HARBOR
REGIONAL
CENTER

FINANCIAL STATEMENTS
JUNE 30, 2024 AND 2023

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Harbor Developmental Disabilities Foundation

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 statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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 Auditors' 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.

Responsibilities 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2025, 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, 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 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.

Prior Year Financial Statements Audited by a Predecessor Auditor

The financial statements of the Foundation as of and for the year ended June 30, 2023 were audited by other auditors whose report dated January 16, 2024 expressed an unmodified opinion on those financial statements.

Windes, Inc.

Long Beach, California
January 21, 2025

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION

STATEMENT OF FINANCIAL POSITION

ASSETS

	June 30,	
	2024	2023
ASSETS		
Cash and cash equivalents	$ 30,564,886	$ 35,192,909
Cash and cash equivalents - client trust funds	117,569	785,366
Investments	49,795	98,280
Receivable - State Regional Center contracts	11,502,151	885,202
Receivable - Intermediate Care Facility providers	546,973	667,418
Prepaid expenses and other assets	1,661,535	943,640
Due from State - accrued vacation leave benefits	2,033,024	1,810,727
Due from State - leases receivable	3,353,056	12,975,969
Operating lease right-of-use assets	90,622,478	56,877,188
TOTAL ASSETS	$ 140,451,467	$ 110,236,699

LIABILITIES AND NET ASSETS

	2024	2023
LIABILITIES		
Accounts payable	$ 42,468,975	$ 36,964,439
Accrued and other liabilities	1,671,695	639,049
Accrued vacation leave benefits	2,033,024	1,810,727
Unexpended client support	138,646	785,366
Operating lease liabilities	93,975,534	69,853,157
Total Liabilities	140,287,874	110,052,738
NET ASSETS		
Without donor restrictions	163,593	183,961
Total Net Assets	163,593	183,961
TOTAL LIABILITIES AND NET ASSETS	$ 140,451,467	$ 110,236,699

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION

STATEMENT OF ACTIVITIES

	For the Year Ended June 30, 2024	For the Year Ended June 30, 2023
SUPPORT AND REVENUE		
State Regional Center contracts	$ 409,539,373	$ 347,575,461
Intermediate Care Facility supplemental services income	1,554,158	1,891,155
Intermediate Care Facility administrative fee	23,884	31,578
Interest income	79,167	32,030
Donations and other income	87,947	135,001
Total Support and Revenue	411,284,529	349,665,225
EXPENSES		
Program services		
Direct services	407,502,998	346,059,036
Supporting services		
General and administrative	3,801,899	3,627,291
Total Expenses	411,304,897	349,686,327
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(20,368)	(21,102)
NET ASSETS WITHOUT DONOR RESTRICTIONS AT BEGINNING OF YEAR	183,961	205,063
NET ASSETS WITHOUT DONOR RESTRICTIONS AT END OF YEAR	$ 163,593	$ 183,961

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2024

	Program Services	Supporting Services	
	Direct Services	General and Administrative	Total Expenses
Purchase of Services:			
Residential care facilities	$ 129,871,530	$ -	$ 129,871,530
Day program	75,416,105	-	75,416,105
Other purchased services	143,135,226	-	143,135,226
Total Purchase of Services	348,422,861	-	348,422,861
Salaries and Related Expenses:			
Salaries	31,459,978	1,854,221	33,314,199
Employee health and retirement benefits	8,421,143	496,334	8,917,477
Payroll taxes	450,793	26,569	477,362
Facility lease expense - operating	5,177,163	305,137	5,482,300
Facility lease expense - long term	3,166,430	186,626	3,353,056
Equipment purchases	1,496,646	88,211	1,584,857
Equipment and facility maintenance	3,085,212	181,839	3,267,051
General expenses	1,483,791	225,052	1,708,843
Communication	738,589	43,532	782,121
Contract/consulting services	1,005,066	59,238	1,064,304
Grants to providers	1,972,363	-	1,972,363
Legal fees	-	163,748	163,748
Insurance	269,960	83,096	353,056
Office expenses	188,356	11,101	199,457
Printing	123,490	7,278	130,768
Accounting fees	-	57,400	57,400
Travel	41,157	2,426	43,583
Board expenses	-	10,091	10,091
	$ 407,502,998	$ 3,801,899	$ 411,304,897

