

NEW ISSUE – BOOK-ENTRY ONLY

Moody's "A3"
(See "RATING" herein)

In the opinion of Norton Rose Fulbright US LLP, Bond Counsel, under existing law interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the tax covenants herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum income tax imposed on corporations and individuals. See "TAX MATTERS."

\$30,735,000*
CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Refunding Revenue Bonds
(Harbor Regional Center Project)
Series 2015

Dated: Date of Delivery

Due: November 1, as shown on the inside cover

The \$30,735,000* California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 (the "Bonds") will be issued as fully-registered bonds registered in the name of a nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Bonds will not receive physical delivery of bond certificates. Payments of the principal of, redemption premium, if any, and interest on the Bonds will be made to DTC by Wells Fargo Bank, National Association, as trustee (the "Trustee"). Disbursement of payments to DTC Participants is the responsibility of DTC, and disbursement of payments to the Beneficial Owners is the responsibility of DTC Participants. See Appendix C – "BOOK-ENTRY SYSTEM." Interest on the Bonds is payable semiannually on May 1 and November 1 of each year, commencing November 1, 2015.

The Bonds are subject to optional and mandatory redemption as described herein. See "THE BONDS – Redemption" herein.

The Bonds are being issued by the California Municipal Finance Authority (the "Authority"), which will loan the proceeds of the Bonds to the Del Harbor Foundation (the "Corporation") pursuant to a Loan Agreement to provide funds which the Corporation will use to (i) refund on an advance basis the California Municipal Finance Authority Revenue Bonds (Harbor Regional Center Project), Series 2009 currently outstanding in the aggregate principal amount of \$25,000,000, (ii) fund a debt service reserve fund for the Bonds, (iii) fund a funded interest fund for the Bonds through November 1, 2015, and (iv) pay the costs of issuing the Bonds. See "REFUNDING PLAN" and "ESTIMATED SOURCES AND USES OF PROCEEDS" herein.

None of the Authority, any Authority member or any person executing the Bonds is liable personally on the Bonds or subject to any personal liability or accountability by reason of their issuance. The Bonds are limited obligations of the Authority, payable solely from and secured by the pledge of Revenues under the Indenture. Neither the Authority, its members, the State of California (the "State"), nor any of its political subdivisions shall be directly, indirectly, contingently or morally obligated to use any other moneys or assets to pay all or any portion of the debt service due on the Bonds, to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment. The Bonds are not a pledge of the faith and credit of the Authority, its members, the State or any of its political subdivisions nor do they constitute indebtedness within the meaning of any constitutional or statutory debt limitation. The Authority has no taxing power.

This cover page contains certain information for quick reference only. It is not intended to be a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered by the Underwriter when, as and if issued by the Authority, and accepted by the Underwriter, subject to the approving opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel and subject to certain other conditions. Norton Rose Fulbright US LLP is serving as Disclosure Counsel. Approval of certain legal matters will be passed upon for the Authority by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California, for the Harbor Developmental Disabilities Foundation, known as the Harbor Regional Center by Allen Matkins Leck Gamble Mallory & Natsis LLP, Los Angeles, California, for the Corporation by Liner LLP, Los Angeles, California, and for the Underwriter by its counsel, Quint & Thimmig LLP, Larkspur, California. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about July 23, 2015.

Westhoff, Cone & Holmstedt

Dated: July __, 2015

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful under the securities laws of such jurisdiction.

MATURITY SCHEDULE*

<u>Maturity Date (November 1)</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP † (Base 13048T)</u>
2016	\$745,000				
2017	780,000				
2018	810,000				
2019	840,000				
2020	875,000				
2021	910,000				
2022	950,000				
2023	990,000				
2024	1,030,000				
2025	1,070,000				
2026	1,115,000				
2027	1,160,000				

\$6,720,000 ___% Term Bonds due November 1, 20__ Priced to Yield ___% CUSIP NO.† 13048T ___

\$12,740,000 ___% Term Bonds due November 1, 20__ Priced to Yield ___% CUSIP NO.†: 13048T ___

* Preliminary, subject to change.

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the Authority, the Corporation or HRC are responsible for the selection or correctness of the CUSIP numbers set forth herein.

No dealer, broker, salesperson or other person has been authorized by the California Municipal Finance Authority (the "Authority"), the Del Harbor Foundation (the "Corporation"), the Harbor Developmental Disabilities Foundation, known as the Harbor Regional Center ("HRC") or the Underwriter to give any information or to make any representations, other than as contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by the Authority, the Corporation, HRC, or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been furnished by the Authority, the Corporation, and HRC and includes information from sources that are believed to be reliable, but the Authority, the Corporation, and HRC do not guarantee the completeness or accuracy of the information from such sources. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Corporation, or HRC, or other matters described herein since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access (EMMA) website. The Authority, the Corporation and HRC each maintains a website. The information presented therein is not part of this Official Statement and should not be relied on in making investment decisions with respect to the Bonds. Unless otherwise expressly stated, references to Internet websites in this Official Statement are shown for reference and convenience only, and none of their content (including any content on the Authority, the Corporation and HRC's websites) is incorporated in this Official Statement by reference. The Authority, the Corporation and HRC make no representation regarding the accuracy or completeness of the information presented on such websites.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

**CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "project," "expect," "anticipate," "intend," "believe," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as otherwise noted, neither the Authority, the Corporation nor HRC plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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OFFICIAL STATEMENT

\$30,735,000*

**CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Refunding Revenue Bonds
(Harbor Regional Center Project)
Series 2015**

INTRODUCTION

This Introduction contains a brief summary of certain of the terms of the Bonds being offered hereby and a full review should be made of the entire Official Statement, including the cover page and the Appendices hereto in order to make an informed investment decision. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the laws of the State of California (the "State") or any documents referred to herein do not purport to be complete and such references are qualified in their entirety to the complete provisions thereof. Capitalized terms used and not otherwise defined herein are defined in APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS" or in the Indenture, the Office Lease, or the Loan Agreement, as applicable.

General

This Official Statement, including the cover page and Appendices hereto (this "Official Statement"), provides certain information in connection with the offering of \$30,735,000* aggregate principal amount of Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 (the "Bonds") of the California Municipal Finance Authority (the "Authority"). The Bonds will be issued pursuant to the provisions of the Joint Exercise of Powers Act, comprising Chapter 5 of Division 7 of Title 1 (commencing with section 6500) of the Government Code of the State, as amended (the "Act"), and an Indenture of Trust, dated as of July 1, 2015 (the "Indenture"), by and among the Authority, the Del Harbor Foundation (the "Corporation") and Wells Fargo Bank, National Association, as trustee (the "Trustee").

The Authority will loan the proceeds of the Bonds to the Corporation pursuant to a Loan Agreement, dated as of July 1, 2015 (the "Loan Agreement"), by and between the Authority and the Corporation, which the Corporation will use to: (i) refund on an advance basis the California Municipal Finance Authority Revenue Bonds (Harbor Regional Center Project), Series 2009 currently outstanding in the aggregate principal amount of \$25,000,000 (the "Prior Bonds"), (ii) fund a debt service reserve fund for the Bonds, (iii) fund a funded interest fund for the Bonds through November 1, 2015, and (iv) pay the costs of issuing the Bonds. Payments under the Loan Agreement will be made from amounts received by the Corporation from the Harbor Developmental Disabilities Foundation, known as the Harbor Regional Center, a California nonprofit public benefit corporation (the "HRC") pursuant to the Office Lease, dated December 1, 2009 by and between the Corporation and HRC with respect to the Facilities (as defined herein), as amended by the First Amendment to Office Lease, dated as of July 1, 2015 (collectively the "Office Lease"), and as further amended from time to time. The Authority may issue Additional Bonds on parity with the Bonds as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds" herein.

The Corporation, pursuant to a loan agreement, dated as of November 1, 2009 (the "Prior Loan Agreement"), borrowed from the Authority the proceeds of the Prior Bonds to finance the acquisition, construction and equipping of two three-story buildings with a total of 52,151 and 32,646, respectively,

* Preliminary; subject to change.

rentable square feet (the “Facilities”) for lease to HRC located in the City of Torrance, California (the “City”). The Property and Facilities are collectively referred to herein as the “Project.”

Regional Centers

HRC is one of 21 regional centers (the “Regional Centers”) in California (the “State”) that coordinate services under contracts with the State to persons with developmental disabilities as mandated under the Lanterman Developmental Disabilities Services Act (the “Lanterman Act”). State contracts with the Regional Centers are typically for a term of five years, with funding in each year subject to appropriation by the State Legislature. The Lanterman Act defines “developmental disability” as mental retardation, cerebral palsy, epilepsy, autism or other conditions similar to mental retardation that require treatment similar to that required by persons with mental retardation which occur before 18 years of age.

Under the Lanterman Act, Regional Centers are responsible for eligibility determinations and client assessment, the development of a program plan for each individual receiving services, and case management. In general, Regional Centers pay for services only if an individual does not have private insurance or they cannot refer an individual to services that are provided by the State or a local agency. Regional Centers purchase services such as transportation, health care, respite care, day programs and residential care provided by community-based service providers.

Harbor Regional Center

HRC was incorporated on May 3, 1977. Since 1977, HRC has contracted with the State to provide services for the developmentally disabled and their families pursuant to the Lanterman Act. HRC’s contracted revenues from the State exceeded \$159 million in fiscal year 2014-15. HRC’s preliminary allocation (historically, 80% of the annual allocation) for the current fiscal year 2015-16 budget is approximately \$128.5 million, representing \$19.5 million for operations and approximately \$109 million for purchases of services. HRC provides services to approximately 12,000 consumers. HRC’s service area includes over 20 cities covering more than 125 square miles of the southwestern quadrant of the County of Los Angeles (the “County”). HRC is a California nonprofit corporation and a tax-exempt organization described in section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”). See APPENDIX A – “CERTAIN INFORMATION RELATING TO THE DEL HARBOR FOUNDATION AND THE HARBOR REGIONAL CENTER.”

The Corporation

The Corporation is a California nonprofit public benefit corporation and a tax-exempt organization described in section 501(c)(3) of the Code. The Corporation was established on June 11, 2009 to facilitate and augment the coordination of services and programs of HRC. The Corporation was organized exclusively as a supporting organization of HRC. See APPENDIX A – “CERTAIN INFORMATION RELATING TO THE DEL HARBOR FOUNDATION AND THE HARBOR REGIONAL CENTER.”

The Bonds

The Bonds will be dated the date of delivery, will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof (each an “Authorized Denomination”). Interest on the Bonds is payable semiannually on each May 1 and November 1, commencing November 1, 2015 (each, an “Interest Payment Date”). The Bonds are subject to optional and mandatory redemption prior to their maturity as described herein. See “THE BONDS – Redemption” herein. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

Book-Entry System

The Bonds will be registered in the name of a nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Purchases of the Bonds may be made in book-entry form only, through brokers and dealers who are, or who act through, DTC Participants. Beneficial Owners of the Bonds will not receive physical delivery of the Bonds. Payments of principal of, premium, if any, and interest on the Bonds are payable by the Trustee to DTC, which will in turn remit such payments to the DTC Participants, which will in turn remit such payments to the Beneficial Owners of the Bonds. See APPENDIX C – “BOOK-ENTRY SYSTEM.”

Sources of Payment of the Bonds

The Authority is obligated to pay the Bonds solely from Revenues and the other funds available therefor under the Indenture. Under the Loan Agreement, the Corporation has pledged Gross Revenues (as defined herein) to the payment of the loan payments to be made under the Loan Agreement (“Loan Payments”), which are due in amounts and at the times necessary to pay the principal of, premium, if any, and interest to the date of maturity or redemption of the Bonds, when due. The primary source of Gross Revenues and thus repayment for the Bonds is rent received by the Corporation under the Office Lease. The term of the Office Lease will exceed the final maturity of the Bonds. HRC will make rent payments under the Office Lease from moneys received from the State pursuant to HRC’s contract under the Lanterman Act. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “INVESTMENT CONSIDERATIONS – State Budget and Funding” herein.

NONE OF THE AUTHORITY, ANY AUTHORITY MEMBER OR ANY PERSON EXECUTING THE BONDS IS LIABLE PERSONALLY ON THE BONDS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE. THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES UNDER THE INDENTURE. NEITHER THE AUTHORITY, ITS MEMBERS, THE STATE, NOR ANY OF ITS POLITICAL SUBDIVISIONS SHALL BE DIRECTLY, INDIRECTLY, CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE BONDS ARE NOT A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, ITS MEMBERS, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS, NOR DO THEY CONSTITUTE INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE AUTHORITY HAS NO TAXING POWER.

Debt Service Reserve Fund

Payments of principal of, premium, if any, and interest on the Bonds will also be secured by amounts on deposit in the California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 Debt Service Reserve Fund (the “Debt Service Reserve Fund”) established under the Indenture. On the date of delivery of the Bonds, the Debt Service Reserve Fund will be funded at the Debt Service Reserve Requirement in the amount of \$[_____].

Deed of Trust

To secure its obligations under the Loan Agreement and the Indenture, the Corporation will execute and deliver a Deed of Trust with Assignment of Rents and Fixture Filing, dated as of July 1, 2015 (the “Deed of Trust”), for the benefit of the Trustee, as trustee for the Owners of the Bonds, encumbering the Facilities. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Deed of Trust” and “INVESTMENT CONSIDERATIONS – Limitations Relating to the Deed of Trust” herein.

Continuing Disclosure

The Corporation and HRC will agree in a Continuing Disclosure Agreement, dated as of July 1, 2015 (the “Continuing Disclosure Agreement”), by and among the Corporation, HRC and the Wells Fargo Bank, National Association, as Dissemination Agent thereunder, to provide, or to cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (the “EMMA System”), certain annual financial information and operating data relating to the Corporation and HRC and, in a timely manner, notice of certain events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12, as amended (the “Rule 15c2-12”) adopted by the U.S. Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as amended. See “CONTINUING DISCLOSURE” and APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement, including in Appendix A attached hereto, constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are believed to be reasonable, there can be no assurance that such expectations will prove to be correct. The Authority and the Corporation are not obligated to issue any updates or revisions to the forward-looking statements if or when the expectations, events, conditions or circumstances on which such statements are based occur.

Additional Information

The brief descriptions of the Bonds, the Indenture, the Loan Agreement, the Deed of Trust, the Office Lease, the Continuing Disclosure Agreement and documents, statutes, reports and other instruments included in this Official Statement do not purport to be complete, comprehensive or definitive. All references to such documents and other documents, statutes, reports and other instruments are qualified in their entirety by reference to such document, statute, report or instrument. Copies of the Bonds, the Indenture, the Loan Agreement, the Deed of Trust, the Office Lease and the Continuing Disclosure Agreement may be obtained, upon written request, from the Trustee.

REFUNDING PLAN

The Bonds are being issued for the purpose of (i) refunding on an advance basis the Prior Bonds, (ii) funding a debt service reserve fund for the Bonds, (iii) funding a funded interest fund for the Bonds through November 1, 2015, and (iv) paying the costs of issuing the Bonds.

A portion of the proceeds of the Bonds, together with other available amounts, will be used to refund on an advance basis the Prior Bonds. The Prior Bonds were issued pursuant to an Indenture of Trust, dated as of November 1, 2009 (the "Prior Indenture"), by and among the Authority, the Corporation, and Wells Fargo Bank, National Association, as successor trustee (the "Prior Trustee"). Pursuant to the terms of an Escrow Agreement, dated as of July 1, 2015 (the "Escrow Agreement"), by and between the Corporation and Wells Fargo Bank, National Association, as escrow agent (the "Escrow Agent"), a portion of the proceeds of the Bonds, together with other available moneys (collectively, the "Escrow Deposit"), will be deposited into the escrow fund established under the Escrow Agreement. The Escrow Deposit will be sufficient to purchase United States Government Securities (as defined in the Prior Indenture), the principal and interest on which when due will provide moneys that, together with uninvested moneys deposited with the Escrow Agent, will be sufficient to pay the scheduled principal of and interest on the Prior Bonds coming due on and prior to November 1, 2019, and to redeem the Prior Bonds on November 1, 2019 (the "Redemption Date") at a redemption price of 100% of the principal amount thereof plus accrued interest to said redemption date.

Grant Thornton LLP, certified public accountants (the "Verification Agent"), will deliver a report stating that the firm has verified the accuracy of mathematical computations concerning the adequacy of the Escrow Deposit deposited in the Escrow Fund. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

ESTIMATED SOURCES AND USES OF PROCEEDS

The proceeds of the Bonds, together with other available amounts, are expected to be applied as follows:

Estimated Sources of Funds	
Principal Amount of Bonds	\$
Net Original Issue Premium	
Amounts Released from Prior Bonds	
Total	<u>\$</u>
 Estimated Uses of Funds	
Escrow Fund	\$
Funded Interest Fund ⁽¹⁾	
Debt Service Reserve Fund	
Costs of Issuance Fund ⁽²⁾	
Total	\$

⁽¹⁾ Represents funded interest through November 1, 2015.

⁽²⁾ Includes Underwriter's discount, legal fees, fees and expenses of the Trustee, initial administration fee of the Authority, rating agency fees, printing costs, and other costs incurred in connection with the issuance of the Bonds.

DEBT SERVICE SCHEDULE

The following table sets forth the annual debt service due on the Bonds.

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
Total			

THE BONDS

General

The Bonds will be issued and sold in the aggregate principal amounts set forth on the inside cover page hereof as fully registered bonds in Authorized Denominations. Interest on the Bonds is payable on each Interest Payment Date. The principal of, premium, if any, and interest with respect to the Bonds is payable by the Trustee to DTC, which will in turn remit such principal, premium, if any, and interest to the DTC Participants, which will in turn remit such principal, premium, if any, and interest to the Beneficial Owners of the Bonds. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS.”

The Bonds will be dated their date of issuance and will bear interest (calculated on the basis of a 360-day year comprised of twelve 30-day months) from the Interest Payment Date next preceding the date of authentication thereof, or if a Bond is authenticated on or before the Record Date for the first Interest Payment Date, from its initial date of delivery; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

The Corporation will make monthly deposits with the Trustee in the amounts set forth in the Loan Agreement such that eight Business Days preceding each Interest Payment Date or Principal Installment Date, as applicable, an amount equal to the amount of the interest or principal payable on the Bonds on such Interest Payment Date or Principal Installment Date, as applicable, less any amounts then on deposit in the Bond Fund is available to pay the interest or principal on the Bonds payable on such Interest Payment Date or Principal Installment Date, as applicable.

Redemption*

Optional Redemption. The Bonds maturing on or after November 1, 20__, are subject to redemption prior to their respective stated maturities, as a whole or in part, on any date on and after November 1, 20__, at the principal amount of the Bonds to be redeemed, without premium, plus unpaid accrued interest, if any, to the date of redemption, from any moneys received by the Trustee from the Corporation pursuant to the Loan Agreement. The maturities and the principal amount of the Bonds of each maturity to be redeemed will be as directed by the Corporation.

Mandatory Redemption. The Bonds maturing on November 1, 20__ (the “20__ Term Bonds”) are subject to mandatory redemption, in part, by lot, from Mandatory Sinking Fund Installments on each November 1 from and after November 1, 20__, at the principal amount of the 20__ Term Bonds to be redeemed, without premium. Sinking Fund Installments for the 20__ Term Bonds maturing on November 1, 20__, are due on the following dates and in the following amounts:

Mandatory Sinking Fund
Installment Due Dates
(November 1)

Mandatory Sinking
Fund Installments

(maturity)

The Bonds maturing on November 1, 20__ (the “20__ Term Bonds”) are subject to mandatory redemption, in part, by lot, from Mandatory Sinking Fund Installments on each November 1 from and after November 1, 20__, at the principal amount of the 20__ Term Bonds to be redeemed, without premium. Sinking Fund Installments for the 20__ Term Bonds maturing on November 1, 20__, are due on the following dates and in the following amounts:

Mandatory Sinking Fund
Installment Due Dates
(November 1)

Mandatory Sinking
Fund Installments

(maturity)

If the Term Bonds are optionally redeemed, the remaining Sinking Fund Installments shall be reduced in an aggregate amount equal to the principal amount of such Term Bonds so redeemed, as directed by the Corporation, or in the absence of such direction, as proportionately as possible in Authorized Denominations.

* Preliminary; subject to change.

Redemption Procedures

Notice of Redemption. The Trustee, for and on behalf of the Authority, shall give notice of any redemption by first class mail, postage prepaid, not less than twenty (20) nor more than sixty (60) days prior to the redemption date to (i) the Owner of such Bond at the address shown on the Bond Register on the date such notice is mailed; (ii) the Securities Depositories; (iii) one or more Information Services; (iv) the Authority, and (v) the Municipal Securities Rulemaking Board (the “MSRB”). Notice of redemption to the Securities Depositories, the Information Services, and the MSRB shall be given by telecopy or other electronic means. Each notice of redemption shall state the date of such notice, the date of issue of the Bonds to be redeemed, the redemption date, the redemption price, the place of redemption (including the name and appropriate address of the Trustee), the principal amount, the CUSIP numbers (if any) of the Bonds to be redeemed and, if less than all, the distinctive certificate numbers of the Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that the interest on the Bonds designated for redemption shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds the principal amount thereof to be redeemed and any unpaid interest accrued thereon to the redemption date) and shall require that such Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notwithstanding the foregoing, failure by the Trustee to give notice pursuant to this paragraph to the Authority or any one or more of the Information Services or the Securities Depositories, or the MSRB or the insufficiency of any such notices shall not affect the sufficiency of the proceedings for redemption. Failure to mail the notices required by this paragraph to any Owner of any Bonds designated for redemption, or any defect in any notice so mailed, shall not affect the validity of the proceedings for redemption of any other Bonds.

With respect to any notice of optional redemption of Bonds, unless upon the giving of such notice such Bonds are to be deemed to have been paid within the meaning of the Indenture, such notice shall also state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the redemption price of such Bonds to be redeemed, and that if such amounts shall not have been so received said notice shall be of no force and effect and the Authority shall not be required to redeem such Bonds. If such notice of redemption contains such a condition and such amounts are not so received, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, to the Persons and in the manner in which the notice of redemption was given, that such amounts were not so received.

