

Harbor Developmental Disabilities Foundation

Torrance, California

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITORS' REPORTS**

June 30, 2022 and 2021



Harbor Developmental Disabilities Foundation

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

Opinion

We have audited the financial statements of Harbor Developmental Disabilities Foundation dba Harbor Regional Center, a California nonprofit corporation (the Foundation), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management 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 and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date the financial statements are issued.

INDEPENDENT AUDITORS' REPORT

(Continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

INDEPENDENT AUDITORS' REPORT

(Continued)

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The 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 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 17, 2023, 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.

AGT CPAs & Advisors

AGT CPAs & Advisors
Redding, California
January 17, 2023

FINANCIAL SECTION

Harbor Developmental Disabilities Foundation

STATEMENTS OF FINANCIAL POSITION

June 30,	2022	2021
ASSETS		
Cash and cash equivalents	\$ 22,490,752	\$ 26,709,473
Cash - client trust funds (Note 4)	709,102	694,905
Corporate bonds	98,070	100,342
Net receivable - State Regional Center contracts (Note 5)	6,140,202	561,760
Receivable - Intermediate Care Facility providers	850,943	1,361,647
Prepaid expenses	677,856	850,315
Other assets	88,217	118,784
Due from State - accrued vacation leave benefits	1,582,008	1,438,840
Due from State - deferred rent	13,022,109	12,989,087
TOTAL ASSETS	\$ 45,659,259	\$ 44,825,153
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 27,848,045	\$ 28,083,296
Accrued and other liabilities	2,292,932	1,383,812
Accrued vacation leave benefits	1,582,008	1,438,840
Deferred rent	13,022,109	12,989,087
Unexpended client trust funds (Note 4)	709,102	694,905
Total Liabilities	45,454,196	44,589,940
Net Assets		
Without donor restrictions	205,063	235,213
Total Net Assets	205,063	235,213
TOTAL LIABILITIES AND NET ASSETS	\$ 45,659,259	\$ 44,825,153

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

Harbor Developmental Disabilities Foundation

STATEMENTS OF ACTIVITIES

Years Ended June 30	2022	2021
SUPPORT AND REVENUE		
State Regional Center contracts	\$ 298,460,983	\$ 279,661,012
Intermediate Care Facility supplemental services income	2,511,016	3,007,561
Intermediate Care Facility administrative fee	44,870	58,987
Interest income	29,603	76,063
Cares Act Provider Relief funds	-	552,273
Donations and other income	204,179	299,317
Total Support and Revenue	301,250,651	283,655,213
EXPENSES		
Program services:		
Client services	298,176,153	280,814,404
Supporting services:		
General and administrative	3,104,648	2,826,369
Total Expenses	301,280,801	283,640,773
Changes in Net Assets Without Donor Restrictions	(30,150)	14,440
Net Assets - Without Donor Restrictions - Beginning of Year	235,213	220,773
Net Assets - Without Donor Restrictions - End of Year	\$ 205,063	\$ 235,213

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

Harbor Developmental Disabilities Foundation

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022	Program	Supporting	Total
	Services	Services	
	Client	General and	Expenses
	Services	Administrative	
Purchase of Services			
Residential care facilities	\$ 103,355,109	\$ -	\$ 103,355,109
Day program	73,587,120	-	73,587,120
Other purchased services	83,225,592	-	83,225,592
Total Purchase of Services	260,167,821	-	260,167,821
Salaries and Related Expenses:			
Salaries	21,778,949	1,484,188	23,263,137
Employee health and retirement benefits	5,927,832	403,969	6,331,801
Payroll taxes	308,211	21,004	329,215
Facility rent	4,466,666	448,546	4,915,212
Equipment and facility maintenance	1,561,110	106,386	1,667,496
Equipment purchases	1,419,766	96,754	1,516,520
General expenses	908,597	61,919	970,516
Contract/consulting services	592,968	40,409	633,377
Communication	510,942	34,820	545,762
Insurance	176,596	82,227	258,823
Office expenses	234,215	15,961	250,176
Legal fees	-	235,896	235,896
Printing	114,808	7,824	122,632
Accounting fees	-	52,000	52,000
Board expenses	-	12,222	12,222
Travel	7,672	523	8,195
Total	\$ 298,176,153	\$ 3,104,648	\$ 301,280,801