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

	Program Services	Supporting Services	
	Direct Services	General and Administrative	Total Expenses
Purchase of Services:			
Residential care facilities	$ 117,674,717	$ -	$ 117,674,717
Day program	74,191,139	-	74,191,139
Other purchased services	109,608,447	-	109,608,447
Total Purchase of Services	301,474,303	-	301,474,303
Salaries and Related Expenses:			
Salaries	24,698,424	1,773,627	26,472,051
Employee health and retirement benefits	6,681,022	479,773	7,160,795
Payroll taxes	350,564	25,175	375,739
Facility lease expense - operating	4,500,243	425,518	4,925,761
Facility lease expense - long term	311,500	22,369	333,869
Equipment purchases	1,858,173	133,438	1,991,611
Equipment and facility maintenance	1,524,524	109,478	1,634,002
General expenses	666,588	47,869	714,457
Communication	605,385	43,473	648,858
Contract/consulting services	397,335	28,533	425,868
Grants to providers	2,426,086	-	2,426,086
Legal fees	-	349,546	349,546
Insurance	204,892	83,096	287,988
Office expenses	227,339	16,325	243,664
Printing	112,675	8,091	120,766
Accounting fees	-	60,800	60,800
Travel	19,983	1,435	21,418
Board expenses	-	18,745	18,745
	$ 346,059,036	$ 3,627,291	$ 349,686,327

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION

STATEMENT OF CASH FLOWS

	For the Year Ended June 30, 2024	For the Year Ended June 30, 2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets without donor restrictions	$ (20,368)	$ (21,102)
Adjustments to reconcile change in net assets without donor restrictions to net cash from operating activities:		
(Increase) decrease in:		
Receivable - State Regional Center contracts	(10,616,949)	5,255,000
Receivable - Intermediate Care Facility providers	120,445	183,525
Prepaid expenses and other assets	(717,895)	(177,567)
Due from State - accrued vacation leave benefits	(222,297)	(228,719)
Due from State - leases receivable	9,622,913	(12,975,969)
Operating lease right-of-use assets	(33,745,290)	(56,877,188)
Increase (decrease) in:		
Accounts payable	5,504,536	9,116,394
Accrued and other liabilities	1,032,646	(1,653,883)
Accrued vacation leave benefits	222,297	228,719
Unexpended client support	(646,720)	76,264
Operating lease liabilities	24,122,377	69,853,157
Net Cash Provided By (Used In) Operating Activities	(5,344,305)	12,778,631
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(49,795)	(50,000)
Proceeds from sale of investments	98,280	49,790
Net Cash Provided By (Used In) Investing Activities	48,485	(210)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(5,295,820)	12,778,421
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	35,978,275	23,199,854
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 30,682,455	$ 35,978,275
COMPONENTS OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	$ 30,564,886	$ 35,192,909
Cash client trust funds	117,569	785,366
Total Cash and Cash Equivalents	$ 30,682,455	$ 35,978,275

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

NOTE 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 (the State). In accordance with the Act, the Foundation provides diagnostic evaluations, 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 Foundation operates under an annual cost-reimbursement contract with the California Department of Developmental Services (DDS) under the Act. The maximum expenditures under the contract are limited to the contract amount plus interest earned from contract advances. The Foundation is required to maintain accounting records in accordance with the Regional Center Fiscal Manual, issued by DDS, and is required to have DDS' approval for certain expenses. In the event of termination or nonrenewal of the contract, the State maintains the right to assume control of the Foundation's operations and the obligation of its liabilities.

The Act includes governance provisions regarding the composition of the Foundation's Board of Trustees (the Board). The Act states that the Board shall be comprised of persons 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 individuals with developmental disabilities or their parents or legal guardians; and that no less than 25% of the members of the governing board shall be individuals 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 direct services, shall serve as a member of the regional center board. To comply with the Act, the Board includes individuals with developmental disabilities, or their parents or legal guardians, who receive services from the Foundation and a service provider of the Foundation.

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Nature of Activities (Continued)

The Foundation contracts with DDS to operate a regional center for individuals with developmental disabilities and their families. The Foundation's contract with DDS totaled $433,784,239 and $422,442,297 for the 2023-2024 and 2022-2023 contract year, respectively, and are subject to budget amendments. Amounts received from the DDS contracts are recognized as revenue when the Foundation has incurred qualifying operational expenditures per the DDS contracts. Amounts received prior to incurring qualifying operational expenditures are recorded as contract advances and are netted with receivable – state regional center contracts on the statement of financial position to the extent there are receivables due from DDS. As of June 30, 2024 and 2023, actual net expenditures were approximately $388,834,000 and $401,588,000 for contract years 2023-2024 and 2022-2023, respectively. The remaining amounts on the 2023-2024 and 2022-2023 contract year where the Foundation can be reimbursed for qualifying expenditures are approximately $44,950,000 and $22,854,000, respectively, subject to any future budget amendments.