Selection of Bonds for Redemption. The principal amount of Bonds of each maturity to be redeemed will be as specified by the Corporation. If less than all of the Bonds of any maturity are called for redemption, the Trustee is required to select the Bonds of such maturities, or any given portion thereof, to be redeemed, by lot in such manner as it may determine. Notwithstanding the foregoing, if less than all of the Bonds of any maturity are to be redeemed, selection of the Bonds to be redeemed will be made in accordance with customary practices of DTC or the applicable successor depository, as the case may be.

Effect of Redemption. Notice of redemption having been duly given as described under “Notice of Redemption” above, and moneys for payment of the redemption price being held by the Trustee, the Bonds so called for redemption will, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds so called for redemption will cease to accrue, such Bonds will cease to be entitled to any lien, benefit or security under the Indenture, and the Owners of said Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof (including interest, if any, accrued to the redemption date), without interest accrued on any funds held after the redemption date to pay such redemption price.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Lanterman Act; Department of Developmental Services; State Budget

In 1969, the State Legislature enacted the California Welfare & Institutions Code section 4500 *et seq.*, known as the Lanterman Act, which created a State funded entitlement program for qualifying State residents with developmental disabilities, those at risk of developing a developmental disability, and their families. The Lanterman Act mandates that the State's services for the developmentally disabled be administered through a network of private nonprofit corporations.

There are currently 21 Regional Centers that operate under contract with the California Department of Developmental Services ("DDS") pursuant to the Lanterman Act. The Lanterman Act creates a framework involving both DDS and the Regional Centers. DDS has jurisdiction over promoting the uniformity and cost-effectiveness of the Regional Centers. The Regional Centers determine the level of services needed and coordinate those services to persons with developmental disabilities. The Regional Centers coordinate services and support for over 280,000 children and adults with developmental disabilities and infants at risk of developmental delay or disability. HRC is one of the Regional Centers.

Each Regional Center is required to undertake during each fiscal year two comprehensive evaluations of its budget and funding requirements for the upcoming fiscal year. Such evaluations are conducted in coordination with DDS. Regional Centers are required to bring any funding insufficiencies to the attention of DDS and the Association of Regional Center Agencies ("ARCA") in time to allow ARCA to request that the applicable Regional Center's funding needs be incorporated into the Governor's January budget proposal and the Governor's May Revision to the budget proposal. Each Regional Center's contract provides that if ARCA and the State are not able to agree in any fiscal year on the funding allocation process for a Regional Center, no less than 99% of the purchase of service and operations requirements of such Regional Center will be funded by January 15 of that fiscal year. Under the Regional Center contracts, each Regional Center is also required to provide monthly Sufficiency of Allocation Reports to DDS, identifying and explaining any month to month changes in projected expenditures. Contract amounts for each Regional Center may be adjusted based on the budgetary needs of such Regional Center.

A Regional Center's contract is typically modified in mid-August following the passage of the State's Budget Act and provides substantially all of the funding needs of the Regional Center. Contract amounts not advanced to the Regional Center are paid by DDS on a monthly basis as reimbursements for purchase of service costs incurred by the Regional Center. Regional Centers return substantially all budgeted but unexpended funds to DDS at the end of each fiscal year, with only a small cash balance carried from one fiscal year to the next.

The following table sets forth Regional Centers' portion of the DDS Budget for the fiscal years 2010-11 to 2014-15 and the total State Budget for such years.

**California Department of Developmental Services
Budget for Regional Centers
Fiscal Years 2010-11 through 2014-15
(In Millions)**

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
Regional Centers	\$4,060.7	\$3,959.9	\$4,121.7	\$4,381.4	\$4,848.5
Total % Change	(0.1)%	(2.7)%	4.1%	6.3%	10.7%
Total State Budget	\$125,254.9	\$129,476.9	\$142,420.3	\$145,300.0	\$156,357.6
Total % Change	5.0%	3.4%	10.0%	2.0%	7.6%

Source: State of California, Department of Finance, Final Budget Summary.

Historically, State funding for Regional Centers has consistently increased, even in fiscal years where the total State budget has declined. However, on February 19, 2009, the State Legislature passed a budget-balancing reform package which was signed by Governor Schwarzenegger on February 20, 2009 and became effective on March 1, 2009 and there were substantial amendments to the budget-balancing reform package on July 28, 2009 (the "2009 Budget Act"). As a result of the 2009 Budget Act, a 3% reduction to the Regional Centers' operations budgets went into effect for fiscal year 2008-09 and continued through fiscal year 2009-10. The reduction in purchase of services budgets meant that rates for service providers to the Regional Centers were held constant, but that such providers only received 97% of the cost of services they provided.

Future State actions taken to address budgetary difficulties could have the effect of reducing revenues to the Regional Centers, including HRC. The Corporation and HRC are unable to predict the nature, extent or effect of any future reductions, were they to occur, or the impact any such future reductions may have on HRC's finances and operations. See "INVESTMENT CONSIDERATIONS – State Budget and Funding" herein. In addition, the Corporation and HRC are unable to predict the impact of any future State budget actions on Federal resources that historically have been available to the Regional Centers.

In August 2010, the California State Auditor issued a report regarding DDS and the Regional Centers. The report, entitled "A More Uniform and Transparent Procurement and Rate-Setting Process Would Improve the Cost-Effectiveness of Regional Centers," is available at <http://www.bsa.ca.gov/pdfs/reports/2009-118.pdf>; such report is not incorporated herein by reference. In the transmittal letter of the report to the Governor, the Chief Deputy State Auditor stated that "[o]ur report concludes that while most of the expenditures we reviewed for the purchase of services appeared allowable and were supported by proper vendor invoices, the regional centers could not consistently demonstrate the rationale behind their rate-setting and vendor-selection decisions or how contracts are procured. In some cases, the ways in which the regional centers established payment rates and selected vendors had the appearance of favoritism or fiscal irresponsibility and did not demonstrate compliance with recent statutory amendments attempting to control the costs of purchased services. Further, we found that [DDS] systematically audits and reviews whether services purchased for consumers are allowable but generally did not examine how regional centers established rates or selected particular vendors for services. Lastly, a survey of employees at the six regional centers we visited identified several issues in the working environment at some regional centers, including a concern that many regional centers' employees do not feel safe reporting suspected improprieties." The Chief Deputy State Auditor also stated that "[a]fter discussing our concerns with [DDS], it has made a number of improvements to its oversight processes, including new fiscal audit procedures designed to evaluate how regional centers establish

vendor rates and to ensure compliance with a statutory rate freeze on all negotiated rates. [DDS] also developed a written process for receiving and reviewing complaints from regional center employees.”

In January 2012, the California State Auditor issued a report regarding its findings of the results of its prior recommendations, including its recommendations contained in the aforementioned report regarding DDS and the Regional Centers. The report is available at <http://www.bsa.ca.gov/pdfs/reports/2011-041.pdf>; such report is not incorporated herein by reference. In its report, the California State Auditor noted that of the 17 total recommendations to DDS that the Bureau of State Audits had made, DDS had not fully implemented two of such recommendations, namely, (i) to require the Regional Centers to document the basis of any individual program plan-related vendor selection and specify which comparable vendors (when available) were evaluated, and (ii) to review a representative sample of such documentation as part of its biennial waiver reviews or fiscal audits to ensure that Regional Centers are complying with state law and particularly with the requirement for selection of the least costly available provider of comparable service. In each case, DDS indicated that it will not implement the recommendation because it would be inconsistent with the Lanterman Act, which delegates a great deal of decision making to the Regional Centers. DDS responded to the Bureau of State Audits that it will use its oversight authority to ensure adherence to the law, and issued a directive on August 16, 2010 to Regional Centers to update their internal review process and associated policies and procedures to ensure the Regional Centers’ compliance with all current statutes. The directive also requires Regional Centers to inform their staff of the updates to policies and procedures. DDS noted to the Bureau of State Audits that its review of Regional Centers’ purchase of service policies for compliance with law is an ongoing process which includes ensuring that Regional Centers are implementing the least costly provision contained in current statutes.

Harbor Regional Center

HRC was incorporated on May 3, 1977 as a California nonprofit corporation for the purpose of operating the Harbor Regional Center. HRC was organized to provide diagnostic evaluations, client service coordination and lifelong planning services for persons with developmental disabilities and their families. HRC provides services to approximately 12,000 consumers. HRC’s service area includes over 20 cities covering more than 125 square miles of the southwestern quadrant of the County. HRC’s contract with DDS has been continually renewed since HRC’s founding in 1977.

HRC’s caseload and budget have grown as the population of its service area has grown over the past 38 years. See APPENDIX A – “CERTAIN INFORMATION RELATING TO THE DEL HARBOR FOUNDATION AND THE HARBOR REGIONAL CENTER.” The source of repayment for the Bonds will be primarily from funds received by HRC pursuant to its contract with DDS, which amounts will be paid by HRC to the Corporation as rent under the Office Lease in connection with the Facilities.

Under HRC’s contract with DDS, the State may take corrective action against HRC based on its failure to perform under the contract. HRC’s current contract with DDS provides that “[i]f it is found that [HRC] does not meet or is at risk of not meeting performance standards, due to the failure to meet performance objectives or requirements under the Lanterman Act or the terms of the contract, the State may take any or all of the following actions independently or in combination: the provision of technical assistance; loss of fiscal incentives; mandated consultation with designated representatives of [the Association of Regional Center Agencies] or a management team designated by the State, or both; issuance of a letter of noncompliance; pursuit of legal or equitable remedies for enforcement of specified obligations; or contract termination or contract nonrenewal subject to section 4635 of the Welfare and Institutions Code.” The State may take any other appropriate action under the Lanterman Act. HRC has never had its contract with DDS suspended, terminated or not renewed.

No assurance can be given, that DDS will not take corrective action in the future, including, without limitation, termination of HRC’s contract with DDS. In such circumstance, HRC’s management

believes that HRC's employees would remain in the Facilities and continue to coordinate services to the developmentally disabled and that all payments required to be made under the Office Lease would continue to be made under a different management team installed by DDS.

Pledge of Revenues under the Indenture

The principal of and interest on the Bonds are payable solely from and secured solely by the Revenues, the Deed of Trust, the Office Lease (other than Reserved Rights) and all amounts and securities in the funds and accounts held by the Trustee (other than the Rebate Fund and any account therein) and pledged under the Indenture. "Revenues" means all receipts, payments and other income derived by the Authority or the Trustee pursuant to the Loan Agreement (except any payments owed by the Corporation to the Authority in connection with its Reserved Rights made pursuant to the Loan Agreement), including all Loan Payments and all amounts received by the Corporation under the Office Lease constituting Gross Revenues (as defined herein) under the Loan Agreement, or otherwise in respect of the financing of the Project as provided in the Loan Agreement, and any income or revenue derived from the investment of any money in any fund or account established pursuant to the Indenture (other than the Rebate Fund and the Additional Payments Fund and any account therein). Pursuant to the Indenture, the Authority transfers, assigns and sets over to the Trustee all of the Revenues and any and all rights and privileges, other than certain reserved rights it has under the Loan Agreement, including, without limitation, the right to collect and receive directly all of the Revenues and the right to hold and enforce any security interest therein. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Monthly Deposits

The Corporation is obligated to make monthly deposits with the Trustee in the amounts set forth in the Loan Agreement such that eight Business Days preceding each Interest Payment Date or Principal Installment Date, as applicable, an amount equal to the amount of the interest or principal payable on the Bonds on such Interest Payment Date or Principal Installment Date, as applicable, less any amounts then on deposit in the Bond Fund available to pay the interest or principal on the Bonds payable on such Interest Payment Date or Principal Installment Date, as applicable. Under the Loan Agreement, the Corporation has an absolute and unconditional general obligation to pay the Loan Payments to be made thereunder, which payments are due in amounts and at the times necessary to pay the principal of and interest to the date of maturity or redemption of the Bonds. Loan Payments are expected to be paid primarily from amounts paid by HRC as rent under the Office lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Office Lease" herein.

Pledge of Gross Revenues

Under the Loan Agreement the Corporation agrees that, so long as any of the Bonds are Outstanding or any Additional Payments under the Loan Agreement remain unpaid, it will deposit all of the Gross Revenues, as soon as practicable upon receipt, with such banking institutions as the Corporation shall designate from time to time (the "Depository Banks") in accounts designated collectively as the "Gross Revenue Fund," and, pursuant to the Loan Agreement, the Corporation pledges, and, to the extent permitted by law, grants a security interest to the Trustee, as assignee of the Authority, for the benefit of the Owners, as and to the extent provided in the Loan Agreement, in the Gross Revenue Fund and all of the Gross Revenues to secure the payment of the Loan Payments and any Additional Payments under the Loan Agreement and the performance by the Corporation of its other obligations under the Loan Agreement.

"Gross Revenues" means all revenues, income, receipts and money received in any period by the Corporation (other than the proceeds of borrowing and interest earned thereon if and to the extent such interest is required to be excluded by the terms of the borrowing), including, but without limiting the

generality of the foregoing, (a) gross revenues derived from its operation and possession of and pertaining to the Facilities or any other property or facilities owned or held by the Corporation, (b) gifts, grants, bequests, donations and contributions to the Corporation, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Loan Payments or Additional Payments under the Loan Agreement and, (c) proceeds with respect to, arising from, or relating to the Facilities or any other property or facilities owned or held by the Corporation and derived from (i) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required by the terms of the Loan Agreement or the Indenture to be used for purposes inconsistent with their use for the payment of Loan Payments or Additional Payments under the Loan Agreement), (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical and hospital expense reimbursement programs and agreements, and (vi) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation; provided, however, that Gross Revenues shall not include any funds received by the Corporation pursuant to vendor contracts to be used by the Corporation for the coordination of services to the developmentally disabled; provided further, however, that Gross Revenues shall not include any payments received by the Corporation in connection with homes for the developmentally disabled administered by the Corporation to the extent that such payments are required to pay costs, mortgage payments or contractual services with respect to such homes.

Amounts in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as provided in the Loan Agreement. If the Corporation is delinquent for more than three (3) Business Days in the payment or required prepayment of any Loan Payment, or in the payment of monthly deposits required under the Loan Agreement, the Authority or the Trustee shall notify the Corporation and the Depository Bank(s) of such delinquency, and, unless such Loan Payments or other payment is made within five (5) Business Days after receipt by the Corporation of such notice, the Corporation shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Trustee, as assignee of the Corporation. The Gross Revenue Fund shall remain in the name and to the credit of the Trustee until the amounts on deposit in the Gross Revenue Fund are sufficient to pay in full (or have been used to pay in full) all Loan Payments in default and payments required and until all other Events of Default known to the Trustee shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefore, whereupon the Gross Revenue Fund (except Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the Corporation. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use and withdraw from time to time amounts in the Gross Revenue Fund, making such withdrawals first from amounts in the Gross Revenue Fund, to make Loan Payments, Additional Payments under the Loan Agreement, and other payments required of the Corporation under the Loan Agreement or with respect to any Parity Debt, as such payments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of Loan Payments and Parity Debt according to the amounts due for Loan Payments and Parity Debt, and to such other payments in the order which the Trustee, in its discretion, shall determine to be in the best interests of the Owners of the Bonds, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Corporation shall continue to deposit all Gross Revenues in the Gross Revenue Fund and shall not be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Trustee in its sole discretion so directs for the payment of current or past due operating expenses of the Corporation; provided, however, that the Corporation shall be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues.

Rates and Charges and Debt Service Coverage Under Loan Agreement

The Corporation covenants and agrees to fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rent, fees and charges for the use of the Facilities which, together with all other receipts and revenues of the Corporation and any other funds available therefor, will be sufficient in each Fiscal Year to produce Net Income Available for Debt Service equal to at least 1.25 times Aggregate Debt Service for such Fiscal Year with respect to the Bonds. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement.”

Office Lease

The Corporation entered into the Office Lease with HRC for the Facilities On December 1, 2009. The Office Lease will be amended pursuant to Amendment No. 1 to Office Lease. The term of the Office Lease exceeds the final maturity of the Bonds. **Rent under the Office Lease is the primary source of Gross Revenues under the Loan Agreement and therefore the primary source of Revenues under the Indenture to secure the repayment of the principal of and interest on the Bonds.** During the Corporation’s fiscal year 2015-16, the total annual amount payable under the Office Lease is expected to be \$2,915,212 (consisting of base rent of approximately \$2,186,197 and operating expenses payable under the Lease of approximately \$729,015). The base rent escalates each fiscal year during the term of the Office Lease. See “INVESTMENT CONSIDERATIONS” herein.

Deed of Trust

To secure its obligations under the Loan Agreement and the Indenture, the Corporation will execute and deliver the Deed of Trust, encumbering the Facilities. See “INVESTMENT CONSIDERATIONS – Limitations Relating to the Deed of Trust” herein.

Debt Service Reserve Fund

The Indenture requires the establishment of the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Requirement, which will be \$[_____] on the date of issuance of the Bonds. “Debt Service Reserve Requirement” means, with respect to the Debt Service Reserve Fund and as of any date of calculation, an amount equal to the least of (a) ten percent (10%) of the initial offering price to the public of the Bonds issued under the Indenture and as determined under the Code, or (b) the greatest amount of the Bond Debt Service for the Bonds and any Additional Bonds issued under the Indenture in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond and any Additional Bonds issued under the Indenture is due, or (c) one hundred twenty-five percent (125%) of the sum of the Bond Debt Service for the Bonds and any Additional Bonds issued under the Indenture for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the issuance of the Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service for the Bonds and any Additional Bonds issued under the Indenture is due, divided by the number of such Fiscal Years, all as computed and determined by the Corporation and specified in writing to the Trustee. If, on any date on which the principal or redemption price of, or interest on, any of the Bonds and any Additional Bonds issued under the Indenture is due, the amount in the Bond Fund available for such payment is less than the amount of the principal and redemption price of and interest on the Bonds due on such date, the Trustee is required to apply amounts from the Debt Service Reserve Fund to the extent necessary to make good the deficiency. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture.”

Insurance

The Corporation currently maintains insurance with commercial insurers for maximum policy amounts of up to \$14,249,043 for property coverage, \$6,008,500 for business income and extra expense, up to \$1,000,000 per occurrence with an aggregate limit of \$2,000,000 for general liability coverage. In addition a \$3,000,000 umbrella policy and a \$10,000,000 earthquake policy are maintained. The deductible in connection with the earthquake coverage is \$50,000. HRC currently maintains insurance with commercial insurers for up to \$3,000,000 per occurrence with an aggregate limit of \$5,000,000 for professional liability coverage.

The Corporation is obligated to procure or cause to be procured and maintain or cause to be maintained through the term of the loan under the Loan Agreement, insurance for the Facilities against loss or damage to the Facilities or such structure or item of furniture or equipment caused by fire or lightning, with an extended coverage endorsement and vandalism and malicious mischief insurance, which such extended coverage insurance will, as nearly as practicable, cover loss or damage by earthquake, explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance; provided, that earthquake coverage will be required only if available from reputable insurers at commercially reasonable rates, as determined by an Insurance Consultant.

In addition, the Corporation is required to maintain or cause to be maintained rental interruption or loss of use insurance for the Facilities in an amount not less than the maximum remaining scheduled Loan Payments in any twenty-four (24) month period, to insure against loss of use of the Facilities caused by perils covered by the insurance required in the Loan Agreement. The insurance required by the Loan Agreement shall be in an amount equal to the lesser of the replacement cost (without deduction for depreciation) of the Facilities or the principal amount of the Outstanding Bonds (except that such insurance may be subject to deductible clauses of not to exceed ten percent (10%) of the amount of any one loss). The Corporation is required to maintain flood insurance on the Facilities and the furniture, equipment and other contents therein at such levels as shall be determined adequate by the Insurance Consultant in its sole discretion. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Loan Agreement.” There can be no assurance that such insurance will cover all losses or that uninsured or underinsured losses will not have a material adverse impact on the Corporation and its operations.

Limited Obligation of Authority

NONE OF THE AUTHORITY, ANY AUTHORITY MEMBER OR ANY PERSON EXECUTING THE BONDS IS LIABLE PERSONALLY ON THE BONDS OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THEIR ISSUANCE. THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES UNDER THE INDENTURE. NEITHER THE AUTHORITY, ITS MEMBERS, THE STATE, NOR ANY OF ITS POLITICAL SUBDIVISIONS SHALL BE DIRECTLY, INDIRECTLY, CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS TO PAY ALL OR ANY PORTION OF THE DEBT SERVICE DUE ON THE BONDS, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATSOEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE BONDS ARE NOT A PLEDGE OF THE FAITH AND CREDIT OF THE AUTHORITY, ITS MEMBERS, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS NOR DO THEY CONSTITUTE INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION. THE AUTHORITY HAS NO TAXING POWER.

Limitation on Encumbrances

Under the Loan Agreement, the Corporation covenants and agrees that it will not incur, create, assume or permit to exist any mortgage, deed of trust, pledge, security interest, encumbrance, lien or charge of any kind (a “security interest”) upon the Revenues or the Facilities whether now owned or hereafter acquired except for Permitted Encumbrances. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Limitations on Indebtedness

In the Loan Agreement, the Corporation covenants and agrees that it will not incur any indebtedness or financial obligations by borrowing money, by assuming or guaranteeing the obligations of others, by entering into installment purchase contracts or leases required to be capitalized in accordance with generally accepted accounting principles, or otherwise (other than indebtedness, not for borrowed money, incurred in the ordinary course of business); provided, however, that the Corporation may incur:

- (i) Funded Debt incurred for the purpose of refinancing or refunding outstanding indebtedness, which may be Parity Debt if incurred for the purpose of refinancing or refunding outstanding Parity Debt, provided that the Board of Directors determines that such refinancing or refunding is in the best interests of the Corporation;
- (ii) Debt subordinated to Parity Debt, provided that the instrument pursuant to which such debt is incurred contains no provision that would permit the obligee under such instrument to cause an event of default to occur in connection with any Funded Debt; and
- (iii) Non-Recourse Indebtedness arising either in connection with the Corporation’s financing of real or personal property not theretofore owned by the Corporation, or in connection with the refinancing of Non-Recourse Indebtedness, whether, in either case, such indebtedness be to the sellers of such property or to banks or other lenders and whether, in either case, such indebtedness be unsecured or secured by liens on the property financed.