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

Harbor Developmental Disabilities Foundation

STATEMENTS OF FUNCTIONAL EXPENSES

(Continued)

Year Ended June 30, 2021	Program Services <u>Client Services</u>	Supporting Services <u>General and Administrative</u>	Total Expenses
Purchase of Services			
Residential care facilities	\$ 100,210,065	\$ -	\$ 100,210,065
Day program	73,514,399	-	73,514,399
Other purchased services	74,408,649	-	74,408,649
Total Purchase of Services	248,133,113	-	248,133,113
Salaries and Related Expenses:			
Salaries	19,523,770	1,417,740	20,941,510
Employee health and retirement benefits	5,282,017	383,560	5,665,577
Payroll taxes	206,522	14,997	221,519
Facility rent	4,203,985	536,815	4,740,800
General expenses	1,319,861	95,844	1,415,705
Equipment and facility maintenance	800,596	58,138	858,734
Communication	400,034	29,048	429,082
Equipment purchases	377,292	27,398	404,690
Insurance	126,893	62,062	188,955
Office expenses	172,168	12,504	184,672
Printing	133,707	9,710	143,417
Contract/consulting services	132,378	9,612	141,990
Legal fees	-	115,537	115,537
Accounting fees	-	51,200	51,200
Travel	2,068	151	2,219
Board expenses	-	2,053	2,053
Total	\$ 280,814,404	\$ 2,826,369	\$ 283,640,773

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

Harbor Developmental Disabilities Foundation

STATEMENTS OF CASH FLOWS

Years Ended June 30	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (30,150)	\$ 14,440
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
(Increase) decrease in:		
Net receivable - State Regional Center contracts	(5,578,442)	5,047,722
Receivable - Intermediate Care Facility providers	510,704	886,694
Prepaid expenses	172,459	(253,212)
Other assets	30,567	15,786
Increase (decrease) in:		
Accounts payable	(235,251)	2,743,497
Accrued and other liabilities	909,120	346,872
Unexpended client trust funds	14,197	176,265
Net Cash Provided (Used) By Operating Activities	(4,206,796)	8,978,064
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(50,000)	(50,000)
Proceeds from sale of investments	52,272	50,597
Net Cash Provided (Used) By Investing Activities	2,272	597
Net Increase (Decrease) in Cash and Cash Equivalents	(4,204,524)	8,978,661
Cash and Cash Equivalents - Beginning of Year	27,404,378	18,425,717
Cash and Cash Equivalents - End of Year	\$ 23,199,854	\$ 27,404,378
COMPONENTS OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 22,490,752	\$ 26,709,473
Cash client trust funds	709,102	694,905
Total Cash and Cash Equivalents	\$ 23,199,854	\$ 27,404,378
SCHEDULE OF NONCASH		
Increase in due from state - accrued vacation leave benefits	\$ (143,168)	\$ (119,832)
Increase in due from state - deferred rent	(33,022)	(120,651)
Increase in accrued vacation leave benefits	143,168	119,832
Increase in deferred rent	33,022	120,651
Total	\$ -	\$ -

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

Harbor Developmental Disabilities Foundation

NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities Harbor Developmental Disabilities Foundation (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 Foundation is required to maintain records in accordance with the Regional Center Master Contract.

In the event the DDS finds that any regional center, including the Foundation, 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 Foundation. 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.

Harbor Developmental Disabilities Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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.

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, 2022 and 2021, 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 DDS and the Foundation.

Significant Concentrations of Credit Risk The Foundation maintains substantially all of its cash and temporary cash investments at two financial institutions. Accounts at the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times the Foundation's cash balances may exceed federally insured limits. The Foundation began to utilize the Insured Cash Sweep (ICS) service provided through one of the financial institutions. The ICS service places excess funds into demand deposit accounts at various ICS Network member institutions in increments below the FDIC insurance maximum of \$250,000. The Foundation has not experienced any loss and management believes it is not exposed to any significant risk on such accounts.

Harbor Developmental Disabilities Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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).

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.

The Foundation held \$98,070 and \$100,342 at June 30, 2022 and 2021, respectively, in corporate bonds.

State Regional Center Contract Receivables and Advances Contracts receivable represent amounts due from the State for reimbursement of expenditures made by the Foundation under the annual regional center contracts. The Foundation considers all amounts receivable under grant contracts to be collectible; accordingly, no allowance for doubtful accounts exists.

