,859

NOTE 4 – CONTRACT WITH STATE OF CALIFORNIA - DDS

The Organization’s primary source of revenue is from the State of California. Subject to renewal, KRC entered into a seven (7) year contract with the State of California’s DDS that is subject to annual appropriations by the State.

The net contract reimbursement receivable/(payable) from DDS as of June 30, 2025 consists of the following:

	2025
Contract reimbursement billing - current contract	\$ 79,299,494
Contractual receivable - prior years	2,127,307
Less: Outstanding cash advanced by DDS	(90,007,884)
Net (due to) / due from - DDS	\$ (8,581,083)

The contract is amended during the current year and is valid from July 1, 2024 through June 30, 2031. The total amount payable to the Contractor under this contract shall not exceed \$387,375,763 for fiscal year 2025.

NOTE 5 – INTERMEDIATE CARE FACILITY BILLING

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.

The ICF receivables of \$759,139 is on the statement of financial position as of June 30, 2025.

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 5 – INTERMEDIATE CARE FACILITY BILLING (continued)

	2025
Beginning balance	\$ 1,351,299
Amounts remitted by vendors	(4,394,335)
Amount credited by DDS	3,859,539
Administrative fee recognized	(57,364)
Receivable – ICF providers, go forward	\$ 759,139

NOTE 6 – 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. During the current fiscal year, 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 8.

NOTE 7 – 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 (1) 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.

	2025
Cash	\$ 15,734,859
Receivable - Intermediate Care Facility ("ICF") providers	759,139
Prepaid expenses and other receivables	1,842,303
Assets available within one year	\$ 18,336,301

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 (100%) of the enacted budget for operations and ninety-nine percent (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.

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 7 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (continued)

In the event that DDS determined that a regional center has insufficient 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 (2) years after the close of each fiscal year.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Leases

The Organization maintains nine (9) office spaces located both within and outside Kern County to accommodate its service operations. Eight (8) of these properties are subject to operating lease agreement, while one (1) location is rented on a month-to-month basis. These leases have various expiration dates, and one (1) of the lease office was established by members of the Organization's Board of Directors in 1994, See NOTE 6. This lease had an original term of thirty (30) years, dated in May 2009. 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, 2025 was \$2,510,631.

The lease agreements generally do not contain any material residual value guarantees or material restrictive covenants. During the current fiscal year, the Organization leased new office spaces in Bakersfield and Bishop.

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.

The following table summarizes the operating lease liabilities as of June 30:

Years ending in June 30,		
2026	\$	2,527,466
2027		2,643,671
2028		2,702,568
2029		2,688,260
2030		2,713,976
Thereafter		49,335,576
Future minimum lease payments		<u>62,611,517</u>
Less: Present value discount		(18,439,355)
Total lease liabilities	\$	<u><u>44,172,162</u></u>

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 8 – COMMITMENTS AND CONTINGENCIES (continued)

Leases (continued)

The table below presents additional information related to KRC’s leases.

Weighted average remaining lease terms (in years):	
Operating lease	7.68
Weighted average discount rate:	
Operating lease	3.56%

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 conducted 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 on June 30, 2025.

Legal

Certain claims and lawsuits may arise in the ordinary course of business. When the Organization becomes aware of a claim or potential claim, it assesses the likelihood of any resulting loss or exposure. If it is probable that a loss will occur and the amount can be reasonably estimated, the Organization records a liability for the loss.

NOTE 9 – 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. In the fiscal year-end June 30, 2025, the Plan was not subject to the audit requirement. During the fiscal year-end June 30, 2025, employee contributions were approximately \$158,100.

See accompanying financial statements.

KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025

NOTE 9 – PENSION PLAN (continued)

Money Purchase Pension Plan

Union employee participants in the Money Purchase Pension Plan receive an employer contribution of twelve point four percent (12.4%) of compensation. Non-union employees receive an employer contribution of ten point nine percent (10.9%) of compensation, plus four point three percent (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 after-tax contributions equal to six point two percent (6.2%) of their eligible compensation, as defined by the Plan, subject to limitations under the IRC. In addition, the Organization makes a non-elective contribution amount equal to six point two percent (6.2%) of eligible compensation effective April 2022. During the fiscal year-end June 30, 2025, employee contributions totaled \$1,386,904, and employer contributions also amounted to \$1,386,904.

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 of the fiscal year ending June 30, 2025, the Plan has been fully funded.

The Net Periodic Pension Cost for the fiscal year beginning July 1, 2025 is developed using census data as of July 1, 2024 and for the fiscal year beginning July 1, 2024 is developed using census data as of July 1, 2023.

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, 2025:

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 9 – PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

Defined Benefit Plan	
	2025
Change in benefit obligation:	
Benefit obligation at beginning of year	\$ 51,554,232
Service cost	-
Interest cost	2,669,641
Employee contributions	-
Assumption changes	(2,562,755)
Actuarial (gain)/loss	759,048
Benefits paid	(2,526,221)
Benefit obligation at end of year	\$ 49,893,945
Change in plan assets:	
Fair value of plan assets at beginning of year	\$ 55,121,417
Actual return on plan assets	896,733
Employer contribution	-
Employee contribution	-
Expenses	(70,007)
Benefits paid	(2,526,221)
Fair value of plan assets at end of year	\$ 53,421,922
Funded status:	
Benefit obligation	\$ (49,893,945)
Fair value of plan assets	53,421,922
Funded Status at end of Year	\$ 3,527,977

No additional contribution is expected to be made to its pension plan in the fiscal year beginning July 1, 2025, to June 30, 2026. Employee contributions have been discontinued.

