

**Harbor Regional Center  
Audit Committee Meeting**

December 7, 2018

Meeting Minutes

In attendance: LaVelle Gates (Chair), Paul Quiroz, Christopher Patay, Judy Wada, Kaye Quintero, Tes Castillo, Tom Huey (Windes, Inc.), and Jeffrey Carrick (Windes, Inc.)

**Minutes:**

The Audit Committee held a meeting on December 7, 2018 at 2:00 pm at the HRC Torrance Office.

Fiscal Year 2017-18 Audit

Tom Huey from Windes presented the committee with the draft audited financial statements for the Fiscal Year 2017-18. This presentation included a written report to the committee of the results of the audit. Tom reported Windes is issuing an unmodified opinion in their Auditors' Report this year, which is the highest level of assurance that can be given. Tom also noted that HRC opted to implement FASB ASU 2016-14 early. He summarized the changes in reporting and enhanced required disclosures. He pointed out that Note 7—Financial Assets and Liquidity Resources is new and requested that the HRC audit staff and committee review and recommend changes. Judy Wada will revise Note 7.

Judy reviewed and distributed a copy of a comparison of the statement of functional expenses for Fiscal Years 2016-17 and 2017-18.

Following a discussion among the committee members and Windes, the committee approved the draft financial statements as presented, with an update to Note 7 to financial statements pending. Judy will present the financial statements to the Executive Committee on January 8, 2019, and Tom will present the financial statements to the Board on January 15, 2019. Preparation of the tax return will then take place for submission prior to the May 15 deadline.

Executive Session

The Audit Committee thanked and excused Judy, Kaye Quintero, and Tes Castillo and went into Executive Session.

Request for Proposals for Independent Auditor FY 2018-19

Judy presented to the committee the proposals received from three audit firms for consideration. A summary of each of the firms proposals was also presented, which included pricing, references, and a summary of areas of expertise each firm may have knowledge in that would be

of interest to HRC. Following a discussion among the committee members, LaVelle Gates presented the motion to engage Aiello, Goodrich, and Teuscher (AGT) for a three year contract, with an option for a two year extension. Christopher Patay moved the motion and Paul Quiroz seconded in favor of the motion.

kq

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**REPORT TO THE AUDIT COMMITTEE  
RESULTS OF THE JUNE 30, 2018 AUDIT**

Presented by Windes, Inc.

December 7, 2018

To the Audit Committee  
Harbor Developmental Disabilities Foundation, Inc.

We are pleased to have the opportunity to discuss the results of our audit of the June 30, 2018 financial statements of Harbor Developmental Disabilities Foundation, Inc. (the Center).

A direct line of communication between the Audit Committee and Windes, Inc. is essential to the exercise of our respective responsibilities. Our appointment involves a responsibility on our part to call to your attention any significant matters we believe require your consideration, either at a regularly scheduled meeting or on a timelier basis, if warranted. Should you have any questions or observations, please call Tom Huey, the engagement partner, at 562-304-1248.

The accompanying report presents information regarding our audit and certain other information we believe will be of interest to you, and is intended solely for use by the Audit Committee, Board of Directors and management of the Center and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Windes, Inc.*

WINDES, INC.

**HARBOR DEVELOPMENTAL  
DISABILITIES FOUNDATION, INC.  
RESULTS OF THE 2018 AUDIT**

**COMMUNICATIONS WITH THE  
AUDIT COMMITTEE**

**Financial Statements**

- We have audited the financial statements of the Center for the year ended June 30, 2018 and plan to issue an unmodified report. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information on our engagement letter to you dated June 1, 2018. Professional standards also require we communicate to you the following information related to our audit.

**Significant Accounting Policies**

- Management is responsible for the selections and use of appropriate accounting policies. The significant accounting policies used by the Center are disclosed in Note 1 to the financial statements. As described in Note 1, the Center early adopted an accounting policy related to the Presentation of Financial Statements for Not-for-Profit Entities by adopting FASB Accounting Standards Update (ASU) No. 2016-14, in 2018. Accordingly the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. We noted no transactions entered into by the Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.
- The financial statement disclosures are neutral, consistent, and clear.

**HARBOR DEVELOPMENTAL  
DISABILITIES FOUNDATION, INC.  
RESULTS OF THE 2018 AUDIT**

**COMMUNICATIONS WITH THE  
AUDIT COMMITTEE**

**Management Judgments and Accounting  
Estimates**

- Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements was the functional allocation of expenses.