The contract advance balance represents 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.

Harbor Developmental Disabilities Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Receivable - Intermediate Care Facility Providers The Center for Medicare and Medicaid Services (CMS) approved federal financial participation in the funding of day and related transportation services purchased by the Foundation for clients 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.

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 was \$1,190,893 and \$1,427,037 at June 30, 2022 and 2021, respectively. These balances include 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. 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.

Harbor Developmental Disabilities Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Revenue and Revenue Recognition The Foundation recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

A significant portion of the Foundation's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Foundation has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are recorded as an advance and included with the Net receivable - State Regional Center contracts balance on the statement of financial position. The Foundation received cost-reimbursable grants of \$81,412,231 and \$63,632,346 that have not been recognized in revenue at June 30, 2022 and 2021, respectively, because qualifying expenditures have not yet been incurred. See Note 5 for detail on the Net receivable - State Regional Center contracts balance.

Federal Grants The Foundation received two federal grants as of June 30, 2022, as follows:

U.S. Department of Education: The Foundation is a sub-recipient to State of California DDS with regard to the Special Education Grants for Infants and Families, which provides funding for early intervention services for infants and toddlers, through age 3, as authorized by Public Law 102-119. Revenue received from this program was \$884,517 and \$882,940 for the years ended June 30, 2022 and 2021, respectively, and is included in State Regional Center contracts revenue on the statement of activities.

U.S. Department of Health and Human Services: The Foundation is a recipient of the CARES Act Provider Relief Fund made available to providers of health care services and supports, including agencies serving people with developmental disabilities. Allowable expenses under the Provider Relief Fund must be used to prevent, prepare for and respond to coronavirus (COVID-19), and for related expenses or lost revenues attributable to COVID-19. Funding cannot be used where another source has reimbursed or is obligated to reimburse these expenses or losses. Revenue received from this program was \$0 and \$552,273 for the years ended June 30, 2022 and 2021, respectively, and is included on the statement of activities.

Revenue Concentration State Regional Center contract revenue is revenue received from the State in accordance with the Lanterman Act. 99% of the Foundation's revenue is derived from this source.

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

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, 2022 and 2021, and the Foundation does not expect this to change significantly over the next 12 months.

Concentration of Labor The Foundation retains approximately 80% of its labor force through Social Services Union, Local 721, Services Employees International Union (Union). This labor force is subject to a collective bargaining agreement and, as such, renegotiation of such agreement could expose the Foundation to an increase in hourly costs and work stoppages. In July 2022, negotiations concluded between the Foundation and the Union, extending the current agreement to June 30, 2025.

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 February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the statement of financial position for most leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of activities. In May 2020, the FASB issued ASU 2020-05, which delayed the effective date of the standard to annual reporting periods beginning after December 15, 2021. Management is currently evaluating the impact of this standard on its financial statements.

Subsequent Events Management has evaluated subsequent events through January 17, 2023, the date on which the financial statements were available to be issued.

Harbor Developmental Disabilities Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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	2022	2021
Cash and cash equivalents	\$ 22,490,752	\$ 26,709,473
Net Receivable - State Regional Center contracts	6,140,202	561,760
Receivable - Intermediate Care Facilities	850,943	1,361,647
Total	\$ 29,481,897	\$ 28,632,880

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 allocates 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, 2022	\$ 329,106,392	\$ 291,123,550	\$ 37,982,842
June 30, 2021	\$ 289,000,034	\$ 279,342,653	\$ 9,657,381
June 30, 2020	\$ 261,736,418	\$ 257,197,107	\$ 4,539,311

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.

Harbor Developmental Disabilities Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

4. UNEXPENDED 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 year ended June 30, 2022 and 2021:

Years Ended June 30	2022	2021
Social security and other client support received	\$ 2,901,634	\$ 2,753,942
Residential care and other disbursements	2,900,950	2,541,027
Support Over (Under) Disbursements	684	212,915
Changes to reconcile support under disbursements to net cash used in support and care activities:		
(Decrease) increase in receivable from state and federal agencies	25,346	(25,044)
Increase (decrease) in amounts due to the Foundation	(11,833)	(11,606)
Subtotal	13,513	(36,650)
Net Cash Provided for (Used In) Support and Care Activities	14,197	176,265
Cash - Client Trust Funds - Beginning of Year	694,905	518,640
Cash - Client Trust Funds - End of Year	\$ 709,102	\$ 694,905

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.