Additional Bonds

The Authority may at any time issue Additional Bonds under the Indenture payable from and secured by a pledge of the Revenues under the Indenture on a parity with the Bonds upon the satisfaction of certain conditions set forth therein. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

STATE BUDGET

Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading “California Budget.” An impartial analysis of the budget is posted by the Office of the Legislative Analyst (the “LAO”) at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on cities in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the Corporation or the Authority, and the Corporation and the Authority can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

2015-16 State Budget. On June 24, 2015, Governor Brown signed the Fiscal Year 2015-16 State Budget (the “2015-16 Budget”) which expands child care, boosts funding for public schools and opens the State's public healthcare program to immigrant children who are in the country illegally. The new spending plan, which includes a \$115.4-billion general fund, takes effect July 1 and provides for an estimated 170,000 immigrants 18 and younger to qualify for Medi-Cal. In addition, Governor Brown called special legislative sessions to find sustainable funding for transportation and public healthcare.

Significant adjustments set forth in the 2015-16 Budget affecting DDS include the following:

- \$5.9 billion total funds to DDS for Fiscal Year 2015-16, a net increase of \$456.7 million above the updated Fiscal Year 2014-15 expenditure, an 8.3 percent increase;
- \$20.3 billion (\$7.2 billion general fund) for DDS, an increase of \$244.7 million from the revised 2014-15 budget;
- Community Care Licensing - \$3 million general fund and 28.5 positions to address a backlog of complaint cases and expand training and technical assistance; and
- Interagency Child Abuse and Neglect - \$4 million to support an optional grant program for counties to report instances of suspected child abuse or neglect to local law enforcement agencies.

Proposition 30. On November 6, 2012, California voters approved Proposition 30, which increases personal income taxes on high-income taxpayers for seven years and sales taxes for four years. The new tax revenues would be available to fund programs in the State budget, including DDS contracts with Regional Centers. The approval of Proposition 30 averted a \$50 million mid-year cut to the DDS budget for fiscal year 2012-13.

Future State Budgets

No prediction can be made by the Corporation as to whether the State will encounter budgetary problems in future fiscal years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the Corporation cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on Corporation or HRC finances and operations or what actions will be taken in the future by the State Legislature and the Governor to deal with changing State revenues and expenditures. There can be no assurance that actions taken by the State to address its financial condition will not materially adversely affect the financial condition of the Corporation or HRC. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the Corporation, the Authority or HRC have no control.

INVESTMENT CONSIDERATIONS

Investment in the Bonds involves substantial risks. The following information should be considered by prospective investors in evaluating an investment in the Bonds. However, the following does not purport to be an exclusive listing of risks and other considerations which may be relevant to investing in the Bonds, and the order in which the following information is presented is not intended to reflect the relative importance of such risks.

Limited Source for Repayment

The Corporation's primary source of revenues to pay debt service on the Bonds will be the rental payments it receives from HRC under the Office Lease. If HRC were to default in paying rent under the Office Lease there likely would be insufficient moneys available to pay the Owners of the Bonds. The Corporation is presently dependent on HRC for substantially all of the Corporation's Gross Revenues. The Corporation's Gross Revenues will be derived almost entirely from amounts paid by the State pursuant to various contracts between HRC and the State, and, in particular, the contract with DDS that funds HRC's operations and the purchase of services budget. See APPENDIX A - "CERTAIN INFORMATION RELATING TO THE DEL HARBOR FOUNDATION AND THE HARBOR REGIONAL CENTER."

The amounts paid by DDS to HRC vary from year to year, and there can be no assurance that the State will continue to renew the DDS contract with HRC at current levels for the services it coordinates to the developmentally disabled. If the State fails to renew the DDS contract with HRC, the ability of HRC to pay the rent required under the Office Lease and thus the ability of the Corporation to pay debt service on the Bonds would be adversely affected.

State Budget and Funding

The primary source of Gross Revenues and thus repayment for the Bonds is rent received by the Corporation under the Office Lease. HRC makes rent payments under the Office Lease from moneys received from the State pursuant to HRC's contract with DDS under the Lanterman Act. Funding for the Regional Centers is subject to annual appropriation by the State Legislature. During the previous economic recession, the State experienced severe financial and economic restraints.

For fiscal years 2012-13 and 2013-14, DDS maintained its allocation for rent payable by HRC (and other Regional Centers) to the approximate funding level of fiscal year 2010-11. DDS has informed the Regional Centers that this funding level will be maintained during fiscal year 2014-15. No assurance can be made regarding DDS's calculations of rent allocation for subsequent fiscal years. To the extent the rent allocation under the DDS contract is less than the rent payable by HRC under the Office Lease for the Facilities (which rent is subject to an annual escalation pursuant to the Office Lease), HRC has used and will use other operations funds provided for under the DDS contract or other available funds to satisfy its rent obligations. Use of other funds has reduced and will reduce funds available to HRC for staffing and other operational purposes. The use of operations funds in addition to those funds specifically allocated to rent payments has not materially adversely affected HRC's operations or financial condition. Inability of HRC to make rent payments under the Office Lease in a timely manner may result in an inability of the Corporation to meet its payment obligations under the Loan Agreement, which may in turn have a material adverse effect on the timely payment of principal of and interest on the Bonds.

Future State actions taken to address budgetary difficulties could have the effect of reducing or delaying funding to DDS and the Regional Centers. There can be no assurance that such difficulties will not have a material adverse effect on HRC's ability to pay when due rent payments under the Lease.

The Corporation and HRC are unable to predict the nature, extent or effect of any future reductions, or the impact that any such reductions may have on HRC's finances and operations. **Neither DDS nor any other State agency is a party to the Office Lease and there can be no guarantee that the State will fund the Regional Centers, including HRC, through the term of the Office Lease in amounts sufficient for HRC to make the required payments to the Corporation thereunder.** See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Lanterman Act; Department of Developmental Services; State Budget" herein.

Information regarding the State budget is regularly available at various State-maintained websites, including the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Additionally, an impartial analysis of the State's Budgets is posted by the Legislative Analyst's Office (the "LAO") at www.lao.ca.gov. The Corporation and HRC take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted on such websites, and such information is not incorporated herein by reference.

Tax-Exempt Status

Maintenance of Tax-Exempt Status. The tax-exempt status of interest on the Bonds depends upon the maintenance by each of the Corporation and HRC of its respective status as an organization described in section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including its operation for charitable purposes and its avoidance of transactions which may cause its assets to inure to the benefit of private individuals.

The Internal Revenue Service (the "Service") has reorganized activities relating to tax-exempt bonds with the stated aim of increasing the level of audit coverage. Historically, the only penalty available to the Service in the event of a failure to fully comply with section 501(c)(3) of the Code is the revocation of tax-exempt status. Legislation has been enacted, however, which imposes an excise tax as an intermediate sanction against tax-exempt organizations which engage in "excess benefit transactions." Excess benefit transactions generally are transactions in which an improper economic benefit is conferred upon certain persons. It is expected that such legislation will make it less likely that the Service will revoke the 501(c)(3) tax-exempt status of nonprofit corporations. The loss of tax-exempt status by the Corporation or HRC could result in loss of tax exemption with respect to interest on the Bonds and defaults in covenants with respect to the Bonds would likely be triggered. Such an event could also have material adverse consequences on the financial condition of the Corporation and HRC.

State Income Tax Exemption. The loss by either the Corporation or HRC of the exclusion of interest from gross income for federal tax purposes might trigger a challenge to their State income and property tax exemptions. Depending on the circumstances, such an event could be adverse and material. The Corporation and HRC believe that the Facilities will be exempt from California real property taxation.

Bankruptcy Risks

The rights and remedies of the Owners of the Bonds are subject to various provisions of the federal Bankruptcy Code. If the Corporation or HRC was to become a debtor in a bankruptcy case, its revenues and certain of its accounts receivable and other property created or otherwise acquired after the filing of such petition and for up to 90 days prior to the filing of such petition may not be subject to the security interest created under the Indenture for the benefit of the Owners of the Bonds. The filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation or HRC and their respective properties, and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over their respective properties. If the

bankruptcy court so ordered, the property of the Corporation or HRC, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation or HRC despite the security interest of the Trustee therein. While the Bankruptcy Code requires that the interest of the Trustee as lien owner be adequately protected before the collateral may be used by the Corporation or HRC, such protection could take the form of a replacement lien on assets of the Corporation or HRC acquired or created after the bankruptcy petition is instituted. The rights of the Trustee to enforce liens and security interests against the assets of the Corporation or HRC could be delayed during the pendency of the rehabilitation proceedings.

The Corporation or HRC could file a plan for the reorganization of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, if confirmed by a court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Hazardous Substances

While governmental taxes, assessments and charges are common claims against the value of property, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized is a claim with regard to hazardous substances. In general, the Corporation may be required by law to remedy conditions of the Facilities relating to release of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws. California laws with regard to hazardous substances are stringent and similar to certain federal acts. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of property whether or not the owner (or operator) had or has anything to do with the creation or handling of the hazardous substance. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling the hazardous substance. If any portion of the Facilities is affected by a hazardous substance, the marketability of the Facilities could be impacted and the value of the Facilities could be reduced by the cost of remedying the condition. Any of these potentialities described in this paragraph could significantly affect the value of the Facilities that would be realized upon a default and foreclosure. In addition, during any period when remediation is occurring, all or a portion of the Facilities may not be able to be occupied. In such circumstance, HRC would be entitled to abatement of all or a portion of its obligation to pay rent under the Office Lease. Any business interruption insurance obtained in connection with the lease of the Facilities may not be sufficient to pay all rent due during such period of abatement.

Phase I Environmental Site Assessment. In connection with the issuance of the Prior Bonds in 2009, ENVIRON International Corporation (“Environ”) prepared a Phase I Environmental Site Assessment, dated November 2009 (the “Phase I”). The descriptions of the Phase I herein have not been approved by Environ. The Del Amo Facility Superfund covers an area of approximately 280 acres and is located in western Los Angeles County, between the cities of Torrance and Carson (the “Del Amo Facility Superfund site”). According to the Phase I, the Del Amo Facility Superfund site is located approximately 4.8 miles to the east-northeast and potentially down- to cross-gradient of the site on which the Facilities are located. Based on Environ’s review of the most recent information available from the United States Environmental Protection Agency (“USEPA”) Superfund website, an interview with certain personnel knowledgeable about the current status of the Del Amo Facility Superfund site and the distance to the Del Amo Facility Superfund site, Environ stated in Phase I that soil issues from the Del Amo

Facility Superfund site were not a concern for the site on which the Facilities are located. Groundwater remediation for the Del Amo Facility Superfund site and an adjoining Superfund site (which has been combined as a dual site operation) were in the design phase and separate remedies had been selected by the USEPA to manage the chlorobenzene and benzene plumes associated with such sites. The extent of the groundwater plume was not completely defined; however, most of the groundwater investigation focused on the immediate vicinity of the two Superfund sites and the areas directly to the south of the Superfund sites. Based on the distance to the Del Amo Facility Superfund site from the site on which the Facilities are located (approximately 4.8 miles) and the groundwater flow direction, it was unlikely, according to the Phase I, that groundwater from the Del Amo Facility Superfund site had impacted the site on which the Facilities are located.

Historical Use as Oil Production Site. The Phase I noted that beginning in the 1920s, consistent with land use in much of the Torrance area, oil production facilities were developed at the site of the Facilities and in the surrounding area. Four oil wells were located within the Village Del Amo property, immediately adjacent to the site where the Facilities are located, along with several ponds and above ground storage tanks that were located on the Facilities site itself. Oil production continued in the immediate vicinity of the site until the 1970s. The four offsite wells were plugged between 1940 and 1989. Other oil production equipment was removed by the mid-1970s. A limited site investigation at the Village Del Amo property conducted by Dames & Moore, a consulting, engineering and construction management firm, in April 1999 identified the presence in some of the borings of low level diesel- and oil- range petroleum hydrocarbons in the upper 20 feet of soil in the areas investigated. Redevelopment of the Village Del Amo property to its current configuration as a retail and business park occurred in 1982. During redevelopment of the site, it is likely that superficial features related to former oil field use (e.g., sumps, tanks, impacted soil, etc.) would have been removed. Due in part to the majority of the Facilities site being currently covered by buildings, paved streets, and hardscaped areas, with a minimal amount of landscaping, and that this use is expected to continue for the next 30 years, Environ stated in the Phase I that contact by site users with any deeper soil impacted by hydrocarbons from historical uses that may remain at the site where the Facilities are located was unlikely.

Groundwater, which is estimated to be present at approximately 70 to 80 feet below ground surface according to Dames & Moore's work, was not investigated as part of Dames & Moore's 1999 subsurface investigation at the site. While impact to groundwater from historical oil production at the site (which ceased almost four decades ago) cannot be ruled out based on the information reviewed as of the Date of Phase I by Environ, Environ had no information to suggest that there had been a significant release at the site where the Facilities are located that would have impacted the groundwater under the site. In the Phase I, Environ stated that it had no information regarding the potential for methane gas or hydrogen sulfide to occur at the site and this issue cannot be ruled out without testing. Environ noted in the Phase I that the buildings at the site had been present since 1982 and that, based on the information reviewed for the Phase I and interviews conducted with facility personnel, Environ had no information to indicate that methane is an issue at the Facilities site. The surrounding former oil field production properties have likewise been developed with multiple uses and no indications of methane issues were identified based on documents reviewed as part of Environ's work for the Phase I.

Subsequent to completion of the Phase I, Environ conducted air sampling at the Facilities. Methane and hydrogen sulfide were not detected. Some compounds related to former oil field use were detected, but at concentrations that are below the applicable human health or environmental screening levels or at levels consistent with background concentrations for the area. One compound associated with former oil field use and two compounds not associated with former oil field use were detected above screening levels, but at concentrations within the standard agency risk range and less than the no significant risk level. **The Phase I is not being updated in connection with the issuance of the Bonds.**

Limitations on Remedies

The ability of the Trustee to enforce the agreements set forth in the Indenture, the Deed of Trust, and the Loan Agreement will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or be limited. The various legal opinions to be delivered concurrently with the issuance of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights.

Seismic Activity

Generally, throughout the State, some level of seismic activity occurs on a regular basis. Periodically, the magnitude of a single seismic event can cause significant ground shaking, destabilization or liquefaction of the soils, and potential for damage to property located at or near the center of such seismic activity. The Corporation maintains general liability insurance covering a variety of hazards, including a \$10,000,000 earthquake policy. Nevertheless, if seismic activity causes significant damage to the Facilities, the value thereof could be adversely affected and hence the security for the Bonds could be impaired.

Limitations Relating to the Deed of Trust

The security afforded by the Deed of Trust is limited. There can be no assurance that the lien of the Deed of Trust could be foreclosed or otherwise realized upon at a time or in an amount sufficient to make full and timely payment of principal of and interest on the Bonds.

Foreclosure. There are two methods of foreclosing on a deed of trust under State law, by nonjudicial sale and by judicial sale. Foreclosure under a deed of trust may be accomplished by a nonjudicial trustee's sale under the power of sale provision in the deed of trust. Prior to such sale, the trustee must record a notice of default and election to sell and send a copy to the trustor, to any person who has recorded a request for a copy of the notice of default and notice of sale, to any successor in interest of the trustor and to certain other parties discernable from the real property records. The trustee then must wait for the lapse of at least three months after the recording of the notice of default and election to sell before establishing the trustee's proposed sale date and giving a notice of sale (in a form mandated by State statutes). The notice of sale must be posted in a public place and published once a week for three consecutive calendar weeks, with the first such publication preceding the trustee's sale by at least 20 days. Such notice of sale must be posted on the property and sent, at least 20 days prior to the trustee's sale, to the trustor, to each person who has requested a copy, to any successor in interest of the trustor, to the beneficiary of any junior deed of trust and to certain other parties discernable from the real property records. In addition, the notice of sale must be recorded with the county recorder at least 14 days prior to the date of sale. The trustor, any successor in interest of the trustor in the trust property, or any person having a junior lien or encumbrance of record may, during the statutory reinstatement period, cure any monetary default by paying the entire amount of the debt then due under the terms of the deed of trust and the obligations secured thereby (exclusive of principal due by virtue of acceleration upon default) plus costs and expenses actually incurred in enforcing the obligation and certain statutorily limited attorneys' and trustee's fees. Following a nonjudicial sale, neither the trustor nor any junior lien holder has any right of redemption, and the beneficiary may not ordinarily obtain a deficiency judgment against the trustor.

Should foreclosure under a deed of trust be sought in the form of a judicial foreclosure, it is generally subject to most of the delays and expenses of other lawsuits, and sometimes requires up to several years to complete. The primary advantage of a judicial foreclosure is that the beneficiary is

entitled, subject to other limitations, to obtain a deficiency judgment against the trustor to the extent that the amount of the debt is in excess of the fair market value of the property. Following a judicial foreclosure sale, the trustor or its successors in interest may redeem the property for a period of one year (or a period of only three months if the proceeds of sale are sufficient to satisfy the debt, plus interest and costs). In addition, to assure collection of any rents assigned as additional collateral under the Deed of Trust, the Trustee would likely need to seek the appointment by a court of a receiver for the Facilities.

Antideficiency Legislation and Certain Other Limitations on Lenders. California has four principal statutory prohibitions limiting the remedies of a beneficiary under a deed of trust. Two such prohibitions limit the beneficiary's right to obtain a deficiency judgment, one being based on the method of foreclosure and the other on the type of debt secured. Under the former, a deficiency judgment is ordinarily barred when the foreclosure is accomplished by means of a nonjudicial trustee's sale, except for limited exceptions not applicable to the Deed of Trust. Under the latter, a deficiency judgment is barred where a foreclosed deed of trust secures certain purchase money obligations. A State law, commonly known as the "one form of action" rule, requires the beneficiary to exhaust the security under a deed of trust by foreclosure before bringing a personal action against the trustor on the indebtedness. If a court were to hold that this rule were applicable to the Deed of Trust, and the trustee under the Deed of Trust or the Owners of the Bonds were to file suit or take other actions (including set off) to collect the debt secured by the Deed of Trust without seeking to enforce their remedies under the Deed of Trust, they might be precluded from thereafter proceeding under the Deed of Trust. State law also limits any deficiency judgment obtained by a beneficiary following a judicial sale to the excess of the outstanding debt above the fair market value of the property at the time of sale. This prevents a beneficiary from obtaining a large deficiency judgment against the debtor as the result of low bids at a judicial sale. Statutory provisions (such as the federal bankruptcy laws) may have the effect of delaying enforcement of the lien of the Deed of Trust in the event of a default by the Corporation.

THE AUTHORITY

Under Title 1, Division 7, Chapter 5 of the California Government Code (the "JPA Act"), certain California cities, counties and special districts have entered into a joint exercise of powers agreement (the "JPA Agreement") forming the Authority for the purpose of exercising powers common to the members and exercising the additional powers granted to the Authority by the JPA Act and any other applicable provisions of California law. Under the JPA Agreement, the Authority may issue bonds, notes or any other evidence of indebtedness, for any purpose or activity permitted under the JPA Act or any other applicable law.

The Authority may sell and deliver obligations other than the Bonds. These obligations will be secured by instruments separate and apart from the Indenture and Loan Agreement, and the holders of such other obligations of the Authority will have no claim on the security for the Bonds. Likewise, the Holders of the Bonds will have no claim on the security for such other obligations that may be issued by the Authority.

Neither the Authority nor its independent contractors has furnished, reviewed, investigated or verified the information contained in this Official Statement other than the information contained in this section and the section entitled "ABSENCE OF LITIGATION - The Authority." The Authority does not and will not in the future monitor the financial condition of the Corporation or HRC or otherwise monitor payment of the Bonds or compliance with the documents relating thereto. Any commitment or obligation for continuing disclosure with respect to the Bonds, the Corporation or HRC has been undertaken solely by the Corporation and HRC. See "CONTINUING DISCLOSURE" herein.

TAX MATTERS

Tax Exemption

The Internal Revenue Code of 1986 (the “Code”) imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. Each of the Authority and the Corporation has covenanted to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, the Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Code and, therefore, interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

Pursuant to the Indenture and the Loan Agreement, and in the Tax Certificate Pertaining to Arbitrage and Certain Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986, to be delivered by the Authority and the Corporation in connection with the issuance of the Bonds, each of the Authority and the Corporation will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described in the immediately preceding paragraph, Bond Counsel will assume the accuracy of such representations and the present and future compliance by each of the Authority and the Corporation with its covenants.

Except as stated in this section above, Bond Counsel will express no opinion as to any federal or state tax consequences of the receipt of interest on, or the ownership or disposition of, the Bonds. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel. Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Authority and of the Corporation described above. No ruling has been sought from the Internal Revenue Service (the “Service”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Authority as the “taxpayer,” and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Authority or the Corporation may have different or conflicting interest from the owners. Public awareness of any future audit of the

Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

No assurance can be given that future legislation, if enacted into law, will not contain provisions that could directly or indirectly reduce the benefit of the exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

A copy of the proposed form of opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix F.

Tax Accounting Treatment of Bond Premium and Original Issue Discount on Bonds

To the extent that a purchaser of a Bond acquires that Bond at a price in excess of its “stated redemption price at maturity” (within the meaning of section 1273(a)(2) of the Code), such excess will constitute “bond premium” under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner’s basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Bond to the owner.

The excess, if any, of the stated redemption price at maturity of Bonds of a maturity over the initial offering price to the public of the Bonds of that maturity is “original issue discount.” Original issue discount accruing on a Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax to the same extent as would be stated interest on that Bond. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of Bonds who purchase such Bonds other than at the initial offering price and pursuant to the initial offering

Persons considering the purchase of Bonds with original issue discount or initial bond premium should consult with their own tax advisors with respect to the determination of original issue discount or amortizable bond premium on such Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Bonds.

Other Tax Consequences

Although interest on the Bonds may be exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner’s federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend upon the owner’s other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware

that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel will express no opinion regarding any such other tax consequences.

APPROVAL OF LEGAL PROCEEDINGS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel. Norton Rose Fulbright US LLP is also serving as Disclosure Counsel. Approval of certain legal matters will be passed upon for the Authority by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California, for HRC by Allen Matkins Leck Gamble Mallory & Natsis LLP, Los Angeles, California, for the Corporation by Liner LLP, Los Angeles, California, and for the Underwriter by its counsel, Quint & Thimmig LLP, Larkspur, California. Jones Hall, A Professional Law Corporation undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

LITIGATION

The Authority

To the knowledge of the Authority, there is no material litigation pending or threatened against the Authority concerning the validity of the Bonds or any proceedings of the Authority taken with respect to the issuance thereof.

