

FINANCIAL STATEMENTS
JUNE 30, 2014



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 statement of financial position as of June 30, 2014, 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 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, 2014, 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, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 December 2, 2014, 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 the 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.

Winder, Inc.

Long Beach, California
December 2, 2014

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014**

ASSETS

ASSETS

Cash and cash equivalents	\$ 6,155,011
Certificates of deposit	67,379
Cash - client trust funds (Note 2)	921,787
Contracts receivable - state of California (Note 3)	4,543,301
Receivable from Intermediate Care Facility vendors	1,464,303
Prepaid expenses	86,059
Other assets	93,595
Receivable from state for accrued vacation and other leave benefits	901,966
Receivable from state for deferred rent	<u>8,143,327</u>

TOTAL ASSETS \$ 22,376,728

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 12,329,476
Accrued salaries	338,471
Accrued vacation and other leave benefits	901,966
Deferred rent liability	8,143,327
Unexpended client trust funds	<u>534,979</u>
	<u>22,248,219</u>

COMMITMENTS AND CONTINGENCIES (Note 5)

NET ASSETS

Unrestricted	<u>128,509</u>
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TOTAL LIABILITIES AND NET ASSETS \$ 22,376,728

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

CHANGE IN UNRESTRICTED NET ASSETS

SUPPORT AND REVENUE

Contracts - state of California	\$ 146,966,959
Intermediate Care Facility supplemental services income	4,845,386
Interest income	9,791
Donations and grants	75,204
Other income	<u>384,493</u>
Total Support and Revenue	<u>152,281,833</u>

EXPENSES

Program Services	
Direct client services	<u>150,094,294</u>
Supporting services	
General and administrative	<u>2,174,166</u>
Total Expenses	<u>152,268,460</u>

CHANGE IN NET ASSETS 13,373

NET ASSETS AT BEGINNING OF YEAR 115,136

NET ASSETS AT END OF YEAR \$ 128,509

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, 2014**

	<u>Program Services</u>	<u>Supporting Services</u>	
	<u>Direct Client Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Salaries	\$ 12,039,154	\$ 1,076,822	\$ 13,115,976
Employee health and retirement benefits	2,847,925	254,728	3,102,653
Payroll taxes	<u>213,112</u>	<u>19,061</u>	<u>232,173</u>
Total Salaries and Related Expenses	15,100,191	1,350,611	16,450,802
Purchase of services:			
Residential care facilities	46,283,384		46,283,384
Day program	12,873,476		12,873,476
Other purchased services	68,050,774		68,050,774
Communication	304,817	27,264	332,081
General office expenses	366,660	32,795	399,455
Printing	35,905	3,211	39,116
Insurance	83,527	40,688	124,215
General expenses	331,045	29,610	360,655
Facility rent	4,661,917	416,977	5,078,894
Equipment and facility maintenance	807,117	72,191	879,308
Consultant fees	636,806	56,958	693,764
Equipment purchases	482,376	43,145	525,521
Board expenses		20,624	20,624
Staff travel	76,299	6,824	83,123
Legal fees		25,678	25,678
Accounting fees		<u>47,590</u>	<u>47,590</u>
TOTAL EXPENSES	<u>\$ 150,094,294</u>	<u>\$ 2,174,166</u>	<u>\$ 152,268,460</u>

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014**

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 13,373
Adjustments to reconcile change in net assets to net cash used in operating activities:	
(Increase) decrease in:	
Cash – client trust funds	(4,930)
Contracts receivable - state of California	(2,144,162)
Receivable from Intermediate Care Facility vendors	7,675,042
Prepaid expenses	210,822
Other assets	(25,903)
Receivable from state for accrued vacation and other leave benefits	(81,859)
Receivable from state for deferred rent	(1,320,066)
Increase (decrease) in:	
Accounts payable	1,087,623
Accrued salaries	98,389
Accrued vacation and other leave benefits	81,859
Payable to Department of Developmental Services	(7,556,774)
Deferred rent liability	1,320,066
Unexpended client trust funds	14,813
Net Cash Used In Operating Activities	(631,707)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(631,707)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>6,786,718</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,155,011</u>

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

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 percent of the governing board be persons with developmental disabilities or their parents or legal guardians; and that no less than 25 percent 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. Foundation contracts with the DDS total \$146,472,172 for the 2013-2014 contract year and are subject to budget amendments. As of June 30, 2014, actual net expenditures under the 2013-2014 contract were \$139,252,945.

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

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, 2014, the Foundation had no temporarily or permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions.

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.

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents and Concentration of Credit Risk

For the purpose of the statement of cash flows, the Foundation considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. At June 30, 2014 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.

Certificates of Deposit

The Foundation accounts for certificates of deposit 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). 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.

Certificates of deposit are financial instruments that are measured at fair value on a recurring basis in the accompanying statement of financial position. Generally, identical instruments to certificates of deposit are not traded in active markets and, as such, fair value is based on estimates using present value or other valuation techniques such as discounted cash flows and observable inputs for similar instruments. Therefore, the certificates of deposit are classified within Level 2 of the fair value hierarchy.

At June 30, 2014, the Foundation held \$67,379 in certificates of deposit.

