

**Harbor Developmental Disabilities
Foundation, Inc.**

Torrance, California

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS

June 30, 2019



Harbor Developmental Disabilities

Foundation, Inc.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Harbor Developmental Disabilities Foundation, Inc. dba Harbor Regional Center, a California nonprofit corporation (the Foundation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Foundation'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 Foundation'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.

INDEPENDENT AUDITORS' REPORT

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2019, 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.

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 is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 Schedule of Expenditures of Federal Awards 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 21, 2020, on our consideration of the Foundation'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 solely 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 Foundation'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 the Foundation's internal control over financial reporting and compliance.

Aiello, Goodrich & Teuscher

January 21, 2020
AGT CPAs & Advisors
Redding, California

FINANCIAL SECTION

Harbor Developmental Disabilities Foundation, Inc.

STATEMENT OF FINANCIAL POSITION

June 30, 2019

ASSETS

Cash and cash equivalents	\$	9,443,641
Cash-client trust funds (Note 4)		774,912
Corporate bonds		125,000
Net receivable - State Regional Center contracts (Note 5)		8,060,391
Receivable - Intermediate Care Facility providers		1,921,230
Prepaid expenses		669,842
Other assets		85,800
Due from State - accrued vacation leave benefits		1,221,993
Due from State - deferred rent		12,119,189

TOTAL ASSETS	\$	34,421,998
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LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$	19,391,769
Accrued and other liabilities		728,570
Accrued vacation leave benefits		1,221,993
Deferred rent		12,119,189
Unexpended client trust funds		774,912

Total Liabilities		34,236,433
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Net Assets

Without donor restrictions		185,565
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Total Net Assets		185,565
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TOTAL LIABILITIES AND NET ASSETS	\$	34,421,998
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The accompanying notes are an integral part of these financial statements.

**Harbor Developmental Disabilities
Foundation, Inc.**

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

SUPPORT AND REVENUE

State Regional Center contracts	\$ 236,259,999
Intermediate Care Facility supplemental services income	3,654,952
Intermediate Care Facility administrative fee	53,419
Interest income	156,161
Donations and other income	308,650

Total Support and Revenue 240,433,181

EXPENSES

Program services:

Client services	237,707,847
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Supporting services:

General and administrative	2,705,445
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Total Expenses 240,413,292

Changes in Net Assets Without Donor Restrictions 19,889

Net Assets - Without Donor Restrictions Beginning of Year 165,676

Net Assets - Without Donor Restrictions End of Year \$ 185,565

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

**Harbor Developmental Disabilities
Foundation, Inc.**

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019	Program Services	Supporting Services	Total Expenses
	Client Services	General and Administrative	
Salaries and Related Expenses			
Salaries	\$ 17,463,048	\$ 1,269,280	\$ 18,732,328
Employee health and retirement benefits	4,664,345	339,022	5,003,367
Payroll taxes	249,966	18,169	268,135
Total Salaries and Related Expenses	22,377,359	1,626,471	24,003,830
Purchase of services:			
Residential care facilities	81,717,222	-	81,717,222
Day program	63,365,760	-	63,365,760
Other purchased services	62,404,403	-	62,404,403
Facility rent	3,997,245	594,272	4,591,517
Equipment and facility maintenance	1,352,595	98,312	1,450,907
Equipment purchases	669,953	48,695	718,648
General expenses	508,965	36,994	545,959
Communication	393,531	28,603	422,134
Contract/consulting services	384,608	27,955	412,563
Office expenses	231,448	16,823	248,271
Travel	122,855	8,930	131,785
Printing	103,663	7,535	111,198
Insurance	78,240	25,145	103,385
Legal fees	-	114,823	114,823
Accounting fees	-	56,000	56,000
Board expenses	-	14,887	14,887
Total	\$ 237,707,847	\$ 2,705,445	\$ 240,413,292

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

**Harbor Developmental Disabilities
Foundation, Inc.**

STATEMENT OF CASH FLOWS

Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$	19,889
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Increase) decrease in:		
Net receivable - State Regional Center contracts		(3,455,602)
Receivable - Intermediate Care Facility providers		(48,582)
Prepaid expenses		(74,083)
Other assets		(19,232)
Increase (decrease) in:		
Accounts payable		1,445,411
Accrued and other liabilities		72,312
Unexpended client trust funds		(59,088)
Net Cash Provided (Used) By Operating Activities		(2,118,975)
Net Increase (Decrease) in Cash and Cash Equivalents		(2,118,975)
Cash and Cash Equivalents - Beginning of Year		12,337,528
Cash and Cash Equivalents - End of Year	\$	10,218,553

COMPONENTS OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents	\$	9,443,641
Cash client trust funds		774,912
Total Cash and Cash Equivalents	\$	10,218,553

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

Harbor Developmental Disabilities Foundation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities 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 maximum expenditures under the contract are limited to the contract amount plus interest earned and other income. The Center is required to maintain records in accordance with the Regional Center Master Contract.