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.

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 (U.S. GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Basis of 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:

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

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 statement of activities as net assets released from restrictions. As of June 30, 2024 and 2023, 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. As required by the Foundation's contract with DDS, funds received from the State are deposited into interest-bearing accounts in a bank legally authorized to do business in California, and which accounts are established solely for the operation of the Foundation. The accounts are in the name of both the Foundation and DDS, as required by DDS.

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

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 institutions 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.

Investments

The Foundation accounts for investments 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.

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Investments (Continued)

As of June 30, 2023 the Foundation's investment holdings comprised of corporate bonds, which are 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.

During the year ended June 30, 2024, the Foundation liquidated their investment in corporate bonds and invested in a certificate of deposit, which is also classified within level 2 of the fair value hierarchy. As of June 30, 2024 and 2023, the fair value of the investment was $49,795 and $98,280, respectively.

Receivable – State Regional Center Contracts

Receivable - State Regional Center contracts 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 credit losses 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 accounts payable when the State notifies the Foundation that a right of offset exists.

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 for individuals served by the Foundation 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 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.

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Receivable - Intermediate Care Facility Providers (Continued)

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 and Other Assets

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

Property and Equipment

In accordance with the State Regional Center (state) 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 $1,070,609 and $1,190,893 at June 30, 2024 and 2023, respectively. These balances include only the equipment that is sensitive and exceeds $5,000 as required by System Award Management (SAM) guidelines.

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

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Leases

Operating Lease Liabilities: A lease liability is measured based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable lease payments depend on an index or rate and are measured using the index or rate at the commencement date. Lease payments, including variable payments made based on an index or rate, are remeasured when any of the following occur: (1) the lease is modified (and the modification is not accounted for as a separate contract), (2) certain contingencies related to variable lease payments are resolved, or (3) there is a reassessment of any of the following: the lease term, purchase options, or amounts that are probable of being owed under a residual value guarantee. The discount rate is the rate implicit in the lease if it is readily determinable; otherwise, the Foundation has elected to use the risk-free borrowing rate per Accounting Standards Update (ASU) No. 2021-09, *Leases (Topic 842): Discount Rate for Lessees That are Not Public Business Entities*. The Foundation has elected to use this rate for all classes of underlying assets.

Operating Lease – Right-of-Use (ROU) Asset: A ROU asset is measured at the commencement date at the amount of the initially measured liability plus any lease payments made to the lessor before or after commencement date, minus any lease incentives received, plus any initial direct costs. Unless impaired, the ROU asset is subsequently measured throughout the lease term at the amount of the lease liability (that is the present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease cost for lease payments is recognized on a straight-line basis over the lease term.

The Foundation has elected not to recognize the ROU assets and lease liabilities that arise from short- term leases (have a lease term of 12 months or less, but greater than one month at lease commencement, and do not include an option to purchase the underlying assets that the Foundation is reasonably certain to exercise) for any class of underlying asset and instead recognize the lease payments in the statement of functional expenses.

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

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.

Unexpended Client Support – Client Trust Funds

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

Revenue and Revenue Recognition

The Foundation recognizes contributed donations when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discount to present value is included in contribution revenue. Conditional promises to give 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.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as contributions with donor restrictions. When a donor's stipulated time restriction ends or purpose restriction is accomplished, the original contributions are released from net assets with donor restrictions to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Restricted contributions and net assets that have restrictions stipulated by the donor that the corpus be invested in perpetuity with only income made available for operations are also reported in net assets with donor restrictions.

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Revenue and Revenue Recognition (Continued)

State contract revenue is revenue received under an annual cost reimbursement contract from the State in accordance with the Act. Approximately 99% of revenue is derived from this source. Each fiscal year, the Foundation enters into a new contract with the State for a specified funding amount subject to budget amendments. Revenue from the State is recognized monthly when a claim for reimbursement of actual expenses is filed with the State. These reimbursement claims are paid at the State's discretion either through direct payments to the Foundation or by applying the claims reimbursements against advances already made to the Foundation. The maximum expenditures under the contract are limited to the contract amount plus interest earned. The Foundation is required to maintain accounting records in accordance with the Regional Center Fiscal Manual and is required to have DDS approval for certain expenses. In the event of termination or nonrenewal of the contract, the State maintains the right to assume control of the Foundation's operation and the obligation of its liabilities.