The Corporation

There are no actions, suits or proceedings pending or, to the Corporation's best knowledge, threatened against the Corporation; (i) seeking to restrain or enjoin the issuance or delivery of any of the Bonds or the collection of Revenues pledged under the Indenture or the collection of Gross Revenues under the Loan Agreement or the payment of Loan Payments; (ii) in any way contesting or adversely affecting the authority for the issuance of the Bonds or the validity of the Bonds, the Indenture, the Loan Agreement, the Office Lease or the Deed of Trust; (iii) contesting the existence or powers of the Corporation; (iv) which, if determined adversely to it, would materially adversely affect the consummation of the transactions described in this Official Statement or contemplated by the Indenture, the Loan Agreement, the Office Lease or the Deed of Trust or the ability of the Corporation to perform its obligations thereunder, as applicable; or (v) contesting the Corporation's status as an organization described in section 501(c)(3) of the Code or which would subject any income of the Corporation to federal income taxation to such extent as would result in loss of the exclusion from gross income for federal income tax purposes of interest on any of the Bonds under section 103 of the Code.

In the ordinary course of carrying out its activities, HRC is subject to litigation from time to time. The Corporation is not aware of any pending litigation against HRC that would materially and adversely impair or delay the payments to be made by HRC to the Corporation under the Office Lease.

UNDERWRITING

The Authority and the Corporation have entered into a purchase contract with Westhoff, Cone & Holmstedt (the “Underwriter”) pursuant to which the Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Authority at an aggregate price of \$_____ (being the principal amount of the Bonds of \$_____, [plus/less] an original issue [premium/discount] of \$_____, less an underwriter’s discount of \$_____). The Underwriter is obligated under the purchase contract to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold by the Underwriter to certain dealers and others at yields lower than the public offering yield indicated on the inside cover hereof, and such public offering yield may be changed, from time to time, by the Underwriter.

Westhoff, Cone & Holmstedt has entered into an agreement with Alamo Capital for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreement, if applicable to the Bonds, Westhoff, Cone & Holmstedt will share a portion of its underwriting compensation with respect to the Bonds with Alamo Capital.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Grant Thornton LLP will verify the accuracy of (i) mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the United States Government Securities deposited in the 2009 Escrow Fund, together with amounts held as cash therein, to provide for payment of the redemption prices (including accrued interest) of the Prior Bonds on the Redemption Date and (ii) certain mathematical computations supporting the conclusion that the Bonds are not “arbitrage bonds” under the Code, which will be used in part by Bond Counsel to be delivered at the closing of the Bonds in concluding that interest on the Bonds is excluded from gross income of the Owners thereof for federal income tax purposes under present laws, including applicable provisions of the Code, existing court rulings, regulations and Internal Revenue Service rulings.

The report of such independent arbitrage consultants will include the statement that the scope of their engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell Bonds and the Authority will not provide any such information. The Authority shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12.

The Corporation and HRC have undertaken all responsibilities for any continuing disclosure to Owners as described below, and the Authority shall have no liability to the Owners of the Bonds or any other person with respect to the Rule. To assist the Underwriter with its obligation to comply with applicable provisions of the Rule, the Corporation and HRC will execute the Continuing Disclosure Agreement. See APPENDIX E – “FORM OF CONTINUING DISCLOSURE AGREEMENT.”

In the past five years, HRC and the Corporation failed to timely file financial statements for fiscal years 2010-11 and 2013-14, respectively. Certain annual reports for Fiscal Years 2010-11 through 2013-14 did not include all content required by the applicable disclosure undertaking. The Corporation and

HRC have since filed such financial statements and have filed supplemental annual reports to correct the applicable omissions. In connection with the annual reports described above, within the past five years, the Corporation and HRC did not file a notice of failure to provide annual financial information on or before the date specified in their prior continuing disclosure undertaking. Additionally, the Corporation and HRC failed to file a notice of rating upgrade in connection with the Prior Bonds. Except as described in this paragraph, during the past five years, the Corporation and HRC have never failed to comply in all material respects with any previous undertaking with respect to the Rule to provide annual reports or notices of listed events.

RATING

Moody's Investors Service, Inc. ("Moody's") has assigned the Bonds a rating of "A3." Such rating reflects only the view of Moody's and any explanation of the significance of such rating should be obtained from Moody's at the following address: Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's, if in the judgment of Moody's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

FINANCIAL STATEMENTS

Included as APPENDIX B to this Official Statement are the audited financial statements of the Corporation for the Fiscal Year ended June 30, 2014 and the financial statements of HRC for the Fiscal Year ended June 30, 2014. The financial statements of the Corporation and HRC included as APPENDIX B have been audited by Windes, Inc., certified public accountants and consultants ("Windes"). Windes was not requested to consent to the inclusion of its reports in APPENDIX B and they have not undertaken to update their respective reports or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Windes with respect to any event subsequent to the respective date of its reports.

MISCELLANEOUS

All quotations from and summaries and explanations of the Indenture, the Loan Agreement, the Continuing Disclosure Agreement, the Office Lease, the Deed of Trust and of other documents contained herein do not purport to be complete, and reference is made to such documents for full and complete statements of their provisions. Copies of the foregoing documents may be obtained upon request from the Trustee and upon payment of the expenses incurred in connection therewith.

Any statements in this Official Statement involving matters of opinion are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the Corporation and Owners of any of the Bonds. Appendices A and B hereto, and other portions of this Official Statement, contain certain information with respect to the Corporation and HRC. Such information has been furnished by the Corporation and HRC and officers and officials of the Corporation and HRC, and the Authority makes no representation or warranty whatsoever with respect to the information contained in such Appendices or any other information contained in this Official Statement, except for information set forth under the captions "THE AUTHORITY" and "LITIGATION – The Authority" herein.

This Official Statement and the execution and delivery thereof have been duly approved and authorized by the Corporation and HRC.

DEL HARBOR FOUNDATION

By: _____
Treasurer

HARBOR DEVELOPMENTAL DISABILITIES
FOUNDATION

By: _____
President

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APPENDIX A

CERTAIN INFORMATION RELATING TO THE DEL HARBOR FOUNDATION AND THE HARBOR REGIONAL CENTER

In 1969, the State of California (the “State”) enacted the Lanterman Developmental Disabilities Services Act (the “Lanterman Act”), which created a state-funded entitlement program for all State residents with developmental disabilities, those at risk of developing a developmental disability, and their families. The Lanterman Act mandates that the State’s services for the developmentally disabled be administered through a network of private nonprofit corporations. There are currently 21 such corporations (the “Regional Centers”), that operate under contract with the California Department of Developmental Services (“DDS”), the central coordinating agency for the Regional Centers. The Regional Centers coordinate services and support for over 280,000 children and adults with developmental disabilities and infants at risk of developmental delay or disability. DDS is one of 13 departments and one board comprising the California Health and Human Services Agency. In fiscal year 2014-15, the State will provide approximately \$4.8 billion to the 21 Regional Centers to coordinate the delivery of services pursuant to the Lanterman Act. Under the State Governor’s January 2015 Budget, funding to Regional Centers will increase to \$5.9 billion for fiscal year 2015-16.

THE CORPORATION

General

The Del Harbor Foundation (the “Corporation”) is a California nonprofit public benefit corporation and an organization described in section 501(c)(3) of the Internal Revenue Code of 1986. The Corporation was established in 2009 to contribute to the general welfare of society by providing assistance to persons residing in California who have developmental disabilities or are at risk of developmental delays or disabilities and their families. The Corporation will facilitate and augment the coordination of services and programs of the Harbor Developmental Disabilities Foundation, known as the Harbor Regional Center (“HRC”), a California nonprofit corporation, which aids and assists the developmentally disabled. The Corporation is organized exclusively as a supporting organization for HRC.

Board of Directors

The Corporation is governed by a Board of Directors comprised of four volunteer members (the “Corporation Board of Directors”) and the Executive Director of HRC. The Corporation’s Executive Director oversees the day-to-day operations of the Corporation. The current members of the Corporation Board of Directors and their principal occupations are set forth in the following table:

<u>Name</u>	<u>Position</u>	<u>Principal Occupation</u>
Dennis Amundson	Chairperson	Retired Administrator/Consultant, Former Director of the California Department of Developmental Services
John Torii	Treasurer	Attorney
Pamela Muir	Secretary	Professional conservator; former Senior Manager for the Lanterman Regional Center
George Eshagian	Director	Real Estate Investor
Patricia Del Monico	Ex- Officio Director	Executive Director, Harbor Regional Center

When the Corporation began operations in 2009, Harbor Regional Center exercised significant influence and the HRC Board of Trustees appointed the Directors of the Corporation. Therefore, HRC produced consolidated audited financial statements that included the accounts of Harbor Developmental Disabilities Foundation, Inc. and the Corporation. On May 18, 2011, the bylaws of the Corporation were amended to eliminate HRC's ability to exercise significant influence and to appoint the directors of Del Harbor. This qualifying triggering event resulted in reconsideration of such consolidation. As a result, management determined the Corporation was no longer under the control of HRC. HRC deconsolidated Del Harbor from its financial statements as of June 30, 2011.

Insurance

The Corporation currently maintains insurance with commercial insurers for maximum policy amounts of up to \$14,249,043 for property coverage, \$6,008,500 for business income and extra expense, up to \$1,000,000 per occurrence with an aggregate limit of \$2,000,000 for general liability coverage. In addition a \$3,000,000 umbrella policy and a \$10,000,000 earthquake policy are maintained. The deductible in connection with the earthquake coverage is \$50,000. HRC currently maintains insurance with commercial insurers for up to \$3,000,000 per occurrence with an aggregate limit of \$5,000,000 for professional liability coverage.

THE HARBOR REGIONAL CENTER

General

HRC, founded in 1977, operates as one of the 21 Regional Centers established under the Lanterman Act to coordinate services to the developmentally disabled and their families. HRC has approximately 284 full-time employees. HRC's contracted revenues from the State of California exceeded \$159 million in fiscal year 2014-15. HRC is one of seven regional centers serving in the County of Los Angeles (the "County") and provides services to more than 12,000 clients. HRC's service area includes over 20 cities covering more than 125 square miles of the southwestern quadrant of the County.

Eligibility Criteria

Individuals must have a developmental disability, as defined in section 4512 of the California Welfare and Institutions Code, to receive services from providers under contract with Regional Centers funded by DDS. "Developmental disability" means a disability that originates before an individual attains age 18 years, continues, or can be expected to continue, indefinitely, and constitutes a substantial disability for that individual, including mental retardation, cerebral palsy, epilepsy, and autism. This term also includes disabling conditions found to be closely related to mental retardation or to require treatment similar to that required for individuals with mental retardation, but does not include other handicapping conditions that are solely physical in nature. Infants and toddlers, ages 0 to 36 months, who have an established risk condition or who have a developmental delay may also qualify for services.

HRC Board of Trustees

HRC is governed by a Board of Trustees (the "HRC Board of Trustees") composed of eighteen volunteer members from the community with demonstrated interest in developmental disabilities, including individuals with developmental disabilities or their parent or guardian. The current members of the HRC Board of Trustees and their respective occupation and affiliation with HRC are set forth on the following table.

<u>Name</u>	<u>Position</u>	<u>Occupation</u>	<u>Affiliation</u>
John Rea	President	Attorney	Parent
Dr. Roberta Rendon-Christensen	Vice President	Chiropractor	Parent
Dr. James Flores	Treasurer	Pediatrician	-
Douglas G. Erber	Secretary	President, nonprofit organization	Parent
Kristine Engels	Service Provider Representative	Administrator	-
Ronald Bergmann	Trustee	Retired IT Director	Parent
Erika Braxton-White	Trustee	Social Worker	-
Joe Czarske	Trustee	Manufacturing Manager	Parent
La Velle Gates	Trustee	CPA	Parent
David Gauthier	Trustee	Office Technician	Client
Patricia Jordan	Trustee	Community Member	Client
Marvin Malito	Trustee	Security Guard	Client
Jaime Martinez	Trustee	Community Member	Client
Dr. Monica Sifuentes	Trustee	Pediatrician	-
Wendy Sorel	Trustee	CPA/Consultant	-
Vacant	Trustee		
Vacant	Trustee		
Robert Irlen	Advisor to the Board	Retired Attorney	Parent

Brief biographies of the officers of the HRC Board of Trustees are set forth below.

John Rea, President. Mr. John Rea is currently serving his third term as HRC’s Board of Trustee’s President. Mr. Rea first served on HRC’s Board of Trustees in 2001. Mr. Rea’s law practice focuses on representing professionals sued for malpractice. He is currently a city councilmember in Palos Verdes Estates. He was previously vice president and member of the executive committee of the California Joint Powers Insurance Authority.

Dr. Roberta Rendon-Christensen, Vice President. Dr. Roberta (Bobbie) Rendon-Christensen is currently serving as HRC’s Board of Trustee’s Vice President. Dr. Rendon-Christensen first served on HRC’s Board of Trustees in 1998. She has been in private practice for over 18 years. Prior to that, she was in the aerospace industry in Long Beach. She has an adult son who receives Regional Center services. She enjoys providing chiropractic, nutritional services, weight loss solutions and many other services to the citizens of Torrance and surrounding communities throughout the South Bay.

Dr. James Flores, Treasurer. Dr. James (Jim) Flores is currently serving as HRC’s Board of Trustee’s Treasurer. Mr. Flores joined the Board in 2012. He is a pediatrician and has been in practice in the South Bay for nearly 25 years, completing his residency at the Children’s Hospital of Los Angeles. He is certified by the American Board of Pediatrics, a fellow of the American Academy of Pediatrics, and is on the medical staff for Torrance Memorial Medical Center and Providence Little Company of Mary Medical Center, Torrance.

Doug Erber, Secretary. Mr. Douglas G. Erber is currently serving as Secretary of HRC's Board of Trustees. Mr. Erber joined the HRC Board in 2010. Mr. Erber's other volunteer work includes serving as chairman of the Autism Partnership Foundation. In 2014, California Governor Edmund G. Brown, Jr. appointed Mr. Erber to the California Interagency Coordinating Council on Early Intervention. Mr. Erber is president of the Japan America Society of Southern California, a nonprofit membership organization founded in 1909 to building meaningful relationships among Japanese and Americans.

Management

HRC's day-to-day operations are managed by an administrative team of three professionals, led by HRC's Executive Director, Patricia Del Monico. This professional team has extensive management experience with HRC and other nonprofit organizations. Brief biographies of the administrative team of HRC are set forth below.

Patricia Del Monico, Executive Director. Patricia Del Monico has served as the Executive Director of HRC since February 1978. Ms. Del Monico received a Bachelor of Arts from Pennsylvania State University in 1965, a Master Degree in Social Work from the University of California at Los Angeles in 1969, a Juris Doctorate from the Whittier College School of Law in 1979 and a Master Degree in Business Administration from the University of California at Los Angeles in 1983.

Claudia DeMarco, Associate Director. Claudia DeMarco has served as an Associate Director of HRC since 2008. Prior to working at HRC, Ms. DeMarco owned and operated a consulting practice and a regional wholesale/distribution business for seven years. Ms. DeMarco has more than 31 years of experience in business management and nonprofit administration, including serving as Executive Director of the Regional Center for the East Bay from 1998 to 2001 and Associate Director of Tri-Counties Regional Center from 1995 through 1997. Ms DeMarco received a Bachelor of Social Work from the University of Kentucky and a Master of Science in Social Work from the University of Louisville.

Judy Wada, Chief Financial Officer. Judy Wada has served as Chief Financial Officer of HRC since 2008. Prior to working at HRC, Ms. Wada was the Deputy Director for Administration and Chief Financial Officer of the Museum of the Moving Image in Astoria, New York, for six years. Ms. Wada also previously served as the Assistant Commissioner for Budget for the City of New York Department of Housing Preservation and Development for nine years. Ms. Wada has over 26 years of experience in nonprofit and public finance and administration. Ms. Wada received a Bachelor of Fine Arts from University of California, Los Angeles in 1986 and a Master Degree in Arts Administration from New York University in 1992.

California State Department of Developmental Services Contract

HRC's primary source of revenues is its contract with DDS. HRC is the sole agency under contract with DDS for State-funded services for the developmentally disabled in the Torrance, Harbor, Bellflower and Long Beach health districts of the County. HRC's contracted revenues from the State are estimated to have exceeded \$161 million in fiscal year 2014-15. HRC's preliminary allocation for the current fiscal year 2015-16 budget is approximately \$128.5 million, representing \$19.5 million for operations and approximately \$109 million for purchases of services. The DDS Contract has a term of seven years and is scheduled to expire on June 30, 2021. The contract has been renewed continuously since HRC's founding in 1977. HRC also receives approximately \$5 million annually from Intermediate Care Facility ("ICF") vendors in pass through funding from DDS for services for ICF residents.

The DDS Contract provides that the State shall make available to HRC funds for the provision of services in advance of HRC's actual performance. At the beginning of each fiscal year HRC receives a preliminary allocation (historically, 80% of the annual allocation) and throughout the fiscal year the contract is amended with additional allocations. The amounts advanced are twenty-five percent (25%) of the contract amount in the preliminary allocation and any subsequent contract amendments. Each month, after service providers are paid, HRC submits a claim to DDS and receives reimbursement. Near the end of each fiscal year, DDS offsets HRC's monthly claims using the money advanced in the beginning of such fiscal year. Following the end of each fiscal year HRC may submit claims for reimbursement for any late invoices from service providers for services provided the previous two fiscal years.

The DDS contract revenues for HRC increased for the last six fiscal years. In the past six fiscal years, the operations component has increased by 24.5% from \$20,574,051 in fiscal year 2009-10 to an estimated \$25,618,208 in fiscal year 2014-15. The following table sets forth the total revenues received by HRC under the DDS Contract for the past six fiscal years and the preliminary allocation for the current fiscal year. HRC's preliminary allocation (historically, 80% of the annual allocation) for the current fiscal year 2015-16 budget is approximately \$128.5 million, representing approximately \$19.5 million for operations and \$109 million for purchases of services.

**HARBOR REGIONAL CENTER
DDS CONTRACT REVENUES
Fiscal Years 2009-10 through 2015-16**

Revenue Category	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15⁽¹⁾	2015-16⁽²⁾
Operations	\$ 20,574,051	\$ 23,140,157	\$ 23,995,762	\$ 24,705,073	\$ 25,060,826	\$ 25,618,208	\$ 19,456,780
Purchase of Service	<u>102,101,433</u>	<u>104,025,991</u>	<u>109,789,260</u>	<u>117,906,463</u>	<u>127,207,634</u>	<u>135,545,345</u>	<u>109,037,913</u>
Total Revenues	<u>\$122,675,484</u>	<u>\$127,166,148</u>	<u>\$133,785,022</u>	<u>\$142,611,536</u>	<u>\$152,268,460</u>	<u>\$161,163,553</u>	<u>\$128,494,693</u>

Source: HRC.

⁽¹⁾ Fiscal Year 2014-15 estimate based on actuals through May 21, 2015 and estimated revenues through June 30, 2015.

⁽²⁾ Fiscal Year 2015-16 is preliminary allocation.

The operations category includes salary and benefits, equipment and facility rental, general office expenses, accounting and legal fees, and contractor and sub-contractor indirect costs. The purchase of services category includes out-of-home care services, including community care facilities and special services; day programs, including day-care, day training, supported employment and work activity programs; and other services, including prevention, hospital care, respite care and transportation.

In accordance with the terms of the DDS Contract, an audit may be performed by an authorized State representative. Should such audit disclose any unallowable costs, HRC may be required to reimburse such costs to the State. In the opinion of HRC's management, any disallowed costs would not have a material adverse effect on the revenues available to pay rent under the Office Lease, as described in the Official Statement. HRC's management is not aware of any request to DDS for reimbursement of costs to date that has been disallowed. However, HRC cannot predict what costs, if any, may be disallowed by the State in the future or whether any such disallowed costs would materially impair HRC's ability to pay its obligations, including obligations to the Corporation.

Expenditure and Caseload

The following table sets forth HRC's expenditures and caseload for fiscal years 2004-05 through 2014-15. HRC's caseload increased approximately 30.5% during this period.

HARBOR REGIONAL CENTER EXPENDITURES AND CASELOAD Fiscal Years 2004-05 through 2014-15

<u>Year</u>	<u>Operations Expenditure</u>	<u>Service Expenditures</u>	<u>Total Expenditures</u>	<u>% Operations</u>	<u>% Services</u>	<u>Clients Served⁽¹⁾</u>
2004-05	\$17,862,349	\$ 76,912,825	\$ 94,775,174	18.8%	81.2%	9,251
2005-06	18,671,400	79,164,757	97,836,157	19.1	80.9	9,335
2006-07	20,503,241	85,931,740	106,434,981	19.3	80.7	9,527
2007-08	21,369,207	95,024,924	116,394,131	18.4	81.6	9,757
2008-09	20,595,823	103,202,047	123,797,870	16.6	83.4	9,912
2009-10	20,574,051	102,101,433	122,675,484	16.8	83.2	10,363
2010-11	23,140,157	104,025,991	127,166,148	18.2	81.8	10,712
2011-12	23,995,762	109,789,260	133,785,022	17.9	82.1	11,105
2012-13	24,705,073	117,906,463	142,611,536	17.3	82.7	11,463
2013-14	25,060,826	127,207,634	152,268,460	16.5	83.5	11,642
2014-15 ⁽²⁾	25,618,208	135,545,345	161,163,553	15.9	84.1%	12,077

Source: HRC.

⁽¹⁾ Number of "Community Clients" taken from DDS "Monthly Consumer Caseload Report" as of June 30 of each year.

⁽²⁾ Fiscal Year 2014-15 estimate based on actuals through May 21, 2015 and estimated expenditures through June 30, 2015. As of May 31, 2015, HRC served 12,038 clients. June 30, 2015 estimate based on actual and projected intake.

Revenues and Expenses

The following table sets forth revenues and expenses of HRC for fiscal years 2009-10 through 2014-15.