In the event the DDS finds that any regional center, including Harbor Regional Center, is not fulfilling its contractual obligations, the DDS may make reasonable efforts to resolve the matter with the regional center or to renegotiate its contract with the center. If the DDS determines that all efforts to resolve the matter have been unsuccessful it may initiate specified procedures pursuant to California Welfare & Institutions Code §4635 to terminate its contract with the regional center. If necessary, to avoid disruption of the service program, the DDS may, pursuant to California Welfare & Institutions Code §4636, directly operate a regional center during the interim period between the termination of its contract with one governing board and the assumption of operating responsibility by a regional center contract with another governing board.

Basis of Accounting The accompanying financial statements have been prepared on the accrual basis of accounting. 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.

Harbor Developmental Disabilities

Foundation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Financial Statement Presentation The Foundation'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, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets based upon the existence or absence of donor-imposed restrictions, as follows:

Net Assets Without Donor Restrictions: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions: Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. As of June 30, 2019, the Foundation has no net assets with donor restrictions.

Cash and Cash Equivalents For purposes of the statement of cash flows, the Foundation considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. In accordance with the State Regional Center contracts, bank accounts are in the name of both Department of Developmental Services (DDS) and the Foundation.

Significant Concentrations of Credit Risk The Foundation maintains substantially all of its cash and temporary cash investments at one financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2019, and throughout the year, the Foundation has maintained cash balances in excess of federally insured limits. The Foundation has not experienced any loss and management believes it is not exposed to any significant credit risk on such accounts.

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 (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, 2019, the Foundation held \$125,000 in corporate bonds.

Receivable - Intermediate Care Facility Providers

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. 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.

DDS has directed the Foundation to prepare billings for these services on behalf of the ICF's 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 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.

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

Harbor Developmental Disabilities

Foundation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Equipment Purchases In accordance with the State Regional Center contracts, all equipment purchased with contract funds is the property of the State. The Foundation 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 the Foundation and owned by the State at June 30, 2019, was \$1,891,248. This balance includes only the equipment that is sensitive or exceeds \$5,000 as required by System Award Management (SAM) guidelines.

Accrued Vacation Leave Benefits The Foundation has accrued a liability for vacation 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 lease agreements that are 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 to offset the deferred rent liability.

Unexpended Client Trust Funds The Foundation assumes a fiduciary relationship with certain clients who receive funds from private and governmental sources, including the Social Security Administration and Veterans Administration. Client support funds are received from private and governmental sources, including the Social Security Administration and Veterans Administration. These funds are used primarily to offset clients' out-of-home placement and living costs. These funds are held in a separate bank account and interest earnings are credited to the clients' balances.

Contributions The Foundation reports contributions as revenue when they are unconditionally pledged or when they are received. 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. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified on the statement of activities to net assets without donor restrictions.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

Allocation of Expenses The statement of functional expenses allocates 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.

Harbor Developmental Disabilities Foundation, Inc.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Income Taxes The Foundation has received tax-exempt status under Section 501(c)(3) of the *Internal Revenue Code*, and Section 23701(d) of the *California Revenue and Taxation Code*, and has been classified as an organization that is not a private foundation under Section 509(a) of the *Internal Revenue Code*. Accordingly, no provision for income taxes is included in the financial statements.

The Foundation accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes and how an uncertain tax position is recognized in financial statements. The Foundation analyzes tax positions taken in previously filed returns and tax positions expected to be taken in future returns. Based on this analysis, a liability is recorded if uncertain tax benefits have been received. The Foundation's practice is to recognize interest and penalties, if any, related to uncertain tax positions in the tax expense. There were no uncertain tax positions identified or related interest and penalties recorded as of June 30, 2019, and the Foundation does not expect this to change significantly over the next 12 months.

Revenue Concentration State Regional Center contract revenue is revenue received from the State in accordance with the Lanterman Act. 98% of revenue is derived from this source.

Concentration of Labor 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.