**Significant Audit Adjustments**

- Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The schedule attached provided summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Material adjustments detected as a result of audit procedures and corrected by management consisted of adjustments recorded to accrue additional payables and related state claims receivable, state income, and expenses for supplemental claims for expenses paid after June 30, 2018 which apply to the 2017/2018 contract year, and to accrue vacation and leave benefits and deferred rent as of June 30, 2018. These accruals are not recorded in the UFS accounting system at June 30, 2018 as the UFS system tracks each contract year separately in the general ledger and the Department of Developmental Services contract does not allow accruals for employee leave benefits and deferred rent (see adjusting journal entries provided to management).

**Difficulties Encountered in Performing  
the Audit**

- We encountered no significant difficulties in dealing with management in performing and completing our audit.

**HARBOR DEVELOPMENTAL  
DISABILITIES FOUNDATION, INC.  
RESULTS OF THE 2018 AUDIT**

**COMMUNICATIONS WITH THE  
AUDIT COMMITTEE**

**Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit

**Management Representations**

- We will request certain representations from management that will be included in the management representation letter.

**Other Audit Findings or Issues**

- We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Management Consultations with Other  
Independent Accountants**

- In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Center's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**HARBOR DEVELOPMENTAL  
DISABILITIES FOUNDATION, INC.  
RESULTS OF THE 2018 AUDIT**

**COMMUNICATIONS WITH THE  
AUDIT COMMITTEE**

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**Other Information in Documents  
Containing Audited Financial Statements**

- With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.



**HARBOR DEVELOPMENTAL  
DISABILITIES FOUNDATION, INC.  
RESULTS OF THE 2018 AUDIT**

**COMMUNICATIONS WITH THE  
AUDIT COMMITTEE**

**Uncorrected misstatements**

**Proposed JE # 2001**

To record FSA Cash account and related liability

10000xxx2	Cash - Salary Reduction (Cafeteria)		
01-00-00-10030-	Plan	23,387.00	
00	PAYROLL-DEDUCTIONS PAYABLE		23,387.00
<b>Total</b>		<u><b>23,387.00</b></u>	<u><b>23,387.00</b></u>

**PRELIMINARY DRAFT  
SUBJECT TO CHANGE  
FOR MANAGEMENT REVIEW ONLY**

**HARBOR DEVELOPMENTAL  
DISABILITIES FOUNDATION, INC.**

**FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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**PRELIMINARY DRAFT  
SUBJECT TO CHANGE  
FOR MANAGEMENT REVIEW ONLY**

**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of Harbor Developmental Disabilities Foundation, Inc. (a California nonprofit corporation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

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

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

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

**PRELIMINARY DRAFT  
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FOR MANAGEMENT REVIEW ONLY**

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbor Developmental Disabilities Foundation, Inc. as of June 30, 2018 and 2017, 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.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, Harbor Developmental Disabilities Foundation, Inc. adopted Financial Accounting Standards Board's ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The adoptions of the standard requires additional note disclosures and required supplemental information. Our opinion is not modified with respect to this matter.

***Other Matters***

***Other Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated [REPORT DATE], on our consideration of Harbor Developmental Disabilities Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harbor Developmental Disabilities Foundation, Inc.'s internal control over financial reporting and compliance.

**PRELIMINARY DRAFT  
SUBJECT TO CHANGE  
FOR MANAGEMENT REVIEW ONLY**  
Long Beach, California  
[REPORT DATE]

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**ASSETS**

	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 11,493,528	\$ 13,999,824
Corporate bonds	125,000	75,000
Cash - client trust funds (Note 2)	834,000	785,084
Contracts receivable - state of California (Note 3)	4,604,789	1,945,595
Receivable from Intermediate Care Facility vendors	1,872,648	2,592,411
Prepaid expenses	595,759	565,032
Other assets	70,594	82,323
Receivable from state for accrued vacation and other leave benefits	1,160,510	1,270,138
Receivable from state for deferred rent	<u>11,105,622</u>	<u>10,754,252</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 31,862,450</u></b>	<b><u>\$ 32,069,659</u></b>

**LIABILITIES AND NET ASSETS**

<b>LIABILITIES</b>		
Accounts payable	\$ 18,268,432	\$ 18,750,613
Accrued salaries	655,255	662,319
Accrued vacation and other leave benefits	1,160,510	1,270,138
Deferred rent liability	11,105,622	10,754,252
Unexpended client trust funds	<u>506,955</u>	<u>472,871</u>
	<u>31,696,774</u>	<u>31,910,193</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 5)</b>		
<b>NET ASSETS</b>		
Without donor restrictions	<u>165,676</u>	<u>159,466</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 31,862,450</u></b>	<b><u>\$ 32,069,659</u></b>

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

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**STATEMENTS OF ACTIVITIES**