HARBOR REGIONAL CENTER REVENUES AND EXPENSES Fiscal Years Ended June 30, 2009-10 through 2014-15

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u> ⁽²⁾	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u> ⁽³⁾
Change in Unrestricted Net Assets						
Support and Revenue						
Contracts – State of California	\$122,407,711	\$126,879,970	\$133,400,308	\$142,249,831	\$146,966,959	\$155,942,574
Intermediate Care Facility Supplemental Services Income ⁽¹⁾	-	-	-	-	4,845,386	4,883,252
Interest income	97,632	68,827	35,023	14,463	9,791	7,489
Donations and grants	29,007	29,930	31,377	24,330	75,204	44,174
Other income	<u>139,905</u>	<u>186,471</u>	<u>311,256</u>	<u>306,806</u>	<u>384,493</u>	<u>301,953</u>
Total Support and Revenue	<u>\$122,674,255</u>	<u>\$127,165,198</u>	<u>\$133,777,964</u>	<u>\$142,595,430</u>	<u>\$152,281,833</u>	<u>\$161,179,442</u>
Expenses						
Program Services – Direct Client Services	\$119,601,964	\$123,380,296	\$131,458,859	\$140,128,190	\$150,094,294	\$158,939,893
Supporting Services – General/Administrative	<u>3,073,520</u>	<u>3,785,852</u>	<u>2,326,163</u>	<u>2,483,346</u>	<u>2,174,166</u>	<u>2,223,660</u>
Total Expenses	<u>\$122,675,484</u>	<u>\$127,166,148</u>	<u>\$133,785,022</u>	<u>\$142,611,536</u>	<u>\$152,268,460</u>	<u>\$161,163,553</u>
Change in Net Assets	(1,229)	(950)	(7,058)	(16,106)	13,373	15,889
Net Assets at Beginning of Year	<u>\$ 140,479</u>	<u>\$ 139,250</u>	<u>\$ 138,300</u>	<u>\$ 131,242</u>	<u>\$ 115,136</u>	<u>\$128,509</u>
Net Assets at End of Year	<u>\$ 139,250</u>	<u>\$ 138,300</u>	<u>\$ 131,242</u>	<u>\$ 115,136</u>	<u>\$ 128,509</u>	<u>\$144,398</u>

Source: Audited financial statements of HRC.

⁽¹⁾ In 2010, the funding for day and transportation services for Intermediate Care Facility (“ICF”) residents was changed to pass through funding. Previously these services were reimbursed through HRC’s contract with DDS. This change required the regional centers to pay for the services and bill the DDS on behalf of the ICF vendors, then receive the funds from the ICFs. Initially, the regional centers processed for retroactive services provided beginning July 1, 2007. Beginning July 1, 2012 this process was implemented on a “go forward” process.

⁽²⁾ In 2011, Section 4639 of the Welfare and Intuitions Code was changed to require that regional center audits not be completed by the same accounting firm more than 5 times in every 10 years. The independent accounting firm that conducted the audits for Fiscal Years 2011-12 and 2012-13 did not list revenue related to the ICF Supplemental Services Income separately.

⁽³⁾ Fiscal Year 2014-15 estimate based on actuals through May 21, 2015 and estimated expenditures through June 30, 2015.

Assets and Liabilities

The following table sets forth the statement of financial position for fiscal years 2009-10 through 2014-15.

HARBOR REGIONAL CENTER						
STATEMENT OF FINANCIAL POSITION						
Fiscal Years 2009-10 through 2014-15						
	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12⁽¹⁾</u>	<u>2012-13⁽¹⁾</u>	<u>2013-14</u>	<u>2014-15⁽⁴⁾</u>
Assets						
Cash and cash equivalents	\$5,175,753	\$15,257,452	\$1,362,181	\$6,786,718	\$6,155,011	\$5,649,897
Certificates of deposit	67,379	67,379	67,379	67,379	67,379	127,052
Cash- client trust funds	1,166,627	1,442,998	1,252,100	916,857	921,787	538,564
Contracts Receivable - State of California	5,079,925	-	37,728,467	34,257,804	4,543,301	6,523,171
Receivable from Intermediate Care Facility ⁽²⁾	-	-	7,500,941	9,139,345	1,464,303	1,330,335
Accounts and loans receivable	97,857	63,918	64,329	67,692	93,595	98,394
Receivable from State for accrued vacation and other leave benefits	964,544	962,379	800,448	820,107	901,966	939,704
Receivable from State for deferred rent ⁽³⁾	-	1,696,240	2,897,338	4,358,403	8,143,327	9,826,231
Prepaid expenses	-	-	-	296,881	86,059	-
Total Assets	<u>\$12,552,085</u>	<u>\$19,490,366</u>	<u>\$51,673,183</u>	<u>\$56,711,186</u>	<u>\$22,376,728</u>	<u>\$25,033,348</u>
Liabilities						
Accounts payable	\$10,113,243	\$11,739,057	\$12,123,071	\$11,241,853	\$12,329,476	\$12,349,616
Accrued salaries	549,930	281,887	226,462	240,082	338,471	391,085
Payable to DDS	-	-	7,388,869	7,556,774	-	843,750
Accrued vacation and other leave benefits	964,544	962,379	800,448	820,107	901,966	939,704
Contract advances- State of California	-	3,768,905	27,258,322	31,858,665	-	-
Deferred rent liability	-	1,696,240	2,897,338	4,358,403	8,143,327	9,826,231
Unexpended client trust funds	758,118	903,598	847,431	520,166	534,979	538,564
Total Liabilities	<u>\$12,385,835</u>	<u>\$19,352,066</u>	<u>\$51,541,941</u>	<u>\$56,596,050</u>	<u>\$22,248,219</u>	<u>\$24,888,950</u>
Commitments and Contingencies						
Net Assets Unrestricted	<u>\$139,250</u>	<u>\$138,300</u>	<u>\$131,242</u>	<u>\$115,136</u>	<u>\$128,509</u>	<u>\$144,398</u>
Total Liabilities and Net Assets	<u>\$12,525,085</u>	<u>\$19,490,366</u>	<u>\$51,673,183</u>	<u>\$56,711,186</u>	<u>\$22,376,728</u>	<u>\$25,033,348</u>

(footnotes on next page)

Source: Audited financial statements of HRC.

⁽¹⁾ In 2011, Section 4639 of the Welfare and Intuitions Code was changed to require that regional center audits not be completed by the same accounting firm more than five times in every 10 years. The independent accounting firm that conducted the audits for Fiscal Years 2011-12 and 2012-13 presented assets and liabilities as gross amounts rather than net amounts. In Fiscal Years 2011-12 and 2012-13 contracts receivable, contract advances, receivable from ICF and payable to DDS are presented as gross amounts in Harbor Regional Center's audited financial statements. The independent auditing firm for the Fiscal Year 2013-14 presented assets and liabilities as net amounts.

⁽²⁾ In 2010, the funding for day and transportation services for Intermediate Care Facility ("ICF") residents was changed to pass through funding. Previously these services were reimbursed through HRC's contract with DDS. This change required the regional centers to pay for the services and bill the DDS on behalf of the ICF vendors, then receive the funds from the ICFs. Initially, the regional centers processed for retroactive services provided beginning July 1, 2007. Beginning July 1, 2012 this process was implemented on a "go forward" process.

⁽³⁾ HRC leases office facilities under lease agreements that are subject to scheduled acceleration of rental payments. The scheduled rent increases are amortized evenly over the life of the leases. The deferred rent liability represents the difference between the cash payments made and the amount expensed since the inception of the leases. HRC has recorded a receivable from DDS for the deferred rent liability to reflect the future reimbursement of the additional rent expense recognized. One of HRC's lease agreements is with the Corporation. During Fiscal Year 2009-10, the financial statements for HRC and the Corporation were presented on a consolidated basis, which eliminated deferred rent. Beginning in Fiscal Year 2010-11, the Corporation's financial statements were de-consolidated as HRC no longer controlled the Corporation and each presented standalone statements with both entities recognizing their respective portion of the deferred rent. During the Fiscal Year 2014-15 the increase in deferred rent is mainly due to the inclusion of the operating expense into the rent calculation. This was not included in the past, as the operating expense was previously not a fixed and required component of rent.

⁽⁴⁾ Fiscal Year 2014-15 is estimated based on actuals through May 21, 2015 and estimated adjustments through June 30, 2015.

HRC has a revolving note with City National Bank whereby it may borrow (i) up to \$17,000,000 until June 30, 2015, (ii) then up to \$40,000,000 until the earlier date of October 1, 2015 or the effective date of the State budget with respect to the State General Fund for the fiscal year commencing July 1, 201, and (iii) then \$23,500,000 until the maturity date of June 30, 2016. Interest is payable 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, 2015. HRC plans to renew the revolving note upon its expiration. There is no assurance that a credit facility will be available to HRC from City National Bank or any other financial institution in the future, or that, if a credit facility is available, it will be sufficient or that it will be extended until a State budget is approved. See "State Budget" in the forepart of the Official Statement. HRC originally established the line of credit with City National Bank, for the period until the State budget is adopted (or up to October 1st, whichever is earlier) in 1991. The revolving note was established in 2010.

Unemployment Insurance

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

Service Agreements

HRC coordinates the services provided to its clients through service agreements with third-party vendors. The service agreements conform to applicable regulations under the Lanterman Act. Some of the services provided under third-party contracts include supported living services, educational services, community integration services and independent-living transition services. HRC has never experienced

any disruptions in the provision of service to its clients because of a dispute related to any service agreement.

Employees and Labor Relations

Approximately 77% of HRC’s employees are covered by a collective bargaining agreement with Social Services Union, Local 721 Services Employees International Union, AFL-CIO (“Local 721”). HRC has historically enjoyed positive relations with its employees and Local 721. This labor force is subject to collective bargaining agreements and, as such, renegotiation of bargaining agreements could result in an increase in hourly costs and work stoppages. The current agreements are effective through March 24, 2016.

Retirement Plan

Effective July 1, 2004, HRC restated its retirement plan and adopted a prototype profit-sharing plan with a 401(k) feature. All employees are eligible to enter the plan immediately upon employment. Participants can contribute up to the federal maximum limit. HRC is not required to match a participant’s contribution. HRC may make discretionary employer contributions to the plan allocated in direct proportion to the participant’s pay. Loans are permitted, subject to the terms of the plan document and applicable contract. Total employer retirement expense for the fiscal years ended June 30, 2015 and 2014 was \$1,570,000 and \$1,350,000, respectively.

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

Operating Leases

As of June 30, 2015, HRC was obligated under lease agreements for its office facilities in the cities of Torrance and Long Beach, with expiration dates of November 1, 2039 and December 31, 2015, respectively. HRC is required to pay for insurance on these premises. The following is a schedule of future minimum rental payments required under the operating leases as of June 30, 2015.

<u>Year Ended</u>	<u>Del Harbor</u>	<u>Other</u>	<u>Less: Sublease Income</u>	<u>Grand Total</u>
2016	\$ 2,915,037	\$ 1,117,476	\$(177,403)	\$ 3,855,110
2017	2,955,034	1,148,802	(161,304)	3,942,532
2018	2,999,602	1,181,211	(99,792)	4,081,021
2019	3,045,067	1,214,493	(31,797)	4,227,763
2020	3,091,450	1,248,707		4,340,157
Thereafter	<u>66,619,121</u>	<u>31,957,648</u>	<u>-</u>	<u>98,576,769</u>
Total	<u>\$81,625,311</u>	<u>\$37,868,337</u>	<u>\$(470,296)</u>	<u>\$119,023,352</u>

Source: HRC office leases and amendments thereto.

Total facilities rental expense, not including the deferred rent, for the years ended June 30, 2015 and 2014 was \$4,049,880.02 and \$3,758,828 respectively. During the year ended June 30, 2015, the Foundation paid rent and maintenance expenses to Del Harbor amounting to \$3,066,119.70.

In December 2014, the Corporation purchased the property that is the site of HRC’s Long Beach Office. The purchase was funded through a loan with City National Bank. As required by City National

Bank, the term of the lease between the Corporation and HRC was extended for 15 years, the term of the loan.

Contingencies

HRC is dependent on continued funding provided by DDS to operate and coordinate services to its clients. HRC's contract with DDS provides funding for services under the Lanterman Act. If the expenditures of HRC result in a deficit position at the end of any contract year, DDS may, but is not required to, reallocate surplus funds within the State system to supplement HRC's funding. Should a system-wide deficit occur, DDS is required to report to the Governor of the State and the appropriate fiscal committee of the State Legislature and recommend actions to secure additional funds or reduce expenditures

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APPENDIX B

**FINANCIAL STATEMENTS OF THE DEL HARBOR FOUNDATION
AND THE HARBOR REGIONAL CENTER**

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DEL HARBOR FOUNDATION

FINANCIAL STATEMENTS

June 30, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Del Harbor Foundation

We have audited the accompanying financial statements of Del Harbor Foundation (a California nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Del Harbor Foundation as of June 30, 2014 and 2013, 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.



Long Beach, California
November 25, 2014

DEL HARBOR FOUNDATION
STATEMENTS OF FINANCIAL POSITION

ASSETS

	June 30,	
	2014	2013
ASSETS		
Cash and cash equivalents	\$ 1,239,004	\$ 1,381,875
Certificate of deposit	50,000	50,000
Restricted cash (Note 2)	2,674,563	2,878,109
Accounts receivable	2,679	
Other assets	50,783	54,569
Deferred rent	4,578,500	3,678,859
Land, buildings, and improvements, net	20,496,382	20,863,691
Bond issuance costs, net	726,596	755,227
TOTAL ASSETS	\$ 29,818,507	\$ 29,662,330

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable	\$ 26,849	\$ 29,473
Accrued interest	347,567	347,567
Deferred revenue	236,870	664,567
Bonds payable	25,000,000	25,000,000
	25,611,286	26,041,607
 COMMITMENTS (Note 5)		
NET ASSETS		
Unrestricted		
Board designated reserve fund	150,000	100,000
Undesignated	4,057,221	3,520,723
	4,207,221	3,620,723
TOTAL LIABILITIES AND NET ASSETS	\$ 29,818,507	\$ 29,662,330

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

DEL HARBOR FOUNDATION
STATEMENTS OF ACTIVITIES

	For the Year Ended June 30,	
	2014	2013
CHANGE IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Rental and other income	\$ 4,034,534	\$ 3,979,748
Contributions – in-kind services	5,478	
Unrealized gain (loss) on certificates of deposit	(13,041)	24,622
Interest income	25,882	29,682
Total Support and Revenue	4,052,853	4,034,052
EXPENSES		
Program services	3,426,889	3,290,304
General and administrative	39,466	34,287
Total Expenses	3,466,355	3,324,591
CHANGE IN NET ASSETS	586,498	709,461
NET ASSETS AT BEGINNING OF YEAR	3,620,723	2,911,262
NET ASSETS AT END OF YEAR	\$ 4,207,221	\$ 3,620,723

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

DEL HARBOR FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Insurance	\$ 59,494	\$ 6,648	\$ 66,142
General expenses	121,840	5,478	127,318
Equipment and facility maintenance	405,276		405,276
Grants awarded	77,500		77,500
Legal fees		215	215
Accounting fees		27,125	27,125
Utilities	149,796		149,796
Depreciation and amortization	527,583		527,583
Interest expense	<u>2,085,400</u>	<u> </u>	<u>2,085,400</u>
TOTAL EXPENSES	<u>\$ 3,426,889</u>	<u>\$ 39,466</u>	<u>\$ 3,466,355</u>

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

DEL HARBOR FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Total Expenses</u>
Insurance	\$ 59,738	\$ 6,246	\$ 65,984
General expenses	122,019		122,019
Equipment and facility maintenance	297,788		297,788
Grants awarded	55,000		55,000
Legal fees		116	116
Accounting fees		27,925	27,925
Utilities	132,976		132,976
Depreciation and amortization	537,383		537,383
Interest expense	<u>2,085,400</u>	<u></u>	<u>2,085,400</u>
TOTAL EXPENSES	<u>\$ 3,290,304</u>	<u>\$ 34,287</u>	<u>\$ 3,324,591</u>

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

DEL HARBOR FOUNDATION
STATEMENTS OF CASH FLOWS

	For the Year Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 586,498	\$ 709,461
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	498,953	508,752
Amortization of bond issuance costs	28,630	28,631
Unrealized (gain) loss on certificates of deposit	13,041	(24,622)
(Increase) decrease in:		
Accounts receivable	(2,679)	
Restricted cash	190,505	2,537
Other assets	3,786	(2,313)
Deferred rent	(899,641)	(961,352)
Increase (decrease) in:		
Accounts payable	(2,624)	10,419
Deferred revenue	(427,697)	302,552
Net Cash Provided By (Used In) Operating Activities	(11,228)	574,065
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of certificate of deposit		(50,000)
Purchase of land, buildings, and improvements	(131,643)	(197,756)
Net Cash Used In Investing Activities	(131,643)	(247,756)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(142,871)	326,309
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,381,875	1,055,566
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,239,004	\$ 1,381,875

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

DEL HARBOR FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation

The Del Harbor Foundation (Del Harbor) is a California nonprofit corporation formed to facilitate and augment the coordination of services and programs of Harbor Regional Center (the Regional Center) or those which benefit clients of the Regional Center. Harbor Regional Center is a separately incorporated California nonprofit, organized in accordance with the provisions of the Lanterman Developmental Disabilities Services Act of the Welfare and Institutions Code of the State of California. Del Harbor began operations in December 2009.

Financial Statement Presentation

Del Harbor is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. As of June 30, 2014 and 2013, Del Harbor had no temporarily or permanently restricted net assets.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

Contributions

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

DEL HARBOR FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Del Harbor leases office facilities to the Regional Center under a long-term noncancelable operating lease. The lease provides for minimum annual rent and for stated scheduled minimum rent increases at certain intervals during the lease term. Del Harbor recognizes minimum rental revenue on a straight-line basis over the lease term.

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. Significant items subject to such estimates and assumptions include long-lived assets and the useful lives of buildings and improvements.

Concentrations

Del Harbor derived substantially all of its rental and other income from the Regional Center.

The Regional Center is dependent on funding from the California Department of Developmental Services.

Cash and Cash Equivalents and Concentration of Credit Risk

For the purpose of the statements of cash flows, Del Harbor considers all highly liquid instruments with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2014, and throughout the year, Del Harbor has maintained cash balances in its bank in excess of federally insured limits. Del Harbor maintains its cash and cash equivalents with high quality financial institutions and has not experienced any losses in such accounts.

DEL HARBOR FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Certificates of Deposit

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

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

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

At June 30, 2014 and 2013, included in restricted cash was \$2,534,401 and \$2,534,713, respectively, in certificates of deposit with various maturity dates ranging from September 2014 to May 2016.

Restricted Cash

Restricted cash consists of amounts held in trust accounts, initially funded from the proceeds provided by bond financing in connection with the acquisition of the Torrance office facilities, for use by Del Harbor in its performance upon certain obligations under its financing agreements. The restricted cash accounts are controlled and administered by a financial institution, as trustee, and are released upon approval of formal requisition by Del Harbor, in accordance with the terms of the financing agreements.

DEL HARBOR FOUNDATION

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Deferred Rent

Del Harbor provides office facilities under a lease agreement that is subject to scheduled acceleration of rental income. The scheduled rent increases are amortized evenly over the life of the lease. Deferred rent represents the difference between the cash received and the rental income recognized since inception of the lease.

Land, Buildings, and Improvements

Land, buildings, and improvements are stated at cost. Depreciation is computed using the straight-line method over the assets' estimated useful lives of thirty years for buildings and improvements and five years for furniture and equipment.

Long-Lived Assets

Del Harbor reviews long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the estimated fair value is less than the carrying amount of the asset, Del Harbor records an impairment loss. If a quoted market price is available for the asset or a similar asset, it is used to determine estimated fair value. The remaining useful life of the asset is re-evaluated and the useful life is adjusted accordingly. There were no impairment indicators identified.

Deferred Revenue

Del Harbor received advanced funds from the Regional Center for capital expenditures associated with the buildings and facility rent. As of June 30, 2014 and 2013, Del Harbor received a total of \$1,675,752 and \$1,540,671 in cumulative funding, respectively, of which \$328,952, \$294,192, and \$815,738 was expended for capital expenditures and building improvement projects and recognized as income in rental and other income in the statements of activities for the years ended June 30, 2014, 2013, and 2012, respectively. The remaining \$236,870 and \$430,741 in unused funds is presented as deferred revenue for future capital improvements on the accompanying statement of financial position as of June 30, 2014 and 2013, respectively. The remaining \$233,826 in deferred revenue as of June 30, 2013 represents rent received in advance.

DEL HARBOR FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated based upon the relative benefit received.

Income Taxes

Del Harbor 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.

Del Harbor 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. Del Harbor 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.

Reclassifications

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the current-year financial statement presentation.

Subsequent Events

Del Harbor's management has evaluated subsequent events from the statements of financial position date through November 25, 2014, the date the financial statements were available to be issued for the year ended June 30, 2014, and determined that there were no other items to disclose.

DEL HARBOR FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 2 – Restricted Cash

Pursuant to the terms of the Bond agreement, a debt service reserve fund and interest account have been established. (See Note 4.) Restricted cash includes certificates of deposit of \$2,534,401 and \$2,534,713, which have been set aside at June 30, 2014 and 2013, respectively.

Restricted cash consists of the following:

	June 30,	
	2014	2013
Debt service reserve	\$ 2,534,401	\$ 2,534,713
Interest account	<u>140,162</u>	<u>343,396</u>
	<u>\$ 2,674,563</u>	<u>\$ 2,878,109</u>

NOTE 3 – Land, Buildings, and Improvements

Land, buildings, and improvements consists of the following:

	June 30,	
	2014	2013
Buildings and improvements	\$ 14,891,134	\$ 14,759,490
Furniture and equipment	23,676	23,676
Less accumulated depreciation	(<u>2,115,066</u>)	(<u>1,616,113</u>)
	12,799,744	13,167,053
Land	<u>7,696,638</u>	<u>7,696,638</u>
	<u>\$ 20,496,382</u>	<u>\$ 20,863,691</u>

DEL HARBOR FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 4 – Bonds Payable

In December 2009, the Del Harbor Foundation issued \$25,000,000 in California Municipal Finance Authority Series 2009 Revenue Bonds for the Harbor Regional Center Project. The proceeds received from the sale of the Revenue Bonds were used by Del Harbor to purchase the main office buildings and related capital improvements, to fund a reserve for the bonds, and pay certain costs related to the bond issuance. Interest on bonds is paid semi-annually, but no principal payments are required until 2020. The bonds are secured by a deed of trust with assignment of rents and fixture filing. Bond issuance costs in the amount of \$856,628 were incurred and are being amortized over the life of the related bonds payable. Total accumulated amortization as of June 30, 2014 and 2013 was \$130,032 and \$101,402, respectively.

