

**FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**



**HARBOR DEVELOPMENTAL  
DISABILITIES FOUNDATION, INC.**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Harbor Developmental Disabilities Foundation, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Harbor Developmental Disabilities Foundation, Inc. (a California nonprofit corporation), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbor Developmental Disabilities Foundation, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2018, on our consideration of Harbor Developmental Disabilities Foundation, Inc.'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 Harbor Developmental Disabilities Foundation, Inc.'s internal control over financial reporting and compliance.



Long Beach, California  
January 16, 2018

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 13,999,824	\$ 17,533,751
Corporate bonds	75,000	75,000
Cash - client trust funds (Note 2)	785,084	792,006
Contracts receivable - state of California (Note 3)	1,945,595	-
Receivable from Intermediate Care Facility vendors	2,592,411	2,190,001
Prepaid expenses	565,032	566,508
Other assets	82,323	93,392
Receivable from state for accrued vacation and other leave benefits	1,270,138	1,104,689
Receivable from state for deferred rent	<u>10,754,252</u>	<u>10,325,903</u>
<b>TOTAL ASSETS</b>	<u>\$ 32,069,659</u>	<u>\$ 32,681,250</u>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable	\$ 18,750,613	\$ 15,090,975
Accrued salaries	662,319	559,809
Accrued vacation and other leave benefits	1,270,138	1,104,689
Deferred rent liability	10,754,252	10,325,903
Contract advances	-	4,968,544
Unexpended client trust funds	<u>472,871</u>	<u>470,423</u>
	<u>31,910,193</u>	<u>32,520,343</u>

**COMMITMENTS AND CONTINGENCIES (Note 5)**

**NET ASSETS**

Unrestricted	<u>159,466</u>	<u>160,907</u>
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<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 32,069,659</u>	<u>\$ 32,681,250</u>
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The accompanying notes are an integral part of these financial statements.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**STATEMENTS OF ACTIVITIES**

	<b>For the Year Ended</b>	
	<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Contracts - state of California	\$ 198,403,548	\$ 167,931,340
Intermediate Care Facility supplemental services income	5,439,555	5,387,596
Interest income	17,311	12,271
Contributions and grants	34,463	44,624
Other income	267,256	289,093
Total Support and Revenue	<u>204,162,133</u>	<u>173,664,924</u>
<b>EXPENSES</b>		
Program Services		
Direct client services	<u>201,479,176</u>	<u>171,032,183</u>
Supporting services		
General and administrative	<u>2,684,398</u>	<u>2,618,376</u>
Total Expenses	<u>204,163,574</u>	<u>173,650,559</u>
<b>CHANGE IN NET ASSETS</b>	(1,441)	14,365
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>160,907</u>	<u>146,542</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 159,466</u>	<u>\$ 160,907</u>

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

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Direct Client Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries	\$ 15,794,001	\$ 1,412,668	\$ 17,206,669
Employee health and retirement benefits	3,979,413	355,932	4,335,345
Payroll taxes	<u>235,746</u>	<u>21,086</u>	<u>256,832</u>
Total Salaries and Related Expenses	20,009,160	1,789,686	21,798,846
Purchase of services:			
Residential care facilities	67,660,564	-	67,660,564
Day program	56,594,026	-	56,594,026
Other purchased services	49,429,901	-	49,429,901
Communication	342,570	30,641	373,211
General office expenses	150,464	13,458	163,922
Printing	35,449	3,171	38,620
Insurance	106,207	51,690	157,897
General expenses	499,952	44,717	544,669
Facility rent	4,336,224	387,846	4,724,070
Equipment and facility maintenance	1,715,364	153,428	1,868,792
Consultant fees	337,210	30,161	367,371
Equipment purchases	129,502	11,583	141,085
Board expenses	-	14,938	14,938
Staff travel	132,583	11,859	144,442
Legal fees	-	88,420	88,420
Accounting fees	<u>-</u>	<u>52,800</u>	<u>52,800</u>
<b>TOTAL EXPENSES</b>	<u>\$ 201,479,176</u>	<u>\$ 2,684,398</u>	<u>\$ 204,163,574</u>