Years Ended June 30	2022	2021
Contracts receivable	\$ 87,552,433	\$ 64,194,106
Less: Contract advances	(81,412,231)	(63,632,346)
Net Receivable - State Regional Center Contracts	\$ 6,140,202	\$ 561,760

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

Harbor Developmental Disabilities Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

6. SHORT-TERM BORROWINGS

The Foundation began the year with a \$43,000,000 line of credit with Opus Bank, secured by an interest in all personal property and assets of the Foundation. Interest on the outstanding balance is payable monthly at the one-month secure overnight financing rate (SOFR) plus an interest rate margin of 2.15%, adjusting daily, with a floor rate of 3.00%. On May 24, 2022, the Foundation extended their line of credit with Pacific Premier Bank to expire June 30, 2023. Effective July 1, 2022, the limit was increased to \$45,000,000. No amount was drawn during the fiscal years ended June 30, 2022 and 2021, nor was any amount outstanding on the line of credit as of June 30, 2022 and 2021.

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 Lessor	Less: Expected		Equipment	Total
			Sublease	Income		
2023	\$ 3,374,643	\$ 1,405,393	\$ (88,099)	\$ 175,093	\$ 4,867,030	
2024	3,414,977	1,447,602	(55,133)	29,182	4,836,628	
2025	3,456,231	1,491,000	(4,605)	-	4,942,626	
2026	3,486,793	1,535,813	-	-	5,022,606	
2027	3,518,272	1,581,747	-	-	5,100,019	
Thereafter	45,316,039	24,073,110	-	-	69,389,149	
Total	\$ 62,566,955	\$ 31,534,665	\$ (147,837)	\$ 204,275	\$ 94,158,058	

Total rental expense was \$5,151,722 and \$4,962,084 for the years ended June 30, 2022 and 2021, respectively.

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 the Foundation provides administrative support services to Del Harbor. The Foundation paid rent and operating expense reimbursement to Del Harbor of \$3,368,989 and \$3,293,851 for the years ended June 30, 2022 and 2021, respectively.

Harbor Developmental Disabilities Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

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.

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, 2022 and 2021.

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.

9. COMMITMENTS

The Foundation contracts with various providers of services for the developmentally disabled. Significant unpaid commitments under these contracts as of June 30, 2022 and 2021, were \$2,159,144 and \$2,109,486, respectively.

Harbor Developmental Disabilities Foundation

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

10. 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, 2022 and 2021, were \$3,113,008 and \$2,627,084, 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.

SUPPLEMENTARY INFORMATION SECTION

Harbor Developmental Disabilities Foundation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Contract Year	Assistance Listing Number	Pass-Through Number	Disbursements/Expenditures
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)	21/22	84.181A	H181A210037	\$ 884,517
Total U.S. Department of Education				884,517
U.S DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Provider Relief Fund	20/21	93.498	N/A	552,273
Total U.S. Department of Health and Human Services				552,273
Total Expenditures of Federal Awards				\$ 1,436,790

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Foundation under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the 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). Because this schedule presents only a selected portion of the operations of the Foundation, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of the Foundation.

Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. 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. Part C expenditures are based on state contract budget allocations.

Indirect Cost Rate

The Foundation has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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
Torrance, California

We have audited 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, the financial statements of Harbor Developmental Disabilities Foundation dba Harbor Regional Center, a California nonprofit corporation (the Foundation), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 17, 2023.

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) as a basis for designing 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

AGT CPAs & Advisors

AGT CPAs & Advisors
Redding, California
January 17, 2023

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

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

Report on Compliance for Each Major Federal Program

We have audited Harbor Developmental Disabilities Foundation's, (the Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation's major federal programs for the year ended June 30, 2022. The Foundation'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 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 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 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, 2022.

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 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.

AGT CPAs & Advisors

AGT CPAs & Advisors

Redding, California

January 17, 2023

FINDINGS AND QUESTIONED COSTS SECTION

Harbor Developmental Disabilities Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2022

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:			
Assistance Listing Number	84.181A	Special Education – Grants for Infants and Families with Disabilities (Part C)	
Assistance Listing Number	93.498	Provider Relief Fund	
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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2022

None