The bonds will mature as follows:

Term Bonds, 8.00%, due November 1, 2029	\$ 7,920,000
Term Bonds, 8.50%, due November 1, 2039	<u>17,080,000</u>
	<u>\$ 25,000,000</u>

Future amortization on bond issuance costs are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 28,631
2016	28,631
2017	28,631
2018	28,631
2019	28,631
Thereafter	<u>583,441</u>
	<u>\$ 726,596</u>

DEL HARBOR FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 5 – Commitments

Lease – As Lessor

Del Harbor leases office facilities to the Regional Center, described in Note 3, and recognized \$3,705,575 and \$3,685,556 of rental income and operating expense reimbursement from the Regional Center during the years ended June 30, 2014 and 2013, respectively. Del Harbor received \$2,805,934 and \$2,724,204 of rental income and operating expense reimbursement from the Regional Center during the years ended June 30, 2014 and 2013, respectively, which does not reflect the adjustment for deferred rent. The lease agreement expires in October 2039.

Monthly payments for rental income and operating expense reimbursement are based on terms under the noncancelable lease. The operating expense reimbursement is subject to review and adjustment to actual costs incurred by Del Harbor. There have been no adjustments for the years ended June 30, 2014 and 2013.

Future minimum rental income and operating expense reimbursement under the noncancelable operating lease described above as of June 30, 2014 is as follows:

<u>Year Ending June 30,</u>	<u>Rental Income</u>	<u>Operating Expense Reimbursement</u>	<u>Total</u>
2015	\$ 2,182,326	\$ 707,781	\$ 2,890,107
2016	2,247,796	729,015	2,976,811
2017	2,315,229	750,885	3,066,114
2018	2,384,686	773,412	3,158,098
2019	2,456,227	796,614	3,252,841
Thereafter	<u>69,458,469</u>	<u>22,527,072</u>	<u>91,985,541</u>
	<u>\$ 81,044,733</u>	<u>\$ 26,284,779</u>	<u>\$ 107,329,512</u>

DEL HARBOR FOUNDATION

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013**

NOTE 6 – Donated Services

Del Harbor entered into an agreement for in-kind services with the Regional Center. The Regional Center is to provide in-kind administrative services to Del Harbor and, in lieu payment, Del Harbor will distribute funds through grant awards to facilitate and augment the coordination of services and programs of the Regional Center or which benefit clients of the Regional Center. Del Harbor's management has determined the value of the in-kind administrative services to be \$5,478 for the year ended June 30, 2014, and is included in contributions and general expenses.

NOTE 7 – Supplemental Disclosures of Cash Flow Information

Del Harbor paid \$2,085,400 in interest during both of the years ended June 30, 2014 and 2013.

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FINANCIAL STATEMENTS
JUNE 30, 2014



HARBOR DEVELOPMENTAL
DISABILITIES FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Harbor Developmental Disabilities Foundation, Inc. (a California nonprofit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbor Developmental Disabilities Foundation, Inc. as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2014, on our consideration of Harbor Developmental Disabilities Foundation, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harbor Developmental Disabilities Foundation, Inc.'s internal control over financial reporting and compliance.

Winder, Inc.

Long Beach, California
December 2, 2014

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

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

ASSETS

ASSETS

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

TOTAL ASSETS \$ 22,376,728

LIABILITIES AND NET ASSETS

LIABILITIES

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

COMMITMENTS AND CONTINGENCIES (Note 5)

NET ASSETS

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

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

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

CHANGE IN UNRESTRICTED NET ASSETS

SUPPORT AND REVENUE

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

EXPENSES

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

CHANGE IN NET ASSETS 13,373

NET ASSETS AT BEGINNING OF YEAR 115,136

NET ASSETS AT END OF YEAR \$ 128,509

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014**

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

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

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

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

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies

Basis of Presentation

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

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

The Foundation contracts with the State of California Department of Developmental Services (DDS) to operate a regional center for individuals with developmental disabilities and their families. Foundation contracts with the DDS total \$146,472,172 for the 2013-2014 contract year and are subject to budget amendments. As of June 30, 2014, actual net expenditures under the 2013-2014 contract were \$139,252,945.

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Accordingly, the net assets of the Foundation are classified and reported as described below:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Foundation and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed restrictions that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. Such income generally includes interest, dividends, and realized and unrealized earnings from the corpus.

As of June 30, 2014, the Foundation had no temporarily or permanently restricted net assets.

Contributions

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

Use of Estimates and Assumptions

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents and Concentration of Credit Risk

For the purpose of the statement of cash flows, the Foundation considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. At June 30, 2014 and throughout the year, the Foundation has maintained cash balances in its bank in excess of federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Certificates of Deposit

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

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

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

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

Contracts Receivable - State of California

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Receivables from Intermediate Care Facility Vendors

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

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

State Equipment

Pursuant to the terms of the state of California contract, equipment purchases become the property of the state and, accordingly, are charged as expenses when incurred. For the year ended June 30, 2014, equipment purchases totaled approximately \$526,000.

Accrued Vacation and Other Employee Benefits

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

Deferred Rent

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Allocation of Expenses

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

Income Taxes

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

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

Subsequent Events

The Foundation's management has evaluated subsequent events from the statement of position date through December 2, 2014, the date at when the financial statements were available to be issued for the year ended June 30, 2014, and determined that there were no other items to disclose.

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 2 – Cash - Client Trust Funds

The Foundation functions as custodian for the receipt of certain governmental payments and resulting disbursements made on behalf of the Foundation's clients. The following is a summary of operating cash activity for the year ended June 30, 2014:

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

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

As of June 30, 2014, the DDS had advanced the Foundation approximately \$36,446,000 under the contracts with the DDS. For financial statement presentation, to the extent there are claims receivable, these advances have been offset against the claims receivable from the state as follows:

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 4 – Short-Term Borrowings

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

NOTE 5 – Commitments and Contingencies

Leases and Related Party Transactions

The Foundation is obligated under operating leases expiring November 30, 2039 for its Torrance facilities and December 31, 2015 for its Long Beach facilities. These leases generally require the lessee to pay all maintenance, insurance, and other operating expenses, and are subject to periodic adjustment based on price indexes or contract stipulated annual rate increases.

Rental expense for the year ended June 30, 2014 was \$5,078,894.

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

Rent and operating expense reimbursement	\$ 3,758,828
Deferred rent	<u>1,320,066</u>
	<u>\$ 5,078,894</u>

The Foundation is leasing its main office facilities from Del Harbor Foundation (Del Harbor). Del Harbor, a separately incorporated California nonprofit corporation formed to facilitate and augment the coordination of services and programs of the Foundation or those which benefit clients of the Foundation, shares common management with the Foundation. During the year ended June 30, 2014, the Foundation paid rent and operating expense reimbursement to Del Harbor of \$2,805,934.

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

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

NOTE 5 – Commitments and Contingencies (Continued)

Leases and Related Party Transactions (Continued)

Future minimum lease payments for the Foundation under noncancellable operating leases that have initial or remaining lease terms in excess of one-year as of June 30, 2014 are as follows:

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

Collective Bargaining Agreements

The Foundation retains approximately 80 percent of its labor force through Social Services Union, Local 721 Services Employees International Union, AFL-CIO. This labor force is subject to collective bargaining agreements and, as such, renegotiation of such agreements could expose the Foundation to an increase in hourly costs and work stoppages. The current agreements are generally effective through March 24, 2016.

Contingencies

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 5 – Commitments and Contingencies (Continued)

Contingencies (Continued)

In accordance with the terms of the DDS contract, an audit may be performed by an authorized state representative. Should such an audit disclose any unallowable costs, the Foundation may be liable to the state for reimbursement of such costs. In the opinion of the Foundation's management, the effect of any disallowed costs would be immaterial to the financial statements at June 30, 2014, and for the year then ended.

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

Legal Proceedings

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

NOTE 6 – Retirement Plan

Effective July 1, 2004, the Foundation restated its retirement plan and adopted a prototype profit-sharing plan with a 401(k) feature. All employees are eligible to enter the plan immediately upon employment. Participants can contribute up to the federal maximum limit. The Foundation is not required to match a participant's contribution. The Foundation may make discretionary employer contributions to the plan allocated in direct proportion to the participant's pay. Loans are permitted, subject to the terms of the plan document and applicable contract.

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

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

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

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

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

Note to Schedule of Expenditures of Federal Awards

Basis of Presentation

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harbor Developmental Disabilities Foundation, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 2, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Long Beach, California
December 2, 2014

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

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

Report on Compliance for Each Major Federal Program

We have audited Harbor Developmental Disabilities Foundation, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Harbor Developmental Disabilities Foundation, Inc.'s major federal programs for the year ended June 30, 2014. Harbor Developmental Disabilities Foundation, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Harbor Developmental Disabilities Foundation, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harbor Developmental Disabilities Foundation, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Harbor Developmental Disabilities Foundation, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of Harbor Developmental Disabilities Foundation, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Harbor Developmental Disabilities Foundation, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Harbor Developmental Disabilities Foundation, Inc.'s internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Long Beach, California
December 2, 2014

HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION, INC.

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

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued - Unmodified

Internal control over financial reporting

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

Federal Awards

Internal control over major programs

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

SECTION II - FINDINGS - FINANCIAL STATEMENTS AUDIT

None

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

None

APPENDIX C

BOOK-ENTRY SYSTEM

The information in this Appendix concerning The Depository Trust Company, New York, New York (“DTC”), and DTC’s book-entry system has been obtained from DTC and the Corporation and the Authority take no responsibility for the completeness or accuracy thereof. The Corporation and the Authority cannot and do not give any assurances that DTC, Direct Participants (as defined below) or Indirect Participants (as defined below) will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will act in the manner described in this Official Statement. The Authority, the Corporation and HRC are not responsible or liable for the failure of DTC or any DTC Direct or Indirect Participant to make any payment or give any notice to a Beneficial Owner with respect to the Bonds or an error or delay relating thereto. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC’s Direct and Indirect Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 issues of million U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of “AA+.” The DTC Rules applicable to DTC’s Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated herein by reference.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their

purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. . Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Trustee, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Corporation or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of such principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered as described in the Indenture.

The Corporation or the Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Loan Agreement and the Office Lease. These summaries do not purport to be complete or definitive and reference should be made to such documents for a full and complete statement of their provisions.

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS RELATING TO THE BONDS

DEFINITIONS

“Act” means the Joint Exercise of Powers Act, comprising Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State.

“Act of Bankruptcy” means any of the following with respect to any Person: (a) the commencement by such Person of a voluntary case under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (b) failure by such Person to timely controvert the filing of a petition with a court having jurisdiction over such Person to commence an involuntary case against such Person under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or similar laws; (c) such Person shall admit in writing its inability to pay its debts generally as they become due; (d) a receiver, trustee, custodian or liquidator of such Person or such Person’s assets shall be appointed in any proceeding brought against the Person or such Person’s assets; (e) assignment by such Person for the benefit of its creditors; or (f) the entry by such Person into an agreement of composition with its creditors.

“Additional Bonds” means all bonds and refunding bonds of the Authority authorized by and at any time Outstanding pursuant to the Indenture and authorized, issued and delivered in accordance with the Indenture.

“Additional Payments” means the amounts payable to the Authority, the Trustee or other Persons pursuant to the Agreement.

“Additional Payments Fund” means the Additional Payments Fund established pursuant to the Indenture.

“Agreement” means the Loan Agreement, dated as of July 1, 2015, by and between the Authority and the Corporation and relating to the loan of the proceeds of the Bonds, as originally executed or as it may from time to time be supplemented or amended.

“Aggregate Debt Service” means, as of any date of calculation and with respect to any period, the sum of amounts of Debt Service for all Funded Debt for such period.

“Amendment” means any amendment or modification of any of the Documents.

“Annual Debt Service” means, for any Fiscal Year, the aggregate of the payments to be made in respect of principal and interest represented by the Bonds during such Fiscal Year.

“Authority” means the California Municipal Finance Authority, or its successors and assigns, a joint exercise of powers authority formed by the Joint Powers Agreement pursuant to the provisions of the Act.

“Authority Fee Payment Fund” means the Authority Fee Payment Fund established pursuant to the Indenture.

“Authorized Denomination” means \$5,000 or any integral multiple thereof. Notwithstanding the foregoing, in the event that the Outstanding principal amount of a Bond initially issued in an Authorized Denomination is, due to redemption, less than the minimum principal amount of the Authorized Denomination that otherwise would apply to such Bond, then such Authorized Denomination shall be reduced to equal such Outstanding principal balance.

“Authorized Corporation Representative” means any person who at the time and from time to time may be designated, by written certificate furnished to the Trustee, as a person authorized to act on behalf of the Corporation. Such certificate shall contain the specimen signature of such person, shall be signed on behalf of the Corporation by any officer of the Corporation and may designate an alternate or alternates.

“Authorized Authority Representative” means, any member of the Board, or any other person designated as an Authorized Authority Representative by a certificate signed by a member of the Board and filed with the Trustee.

“Bankruptcy Code” means Title 11 of the United States Code, as amended.

“Beneficial Owner” means, with respect to any Book-Entry Bond, the beneficial owner of such Bond as determined in accordance with the applicable rules of DTC or any successor securities depository for Book-Entry Bonds.

“Board” means the Board of Trustees of the Authority.

“Bonds” means the Bonds and any Additional Bonds issued under the Indenture.

“Bond Counsel” means Norton Rose Fulbright US LLP or any other attorney at law or firm of attorneys, of nationally recognized standing in matters pertaining to the validity of, and exclusion from gross income for federal tax purposes of interest on, bonds issued by states and political subdivisions and duly admitted to practice law before the highest court of any state of the United States and acceptable to the Authority.

“Bond Debt Service” means, for any period of time, the sum of (a) the interest payable during such period on all Outstanding Bonds, assuming that all Outstanding Bonds which are Serial Bonds are retired as scheduled and that all Outstanding Bonds which are Term Bonds are redeemed or paid from mandatory Sinking Fund Installments as scheduled, (b) that portion of the principal amount of all Outstanding Bonds which are Serial Bonds maturing on each principal payment date during such period, and (c) that portion of the principal amount of all Outstanding Bonds which are Term Bonds required to be redeemed or paid from mandatory Sinking Fund Installments during such period.

“Bond Fund” means the Bond Fund established pursuant to the Indenture.

“Bond Proceeds Fund” means the Bond Proceeds Fund established pursuant to the Indenture.

“Bond Register” means the registration books for the ownership of Bonds maintained by the Trustee pursuant to the Indenture.

“Business Day” means a day which is not a Saturday, a Sunday, a day on which banks located in the city in which the Principal Corporate Trust Office is required or authorized to be closed or a day on which the New York Stock Exchange is closed.

“Certificate of the Authority” means a certificate signed by an Authorized Authority Representative. If and to the extent required by the provisions of the Indenture, each Certificate of the Authority shall include the statements provided for in the Indenture.

“Certificate of the Corporation” means a certificate signed by an Authorized Corporation Representative. If and to the extent required by the provisions of the Indenture, each Certificate of the Corporation shall include the statements provided for in the Indenture.

“Certified Resolution” means a copy of a resolution of the Authority certified to have been duly adopted by the Authority and to be in full force and effect on the date of such certification.

“Code” means the Internal Revenue Code of 1986.

“Completion Date” means the date of completion of the Project as that date shall be certified as provided in the Agreement.

“Construction Fund” means the Construction Fund established pursuant to the Indenture.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated as of July 1, 2015, by and between the Corporation and the dissemination agent named there, as originally executed or as it may from time to time be supplemented or amended.

“Corporation” means (i) the California Housing Foundation, a California nonprofit corporation, and its successors and assigns; and (ii) any surviving, resulting or transferee corporation as provided in the Agreement.

“Costs” means, with respect to the Project, the sum of the items, or any such item, of the cost of the acquisition, construction, installation, furnishing and equipping of the Project to the extent permitted by the Act, including reimbursement of the Corporation for amounts expended for such costs and also including interest accruing in whole or in part on the Bonds prior to the Completion Date, but shall not include any Costs of Issuance.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, including bond and disclosure counsel, rating agency fees, fees of a verification agent, fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds which constitutes a “cost of issuance” within the meaning of Section 147(g) of the Code.

“Costs of Issuance Fund” means the fund which is established pursuant to the Indenture.

“Debt Service,” when used with respect to any Funded Debt, means, as of any date of calculation and with respect to any period, the sum of (1) the interest falling due on such Funded Debt during such period (except to the extent that such interest is payable from the proceeds of such Funded Debt set aside for such purpose), and (2) the principal (or mandatory sinking fund or installment purchase price or similar) payments or deposits required with respect to such Funded Debt during such period; computed on the assumption that no portion of such Funded Debt shall cease to be outstanding during such period except by reason of the application of such scheduled payments.

“Debt Service Reserve Fund” means the Debt Service Reserve Fund established pursuant to the Indenture.

“Debt Service Reserve Requirement” means, with respect to the Debt Service Reserve Fund and as of any date of calculation, an amount equal to the least of (a) ten percent (10%) of the initial offering price to the public of the Bonds as determined under the Code, (b) the greatest amount of the Bond Debt Service in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Bond is due, or (c) one hundred twenty-five percent (125%) of the sum of the Bond Debt Service for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the issuance of the Bonds) and terminating with the last Fiscal Year in which any Bond Debt Service is due, divided by the number of such Fiscal Years, all as computed and determined by the Corporation and specified in writing to the Trustee.

“Debt Service Reserve Valuation Date” means the Business Day preceding each May 1, commencing with the Business Day preceding May 1, 2016.

“Deed of Trust” means that certain Deed of Trust with Assignment of Rents and Fixture Filing, dated as of July 1, 2015, executed by the Corporation in favor of the Deed of Trust Trustee for the benefit of the Trustee (as assignee of the Authority), as trustee for the Owners, as such may be originally executed or as from time to time supplemented or amended, respecting the real property more particularly described therein.

“Deed of Trust Trustee” means Chicago Title Company.

“Documents” means the Indenture, the Deed of Trust and the Agreement.

“DTC” means The Depository Trust Company, New York, New York and its successors and assigns.

“Electronic Notice” means notice given through means of telecopy, telegraph, telegram, telex, facsimile transmission, or other similar electronic means of communication confirmed by writing or written transmission.

“Environmental Regulation” means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Substances or chemical waste, materials or substances.

“Event of Default” as used with respect to the Indenture has the meaning specified in the Indenture, and as used with respect to the Agreement has the meaning specified thereof.

“Escrow Agent” means Wells Fargo Bank, National Association, as escrow agent pursuant to the Escrow Agreement.

“Escrow Agreement” means the Escrow Agreement, dated as of July 1, 2015, by and between Wells Fargo Bank, National Association, as escrow agent and the Corporation.

“Facilities” means the improvements on the Property as the same may be modified and expanded from time to time.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period selected and designated as the official Fiscal Year of the Corporation.

“First Amendment” means the First Amendment to Office Lease, dated as of July 1, 2015, by and between the Corporation and HRC, as further amended from time to time.

“Fitch” means Fitch, Inc., and any successor thereto.

“Funded Debt” means all indebtedness of the Corporation (including the obligation of the Corporation to make Loan Payments and any Additional Payments) that in accordance with generally accepted accounting principles is classified as a liability on a balance sheet, and which has a final maturity (or which, pursuant to the terms of a revolving credit or similar agreement or otherwise, is renewable or extendable at the option of the Corporation to a date or for a period or periods ending) more than one year after the date of creation thereof, notwithstanding the fact that payments in respect thereof (whether loan, serial maturity or sinking fund payments or otherwise) are required to be made less than one year after the date of the creation thereof; excluding any indebtedness which is renewable or extendable pursuant to the terms of a revolving credit or similar agreement if, by the terms of such agreement, no indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each period of twelve (12) consecutive months beginning with the effective date of such revolving credit or other similar agreement.

“Funded Interest Account” means the Funded Interest Account established pursuant to the Indenture.

“Generally Accepted Accounting Principles” means the uniform accounting and reporting procedures set forth in the opinions, pronouncements and publications of the Accounting Principles Board, the American Institute of Certified Public Accountants and the Financial Accounting Standards Board or in such other statements by such other entity as may be of general use by significant segments of the accounting profession as in effect on the date hereof.

“Government Obligations” means any of the following:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation) or collateralized by obligations described in (2) below; and

(2) Obligations of, or obligations guaranteed as to principal and interest by, the United States of America, or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America including:

- United States of America treasury obligations;
- All direct or fully guaranteed obligations;
- Farmers Home Administration;
- General Services Administration;

- Guaranteed Title XI financing;
- Government National Mortgage Association (GNMA); and
- State and Local Government Series.

“Governmental Unit” shall have the meaning set forth in Section 150 of the Code.

“Hazardous Substances” means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Project or to Persons on or about the Project or (ii) cause the Project to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of “waste,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act (“RCRA”), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Environmental Quality Act (“CEQA”), Cal. Public Resources Code § 21000 et seq.; the California Hazardous Waste Control Law (“HWCL”), Cal. Health & Safety §§ 25100 et seq.; the Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the “Porter-Cologne Act”), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other person coming upon the Project or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

“Indenture” means the Indenture of Trust, dated as of July 1, 2015, by and among the Authority, the Corporation and the Trustee, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture entered into pursuant to the provisions of the Indenture.

“Insurance and Condemnation Proceeds Fund” means the fund by the name established pursuant to the Indenture.

“Interest Payment Date” means each May 1 and November 1, commencing [November 1, 2015].

“HRC” means the Harbor Developmental Disabilities Foundation, known as the Harbor Regional Center, a California nonprofit corporation, and its successors and assigns.

“Issue Date” means the date the Bonds are issued and delivered.

“Joint Powers Agreement” means the Joint Exercise of Powers Agreement, dated as of January 1, 2004, relating to the California Municipal Finance Authority, by and among certain California cities, counties and special districts, as may be amended from time to time.

“Loan Payment” means any amount that the Corporation is required to pay to the Trustee pursuant to the Agreement as a repayment of the loan of the Bond proceeds made by the Authority under the Agreement.