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

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Direct Client Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries	\$ 13,599,324	\$ 1,271,451	\$ 14,870,775
Employee health and retirement benefits	3,269,437	305,672	3,575,109
Payroll taxes	226,181	21,147	247,328
Total Salaries and Related Expenses	<u>17,094,942</u>	<u>1,598,270</u>	<u>18,693,212</u>
Purchase of services:			
Residential care facilities	53,237,189	-	53,237,189
Day program	49,469,292	-	49,469,292
Other purchased services	43,246,583	-	43,246,583
Communication	295,917	27,666	323,583
General office expenses	227,479	21,268	248,747
Printing	15,074	1,409	16,483
Insurance	86,422	67,538	153,960
General expenses	174,216	111,288	285,504
Facility rent	4,290,279	401,114	4,691,393
Equipment and facility maintenance	1,557,190	145,587	1,702,777
Consultant fees	522,904	48,888	571,792
Equipment purchases	704,723	65,887	770,610
Board expenses	-	15,860	15,860
Staff travel	109,973	10,282	120,255
Legal fees	-	50,561	50,561
Accounting fees	-	52,758	52,758
<b>TOTAL EXPENSES</b>	<u>\$ 171,032,183</u>	<u>\$ 2,618,376</u>	<u>\$ 173,650,559</u>

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



**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (1,441)	\$ 14,365
Adjustments to reconcile change in net assets to net cash from operating activities:		
(Increase) decrease in:		
Cash – client trust funds	6,922	(93,590)
Contracts receivable - state of California	(1,945,595)	7,440,691
Receivable from Intermediate Care Facility vendors	(402,410)	(393,790)
Prepaid expenses	1,476	(256,209)
Other assets	11,069	(35,325)
Receivable from state for accrued vacation and other leave benefits	(165,449)	(157,897)
Receivable from state for deferred rent	(428,349)	(499,672)
Increase (decrease) in:		
Accounts payable	3,659,638	432,789
Accrued salaries	102,510	197,979
Accrued vacation and other leave benefits	165,449	157,897
Deferred rent liability	428,349	499,672
Contract advances	(4,968,544)	4,968,544
Unexpended client trust funds	2,448	(284,036)
Net Cash (Used In) Provided By Operating Activities	(3,533,927)	11,991,418
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net change in corporate bonds	-	52,052
Net Cash Provided By Investing Activities	-	52,052
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(3,533,927)	12,043,470
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	17,533,751	5,490,281
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 13,999,824	\$ 17,533,751

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

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 1 – Summary of Significant Accounting Policies**

*Basis of Presentation*

Harbor Developmental Disabilities Foundation, Inc. (the Foundation), doing business as Harbor Regional Center, was incorporated on May 3, 1977 as a California nonprofit corporation for the purpose of operating Harbor Regional Center and related activities. Prior to incorporation, the Foundation was operated by a medical association. The Foundation was organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act (the Act) of the Welfare and Institutions Code of the State of California. In accordance with the Act, the Foundation provides diagnostic evaluations, client service coordination, and lifelong planning services for persons with developmental disabilities and their families. The areas served include the Los Angeles County Health Districts of Bellflower, Harbor, Long Beach, and Torrance.

The Act includes governance provisions regarding the composition of the Foundation's board of trustees. The Act states that the board shall be comprised of individuals with demonstrated interest in, or knowledge of, developmental disabilities, and other relevant characteristics, and requires that a minimum of 50% of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25% of the members of the governing board shall be persons with developmental disabilities. In addition, a member of a required advisory committee, composed of persons representing the various categories of providers from which the Foundation purchases client services, shall serve as a member of the regional center board. To comply with the Act, the Foundation's board of trustees includes persons with developmental disabilities, or their parents or legal guardians, who receive services from the Foundation and a client service provider of the Foundation.