All previously unrecognized actuarial gains or losses are reflected in the statements of financial position. The plan items not yet recognized as a component of periodic plan expenses for the defined benefit plan were unamortized net loss of \$2,318,831 as of June 30, 2025.

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 9 – PENSION PLAN (continued)

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 must be equal to at least seventy-five (75) upon retirement and minimum of eight (8) years employment. The amounts contributed by KRC to CalPERS Retirement Health Plan for the year ended June 30, 2025 were approximately \$744,000.

The following provides a reconciliation of benefit obligations, plan assets and funded status related to the post-employment benefits as of June 30, 2025. The numbers were projected based on prior year information since actuarial valuations are performed every other year.

Post-Retirement Benefits	
	2025
Change in benefit obligation:	
Benefit obligation at beginning of year	\$ 20,175,000
Service cost	818,000
Interest cost	971,000
Actuarial (gain)/loss	(167,000)
Benefits paid	(744,000)
Benefit obligation at end of year	\$ 21,053,000
Change in plan assets:	
Fair value of plan assets at beginning of year	\$ -
Actual return on plan assets	-
Employer contribution	744,000
Benefits paid to participants	(744,000)
Fair value of plan assets at end of year	\$ -
Funded status:	
Benefit obligation	\$ 21,053,000
Fair value of plan assets	-
Funded Status at end of Year	\$ 21,053,000

The Organization expects funding for the post-employment plan for the fiscal year ending June 30, 2026 to be approximately \$962,000.

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 9 – PENSION PLAN (continued)

Estimated Future Benefit Payments

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

		<u>Defined Benefit Plan</u>
Years ending in June 30,		
2026	\$	3,358,851
2027		3,061,441
2028		3,059,235
2029		3,089,365
2030		3,217,826
2029 - 2033		<u>17,082,772</u>
Total	\$	<u><u>32,869,490</u></u>
		<u>Post-Retirement Benefit</u>
Years ending in June 30,		
2026	\$	962,000
2027		1,044,000
2028		1,065,000
2029		1,118,000
2030		1,167,000
2031 - 2035		<u>6,297,000</u>
	\$	<u><u>11,653,000</u></u>

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	2025
Benefit obligation:	
Discount rate	5.75%
Rate of compensation increase	3.00%
Net periodic benefit cost:	
Discount rate	5.32%
Expected rate of return on plan assets	5.32%
Rate of compensation increase	3.00%
Inflation	2.31%
Cost of Living Adjustment	2%
Accumulated Employee Contribution Lump	5.75%
Sum Conversation Rate	

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 9 – 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-Retirement Benefits	2025
Benefit obligation:	
Discount rate	5.49%
Expected rate of return on plan assets	Not Applicable
Net periodic benefit cost:	
Discount rate	4.90%
Expected rate of return on plan assets	Not Applicable
Measurement date	July 1, 2025

NOTE 10 – AGENCY TRANSACTIONS-CLIENT TRUST FUNDS

The Organization serves as a 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 and is not included in the statements of financial position.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 10 – AGENCY TRANSACTIONS-CLIENT TRUST FUNDS (continued)

Client Trust Funds
Summary of Financial Position
June 30, 2025

<u>Assets</u>	<u>2025</u>
Cash	\$ -
Client support receivables	766
Total Assets	<u>\$ 766</u>
<u>Liabilities & Net Assets</u>	
Restricted net assets	\$ 766
Total Liabilities & Restricted Net Assets	<u>\$ 766</u>

Client Trust Funds
Summary of Activities
June 30, 2025

	<u>2025</u>
Designated client support	\$ (12,321)
Total Restricted Support	<u>(12,321)</u>
Money management expense	12,321
Other expenses	-
Total Expenses	<u>12,321</u>
Increase (decrease) in restricted net assets	-
Restricted Net Assets	
Beginning of year	766
End of year	<u>\$ 766</u>

See accompanying financial statements.

**KERN REGIONAL CENTER
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025**

NOTE 11 - SUBSEQUENT EVENTS

Subsequent to the current fiscal year, KRC settled an employment-related claim through mediation, resulting in a payment of \$1.8 million. This amount has been recognized on the statement of financial position as of year-end.

KRC leased another office space in Bakersfield for 7 years with a monthly rent payment of \$10,911.62. The lease started in July 2025.

In response to the uncertainty surrounding potential funding cuts introduced by the federal government, the Organization has evaluated the potential impacts on its financial position and operations. While the exact effects remain indeterminate, it is anticipated that these changes could significantly influence both our funding sources and operational costs.

Management is actively monitoring the situation and developing contingency plans to mitigate any adverse effects. As of the date these financial statements are issued, it is not possible to estimate the full financial impact of these potential changes.

The Organization has evaluated subsequent events through March 26, 2026, the date on which the financial statements were available to be issued, and determined that no events have occurred subsequent to June 30, 2025 that would require adjustment to, or disclosure to the accompanying financial statements.



FARBER HASS HURLEY LLP

CERTIFIED PUBLIC ACCOUNTANTS

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, 2025, 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 March 26, 2026.

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.

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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.

A handwritten signature in black ink, appearing to read "Farber Hass Hurley LLP". The signature is written in a cursive, somewhat stylized font.

Farber Hass Hurley LLP

Chatsworth, California

March 26, 2026

**KERN REGIONAL CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2025**

Summary Schedule of Prior Audit Findings

None