“Management Consultant” means any independent Person of good reputation in the Southern California real estate market qualified to report on questions relating to the financial and operational condition of office real estate and selected by the Corporation.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, and any successor thereto.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Income Available for Debt Service” means, with respect to any period, the excess of revenues over expenses of the Corporation for such period, determined in accordance with generally accepted accounting principles, to which shall be added interest, amortization and depreciation and extraordinary or unusual non-cash items, each item determined in accordance with generally accepted accounting principles and excluding (a) any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets or resulting from the early extinguishment of debt, (b) gifts, grants, bequests, donations and contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Debt Service, (c) the net proceeds of insurance (other than business interruption insurance) and condemnation proceeds (except to the extent such proceeds are required by the terms of the Agreement or the Indenture to be used for purposes other than the payment of Loan Payments or Additional Payments), (d) unrealized gains and losses on investment assets of the Corporation, and (e) operating expenses relating to the Project received by the Corporation pursuant to the Office Lease.

“Office Lease” means the Office Lease, dated December 1, 2009, by and between the Corporation and HRC, as amended by the First Amendment to Office Lease, dated as of July 1, 2015, and as further amended from time to time.

“Opinion of Bond Counsel” means an Opinion of Counsel from a Bond Counsel.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Corporation) acceptable to the Authority and the Corporation. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel shall include the statements provided for in the Indenture.

“Outstanding,” when used as of any particular time with reference to the Bonds (subject to the provisions of the Indenture), means all such Bonds theretofore authenticated and delivered by the Trustee under the Indenture, except:

- (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (2) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; and
- (3) Bonds with respect to which the liability of the Authority and the Corporation have been discharged to the extent provided in, and pursuant to the requirements of, the Indenture.

“Owner” means, as of any time, the registered owner of any Bond as set forth in the Bond Register.

“Person” means an individual, a corporation, a partnership, a limited liability company, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

“Permitted Encumbrances” means and includes: (i) liens for taxes, assessments and other governmental charges due but not yet payable unless contested to in good faith by appropriate proceedings which are being diligently pursued; (ii) landlord’s, warehouseman’s, carrier’s, worker’s, vendor’s, mechanic’s and materialmen’s liens and similar liens incurred in the ordinary course of business remaining undischarged for not longer than 60 days from the filing thereof unless contested to in good faith by appropriate proceedings which are being diligently pursued; (iii) attachments remaining undischarged for not longer than 60 days from the making thereof unless contested to in good faith by appropriate proceedings which are being diligently pursued; (iv) liens in respect of pledges or deposits under workers’ compensation laws, unemployment insurance or similar legislation and in respect of pledges or deposits to secure bids, tenders, contracts (other than contracts for the payment of money), leases or statutory obligations, or in connection with surety, appeal and similar bonds incidental to the conduct of litigation; (v) all leases which have been or should be capitalized in accordance with Generally Accepted Accounting Principles with respect to property (A) not previously owned by the Corporation or an affiliate and (B) not otherwise acquired in whole or in part with proceeds of the Bonds; (vi) purchase money security interests in property of the Corporation which property was not acquired in whole or in part with the proceeds of the Bonds; (vii) the Deed of Trust; (viii) various encumbrances and other items shown of record with respect to the Property in the Preliminary Report of Chicago Title Company, dated as of June 12, 2015; (ix) the rights of the Authority and the Trustee under the Agreement; (x) liens on any property or assets owned by the Corporation existing on the date of the Indenture; (xi) liens created by the Indenture, the Office Lease and the Agreement; (xii) liens on property received by the Corporation through gifts, grants or bequests, and (xiii) any lien arising by reason of an escrow established to pay debt service on the Bonds.

“Permitted Investments” means Government Obligations and any of the following:

(1) Direct obligations (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America;

(2) Bonds, debentures, notes or other evidences of indebtedness issued or fully and unconditionally guaranteed by any of the following Federal full faith and credit agencies: Export Import Bank of the United States, Federal Housing Administration, Government National Mortgage Association, Student Loan Marketing Association, Maritime Administration, Federal Financing Bank, Federal Farm Credit Bank, Farmer’s Home Administration or the Public Housing Authorities;

(3) Bonds, debentures, notes or other evidences of indebtedness issued or fully unconditionally guaranteed by and of the following United States Government non-full faith and credit agencies: Federal Home Loan Bank and Federal Land Bank;

(4) Bonds, notes or other evidences of indebtedness rated “AAA” by Standard & Poor’s Corporation issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;

(5) Interest-bearing demand or time deposits (including certificates of deposit, and bank investment contracts whether negotiable or non-negotiable) in federal or state chartered savings and loan associations or in national or State banks (including the Trustee) provided that either: (a) the obligations of such association or bank or the obligations of the holding company of such association or bank are rated in one of the three highest rating categories by Moody's Investors Service, Inc. or Standard & Poor's Corporation; (b) such deposits are fully insured by the Federal Deposit Insurance Corporation, provided, however, that the portion of any certificates of deposit in excess of the amount insured by the Federal Deposit Insurance Corporation, if any, shall be secured at all times in the manner provided by law by collateral security having a market value not less than the amount of such excess, consisting of securities described in this section, items (1) through (4); or (c) an investment in non-negotiable certificates of deposit made in accordance with the following conditions is an authorized investment: (i) the financial institution selected by the Corporation arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Corporation; (ii) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States of America or an instrumentality of the United States of America; (iii) the financial institution selected by the Corporation acts as custodian for the Corporation with respect to the certificates of deposit issued for the account of the Corporation;

(6) Investment agreements, guaranteed investment contracts, funding agreements, or any other form of corporate note which represents the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution which has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, in one of the two highest Rating Categories by two or more Rating Agencies;

(7) Repurchase agreements with financial institutions or banks insured by the FDIC or FSLIC, or any broker dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation, provided that: (a) the over-collateralization is at one hundred two percent (102%), computed weekly, consisting of such securities as described in this section, items (1) through (4); (b) a third party custodian, the Trustee or the Federal Reserve Bank shall have possession of such obligations; (c) the Trustee shall have perfected a first priority security interest in such obligations; and (d) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral;

(8) Forward Delivery or Forward Purchase Agreements with underlying securities of the types outlined in (1), (2), (3) and (4) above;

(9) Money Market Mutual Funds registered with the Securities and Exchange Commission, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services, and having a rating by S&P of "AAAm-G," "AAA-m," or "AA-m" and if rated by Moody's rated "Aaa," "Aa1" or "Aa2";

(10) Tax-exempt obligations rated in either of the two highest rating categories by Moody's Investors Service, Inc. or Standard & Poor's Corporation, including money market funds so rated;

(11) If the issue becomes credit enhanced, the foregoing permitted investments must be approved by the credit enhancement agency in general and specifically on any investment pursuant to paragraphs (6) or (7) above. In addition, the permitted investments may be expanded to include any other investments approved by the credit enhancement agency.

“Principal Corporate Trust Office” means the corporate trust office of the Trustee as designated in the Indenture or such other office designated by the Trustee from time to time.

“Principal Installment” means, with respect to any Principal Installment Date, the sum of (a) the aggregate amount of principal due with respect to Bonds that mature on such Principal Installment Date, plus (b) the aggregate amount of Sinking Fund Installments due on such Principal Installment Date.

“Principal Installment Date” means any date on which any Bonds mature or any date on which any of the Bonds are subject to redemption from mandatory Sinking Fund Installments.

“Program Participant” means the City of Bakersfield.

“Project” has the meaning set forth in Exhibit A to the Agreement. The term “Project” shall also include such alternative or additional real property, facilities, equipment, furnishings, improvements and property as are permitted in accordance with the Agreement.

“Property” means that certain real property described in the Indenture.

“Rating Agency” means Fitch, Moody’s or Standard & Poor’s to the extent it is then providing or maintaining a rating on the Bonds at the request of the Corporation, or if Fitch, Moody’s or Standard & Poor’s no longer maintains a rating on the Bonds, any other nationally recognized rating agency then providing or maintaining a rating on the Bonds.

“Rebate Amount,” with respect to the Bonds, has the meaning set forth in section 1.148-1(b) of the Tax Regulations.

“Rebate Fund” means the Rebate Fund which is established in accordance with the Indenture.

“Record Date” means, with respect to each Interest Payment Date, the fifteenth day (whether or not a Business Day) of the month preceding such Interest Payment Date.

“Reserved Rights” means the Authority’s rights under the Agreement to Additional Payments, payment of expenses and indemnity pursuant to the Agreement, the right to enforce venue, the rights to receive notices and consent to amendments, and as otherwise expressly retained by the Authority in the Agreement, the Deed of Trust or in the Indenture, as applicable.

“Responsible Officer of the Trustee” means and includes the chairman of the board of directors, the president, every vice president, every assistant vice president, every trust officer, and every officer and assistant officer of the Trustee other than those specifically above mentioned, to whom any corporate trust matter is referred because of his or her knowledge of, and familiarity with, a particular subject.

“Revenues” means all receipts, payments and other income derived by the Authority or the Trustee pursuant to the Agreement (except any payments owed by the Corporation to the Authority in connection with its Reserved Rights made pursuant to the Agreement), including all Loan Payments and all amounts received by the Corporation under the Office Lease constituting Gross Revenues under the Agreement, or otherwise in respect of the financing and refinancing of the Project as provided in the Agreement, and any income or revenue derived from the investment of any money in any fund or account established pursuant to the Indenture (other than the Rebate Fund and any account therein).

“Serial Bonds” means Bonds for which no Sinking Fund Installments are established.

“Sinking Fund Installments” means the amounts set forth in the Indenture, subject to the credits provided in the Indenture.

“Standard & Poor’s” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and assigns.

“State” means the State of California.

“Supplemental Indenture” means any indenture amending or supplementing the Indenture duly authorized and entered into between the Authority and the Trustee in accordance with the provisions of the Indenture.

“Tax Certificate” means the Tax Certificate related to the Bonds, dated as of the Issue Date, as the same may be amended from time to time.

“Tax-Exempt” means, with respect to interest on any obligations of a state or local government, including the Bonds, that such interest is excluded from the gross income of the owners thereof (other than any owner who is a “substantial user” of facilities financed with such obligations or a “related person” within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

“Term Bonds” means Bonds which are payable on or before their specified maturity dates from Sinking Fund Installments.

“Trustee” means Wells Fargo Bank, National Association, a national banking association organized under the laws of the United States of America, and its successors and assigns or any successor Trustee appointed pursuant to the Indenture.

“United States Government Securities” has the meaning given such term in the definition of “Permitted Investments.”

“Yield” shall have the meaning ascribed to such term by Section 148(h) of the Code.

INDENTURE

Transfer and Exchange of Bonds

Registration of any Bond may, in accordance with the terms of the Indenture, be transferred, upon the books of the Trustee required to be kept pursuant to the Indenture, by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Bond shall be surrendered for registration of transfer, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same tenor and in Authorized Denominations. No registration or transfer of Bonds shall be required to be made during the period after any Record Date and prior to the related Interest Payment Date or during the period of fifteen (15) days next preceding the date on which the Trustee gives any notice of redemption, nor shall any registration of transfer of Bonds called for redemption be required. Bonds may be exchanged at the Principal Corporate Trust Office for a like aggregate principal amount of Bonds of the same tenor and in Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax

or other governmental charge required to be paid with respect to such exchange, and there shall be no other charge to any Owners for any such exchange. No exchange of Bonds shall be required to be made during the period after any Record Date and prior to the related Interest Payment Date or during the period of fifteen (15) days next preceding the date on which the Trustee gives notice of redemption, nor shall any exchange of Bonds called for redemption be required.

Conditions for the Issuance of Additional Bonds

The Authority may at any time issue Additional Bonds payable from the Revenues as provided in the Indenture and secured by a pledge of the Revenues as provided in the Indenture on a parity with to the pledge securing the Outstanding Bonds theretofore issued under the Indenture, but only subject to the following specific conditions, which are made conditions precedent to the issuance of any such Additional Bonds:

(a) The Authority shall be in compliance with all agreements and covenants contained in the Indenture and no Event of Default shall have occurred and be continuing under the Loan Agreement.

(b) The issuance of such Additional Bonds shall have been authorized by the Authority and shall have been provided for by Supplemental Indenture which shall specify the following:

(i) the purpose for which such Additional Bonds are to be issued; provided that the proceeds of such Additional Bonds shall be applied solely for the purpose of (A) financing, acquiring, constructing, maintaining, operating, improving and leasing the Project, including payment of all costs incidental to or connected with such financing; (B) increasing the Debt Service Reserve Requirement; (C) refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding; and/or (D) funding capitalized interest;

(ii) the authorized principal amount and designation of such Additional Bonds;

(iii) the dated date and the maturity dates of, and the sinking fund payment dates, if any, for such Additional Bonds; provided, that (A) each maturity and sinking fund date shall fall upon November 1; (B) all such Additional Bonds of like maturity shall be identical in all respects, except as to number and denomination; and (C) serial maturities for Serial Bonds or sinking fund payments for Term Bonds, or any combination thereof, shall be established to provide for the retirement of such Additional Bonds on or before their respective longest maturity dates;

(iv) the interest payment dates for such Additional Bonds, which shall be Interest Payment Dates;

(v) the redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(vi) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Bond Fund;

(vii) the amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in an escrow fund or construction fund;

(viii) the amount to be deposited from the proceeds of sale of such Additional Bonds in the Debt Service Reserve Fund, which amount shall be sufficient to cause the amount on deposit in the Debt

Service Reserve Fund to equal the Debt Service Reserve Requirement for Additional Bonds upon the issuance of such Additional Bonds;

(ix) the forms of such Additional Bonds; and

(x) such other provisions as are necessary or appropriate and not inconsistent herewith.

(c) The Office Lease shall have been amended so as to increase the aggregate Rents (as defined therein) payable to the Corporation thereunder by an amount at least sufficient to pay the interest on and principal of such Additional Bonds as the same become due.

(d) The Authority shall have received confirmation in writing from the Rating Agency that the issuance of such Additional Bonds will not, in and of itself, cause a downgrading or withdrawal of its rating on any Outstanding Bonds. The Authority shall not be required to seek such a confirmation in writing if the Additional Bonds shall be refunding bonds and the annual amount of interest and principal, including sinking fund payments, payable on the Additional Bonds, does not exceed the corresponding amount of such payments on the Outstanding Bonds being refunded; provided, that the term of the Additional Bonds does not exceed the term on the Outstanding Bonds being refunded.

Nothing contained in the Indenture shall limit the issuance of any Additional Bonds of the Authority payable from the Revenues and secured by a pledge of the Revenues if, after the issuance and delivery of such Additional Bonds, none of the Bonds theretofore issued under the Indenture will be Outstanding.

Procedure for the Issuance of Additional Bonds

The Authority may, at any time, execute Additional Bonds for issuance under the Indenture and deliver them to the Trustee, and thereupon such Additional Bonds shall be authenticated and delivered by the Trustee to the purchaser thereof upon the Written Request of the Authority, but only upon receipt by the Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of authentication of such Additional Bonds by the Trustee (unless the Trustee shall accept any of such documents bearing a prior date):

(a) an executed copy of the Supplemental Indenture authorizing the issuance of such Additional Bonds;

(b) a Written Request of the Authority as to the authentication of such Additional Bonds;

(c) an Opinion of Counsel to the effect that (i) the Authority has the right and power to execute and deliver the Supplemental Indenture and the Supplemental Indenture has been duly and lawfully executed and delivered by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and no other authorization for the execution and delivery thereof is required; (ii) the Supplemental Indenture creates the valid pledge of the Revenues which it purports to create as provided therein, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; (iii) such Additional Bonds are valid and binding special obligations of the Authority, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles) and the terms hereof and entitled to the benefits hereof, and such Additional Bonds have been duly and validly authorized, executed, issued and delivered in accordance

herewith; (iv) the amendment to the Office Lease required by the Indenture has been duly authorized, executed and delivered and is valid, binding and enforceable in accordance with its terms (except as enforcement may be limited by bankruptcy insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights and by equitable principles); and (v) the issuance of such Additional Bonds will not adversely affect the exclusion from gross income for federal tax purposes of interest on the Bonds then Outstanding; and

(d) such further documents, opinions, money or securities as are required by the provisions of the Supplemental Indenture providing for the issuance of such Additional Bonds.

Bond Fund

Upon the receipt thereof, the Trustee shall deposit all Revenues in the "California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 Bond Fund" (the "Bond Fund"), which the Trustee shall establish and maintain and hold in trust, and which shall be disbursed and applied only as authorized in the Indenture. Within the Bond Fund the Trustee shall establish the "California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 Funded Interest Account" (the "Funded Interest Account"), which the Trustee shall maintain and hold in trust, and which shall be disbursed and applied in accordance with the Indenture. Except as provided in the Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of and interest on the Bonds as the same shall become due whether at maturity or upon redemption or acceleration. Amounts in the Funded Interest Account and earnings on such amounts shall be applied to the interest due on the Bonds.

The Trustee shall deposit in the Bond Fund from time to time, upon receipt thereof, all Loan Payments received by the Trustee from the Corporation for deposit in the Bond Fund, any income received from the investment of moneys on deposit in the Bond Fund and any other Revenues, including any prepayment amounts received under the Agreement from or for the account of the Corporation. In making payments of principal of and interest on the Bonds, the Trustee shall use any Revenues received by the Trustee.

Except to the extent such moneys are required to be held for the payment of principal of or interest on the Bonds then due and payable or to effect the defeasance of Bonds pursuant to the Indenture, so long as no Event of Default (or any event which would be an Event of Default under the Indenture with the passage of time or the giving of notice or both) exists under the Indenture, on the fifth day after each Interest Payment Date, the Trustee, upon receipt of a Certificate of the Corporation, shall return to the Corporation (free and clear of the pledge and lien of the Indenture) any moneys then on deposit in the Bond Fund or shall deposit such funds in the Rebate Fund if so instructed by the Corporation.

Debt Service Reserve Fund

(a) The Trustee shall establish and maintain and hold in trust the "California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 Debt Service Reserve Fund" (the "Debt Service Reserve Fund"). The Trustee shall deposit proceeds of the Bonds into the Debt Service Reserve Fund in the amount set forth in the Indenture. If, on any date on which the principal or redemption price of, or interest on, any of the Bonds is due, the amount in the Bond Fund available for such payment is less than the amount of the principal and redemption price of and interest on the Bonds due on such date, the Trustee shall apply amounts from the Debt Service Reserve Fund to the extent necessary to make good the deficiency

(b) If on any Debt Service Reserve Valuation Date the amount on deposit in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement, such excess shall be deposited in the Bond Fund.

(c) Whenever the amount in the Debt Service Reserve Fund, together with the amount in the Bond Fund, is sufficient to pay in full all of the Outstanding Bonds in accordance with their terms (including principal or redemption price and interest thereon), the funds on deposit in the Debt Service Reserve Fund shall be transferred to the Bond Fund.

(d) In the event of the refunding of the Bonds (or portions thereof), the Trustee shall, upon the written direction of an Authorized Corporation Representative, withdraw from the Debt Service Reserve Fund any or all of the amounts on deposit therein and deposit such amounts with itself as Trustee to be held for the payment of the principal or redemption price, if any, of, and interest on, the Bonds (or portions thereof) being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds (or portions thereof) being refunded shall be deemed to have been paid pursuant to the Indenture, and (b) the amount remaining in the Debt Service Reserve Fund after such withdrawal, taking into account any deposits to be made in the Debt Service Reserve Fund in connection with such refunding, shall not be less than the Debt Service Reserve Requirement.

Bond Proceeds Fund

The Trustee shall establish the “California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 Bond Proceeds Fund” (the “Bond Proceeds Fund”). The Trustee shall keep the Bond Proceeds Fund separate and apart from all other funds and money held by it. The Trustee shall transfer all moneys initially deposited in the Bond Proceeds Fund to the Escrow Fund established under the Escrow Agreement, representing the amount, together with the amount deposited in the Escrow Fund from other available funds, necessary to refund the Prior Bonds.

Cost of Issuance Fund

The Trustee shall establish the “California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 Costs of Issuance Fund” (the “Costs of Issuance Fund”). The moneys in the Costs of Issuance Fund shall be held by the Trustee in trust and applied to the payment of Costs of Issuance of the Bonds, upon a requisition filed with the Trustee in the form attached to the Indenture as Exhibit B, signed by an Authorized Corporation Representative. All payments from the Costs of Issuance Fund shall be reflected in the Trustee’s regular accounting statements. Any amounts remaining in an account of the Costs of Issuance Fund shall be transferred to the Bond Fund upon the earlier of (a) six months from the Issue Date, or (b) the filing with the Trustee of a Certificate of the Corporation stating that all Costs of Issuance have been paid; the account shall then be closed.

Trustee Authorized to Take Actions Under the Agreement

The Authority authorizes and directs the Trustee under the Indenture, and the Trustee agrees, subject to the Indenture, to take such actions as the Trustee deems necessary to enforce the Corporation’s obligation under the Agreement to make payments at such times and in such amounts as are necessary for the Trustee to make timely payment of principal of and interest on the Bonds, to the extent that moneys in the Bond Fund are not available for such payment in accordance with the provisions of Section “Bond Fund” herein. In addition, the Authority authorizes and directs the Trustee under the Indenture, and the Trustee thereby agrees, subject to the provisions of the Indenture, to take such actions as the Trustee deems necessary to enforce the Corporation’s obligation under the Agreement to make payments at such times and in such amounts as are necessary for the Trustee to make timely payment of any Additional

Payments and payments owed to the Authority by the Corporation pursuant to the Agreement, to the extent that moneys in the Additional Payments Fund are not available for such payment.

Investments of Moneys

Any moneys in any of the funds and accounts established pursuant to the Indenture shall be invested upon the written direction of the Corporation signed by an Authorized Corporation Representative (such direction to specify the particular investment to be made), by the Trustee, if and to the extent then permitted by law, in Permitted Investments. In the absence of such written direction, the Trustee shall hold such funds uninvested. Moneys in any fund or account established pursuant to the Indenture shall be invested in Permitted Investments with respect to which payments of principal thereof and interest thereon are scheduled to be paid or are otherwise payable not later than the date on which such moneys will be required by the Trustee except that any investments of amounts in the Debt Service Reserve Fund shall mature no later than five years from the time of investment; provided, however, that Permitted Investments which allow for withdrawal at par and without penalty may have an aggregate weighted term to maturity of greater than five years. Investments in any of the funds or accounts established under the Indenture, shall be valued at least once each Fiscal Year at the market value thereof; provided that the investments in the Debt Service Reserve Fund shall be valued on each Debt Service Reserve Valuation Date.