The Foundation contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for individuals with developmental disabilities and their families. The Foundation contracts with the DDS total \$201,400,338 for the 2016-2017 contract year and \$168,976,380 for the 2015-2016 contract year and are subject to budget amendments. As of June 30, 2017 and 2016, actual net expenditures were \$190,906,774 under the 2016-2017 contract and \$161,431,810 under the 2015-2016 contract.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

***Basis of Accounting***

The financial statements of the Foundation have been prepared on the accrual basis of accounting and, accordingly, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Reimbursements from the state are considered earned when a qualifying expense is incurred.

***Financial Statement Presentation***

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Accordingly, the net assets of the Foundation are classified and reported as described below:

**Unrestricted Net Assets** – Net assets that are not subject to donor-imposed restrictions.

**Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

**Permanently Restricted Net Assets** – Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

As of June 30, 2017 and 2016, the Foundation had no temporarily or permanently restricted net assets.

***Contributions***

Contributions, including unconditional promises to give, are recognized as support in the period received or pledged. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

*Contributions (Continued)*

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor's stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted contributions and net assets have restrictions stipulated by the donor that the corpus be invested in perpetuity and only income be made available for operations.

*Use of Estimates and Assumptions*

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

*Cash and Cash Equivalents and Concentration of Credit Risk*

For the purpose of the statements of cash flows, the Foundation considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. At June 30, 2017 and throughout the year, the Foundation has maintained cash balances in its bank in excess of federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

*Corporate Bonds*

The Foundation accounts for corporate bonds at fair value. 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. Accounting standards have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements).

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

***Corporate Bonds (Continued)***

The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted market prices included in level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

Corporate bonds are financial instruments that are measured at fair value on a recurring basis in the accompanying statements of financial position. Corporate bonds are generally valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available to comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds valued under a discounted cash flow approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit or liquidity. Therefore, the corporate bonds are classified within level 2 of the fair value hierarchy.

At June 30, 2017 and 2016, the Foundation held \$75,000 in corporate bonds.

***Contracts Receivable - State of California***

Contracts receivable and contract support are recorded on the accrual method as related expenses are incurred.

***Receivables from Intermediate Care Facility Vendors***

The Centers for Medicare and Medicaid Services (CMS) approved federal financial participation in the funding of day and related transportation services purchased by the Foundation for consumers who reside in Intermediate Care Facilities (ICFs). CMS agreed that the day and related transportation services are part of the ICF service; however, the federal rules allow for only one provider of the ICF service. Accordingly, all the Medicaid funding for the ICF residents must go through the applicable ICF provider. The Foundation receives a 1.5% administrative fee based on the funds received to cover the additional workload.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

***Receivables from Intermediate Care Facility Vendors (Continued)***

The DDS has directed the Foundation to prepare billings for these services on behalf of the ICFs and submit a separate state claim report for these services. The Foundation was directed to reduce the amount of its regular state claim to DDS by the dollar amount of these services. Reimbursement for these services will be 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 Foundation's administrative fee, to the Foundation within 30 days of receipt of funds from the State Controller's Office.

***State Equipment***

Pursuant to the terms of the state of California contract, equipment purchases become the property of the state and, accordingly, are charged as expenses when incurred. For the years ended June 30, 2017 and 2016, equipment purchases totaled approximately \$141,000 and \$771,000, respectively.

***Accrued Vacation and Other Employee Benefits***

The Foundation has accrued a liability for leave benefits earned. However, such benefits are reimbursed under the state contract only when actually paid. The Foundation has also recorded a receivable from the state for the accrued leave benefits to reflect the future reimbursement of such benefits.

***Deferred Rent***

The Foundation leases office facilities under a lease agreement that is subject to scheduled acceleration of rental payments. The scheduled 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 inception of the lease. The Foundation has recorded a receivable from the state for the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

*Allocation of Expenses*

The statements of functional expenses allocate expenses for all funds to the program and supporting service categories based on a direct cost basis for purchase of services and salaries and related expenses. Operating expenses are allocated based on a percentage of salaries and related expenses per category to total salaries and related expenses, except for certain expenses that are designated as program or supporting services.