	<b>For the Year Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>SUPPORT AND REVENUE</b>		
Contracts - state of California	\$ 217,021,066	\$ 198,403,548
Intermediate Care Facility supplemental services income	4,269,062	5,439,555
Interest income	33,229	17,311
Contributions and grants	42,924	34,463
Other income	268,477	267,256
Total Support and Revenue	<u>221,634,758</u>	<u>204,162,133</u>
<b>EXPENSES</b>		
Program Services		
Direct client services	<u>219,155,369</u>	<u>201,479,176</u>
Supporting services		
General and administrative	<u>2,473,179</u>	<u>2,684,398</u>
Total Expenses	<u>221,628,548</u>	<u>204,163,574</u>
<b>CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	6,210	(1,441)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>159,466</u>	<u>160,907</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 165,676</u>	<u>\$ 159,466</u>

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

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2018**

	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total Expenses</b>
	<b>Direct Client Services</b>	<b>General and Administrative</b>		
Salaries	\$ 16,593,642	\$ 1,297,077	\$	17,890,719
Employee health and retirement benefits	4,353,968	340,337		4,694,305
Payroll taxes	266,656	20,844		287,500
Total Salaries and Related Expenses	21,214,266	1,658,258		22,872,524
Purchase of services:				
Residential care facilities	74,241,337	-		74,241,337
Day program	61,078,341	-		61,078,341
Other purchased services	54,701,339	-		54,701,339
Communication	320,150	25,025		345,175
General office expenses	142,529	11,141		153,670
Printing	89,814	7,021		96,835
Insurance	105,881	51,690		157,571
General expenses	480,685	37,574		518,259
Facility rent	4,423,060	345,738		4,768,798
Equipment and facility maintenance	1,419,273	110,940		1,530,213
Consultant fees	248,536	19,427		267,963
Equipment purchases	556,400	43,492		599,892
Board expenses	-	25,257		25,257
Staff travel	133,758	10,456		144,214
Legal fees	-	75,260		75,260
Accounting fees	-	51,900		51,900
<b>TOTAL EXPENSES</b>	<b>\$ 219,155,369</b>	<b>\$ 2,473,179</b>	<b>\$</b>	<b>221,628,548</b>

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



**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

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

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

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

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**STATEMENTS OF CASH FLOWS**

	<b>For the Year Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 6,210	\$ (1,441)
Adjustments to reconcile change in net assets to net cash from operating activities:		
(Increase) decrease in:		
Cash – client trust funds	(48,916)	6,922
Contracts receivable - state of California	(2,659,194)	(1,945,595)
Receivable from Intermediate Care Facility vendors	719,763	(402,410)
Prepaid expenses	(30,727)	1,476
Other assets	11,729	11,069
Receivable from state for accrued vacation and other leave benefits	109,628	(165,449)
Receivable from state for deferred rent	(351,370)	(428,349)
Increase (decrease) in:		
Accounts payable	(482,181)	3,659,638
Accrued salaries	(7,064)	102,510
Accrued vacation and other leave benefits	(109,628)	165,449
Deferred rent liability	351,370	428,349
Contract advances	-	(4,968,544)
Unexpended client trust funds	34,084	2,448
Net Cash Used In Operating Activities	(2,456,296)	(3,533,927)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of corporate bonds	(50,000)	-
Net Cash Used In Investing Activities	(50,000)	-
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(2,506,296)	(3,533,927)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	13,999,824	17,533,751
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	\$ 11,493,528	\$ 13,999,824

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

**PRELIMINARY DRAFT  
SUBJECT TO CHANGE  
FOR MANAGEMENT REVIEW ONLY**

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

***Basis of Presentation***

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

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

The Foundation contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for individuals with developmental disabilities and their families. The Foundation contracts with the DDS total \$213,012,289 for the 2017-2018 contract year and \$201,400,338 for the 2016-2017 contract year and are subject to budget amendments. As of June 30, 2018 and 2017, actual net expenditures were \$209,079,107 under the 2017-2018 contract and \$195,181,874 under the 2016-2017 contract.

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**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

***Basis of Presentation (Continued)***

During the year ended June 30, 2018, the Foundation opted to early implement FASB ASU 2016-14, *"Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities."* The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions," (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

These changes have been applied retrospectively in the 2017 statement of financial position by reclassifying \$160,907 in unrestricted net assets to net assets without donor restriction.

***Basis of Accounting***

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

**PRELIMINARY DRAFT  
SUBJECT TO CHANGE  
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**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

***Financial Statement Presentation***

The Foundation is required to report information regarding its financial position and activities according to two classes of net assets based on the existence or absence of donor imposed restrictions: without donor restrictions and with donor restrictions. As of June 30, 2018 and 2017, the Foundation had no net assets with donor restrictions.