Contracts Receivable - State of California

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Receivables from Intermediate Care Facility Vendors

The Centers for Medicare and Medicaid Services (CMS) has approved federal financial participation in the funding of the day and transportation services related to the Foundation's Intermediate Care Facility (ICF) services. The federal rules allow for only one provider of the ICF service, requiring all the Medicaid funding for the ICF resident to go through the applicable vendors. The Foundation receives a 1.5% administrative fee based on the funds received to cover the additional workload.

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 their 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 year ended June 30, 2014, equipment purchases totaled approximately \$526,000.

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, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Allocation of Expenses

The statement 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 December 2, 2014, the date at when the financial statements were available to be issued for the year ended June 30, 2014, and determined that there were no other items to disclose.

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

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. The following is a summary of operating cash activity for the year ended June 30, 2014:

Social Security and other client support received	\$ 6,671,402
Residential care and other disbursements	<u>6,647,592</u>
Support over disbursements	23,810
Changes to reconcile support over disbursements to net cash used in support and care activities:	
Decrease in receivable from state and federal agencies	(10,285)
Decrease in amounts due to the Foundation	<u>(8,595)</u>
Net cash provided for support and care activities	4,930
Cash at beginning of year	<u>916,857</u>
Cash at end of year	<u>\$ 921,787</u>

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

As of June 30, 2014, the DDS had advanced the Foundation approximately \$36,446,000 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:

Contracts receivable	\$ 40,988,964
Contract advances	<u>(36,445,663)</u>
Net contracts receivable	<u>\$ 4,543,301</u>

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 4 – Short-Term Borrowings

The Foundation has a revolving note with a bank whereby it may borrow up to \$15,000,000 until June 30, 2014, and then up to \$36,000,000 until the earlier date of October 1, 2014 or the effective date of a state of California budget with respect to the State General Fund for the fiscal year commencing July 1, 2014 then \$17,000,000 until the maturity date of June 30, 2015. Interest is payable monthly at the greater of 3.5% or 1% below the bank's prime rate. No amount was outstanding on the revolving note as of June 30, 2014.

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, 2015 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 year ended June 30, 2014 was \$5,078,894.

Rent expense consisted of the following for the year ended June 30, 2014:

Rent and operating expense reimbursement	\$ 3,758,828
Deferred rent	<u>1,320,066</u>
	<u>\$ 5,078,894</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, shares common management with the Foundation. During the year ended June 30, 2014, the Foundation paid rent and operating expense reimbursement to Del Harbor of \$2,805,934.

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 5 – Commitments and Contingencies (Continued)

Leases and Related Party Transactions (Continued)

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, 2014 are as follows:

<u>Year Ending June 30,</u>	<u>Del Harbor</u>	<u>Other</u>	<u>Less: Sublease Income</u>	<u>Total</u>
2015	\$ 2,182,326	\$ 1,087,083	(\$ 202,059)	\$ 3,067,350
2016	2,247,796	1,080,458	(138,540)	3,189,714
2017	2,315,229	1,074,766	(95,941)	3,294,054
2018	2,384,686	1,107,175		3,491,861
2019	2,456,227	1,140,457		3,596,684
Thereafter	<u>69,458,469</u>	<u>32,428,975</u>		<u>101,887,444</u>
	<u>\$ 81,044,733</u>	<u>\$ 37,918,914</u>	<u>(\$ 436,540)</u>	<u>\$ 118,527,107</u>

Collective Bargaining Agreements

The Foundation retains approximately 80 percent of its labor force through Social Services Union, Local 721 Services Employees International Union, AFL-CIO. 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. The current agreements are generally effective through March 24, 2016.

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

JUNE 30, 2014

NOTE 5 – Commitments and Contingencies (Continued)

Contingencies (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, 2014, and for the year 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.

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. Participants can contribute up to the federal maximum limit. The Foundation is not required to match a participant's contribution. The Foundation may make discretionary employer contributions to the plan allocated in direct proportion to the participant's pay. Loans are permitted, subject to the terms of the plan document and applicable contract.

The total employer retirement expense for the year ended June 30, 2014 was approximately \$1,350,000.

In addition, effective June 1, 2005, the Foundation established a 457(b) deferred compensation plan. Loans are not permitted.

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Federal Grantor/ Pass-Through Grantor/ Grant Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Expenditures</u>
U.S. Department of Education Passed through State of California Department of Developmental Services			
Special Education – Grants for Infants and Families	84.181	HD099007	<u>\$ 1,383,978</u>

Note to Schedule of Expenditures of Federal Awards

Basis of Presentation

The Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Harbor Developmental Disabilities Foundation, Inc. and is prepared based on state contract budget allocations. Expenditures reported on the Schedule are reported on the accrued basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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

To the Board of 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, 2014, 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 December 2, 2014.

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 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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Long Beach, California
December 2, 2014

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 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, 2014. 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 requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Windes, Inc.".

Long Beach, California
December 2, 2014

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued - Unmodified

Internal control over financial reporting

1. Material weakness(es) identified? - No
2. Significant deficiencies identified? - None reported
3. Noncompliance material to financial statements noted? - No

Federal Awards

Internal control over major programs

1. Material weakness(es) identified? - No
2. Significant deficiencies identified? - None reported
3. Type of auditors' report issued on compliance for major programs? - Unmodified
4. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? - No
5. Identification of major programs:
Special Education - Grants for Infants and Families CFDA #84.181.
6. Dollar threshold used to distinguish between type A and type B programs was \$300,000.
7. 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