*Income Taxes*

The Foundation has received tax-exempt status from the Internal Revenue Service and California Franchise Tax Board under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code. Tax-exempt status is generally granted to nonprofit entities organized for charitable or mutual benefit purposes.

The Foundation recognizes the financial statement benefit of tax positions, such as filing status of tax-exempt, only after determining that the relevant tax authority would more likely than not sustain the position following an audit. The Foundation is subject to potential income tax audits on open tax years by any taxing jurisdiction in which it operates. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

*Subsequent Events*

The Foundation's management has evaluated subsequent events from the statement of position date through January 16, 2018, the date the financial statements were available to be issued for the year ended June 30, 2017, and determined that there were no other items to disclose.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 1 – Summary of Significant Accounting Policies (Continued)**

***Recently Issued Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers*” (Topic 606) (“ASU 2014-09”), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018 (fiscal year ending June 30, 2020 for the Foundation). The Foundation does not expect that the adoption of this pronouncement will have a material impact on its financial statements.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “*Leases*” (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use (ROU) model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU is effective for the Foundation’s fiscal years beginning after December 15, 2019 (fiscal year ending June 30, 2021 for the Foundation), with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

In August 2016, the FASB released ASU 2016-14, “*Presentation of Financial Statements of Not-for-Profit Entities*” (Topic 958). The update amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes are related to: (a) presentation of classes of net assets, (b) the presentation of underwater endowment funds and related disclosures, (c) recognition of the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) statement of functional expenses, and (e) disclosure of quantitative and qualitative information regarding liquidity beginning after December 15, 2017 (fiscal year ending June 30, 2019 for the Foundation). The Foundation is currently evaluating the impact of the adoption of the new standard on the financial statements.



**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 2 – Cash - Client Trust Funds**

The Foundation functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of the Foundation's clients. These cash balances are segregated from the operating cash accounts of the Foundation and are restricted for client support. Since the Foundation is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying statement of activities. The following is a summary of operating cash activity for the years ended June 30, 2017 and 2016:

	<b>For the Year Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
Social Security and other client support received	\$ 5,647,392	\$ 5,502,550
Residential care and other disbursements	<u>5,649,457</u>	<u>5,407,174</u>
Support over/(under) disbursements	(2,065)	95,376
Changes to reconcile support under disbursements to net cash used in support and care activities: (Decrease)/increase in receivable from state and federal agencies	1,358	(17,286)
Increase/(decrease) in amounts due to the Foundation	<u>(6,215)</u>	<u>15,500</u>
Net cash provided for support and care activities	(6,922)	93,590
Cash at beginning of year	<u>792,006</u>	<u>698,416</u>
Cash at end of year	<u>\$ 785,084</u>	<u>\$ 792,006</u>
Number of clients	<u>422</u>	<u>420</u>

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 3 – Contracts Receivable/Contract Advances – State of California**

The Foundation’s major source of revenue is from the state. Each fiscal year, the Foundation enters into a new contract with the state for a specified funding amount subject to budget amendments. Revenue from the state is recognized monthly when a claim for reimbursement of actual expenses is filed with the state. These reimbursement claims are paid at the state’s discretion either through direct payments to the Foundation or by applying the claims reimbursements against advances already made to the Foundation.

As of June 30, 2017 and 2016, the DDS had advanced the Foundation approximately \$52,942,000 and \$37,719,000, respectively, under the contracts with the DDS. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from the state as follows:

	<b>June 30,</b>	
	<b>2017</b>	<b>2016</b>
Contracts receivable	\$ 54,888,052	\$ 32,750,109
Contract advances	<u>(52,942,457)</u>	<u>(37,718,653)</u>
Net contracts receivable (advance)	<u>\$ 1,945,595</u>	<u>\$ (4,968,544)</u>

The Foundation has renewed its contract with the state for the fiscal year ending June 30, 2018. The most recent contract amendment provides for a funding of \$206,053,381.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 4 – Short-Term Borrowings**

The Foundation has a revolving note with a bank whereby it may borrow funds up to the established maximums as follows:

<u>Period</u>	<u>Maximum Amount</u>
July 1, 2015 through October 1, 2015 (a)	\$ 40,000,000
October 1, 2015 (a) through June 30, 2017	23,500,000
July 1, 2016 through October 1, 2016 (a)	40,000,000
October 1, 2016 (a) through June 30, 2017	26,000,000
July 1, 2017 (a) through June 30, 2018	30,000,000

(a) or the effective date of a state of California budget, whichever is earlier.