**Without Donor Restrictions** – Net assets that are not subject to donor-imposed restrictions.

**With Donor Restrictions** – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation or the passage of time. As the restrictions are satisfied, net assets are reclassified as Without Donor Restrictions and reported in the accompanying statements of activities as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

***Contributions***

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

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**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

***Contributions (Continued)***

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions received that are designated for future periods or restricted by the donor for specific purposes are reported as 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 asset 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 be made available for operations are also reported in net assets with donor restrictions.

***Use of Estimates and Assumptions***

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

***Cash and Cash Equivalents and Concentration of Credit Risk***

For the purpose of the statements of cash flows, the Foundation considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. At June 30, 2018 and throughout the year, the Foundation has maintained cash balances in its bank in excess of federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

***Corporate Bonds***

The Foundation accounts for corporate bonds at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (level 3 measurements).

**PRELIMINARY DRAFT  
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FOR MANAGEMENT REVIEW ONLY**

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

***Corporate Bonds (Continued)***

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

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

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

At June 30, 2018 and 2017, the Foundation held \$125,000 and \$75,000 in corporate bonds, respectively.

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

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

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

***State Equipment***

Pursuant to the terms of the state of California contract, equipment purchases become the property of the state and, accordingly, are charged as expenses when incurred. For the years ended June 30, 2018 and 2017, equipment purchases totaled approximately \$600,000 and \$141,000, respectively.

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

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

***Deferred Rent***

The Foundation leases office facilities under a lease agreement that is subject to scheduled acceleration of rental payments. The scheduled rent increases are amortized evenly over the life of the lease. The deferred rent liability represents the difference between the cash payments made and the amount expensed since inception of the lease. The Foundation has recorded a receivable from the state for the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized.



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**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

*Allocation of Expenses*

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

*Income Taxes*

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

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

*Subsequent Events*

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

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**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

***Recently Issued Accounting Pronouncements***

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

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

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (ASU 2018-08)*, which provides additional guidance on characterizing grants and similar contracts with resource providers as either exchange transactions or contributions, as well as distinguishing between conditional contributions and unconditional contributions. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Foundation is currently evaluating the impact of the adoption of the new standard on the financial statements.

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**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

The Foundation functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of the Foundation’s clients. These cash balances are segregated from the operating cash accounts of the Foundation and are restricted for client support. Since the Foundation is acting as an agent in processing these transactions, no revenue or expense is reflected on the accompanying statement of activities. The following is a summary of operating cash activity for the years ended June 30, 2018 and 2017:

	<b>For the Year Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
Social Security and other client support received	\$ 6,009,899	\$ 5,647,392
Residential care and other disbursements	5,951,483	5,649,457
Support over/(under) disbursements	58,416	(2,065)
Changes to reconcile support under disbursements to net cash used in support and care activities: (Decrease)/increase in receivable from state and federal agencies	5,846	1,358
Increase/(decrease) in amounts due to the Foundation	(15,346)	(6,215)
Net cash provided for (used in) support and care activities	48,916	(6,922)
Cash at beginning of year	785,084	792,006
Cash at end of year	\$ 834,000	\$ 785,084
Number of clients	451	422

**NOTE 3 – Contracts Receivable – State of California**

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

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**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 3 – Contracts Receivable – State of California (Continued)**

As of June 30, 2018 and 2017, the DDS had advanced the Foundation approximately \$38,031,000 and \$52,942,000, respectively, under the contracts with the DDS. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from the state as follows:

	<b>June 30,</b>	
	<b>2018</b>	<b>2017</b>
Contracts receivable	\$ 42,636,641	\$ 54,888,052
Contract advances	<u>(38,031,852)</u>	<u>(52,942,457)</u>
Net contracts receivable	<u>\$ 4,604,789</u>	<u>\$ 1,945,595</u>

The Foundation has renewed its contract with the state for the fiscal year ending June 30, 2019. The most recent contract amendment provides for a funding of \$173,140,049.

**NOTE 4 – Short-Term Borrowings**

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

<b>Period</b>	<b>Maximum Amount</b>
October 1, 2015 (a) through June 30, 2017	\$ 23,500,000
July 1, 2016 through October 1, 2016 (a)	40,000,000
October 1, 2016 (a) through June 30, 2017	26,000,000
July 1, 2017 (a) through June 30, 2018	30,000,000
July 1, 2018 (a) through June 30, 2019	32,000,000

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

Interest is payable monthly at the greater of 2.25% or 1% below the bank's prime rate. No amount was outstanding on the revolving note as of June 30, 2018 and 2017.

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**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 5 – Commitments and Contingencies**

*Leases and Related-Party Transactions*

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

Rental expense for the years ended June 30, 2018 and 2017 was \$4,768,798 and \$4,724,070, respectively.