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.

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.

NOTE 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Concentration of Labor

The Foundation retains approximately 82% 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.

Recently Adopted Accounting Pronouncement

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13). ASU 2016-13 requires the measurement of all expected credit losses for financial assets, including contracts receivable, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU specifically excludes contributions receivable and all investments that are held by the Foundation. As a result, the Foundation adopted ASU 2016-13 and there was no material effect on the financial statements.

Subsequent Events

Management has evaluated subsequent events through January 21, 2025, the date on which the financial statements were available to be issued.

NOTE 2 – Receivable – State Regional Center Contracts

The Foundation's primary source of revenue is from the State. Subject to renewal, the Foundation enters into a five-year contract with DDS that is subject to annual appropriations by the State. Revenue from the State is recognized monthly when a claim (invoice) for reimbursement of actual expenses is submitted to DDS for payment. These claims are paid at the State's discretion either through a direct payment to the Foundation or by offsetting the claim against the cash advances received by the Foundation from the State.

NOTE 2 – Receivable – State Regional Center Contracts (Continued)

As of June 30, 2024 and 2023, DDS had advanced the Foundation, under the regional center contracts, $107,391,210 and $99,053,334, respectively. For the financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from DDS as follows:

	For the Year Ended June 30,	
	2024	**2023**
Contracts receivable	$ 118,893,361	$ 99,938,536
Less contract advances	(107,391,210)	(99,053,334)
	$ 11,502,151	$ 885,202

The Foundation has renewed its contract with the State for the fiscal year ending June 30, 2025. The contract and amendments provide funding of $454,606,170.

In addition, the Foundation has accrued receivables from the State for expenses that will be settled in cash in future years. These expenses are required to be recognized as liabilities under U.S. GAAP; however, such benefits are reimbursed by the state contract only when actually paid. These expenses relate to accrued vacation lease benefits and leases.

NOTE 3 – Liquidity and Availability

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

	2024	**2023**
Cash and cash equivalents	$ 30,564,886	$ 35,192,909
Receivable - State Regional Center contracts	11,502,151	885,202
Receivable - Intermediate Care Facility providers	546,973	667,418
	$ 42,614,010	$ 36,745,529

NOTE 3 – Liquidity and Availability (Continued)

Additionally, 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 one hundred percent (100%) of the enacted budget for operations and ninety-nine percent (99%) of the enacted budget for purchase of service. To do this, it may be necessary to amend the 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 will make its 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.

The Center maintains a line of credit (see Note 5) to manage cash flow requirements during the months of May through August as needed to cover any delays in cash advances and reimbursements over the beginning of the fiscal year.

NOTE 4 – Unexpended Client Support and Client Trust Funds

The Foundation assumes a fiduciary relationship with certain individuals served by the Foundation who cannot manage their own finances. Support funds are received from private and governmental sources including the Social Security Administration and Veterans Administration. These funds are used primarily to offset clients' out-of-home placement and living costs, thereby reducing the amount expended by the Foundation. These funds are held in a separate bank account and interest earnings, if applicable, are credited to the individuals' balances. 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 client support and expenses not reported in the statement of activities for the years ended June 30, 2024 and 2023.

	2024	2023
Support		
Social security and other support received	$ 896,191	$ 3,473,795
Disbursements		
Personal and incidental expenses	$ 896,191	$ 3,473,795

NOTE 5 – Line of Credit

As of June 30, 2023, the Foundation had a $50,000,000 line of credit with Pacific Premier Bank, secured by an interest in all personal property and assets of the Foundation. Interest under the line of credit was charged at the bank's reference rate of 5.17%. In February 2024, the Foundation closed their line of credit with Pacific Premier Bank and entered into a new line of credit for $50,000,000 with City National Bank. As of June 30, 2024, the line of credit was reduced to $40,000,000 with an interest rate of 7.50%. No amount was drawn during the fiscal years ended June 30, 2024 and 2023, nor was any amount outstanding on the line of credit as of June 30, 2024 and 2023.

NOTE 6 – Lease Commitments

The Foundation has obligations as a lessee for office space and office equipment with initial noncancellable terms in excess of one year. The office space leases have initial terms of 30 years with no options to extend. The office equipment lease has an initial term of 5 years with no options to extend. The Foundation classifies these leases as operating leases.