Interest is payable monthly at the greater of 2.25% or 1% below the bank's prime rate. No amount was outstanding on the revolving note as of June 30, 2017 and 2016.

**NOTE 5 – Commitments and Contingencies**

***Leases and Related-Party Transactions***

The Foundation is obligated under operating leases expiring November 30, 2039 for its Torrance facilities and December 31, 2029 for its Long Beach facilities. These leases generally require the lessee to pay all maintenance, insurance, and other operating expenses, and are subject to periodic adjustment based on price indexes or contract stipulated annual rate increases.

Rental expense for the years ended June 30, 2017 and 2016 was \$4,724,070 and \$4,691,393, respectively.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 5 – Commitments and Contingencies (Continued)**

*Leases and Related-Party Transactions (Continued)*

Rent expense consisted of the following for the years ended June 30, 2017 and 2016:

	<b>For the Year Ended June 30,</b>	
	<u>2017</u>	<u>2016</u>
Rent and operating expense reimbursement	\$ 4,295,721	\$ 4,191,721
Deferred rent liability increase	<u>428,349</u>	<u>499,672</u>
	<u>\$ 4,724,070</u>	<u>\$ 4,691,393</u>

The Foundation is leasing its main office facilities from Del Harbor Foundation (Del Harbor). Del Harbor, a separately incorporated California nonprofit corporation formed to facilitate and augment the coordination of services and programs of the Foundation or those which benefit clients of the Foundation, and shares common management with the Foundation. During the years ended June 30, 2017 and 2016, the Foundation paid rent and operating expense reimbursement to Del Harbor of \$3,042,495 and \$3,017,197, respectively.

Future minimum lease payments for the Foundation under noncancellable operating leases that have initial or remaining lease terms in excess of one-year as of June 30, 2017 are as follows:

<u>Year Ending June 30,</u>	<u>Del Harbor</u>	<u>Other</u>	<u>Less: Sublease Income</u>	<u>Total</u>
2018	\$ 3,073,639	\$ 1,107,175	\$ (178,418)	\$ 4,002,396
2019	3,119,102	1,140,457	(121,460)	4,138,099
2020	3,165,485	1,174,671	(103,458)	4,236,698
2021	3,201,456	1,209,759	(63,576)	4,347,639
2022	3,238,221	1,245,989	(10,596)	4,473,614
Thereafter	<u>60,882,788</u>	<u>28,798,556</u>	<u>-</u>	<u>89,681,344</u>
	<u>\$ 76,680,691</u>	<u>\$ 34,676,607</u>	<u>\$ (477,508)</u>	<u>\$ 110,879,790</u>

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 5 – Commitments and Contingencies (Continued)**

*Collective Bargaining Agreements*

The Foundation retains approximately 80% of its labor force through Social Services Union, Local 721, Services Employees International Union. This labor force is subject to collective bargaining agreements and, as such, renegotiation of such agreements could expose the Foundation to an increase in hourly costs and work stoppages. In September 2016, negotiations concluded between the Foundation and the Social Services Union, Local 721, Services Employees International Union, extending the current agreements to September 30, 2021.

*Contingencies*

The Foundation is dependent on continued funding provided by the DDS to operate and provide services for its clients. The Foundation's contract with the DDS provides funding for services under the Lanterman Act. In the event that the operations of the Foundation 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 Foundation's funding. Should a system-wide deficit 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, an audit may be performed by an authorized state representative. Should such an audit disclose any unallowable costs, the Foundation may be liable to the state for reimbursement of such costs. In the opinion of the Foundation's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2017 and 2016, and for the years then ended.