Rent expense consisted of the following for the years ended June 30, 2018 and 2017:

	<b>For the Year Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
Rent and operating expense reimbursement	\$ 4,417,428	\$ 4,295,721
Deferred rent liability increase	<u>351,370</u>	<u>428,349</u>
	<u>\$ 4,768,798</u>	<u>\$ 4,724,070</u>

The Foundation is leasing its main office facilities from Del Harbor Foundation (Del Harbor). Del Harbor, a separately incorporated California nonprofit corporation formed to facilitate and augment the coordination of services and programs of the Foundation or those which benefit clients of the Foundation, and shares common management with the Foundation. During the years ended June 30, 2018 and 2017, the Foundation paid rent and operating expense reimbursement to Del Harbor of \$3,107,704 and \$3,042,495, respectively.

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**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

*Leases and Related-Party Transactions (Continued)*

Future minimum lease payments for the Foundation under noncancellable operating leases that have initial or remaining lease terms in excess of one-year as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Del Harbor</u>	<u>Other</u>	<u>Less: Sublease Income</u>	<u>Total</u>
2019	\$ 3,154,287	\$ 1,140,457	\$ (233,407)	\$ 4,061,337
2020	3,200,670	1,174,671	(203,796)	4,171,545
2021	3,236,641	1,209,759	(231,489)	4,214,911
2022	3,273,406	1,245,989	(15,129)	4,504,266
2023	3,310,989	1,283,454	-	4,594,443
Thereafter	<u>57,835,687</u>	<u>27,515,102</u>	<u>-</u>	<u>85,350,789</u>
	<u>\$ 74,011,680</u>	<u>\$ 33,569,432</u>	<u>\$ (683,821)</u>	<u>\$ 106,897,291</u>

*Collective Bargaining Agreements*

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

*Contingencies*

The Foundation is dependent on continued funding provided by the DDS to operate and provide services for its clients. The Foundation's contract with the DDS provides funding for services under the Lanterman Act. In the event that the operations of the Foundation result in a deficit position at the end of any contract year, the DDS may reallocate surplus funds within the state of California system to supplement the Foundation's funding. Should a system-wide deficit occur, the DDS is required to report to the governor of California and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures. The DDS's recommendations are subsequently reviewed by the governor and the Legislature and a decision is made with regard to specific actions.

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**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

*Contingencies (Continued)*

In accordance with the terms of the DDS contract, an audit may be performed by an authorized state representative. Should such an audit disclose any unallowable costs, the Foundation may be liable to the state for reimbursement of such costs. In the opinion of the Foundation's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2018 and 2017, and for the years then ended.

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

*Legal Proceedings*

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

**NOTE 6 – Retirement Plan**

Effective July 1, 2004, the Foundation restated its retirement plan and adopted a prototype profit-sharing plan with a 401(k) feature. All employees are eligible to enter the plan immediately upon employment. The Foundation makes non-elective contributions to the plan on behalf of participants. These contributions are based on a percentage of compensation earned by participants during the plan year. Employee contributions are not required and 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, 2018 and 2017 was approximately \$2,107,000 and \$2,039,000, respectively.

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

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**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 7 – Financial Assets and Liquidity Resources**

As of June 30, 2018 financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

Financial Assets:	
Cash and cash equivalents	\$ 11,493,528
Contracts receivable - state of California	4,604,789
Receivable from	
Intermediate Care Facility vendors	<u>1,872,648</u>
 Total financial assets available within one year	 <u>\$ 17,970,965</u>

Each regional center submits a monthly purchase of service expenditure projection to DDS, beginning in December of each fiscal year. By February 1<sup>st</sup> of each year, DDS shall allocate 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 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 (see Note 4) to manage cash flow requirements as needed should there be delays in reimbursement for expenditures from DDS.



**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Education Passed through State of California Department of Developmental Services</b>			
Special Education – Grants for Infants and Families	84.181	H181A170037	<u>\$ 995,786</u>

See accompanying notes to schedule of expenditures of federal awards.

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2018**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Harbor Developmental Disabilities Foundation, Inc. under programs of the federal government for the year ended June 30, 2018. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Harbor Developmental Disabilities Foundation, Inc., it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of Harbor Developmental Disabilities Foundation, Inc.

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

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

**NOTE C - INDIRECT COST RATE**

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harbor Developmental Disabilities Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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 [REPORT DATE].