Use of Estimates and Assumptions The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Recently Issued Accounting Pronouncements In May 2014 the FASB issued a new standard on revenue recognition, ASU 2014-09, *Revenue from Contracts with Customers*, with the intent of creating a new, principle-based revenue recognition framework. The ASU creates a new topic in the FASB Accounting Standards Codification, Topic 606, in addition to superseding and replacing nearly all existing U.S. GAAP revenue recognition guidance. The main provisions of the ASU are:

1. Establish a new control-based revenue recognition model.
2. Changes the basis for deciding when revenue is recognized over time or at a point in time.
3. Provides new and more detailed guidance on specific topics.
4. Expands and improves disclosures about revenue.

The ASU is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of this ASU on its financial statements.

Harbor Developmental Disabilities

Foundation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

In June 2018 the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, with the intent of clarifying the definition of an exchange transaction. As a result, NFPs will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). The new guidance requires modified prospective transition. In the period of adoption, the changes will apply to new agreements entered into after the effective date, as well as the remaining portions of any agreements from prior years that have not been completed as of the effective date. However, full retrospective application can be elected, if desired. The amendments in this update are effective for annual financial statements issued for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of this ASU on their financial statements.

In February 2016 the FASB issued 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, 2020 (fiscal year ending June 30, 2022 for the Foundation), with early adoption permitted. Management is currently evaluating the impact of this ASU on its financial statements.

Subsequent Events Management has evaluated subsequent events through January 21, 2020, the date on which the financial statements were available to be issued.

2. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

June 30, 2019

Cash and cash equivalents	\$ 9,443,641
Net Receivable - State Regional Center contracts	8,060,391
Receivable - Intermediate Care Facilities	1,921,230
Total	\$ 19,425,262

Harbor Developmental Disabilities Foundation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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

In addition, the Foundation maintains a revolving note (Note 6) to manage cash flow requirements as needed should there be delays in reimbursement for expenditures from DDS.

3. FUNDING LIMITS

The Foundation contracts with DDS to operate a regional center to provide services and support for individuals with developmental disabilities and their families. Contracts are open for the current and two prior fiscal years as follows:

Fiscal Years Ended	Contract Amount	Cumulative Expenses	Unexpended Balance
June 30, 2019	\$ 233,376,794	\$ 226,435,637	\$ 6,941,157
June 30, 2018	\$ 213,692,606	\$ 211,603,016	\$ 2,089,590
June 30, 2017	\$ 204,910,765	\$ 203,520,721	\$ 1,390,044

Management monitors the unexpended balance annually to avoid overspending the contract limits. A majority of the unexpended balance is related to purchase of service for client services and this amount could change due to delinquent billings. Management believes that total expenditures for each open year will not exceed the final approved State contract amount.

4. 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.

Harbor Developmental Disabilities Foundation, Inc.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The following is a summary of operating cash activity for the year ended June 30, 2019:

Year Ended June 30, 2019	
Social security and other client support received	\$ 6,198,019
Residential care and other disbursements	6,198,012
Support Over (Under) Disbursements	7
Changes to reconcile support under disbursements to net cash used in support and care activities:	
(Decrease) increase in receivable from state and federal agencies	(98,747)
Increase (decrease) in amounts due to the Foundation	39,652
Net Cash Provided for (Used In) Support and Care Activities	(59,088)
Cash - Beginning of Year	834,000
Cash - End of Year	\$ 774,912

5. NET RECEIVABLE – STATE REGIONAL CENTER CONTRACTS

Contracts receivable represent amounts due from the State for reimbursement of expenditures made by the Foundation under the annual Regional Center contracts. Advances represent cash advances received by the Foundation under the annual Regional Center contracts. Amounts receivable from the State are offset against advances payable when the State notifies the Foundation that a right of offset exists.

Year Ended June 30, 2019	
Contracts receivable	\$ 64,401,022
Less: Contract advances	(56,340,631)
Net Receivable - State Regional Center Contracts	\$ 8,060,391

The Foundation considers all amounts receivable under grant contracts to be collectible; accordingly, no allowance for doubtful accounts exists.

6. SHORT-TERM BORROWINGS

The Foundation has a \$32,000,000 line of credit with City National Bank, secured by an interest in all personal property and assets of the Foundation. Interest on the outstanding balance is payable monthly at the greater of 2.25% or 1% below the bank's prime rate, which was 5.5% at June 30, 2019. The line of credit expired June 30, 2019, and was subsequently renewed through June 30, 2020, with a limit of \$36,000,000. No amount was drawn during the fiscal year, nor was any amount outstanding on the line of credit as of June 30, 2019.