The Foundation has elected to finance its unemployment insurance using the prorated cost-of-benefits method. Under this method, the Foundation is required to reimburse the state of California for benefits paid to its former employees.

*Legal Proceedings*

The Foundation is subject to various legal proceedings and claims arising in the ordinary course of its business. While the ultimate outcome of these matters is difficult to predict, management believes that the ultimate resolution of these matters will not have a material adverse effect on the Foundation's financial position or activities.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**NOTE 6 – Retirement Plan**

Effective July 1, 2004, the Foundation restated its retirement plan and adopted a prototype profit-sharing plan with a 401(k) feature. All employees are eligible to enter the plan immediately upon employment. The Foundation makes non-elective contributions to the plan on behalf of participants. These contributions are based on a percentage of compensation earned by participants during the plan year. Employee contributions are not required and entirely voluntary. Participants can contribute up to the federal maximum limit. Beginning November 2016, the Foundation matches 50% of a participant's contributions up to the first 6% of salary, or a maximum employer amount of 3% of salary. Loans are permitted, subject to the terms of the plan document and applicable contract.

The total employer retirement expense for the years ended June 30, 2017 and 2016 was approximately \$2,039,000 and \$1,473,000, respectively.

In addition, effective June 1, 2005, the Foundation established a 457(b) deferred compensation plan. The Foundation does not contribute to this plan; however, employees can contribute to this plan in addition to the retirement plan. Loans are not permitted.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

<b><u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Grant Identification Number</u></b>	<b><u>Federal Expenditures</u></b>
<b>U.S. Department of Education Passed through State of California Department of Developmental Services</b>			
Special Education – Grants for Infants and Families	84.181	H181A160037	<u>\$ 1,152,079</u>

See accompanying notes to schedule of expenditures of federal awards.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Harbor Developmental Disabilities Foundation, Inc. under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Harbor Developmental Disabilities Foundation, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of Harbor Developmental Disabilities Foundation, Inc.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting and based on state contract budget allocations. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C - INDIRECT COST RATE**

Harbor Developmental Disabilities Foundation, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



**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 Trustees of  
Harbor Developmental Disabilities Foundation, Inc.

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 Harbor Developmental Disabilities Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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 January 16, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Harbor Developmental Disabilities Foundation, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Harbor Developmental Disabilities Foundation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Harbor Developmental Disabilities Foundation, Inc.'s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Harbor Developmental Disabilities Foundation, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Harbor Developmental Disabilities Foundation, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Long Beach, California  
January 16, 2018

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees of  
Harbor Developmental Disabilities Foundation, Inc.

***Report on Compliance for Each Major Federal Program***

We have audited Harbor Developmental Disabilities Foundation, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Harbor Developmental Disabilities Foundation, Inc.'s major federal programs for the year ended June 30, 2017. Harbor Developmental Disabilities Foundation, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Harbor Developmental Disabilities Foundation, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harbor Developmental Disabilities Foundation, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Harbor Developmental Disabilities Foundation, Inc.'s compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Harbor Developmental Disabilities Foundation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control over Compliance**

Management of Harbor Developmental Disabilities Foundation, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harbor Developmental Disabilities Foundation, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harbor Developmental Disabilities Foundation, Inc.'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Winder, Inc.*

Long Beach, California  
January 16, 2018

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

The auditors' report expresses an unmodified opinion on whether the financial statements of Harbor Developmental Disabilities Foundation, Inc. were prepared in accordance with generally accepted accounting principles.

Internal control over financial reporting:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Noncompliance material to financial statements noted? – No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Type of auditors' report issued on compliance for major programs – Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? – No

Identification of major programs:

Special Education – Grants for Infants and Families CFDA #84.181.

Dollar threshold used to distinguish between type A and type B programs was \$750,000.

Auditee qualified as low-risk auditee? – Yes

**SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT**

None

**SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

None