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

**PRELIMINARY DRAFT  
SUBJECT TO CHANGE  
FOR MANAGEMENT REVIEW**

Long Beach, California  
[REPORT DATE]

**PRELIMINARY DRAFT  
SUBJECT TO CHANGE  
FOR MANAGEMENT REVIEW ONLY**

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

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

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

We have audited Harbor Developmental Disabilities Foundation, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Harbor Developmental Disabilities Foundation, Inc.'s major federal program for the year ended June 30, 2018. Harbor Developmental Disabilities Foundation, Inc.'s major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

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

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

**PRELIMINARY DRAFT  
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FOR MANAGEMENT REVIEW ONLY**

*Opinion on Each Major Federal Program*

In our opinion, Harbor Developmental Disabilities Foundation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

**Report on Internal Control over Compliance**

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

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

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

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

**PRELIMINARY DRAFT  
SUBJECT TO CHANGE  
FOR MANAGEMENT REVIEW**  
Long Beach, California  
[REPORT DATE]

**PRELIMINARY DRAFT  
SUBJECT TO CHANGE  
FOR MANAGEMENT REVIEW ONLY**

**HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

**Financial Statements**

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

Internal control over financial reporting:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

Noncompliance material to financial statements noted? – No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? – No

Significant deficiencies identified? – None reported

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? – Yes

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

None

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

None

**Harbor Regional Center  
Board Planning Committee  
November 30, 2018**

Ron Bergman, Chair

Members: Patricia Jordan, LaVelle Gates, Steve Goclowski, Barry Finley, Nancy Spiegel

### **Disparity Project Funding**

At our previous meeting, the committee provided input for the development of funding proposals to submit to DDS for disparity projects. They have \$11 million available to select project proposals submitted by regional centers and community-based organizations. We have requested funding from DDS for four continuation proposals for a total of \$531,015.00. DDS was scheduled to have announced which proposals will be funded by this date, but has announced a delay until late December.

### **HRC Proposals for Continuation Funding of Existing Projects**

- **Bilingual Spanish-Speaking Community Outreach Specialist:** \$78,015 for continued outreach, training and support, including coordination with family support groups, providing informational presentations, coordinating training, and building ongoing communication with our Spanish-speaking community.
- **Family Support Assistants:** \$343,000 for seven Family Support Assistants, to continue and expand on our work to provide enhanced support for underserved families, in collaboration with service coordinators, to identify and overcome barriers to accessing needed services, including generic resources such as IHSS, Social Security, MediCal, etc.
- **Training and Support for Families:** \$50,000 to implement training on informational topics identified by family support and focus groups, in locations throughout our service area, including work with trusted and respected bilingual guest speakers.
- **Expand Availability of Informational Materials:** \$60,000 for continued development, update, translation, and publication of informational materials in print, video, and electronic media in multiple languages.

### **Community Based Organization Proposals**

Four proposals were submitted by community-based organizations which are requesting **continuation** funds for current disparity initiatives in the HRC service area:

- **Parents as Partners Family Mentoring Program:** \$734,650 to expand a pilot HRC program to all 7 LA County RCs. Creating one-on-one engagement, to build parents' skills, capacity and ability to navigate the service delivery system and increase access to needed services, including both generic and regional center services, while building collaborative partnerships with RC service coordination.
- **Pediatric Therapy Network: Early Identification and Referral through Developmental Screenings;** \$214,840 Target HRC service area This year's focus will add screening of at risk children ages 0-3 in underserved communities for developmental delays, including families enrolled in PTN's Early Head Start program and collaboration with community early childhood professionals, and will continue parent engagement and education programs.



- **Carolyn Kordich Family Resource Center: Knowledge is Power/El Conocimiento es Poder:** \$110,382: Target cities are Harbor City, Wilmington, San Pedro, and bordering portions of Carson and Torrance. Building on their close relationship with Hispanic families in the Harbor health district, provide education and support of Spanish-Speaking families in recognizing and understanding their child's disability, available services and supports, and their role in service decisions.
- **Learning Rights Law Center: Training, Information, and Advocacy Project.** \$146,278 to serve NLACRC, ELARC, SCLARC, HRC, WRC, LRC, and IRC areas. They propose to expand on their 2018 Community Support Group Project, adding additional training and presentation activities and developing new materials and resources for Spanish-speaking Hispanic regional center families.

**Community Based Organizations Proposing New Projects in the HRC service area:**

- **YMCA of Greater Long Beach: Linking and Engaging Access for Families (LEAF).** Outreach and education for the local community about HRC services and how to access them, encouraging families of children 0-3 to connect with the regional center for early assessment and treatment.
- **Autism Society of Los Angeles: Cross Cultural Independent Facilitator Trainings and Ongoing Support for the Self-Determination Program.** Los Angeles County. "To ensure that all individuals selected for the phase-in of the SDP are able to be successful in this new program, this project will provide free trainings for 300 primarily consumers and family members who speak languages other than English."
- **Special Needs Network: SNN's Military Parent Advocacy Mentor and Navigator Program (MPAMN)** Target Zip Code 90731, San Pedro, location of Air Force Base Housing. Proposed project will target "military families many of whom are connected to the Los Angeles Air Force Base, with identified special needs conditions. ...to teach advocates and nonprofit leaders about SNN's parent advocacy and civic engagement model)."
- **Hub City Autism Network: Stepping for Autism.** Target cities include North Long Beach. A 3rd annual community event that will enhance social wellbeing of the Autism community...provides information for families and opportunities for autistic individuals to create the "best form of independence."
- **Korean American Special Education Center (KASEC): Developmental & Health Screening and Educational Seminar.** Target cities include Torrance, Lomita, Norwalk, Cerritos, Artesia: To increase the number of Korean families in the Harbor and Lanterman RC areas to have their child screened and learn more about services.
- **Guardians of Love Foster Family Agency: Youth with Disabilities in the Foster Care System-Barriers to Success outreach and Integrated Training Solutions Initiative.** Propose to serve all of LA County, including Harbor Regional Center. Large Scale outreach education activities to raise the awareness of regional center services in the Foster care community.