Harbor Developmental Disabilities Foundation, Inc.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. LEASE COMMITMENTS

The Foundation is obligated under operating leases for facilities and equipment with expiration dates through November 30, 2039. The facility 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.

Future minimum payments under these leases are as follows:

Years Ending June 30	Del Harbor	Other Facility	Equipment	Less: Expected Sublease Income	Total
2020	\$ 3,200,671	\$ 1,286,275	\$ 177,512	\$ (203,669)	\$ 4,460,789
2021	3,236,641	1,324,696	177,512	(148,107)	4,590,742
2022	3,273,406	1,364,369	175,698	(15,255)	4,798,218
2023	3,310,989	1,405,393	175,093	-	4,891,475
2024	3,349,413	1,447,603	29,182	-	4,826,198
Thereafter	54,486,270	28,681,671	-	-	83,167,941
Total	\$ 70,857,390	\$ 35,510,007	\$ 734,997	\$ (367,031)	\$ 106,735,363

Rental expense for the year ended June 30, 2019 was \$4,792,514.

Related Party

The Foundation is leasing its main office facilities from Del Harbor Foundation (Del Harbor). Del Harbor is 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 year ended June 30, 2019, the Foundation paid rent and operating expense reimbursement to Del Harbor of \$3,171,793.

8. CONTINGENCIES AND LITIGATION

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.

Harbor Developmental Disabilities Foundation, Inc.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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, 2019.

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.

8. 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 are 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, 2019 was \$2,117,442.

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.

SUPPLEMENTARY INFORMATION SECTION

Harbor Developmental Disabilities

Foundation, Inc.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Contract Year	Federal CFDA Number	Pass-Through Number	Disbursements/ Expenditures
FEDERAL				
U.S. DEPARTMENT OF EDUCATION				
Passed Through State of California				
Department of Developmental Services -				
Special Education - Grants for Infants and Families with Disabilities (Part C)	18/19	84.181A	H181A180037	\$ 892,237
Total U.S. Department of Education				892,237
Total Expenditures of Federal Awards				\$ 892,237

Purpose of Schedules

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) requires a disclosure of the financial activities of all federally funded programs. This schedule was prepared to comply with the Uniform Guidance and state requirements.

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grants activity of the Foundation and is presented on the accrual basis of accounting as provided by the California Department of Developmental Services. The information in this schedule is presented in accordance with the requirements the Uniform Guidance, *Audits of States, Local Governments, and Non-Profit Organizations*.

Indirect Cost Rate

The Foundation did not elect to use the 10% de minimis method for indirect costs.

OTHER REPORTS SECTION



**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
Harbor Developmental Disabilities Foundation, Inc.
Torrance, California

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. dba Harbor Regional Center, a California nonprofit corporation (the Foundation), which comprise the statement of financial position as of June 30, 2019, 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 21, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 Foundation'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.

**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***

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Aiello, Goodrich & Teuscher

January 21, 2020
AGT CPAs & Advisors
Redding, California



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Directors
Harbor Developmental Disabilities Foundation, Inc.
Torrance, California

Report on Compliance for Each Major Federal Program

We have audited Harbor Developmental Disabilities Foundation, Inc.'s, a California nonprofit corporation (the Foundation) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on the Foundation's major federal program for the year ended June 30, 2019. The Foundation's major federal program is 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 requirements of laws, regulations, contracts, and grants applicable to its federal award program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance on the Foundation's major federal program 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 (CFR) 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 the Foundation'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 the major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

(Continued)

Opinion on Each Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the Foundation 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 the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the Foundation'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.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

(Continued)

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.

Aiello, Goodrich & Teuscher

January 21, 2020
AGT CPAs & Advisors
Redding, California

FINDINGS AND RECOMMENDATIONS SECTION

Harbor Developmental Disabilities

Foundation, Inc.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2019

SECTION I

SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Is any noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Are any material weaknesses identified?	No
Are any significant deficiencies identified?	None reported
Type of auditors' report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No
Identification of major programs:	
CFDA No. 84.181A Special Education – Grants for Infants and Families with Disabilities (Part C)	
Threshold for distinguishing types A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II FINDINGS

FINANCIAL STATEMENTS AUDIT

None

SECTION III FINDINGS

FEDERAL AWARDS AUDIT

None

**Harbor Developmental Disabilities
Foundation, Inc.**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2019

None