Payments due under lease contracts include fixed payments and variable payments. Some of the Foundation's office space leases require variable payments of the Foundation's proportionate share of the buildings' property taxes, insurance, and other common area maintenance charges. These variable lease payments are not included in lease payments used to determine lease liabilities and are recognized as variable lease costs when incurred.

The following summarizes the line items in the statement of financial position which include amounts for operating leases:

	June 30,	
	2024	2023
Operating lease right-of-use assets	$ 90,622,478	$ 56,877,188
Operating lease liabilities	$ 93,975,534	$ 69,853,157

NOTE 6 – Lease Commitments (Continued)

The following summarizes the cash flow information related to leases:

	For the Year Ended June 30, 2024	For the Year Ended June 30, 2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	$ 5,739,561	$ 4,971,901
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 11,901,713	$ -

The weighted-average remaining lease term and discount rate for the years ended June 30, 2024 and 2023 were as follows:

	For the Year Ended June 30, 2024	For the Year Ended June 30, 2023
Weighted-average remaining lease term:		
Operating leases	17.71 years	16.02 years
Weighted-average discount rate:		
Operating leases	3.22%	3.22%

NOTE 6 – Lease Commitments (Continued)

As of June 30, 2024, the Foundation had six operating leases for the use of office space and equipment. Future minimum lease commitments required under those leases as of June 30, 2024 are as follows:

Year Ending June 30,	Related Party	Other	Total
2025	$ 3,729,025	$ 2,388,272	$ 6,117,297
2026	3,835,869	2,453,984	6,289,853
2027	3,945,919	2,521,444	6,467,363
2028	4,059,270	2,390,406	6,449,676
2029	4,176,021	2,462,177	6,638,198
Thereafter	49,264,528	48,246,374	97,510,902
Total lease payments	69,010,632	60,462,657	129,473,289
Less present value adjustment	(15,279,756)	(20,217,999)	(35,497,755)
Present value of lease liabilities	$ 53,730,876	$ 40,244,658	$ 93,975,534

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 individuals served by the Foundation and the Foundation provides administrative support services to Del Harbor. The Foundation paid rent and operating expense reimbursement to Del Harbor of $3,414,976 and $3,417,361 for the years ended June 30, 2024 and 2023, respectively.

NOTE 7 – Contingencies and Litigation

Contingencies

The Foundation is dependent on continued funding provided by DDS to operate and provide direct program services. The Foundation's contract with DDS provides funding for services under the Act. In the event that the operations of the Foundation result in a deficit position at the end of any contract year, DDS may reallocate surplus funds within the State system to supplement the Foundation's funding. Should a system-wide deficit occur, 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. 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 not be material to the financial statements at June 30, 2024 and 2023.

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 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 8 – Retirement Plan

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

The total employer retirement expense for the years ended June 30, 2024 and 2023, were $4,182,045 and $3,303,442, 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.

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
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 (the Foundation), which comprise the statement of financial position as of June 30, 2024, 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 21, 2025.

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.

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.

Prior Period Financial Statements Audited by a Predecessor Auditor

The financial statements of the Foundation as of and for the year ended June 30, 2023 were audited by other auditors whose report dated January 16, 2024 expressed an unmodified opinion on those financial statements.

Windes, Inc.

Long Beach, California
January 21, 2025

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

To the Board of Trustees of
Harbor Developmental Disabilities Foundation
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 program for the year ended June 30, 2024. The Foundation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance?

Our responsibility is to express an opinion on compliance for each of the Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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 each major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

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 each of its major federal programs for the year ended June 30, 2024.

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.

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.

Windes, Inc.

Long Beach, California
January 21, 2025

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2024

Federal Grantor/Pass-Through Grantor/ Program Title	Contract Year	Assistance Listing Number	Pass-Through Number	Disbursement/ Expeditures
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)	23/24	84.181A	H181A220037	$ 949,031
TOTAL EXPENDITURES OF FEDERAL AWARDS				$ 949,031

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2024

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Foundation under programs of the federal government for the year ended June 30, 2024. The information in the 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 the 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.

NOTE B - 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.

NOTE C - INDIRECT COST RATE

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2024

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Noncompliance material to financial statements noted? – No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

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

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

Identification of major programs:
Special Education – Grants for Infants and Families, Federal Assistance Listing #84.181A.

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

Auditee qualified as low-risk auditee? – Yes

SECTION II – FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

None