**Progress of current projects funded by DDS:**

These have focused upon clients with the greatest under-utilization of purchase of services, and reduction of barriers

- Marta Gomez began work in April as a bilingual Spanish –speaking **Community Outreach Specialist.** Since then she has represented HRC at outreach and information events, and parent support groups in underserved communities. She has collaborated

with community partners to bring needed Spanish language training and guest speakers into these communities.

- The HRC **Parents as Partners Program**, employs 2 bilingual Spanish speaking parents to assist other parents to access supports and reduce barriers, so they can more fully utilize HRC services. For the 71 clients being served through this project we have seen progress in Protective Factors and increases in utilization of both HRC and generic services.
- Two **videos**, one in English, and one in Spanish, have been in production. Their purpose is to provide families with an overview of services, including parents sharing their experiences. The committee viewed a preview of the English video. Both are expected to be completed in December. The committee provided input for the final editing.
- Other funded projects, including training for staff and service providers, and development of informational materials were completed by the end of the 2017-18 fiscal year.

### **Website Redesign**

Nancy reported that HRC had posted a Request For Proposals for Website Redesign and had been reviewing several promising proposals. The selected web design firm will work with us not just on visual design, but will also help us to revise the organization of information we provide on our website to make it easier for our users to find what they need. This will be a major project to begin just after the New Year. The committee will have the opportunity to provide input in the development of the new site, as this project progresses.

# Harbor Regional Center

## Client Advisory Committee

November 17<sup>th</sup>, 2019

### Meeting Minutes

**Members Present:** David Gauthier-CAC Chairperson; Deaka Mc Clain-CAC Co-Chairperson; Rita Teodoro; Debbie Howard; Tom Basch; Kelly Sutton; Danielle Short; Mead Duley

**HRC Staff Present:** Elizabeth Garcia-Moya; Kris Zerhusen

**Life Steps Staff Present:** Janelle Reyes

#### **Call to Order & Minutes Approved**

David called the meeting to order at 1:05 p.m.

The minutes were unanimously approved by all committee members.

#### **DDS CAC Update**

As agreed at the last CAC meeting, Deaka will be conducting a series of trainings from the DDS website. CAC members agreed that the assignments would be done together at the CAC meetings rather than doing them individually at home. It was challenging for some of the members to do the previous assignment at home without support. The CAC members were provided with a copy of the assignment, Planning & Decision-Making-Making a Decision. The assignment provided tools on decision making. The CAC members completed the assignment using some of the current decisions that a couple of the members shared they are facing such as finding a new apartment and working. Deaka walked them through the exercise and the members were able to provide their input. At the next CAC meeting, the next training module will be Planning & Decision Making-Finding a Mentor.

Deaka reported that she attended the last DDS CAC meeting from 11/5-11/7. She provided an update on the End-of-Life training that the CAC in Sacramento is conducting and eventually, she will be presenting to the group. She also shared that DDS requested input on the information available on Safety Net which is a DDS website with health and safety information for individuals with developmental disabilities and for the people that support them. They requested input as to whether the information is useful and accessible. DDS is looking into revamping the tools and trainings currently available through Safety Net.

### **Client Services & Self Determination update**

David provided the CAC members with an update on Self-Determination. He reported that the names have been chosen for the Self-Determination program. The chosen participants will have to attend an orientation. At this time, the training material for the orientation is being developed by DDS. He shared some information regarding the three FMS models.

CAC members had questions about Self-Determination which David and Deaka were able to answer since they attend and participate in the Self-Determination meetings. Kris also helped with answering questions and elaborating on some of the information that David and Deaka presented. CAC members were also reminded that the DDS and Harbor Regional Center websites are updated with the most current information available regarding Self Determination. David did remind the CAC members that this is a new program and DDS is working out all the details. Deaka shared that she was selected as one of the Self-Determination participants and her experience going through the process.

David and Deaka will continue to keep CAC members updated on Self-Determination. CAC members were informed that the next Self-Determination meeting is scheduled December 12<sup>th</sup> at 6:30 p.m. at the Torrance office in room A4.

### **Community Outreach**

During this meeting, the CAC members discussed possible community outreach activities for upcoming year. Each member shared ideas of community outreach activities that they would like be part of for 2019. Some of the activities that were proposed and discussed are Special Olympics, participating in the event at Aquarium of the Pacific for individuals with disabilities, the transition fair that is hosted by HRC, partnering with a local organization/church for the holidays and give back to the community, and hosting an event for the month of October since its National Disability Awareness Month.

### **HRC Update**

Kris provided the CAC members with an update on the progress HRC is making regarding person-centered planning and on-going training Service Coordinators are receiving.

CAC members were informed that HRC will be closed for the holidays from 12/24/2018-01/01/2019. They were reminded that if they had an emergency, they can contact HRC's main number that would connect them to the on-call manager.

## **Client Advisory Meeting**

**November 17<sup>th</sup>, 2018**

**Page 3**

Kris provided an update on CAL ABLE and informed the members that the next CAL ABLE training is scheduled for November 29<sup>th</sup> at our Torrance office. CAC members requested training on CAL ABLE to be scheduled for one of the upcoming CAC meetings with Benefit Specialist, Cori Reifman.

### **Adjournment**

David adjourned the meeting at 2:44 p.m.

### **Next CAC Meeting**

The next Client Advisory Meeting will be held on Saturday, February 9<sup>th</sup> from 1:00 p.m. to 3:00 p.m. at HRC Torrance office.

# Harbor Regional Center Community Relations Committee January 2019

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Monica Sifuentes MD, Chairperson, Pediatrician/Board Member; David Gauthier, Client/Board Member; Dee Prescott, Service Provider Easter Seals Southern California; David Bourassa, Community Volunteer; Nancy Spiegel, HRC Director of Information and Development.

## **Holiday Giving Program**

In September, the Board approved an allocation of \$40,000 for the purchase of gift cards for holiday giving. During the 2018 holiday season, gift cards for Target and Ralphs/Food 4 Less were distributed to approximately 800 needy clients/families. The amount distributed to the individuals and families varied depending upon their individual needs, family size, etc. (average amount \$50 in gift cards).

We work year-round to raise funds and replenish the Harbor Help Fund, so that these funds may be allocated. Through the Holidays Are For Sharing campaign we have received a combination of grants from foundations and charitable organizations, and donations from individuals and businesses.

The **direct mail campaign to raise funds for the Holiday giving had raised \$15,672** by the end of December, which is a little more than we received in the previous year's campaign. We saw an increase in online donations this year in addition to those we receive by mail.

**\$13,400 in grants have been received in 2018** for our Holiday fund, from the South Bay Sunrise Rotary, Del Harbor Foundation, My Choice Foundation, The Sons of the American Legion Redondo Beach + Cisco Matching Gift Program, and the Network for Good, in memory of Colleen Mock. Our application to Boeing Employee Charitable Fund is still pending, and we were recently advised that they were in the process of reviewing applications for 4<sup>th</sup> quarter grants.

This year our Adopt a Family sponsors, who have been a valued part of our Holiday Giving program over the years, adopted 80 clients for the holidays. For families that were not adopted, we were able to provide some additional support due to in kind donations:

- toy drives by 24Hr Home Care, South Bay Sunrise Rotary and HRC employees
- 1500 blankets and gifts donated by Jack Nadel International
- food items for 32 families donated by Carson Dominguez Gardena Rotary and two Redondo Beach Realtors
- a holiday party for 78 3-6 year old clients and their immediate families, contributed by the Gardena Elks Club Lodge
- Nutcracker tickets for 58 clients and families donated by the Southern California Dance Theater.

**Budget Advocacy Update:**

We joined with other Southern California Regional Centers and service provider organizations in a coordinated effort to meet with our local legislators over the past two months. Members of this committee and Board Planning committee participated in these meetings, along with other parent, client, and service provider representatives, to ask for legislators support in the upcoming session. Thus far we have met with Assembly Members Muratsuchi, Calderon, and Garcia, and staff for Senator Allen, and are working on scheduling visits to other legislators in the HRC service area. Other regional centers have coordinated meetings with more legislators around the state. We discussed the importance of the rate study that was ordered by the legislature to address rate reform, the results of which are due to the legislature in March. We went with the message that regional centers and service provider organizations cannot keep up with the rising costs to recruit and retain quality employees. Reimbursement rates have remained flat for most services while the cost of living has increased 44% and state minimum wage increased 76%. We are asking for an 8% increase in the 2019-20 budgets as an interim measure, to maintain services until more comprehensive rate reform can be enacted.