Any interest, profit or loss on any investments of moneys in any fund or account established under the Indenture shall be credited or charged to the respective fund or account from which such investments are made. See Section "Debt Service Reserve Fund" hereof regarding the transfer of excess earnings from the Debt Service Reserve Fund. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss, fee, tax or other charge resulting from any investment, reinvestment or liquidation under the Indenture. Unless otherwise directed by the Corporation, the Trustee may make any investment permitted under the Indenture or the Agreement through or with its own commercial banking or investment departments or an affiliate.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority or the Corporation the right to receive brokerage confirmations of security transactions as they occur, the Authority and the Corporation specifically waive receipt of such confirmations to the extent permitted by law. The Trustee will furnish the Corporation and, if requested, the Authority, periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Indenture or the Agreement.

Disposition of Insurance and Condemnation Proceeds

The proceeds of insurance maintained by the Corporation against loss or damage by fire, lightning, vandalism, malicious mischief and all other risks covered by the extended coverage insurance endorsement then in use in the State or against loss or damage by risks covered by builders' all-risk insurance, and the proceeds of any condemnation awards with respect to the Facilities, shall be paid immediately upon receipt by the Corporation or other named insured parties to the Trustee, for deposit in a special fund which the Trustee shall establish and maintain and hold in trust, to be known as the "California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 Insurance and Condemnation Proceeds Fund." If the Corporation elects to repair or replace the property damaged, destroyed or taken, it shall furnish to the Trustee plans of the contemplated repair

or replacement, accompanied by a certificate of an architect or other qualified expert estimating the reasonable cost of such repair or replacement and a Certificate of the Corporation stating that amounts in the Insurance and Condemnation Proceeds Fund, together with investment income reasonably expected to be received with respect thereto and any other funds available or reasonably expected to become available therefor (and which the Corporation shall agree to deposit in said fund when so available), shall be sufficient to repair or replace the property damaged, destroyed or taken in accordance with such plans. After deducting therefrom the reasonable charges and expenses of the Trustee in connection with the collection and disbursement of such moneys, moneys in the Insurance and Condemnation Proceeds Fund shall be disbursed by the Trustee upon receipt by the Trustee of a Certificate of the Corporation for the purpose of repairing or replacing the property damaged, destroyed or taken.

If the Corporation shall not elect to repair or replace the property damaged, destroyed or taken, as provided in the Indenture, the Trustee upon receipt by the Trustee of a Certificate of the Corporation shall apply all amounts in the Insurance and Condemnation Proceeds Fund on account of such damage, destruction or condemnation to redeem the all or a portion of Outstanding Bonds as such amounts in the Insurance and Condemnation Proceeds Fund will allow.

Rental Interruption Insurance

Any proceeds from rental interruption insurance with respect to the Facilities received by the Corporation shall be deposited with the Trustee and applied by the Trustee first to the immediate payment of interest payments past due and then to the immediate payment of Principal Installments past due. The Trustee shall then transfer any remaining proceeds from rental interruption insurance to the Debt Service Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Debt Service Reserve Requirement and then deposit any proceeds remaining into the Bond Fund to be applied in the manner provided in the Indenture.

Additional Payments Fund

The Trustee shall establish the “California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 Additional Payments Fund” (the “Additional Payments Fund”). The Trustee shall deposit into the Additional Payments Fund the amounts received from the Corporation pursuant to the Agreement. Amounts in the Additional Payments Fund shall be held by the Trustee in trust and applied to the payment of the Additional Payments and payments owed to the Authority pursuant to the Agreement. Any interest earnings on amounts in the Additional Payments Fund shall be transferred to the Bond Fund. The Trustee shall pay any such payments promptly upon receipt from an Authorized Corporation Representative of a written direction to pay such Additional Payment.

Authority Fee Payment Fund

The Trustee shall establish the “California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 Authority Fee Payment Fund” (the “Authority Fee Payment Fund”). The Trustee shall deposit into the Authority Fee Payment Fund the amounts received from the Corporation pursuant to the Agreement including but not limited to the payment of the Authority’s annual fee. The moneys in the Authority Fee Payment Fund shall be held by the Trustee in trust and applied to the payment of the Authority’s fee as provided in the Agreement. Any interest earnings on amounts in the Authority Fee Payment Fund shall be transferred to the Bond Fund. The Trustee shall transfer the Additional Payments constituting the Authority’s Annual Fee, promptly upon receipt thereof from the Corporation, to the Authority at the Remittance Address.

Power to Issue Bonds and to Make Pledge; Preservation of Revenues

The Authority is duly authorized pursuant to law to issue the Bonds and to enter into the Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned under the Indenture in the manner and to the extent provided in the Indenture. The Authority has duly authorized the execution and delivery of the Bonds and the Indenture under the terms and provisions of the Act and a resolution adopted by the Board and further represents, covenants and warrants that all requirements have been met and procedures have occurred to ensure the enforceability against the Authority of the Bonds and the Indenture. The Authority has taken all necessary action and has complied with all provisions of the Act required to make the Bonds and the Indenture the valid, legal and binding limited obligations of the Authority.

The Authority shall not waive any provision of the Agreement or take any action to interfere with or impair the pledge and assignment, under the Indenture, of Revenues and the assignment to the Trustee of rights under the Agreement assigned to the Trustee under the Indenture, or the Trustee's enforcement of any such rights under the Agreement, without the prior written consent of the Trustee. The Trustee may give such written consent, and may itself take any such action, or consent to any Amendment, only in accordance with the provisions of the Indenture.

Tax Covenants

The Authority and the Corporation each covenant that neither shall use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner that if made or omitted, respectively, would cause interest on any Bond to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the Authority and the Corporation receive a written opinion of Bond Counsel to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the Authority and the Corporation, as the case may be, shall comply with each of the specific covenants in the Indenture.

Rebate Fund

When requested, the Trustee shall establish and maintain a fund separate from any other fund established and maintained under the Indenture designated the "California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 Rebate Fund" (the "Rebate Fund"). Within the Rebate Fund, the Trustee shall maintain such accounts as shall be directed by the Corporation as necessary for the Authority and the Corporation to comply with the terms and requirements of the Tax Certificate. Subject to the transfer provisions provided below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Certificate), for payment to the United States of America, and none of the Corporation, the Authority nor the Owners shall have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the Indenture, the Agreement and by the Tax Certificate. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the directions of the Corporation, including supplying all necessary information requested by the Corporation and the Authority in the manner set forth in the Tax Certificate, and shall not be required to take any actions thereunder in the absence of written directions from the Corporation.

Upon receipt of the Corporation's written instructions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States of America, as so directed. In addition, if the

Corporation so directs, the Trustee will deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Corporation's written directions. Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Amount and payment of all other amounts due and owing pursuant to the Agreement shall be withdrawn and remitted to the Corporation upon its written request.

Notwithstanding any provision of the Indenture the obligation of the Corporation to pay the Rebate Amount to the United States of America and to comply with all other requirements of the Indenture, the Agreement and the Tax Certificate shall survive the defeasance or payment in full of the Bonds.

Notwithstanding any provisions of the Indenture and the Agreement, if the Corporation shall provide to the Authority and the Trustee an Opinion of Bond Counsel that any specified action required under the Indenture or the Agreement is no longer required or that some further or different action is required to maintain the Tax-Exempt status of interest on the Bonds, the Corporation, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of the Indenture; and the covenants under the Indenture shall be deemed to be modified to that extent.

Other Liens

So long as any Bonds are Outstanding, the Authority shall not create any pledge, lien or charge of any type whatsoever upon all or any part of the Revenues or the other assets pledged under the Indenture, other than the lien of the Indenture. No obligations of the Corporation may be issued on a parity with the Bonds other than obligations issued or delivered to complete the Project pursuant to a Supplemental Indenture delivered pursuant to the provisions hereto or to refund existing obligations of the Corporation which would result in debt service savings to the Corporation.

Further Assurances

Whenever and so often as requested so to do by the Trustee, the Authority shall promptly execute and deliver or cause to be executed and delivered all such other and further instruments, documents or assurances, and promptly do or cause to be done all such other and further things, as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all of the rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them by the Indenture and to perfect and maintain as perfected such rights, interests, powers, benefits, privileges and advantages.

Events of Default; Acceleration; Waiver of Default

Each of the following events shall constitute an "Event of Default" under the Indenture:

- (i) Failure to make payment of any installment of interest upon any Bond when such payment shall have become due and payable;
- (ii) Failure to make due and punctual payment of the principal of any Outstanding Bond when such payment shall have become due and payable, whether at the stated maturity thereof, or upon proceedings for the mandatory redemption thereof from Sinking Fund Installments or upon the maturity thereof by declaration;
- (iii) The occurrence of an "Event of Default" under the Agreement, as specified in the Agreement; or

- (iv) Default by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, and the continuance of such default for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Corporation by the Trustee or to the Authority, the Corporation and the Trustee by the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding;

No default specified in (iv) above shall constitute an Event of Default unless the Authority shall have failed to correct such default within the applicable 30-day period; provided, however, that if the default shall be such that it can be corrected, but cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Authority within the applicable period and diligently pursued until the default is corrected.

Upon the occurrence and continuation of an Event of Default the Trustee, may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding, shall, by notice in writing delivered to the Corporation, with copies of such notice being sent to the Authority, declare the principal of all Bonds then Outstanding and the interest accrued thereon immediately due and payable, and such principal and interest shall thereupon become and be immediately due and payable. Notwithstanding the foregoing, the Trustee shall not be required to take any action upon the occurrence and continuation of an Event of Default under the Indenture until a Responsible Officer of the Trustee has actual knowledge of such Event of Default. After any declaration of acceleration of the Bonds under the Indenture the Trustee shall immediately declare all indebtedness payable under the Agreement with respect to the Bonds to be immediately due and payable in accordance with the Agreement and may exercise and enforce such rights as exist under the Agreement.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Indenture, there shall have been deposited with the Trustee a sum which, together with any other amounts then held in the Bond Fund, is sufficient to pay all the principal of such Bonds matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds, and the reasonable expenses (including reasonable attorneys' fees) of the Trustee, and any and all other defaults actually known to the Trustee (other than in the payment of principal of and interest on such Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee in its sole discretion or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding (by written notice to the Authority and to the Trustee) may, on behalf of the Owners of all Bonds, rescind and annul such declaration with respect to the Bonds and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Limitation on Owner's Right to Sue

No Owner shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (b) the Owners of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted under the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses (including reasonable attorneys' fees) and liabilities to be incurred in

compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of thirty (30) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Indenture; it being understood and intended that no one or more Owners shall have any right in any manner whatsoever by his or her or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

The right of any Owner to receive payment of the principal of and interest on such Bond out of Revenues, as provided in the Indenture and the Bond, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner, notwithstanding any provisions of the Indenture.

Modification Without Consent of Owners

The Authority and the Trustee (with the consent of the Corporation), without the consent of or notice to any Owners, from time to time and at any time, but subject to the conditions and restrictions contained in the Indenture, may enter into a Supplemental Indenture or Indentures, which Supplemental Indenture or Indentures thereafter shall form part of the Indenture; and the Trustee, without the consent of or notice to any Owners, from time to time and at any time, may consent to any Amendment to any Document; in each case for any one or more of the following purposes:

- (i) to add to the covenants and agreements of the Authority contained in the Indenture, or of the Corporation contained in any Document, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for any of the Bonds, or to surrender any right or power reserved to or conferred upon the Authority or the Corporation in the Indenture or any Supplemental Indenture; provided, that no such covenant, agreement, assignment, pledge or surrender shall materially adversely affect the interests of the Owners of the Bonds;
- (ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision contained in the Indenture or any Document, or in regard to matters or questions arising under the Indenture or any Document, as the Authority may deem necessary or desirable and which shall not materially adversely affect the interests of the Owners of the Bonds;
- (iii) to modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification of the Indenture or any Supplemental Indenture under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, and, if they so determine, to add to the Indenture as supplemented or amended such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute, and which shall not adversely affect the interests of the Owners of the Bonds;

- (iv) to provide for any additional procedures, covenants or agreements necessary to maintain the Tax-Exempt status of interest on the Bonds; provided that such amendment or supplement shall not materially adversely affect the interests of the Owners of the Bonds;
- (v) to modify or eliminate the book-entry registration system for any of the Bonds;
- (vi) to provide for the procedures required to permit any Owner to separate the right to receive interest on the Bonds from the right to receive principal thereof and to sell or dispose of such rights, as contemplated by Section 1286 of the Code;
- (vii) to provide for the appointment of a co-Trustee or the succession of a new Trustee;
- (viii) to change the description of the Project under the Agreement in accordance with the provisions thereof and of the Tax Certificate;
- (ix) to comply with requirements of any Rating Agency in order to obtain or maintain a rating on any Bonds;
- (x) in connection with any other change which will not adversely affect the security for the Bonds or the Tax-Exempt status of interest thereon or otherwise materially adversely affect the interests of the Owners of the Bonds, such determination to be based upon an Opinion of Bond Counsel; or
- (xi) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Indenture.

Before the Authority or the Trustee enters into a Supplemental Indenture, and before the Trustee consents to any Amendment, pursuant to the provisions of the Indenture, the Authority or the Trustee shall cause notice of the proposed execution of the Supplemental Indenture or Amendment to be given by mail to each Rating Agency. A copy of the proposed Supplemental Indenture or Amendment shall accompany such notice. Not less than one week after the date of the first mailing of such notice, the Authority and/or the Trustee may execute and deliver such Supplemental Indenture or Amendment, but only after there shall have been delivered to the Trustee an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with the applicable terms of the Indenture; (iii) will, upon the execution and delivery thereof be a valid and binding agreement of the Authority; and (iv) will not adversely affect the Tax-Exempt status of interest on the Bonds.

Notwithstanding the foregoing, the Trustee shall not be obligated to enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such Supplemental Indenture, and the Trustee shall not enter into any Supplemental Indenture or consent to any Amendment without first obtaining the written consent of the Corporation. Any Supplemental Indenture or Amendment permitted pursuant to the Indenture may be approved by an Authorized Authority Representative and need not be approved by resolution or other action of the Authority.

Modification With Consent of Owners

With the consent of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, evidenced as provided in the Indenture, (i) the Authority and the Trustee may from time to time and at any time enter into a Supplemental Indenture or Indentures for the purpose of adding any provisions to or changing in any manner or, eliminating any of the provisions of the Indenture as theretofore supplemented and amended; (ii) the Authority and the Corporation may enter into any Amendment; and (iii) the Trustee may consent to any Amendment to any Document and any other matters for which its consent is required pursuant to the Indenture; provided, however, that no such Supplemental Indenture or Amendment will have the effect of extending the time for payment or reducing any amount due and payable by the Corporation pursuant to the Agreement without the consent of the Owners of all Bonds then Outstanding; and that no such Supplemental Indenture shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Owners whose consent is required for the execution of such Supplemental Indentures or Amendments, or permit the creation of any lien on the Revenues and the other assets pledged as security for Bonds under the Indenture prior to or on a parity with the lien of the Indenture, except as permitted in the Indenture, or permit the creation of any preference of any Owner over any other Owner, except as permitted in the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture upon the Revenues and the other assets pledged to the payment of the Bonds under the Indenture, without the consent of the Owners of all Bonds then Outstanding. Nothing in this paragraph shall be construed as making necessary the approval of any Owner of any Supplemental Indenture or Amendment permitted by the provisions of the Indenture.

Upon receipt by the Trustee of: (1) a Certified Resolution authorizing the execution of any such Supplemental Indenture or Amendment; (2) an Opinion of Bond Counsel stating that such Supplemental Indenture or Amendment is: (i) authorized or permitted by the Indenture, the Act and other applicable law; (ii) complies with the applicable terms of the Indenture; (iii) in the case of a Supplemental Indenture, will, upon the execution and delivery thereof, be a valid and binding agreement of the Authority; and (iv) will not adversely affect the Tax-Exempt status of interest on the Bonds; and (3) as required by the Indenture, the Owners, as aforesaid, the Trustee shall join with the Authority in the execution of such Supplemental Indenture or shall consent to such Amendment; provided, however, that (i) the Trustee shall not be obligated to enter into any such Supplemental Indenture which materially and adversely affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its sole discretion, but shall not be obligated to, enter into such Supplemental Indenture; and (ii) the Trustee shall not enter into such Supplemental Indenture or consent to any Amendment of any Document without first obtaining the Corporation's written consent thereto.

It shall not be necessary for the consent of the Owners under the Indenture to approve the particular form of any proposed Supplemental Indenture or Amendment, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the parties thereto of any Supplemental Indenture or Amendment as provided in the Indenture, the Trustee shall mail a notice (prepared by the Corporation) setting forth in general terms the substance of such Supplemental Indenture or such Amendment to the Rating Agencies and each Owner at the address contained in the Bond Register. Any failure of the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Indenture or such Amendment.

Discharge of Indenture

If all Bonds shall be paid and discharged in any one or more of the following ways:

- (i) by the payment of the principal of and interest on all Bonds as and when the same become due and payable; or
- (ii) by providing for the payment of the principal of and interest on all Bonds as provided in the Indenture; or
- (iii) by the delivery to the Trustee, for cancellation by it, of all Bonds;

and if all other sums payable under the Indenture by the Corporation and the Authority shall be paid and discharged, then thereupon the Indenture shall be satisfied and discharged and shall cease, terminate and become null and void, and thereupon the Trustee shall, upon Written Request of the Authority, and upon receipt by the Trustee and the Authority of an Opinion of Bond Counsel to the effect that all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Indenture. The Trustee shall mail written notice of such payment and discharge to the Authority, the Corporation, and each Rating Agency. The satisfaction and discharge of the Indenture shall be without prejudice to the rights of the Trustee and the Authority to charge and be reimbursed by the Corporation for any expenditures which it may thereafter incur in connection with the Indenture.

The Authority and the Corporation shall surrender to the Trustee for cancellation by it any Bonds previously authenticated and delivered which the Authority or the Corporation lawfully may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

Discharge of Liability on Particular Bonds

Any Bond or a portion thereof shall be deemed to be paid within the meaning of the Indenture when payment of the principal of such Bond or a portion thereof plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption or by declaration as provided in the Indenture) shall have been provided for by (i) irrevocably depositing with the Trustee in trust and irrevocably setting aside exclusively for such payment money and/or nonprepayable, noncallable United States Government Securities as provided in the Indenture; and (ii) if such Bond or portion thereof is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as required in the Indenture provided or provision satisfactory to the Trustee shall have been made for giving such notice.

In the event of the provision of the payment of less than the full principal amount of a Bond in accordance with the Indenture, the principal amount of the Bond as to which such payment is not provided for shall be in an Authorized Denomination and, unless that portion of the Bond as to which payment is provided for in accordance with the Indenture is to be paid or redeemed within sixty days of the deposit with the Trustee, such portion will also be in an Authorized Denomination.

Upon the deposit with the Trustee, in trust, at or before maturity or the redemption date, as applicable, of money and/or nonprepayable, noncallable United States Government Securities as provided in the Indenture to pay or redeem a Bond or a portion thereof and the satisfaction of the other conditions specified in the Indenture, such Bond, or the applicable portion thereof, shall be deemed to be paid under the Indenture, shall no longer be secured by or entitled to the benefits of the Indenture, except for the purposes of any such payment from such money and/or United States Government Securities deposited

with the Trustee for such purpose, and all liability of the Authority and the Corporation in respect of such Bond, or the applicable portion thereof, shall cease, terminate and be completely discharged, except that the Authority and the Corporation shall remain liable for the payment of the principal of and interest on such Bond, or the applicable portion thereof, but only from, and the Owners shall thereafter be entitled only to payment (without interest accrued thereon after such redemption date or maturity date) out of, the money and/or United States Government Securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

Unclaimed Moneys

Notwithstanding any provisions of the Indenture to the contrary, and subject to applicable laws of the State, any moneys deposited with the Trustee in trust for the payment of the principal of, or interest on, any Bonds remaining unclaimed for two (2) years after the principal of any or all of the Outstanding Bonds has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Indenture), shall then be repaid to the Corporation upon its written request, and the Owners of such Bonds shall thereafter be entitled to look only to the Corporation for payment thereof, and all liability of the Authority and the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Trustee shall (at the request and cost of the Corporation) first give notice by mail to each affected Owner, which notice shall be in such form as may be deemed appropriate by the Corporation and the Trustee, in respect of the Bonds so payable and not presented and in respect of the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof. If the repayment of any such moneys to the Corporation as aforesaid, the Owners of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be unsecured creditors of the Corporation for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so repaid to the Corporation (without interest thereon).

LOAN AGREEMENT

Corporation's Maintenance of Its Existence; Consolidation; Merger; Sale or Transfer Under Certain Conditions

The Corporation agrees under the Agreement that during the term of the Agreement and so long as any Bond is Outstanding, it will maintain its corporate existence, will not dissolve or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it; provided, that the Corporation may, without violating the agreements contained in the Agreement, consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it, or sell or otherwise transfer to another corporation or an agency of the State all or substantially all of its assets as an entirety and thereafter dissolve; provided, that in the event the Corporation is not the surviving, resulting or transferee corporation, as the case may be, that the surviving, resulting corporation, or the transferee of all or substantially all of the Corporation's assets (i) is a corporation (1) organized under the laws of the United States or any state, district or territory thereof; (2) is qualified to do business in the State; and (3) is an organization described in Section 501(c)(3) of the Code, or a corresponding provision of the federal income tax laws then in effect; and (ii) assumes in writing all of the obligations of the Corporation under the Agreement, the Indenture, the Office Lease and the Deed of Trust. Notwithstanding the foregoing, as a condition precedent to any consolidation, merger, sale or other transfer, the Trustee and the Authority shall receive (A) an Opinion of Bond Counsel to the effect that such merger, consolidation, sale or other transfer will not in and of itself affect the Tax-Exempt status of interest on the Bonds and (B) an Opinion of Counsel reasonably acceptable to the Authority to the effect that after such merger, consolidation, sale or other transfer, the Agreement is a valid and binding obligation of the surviving,

resulting or transferee corporation, enforceable according to its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally, or by the application of equitable principles if equitable remedies are sought, and the security interest created in the Agreement and the Deed of Trust will not be adversely affected by such sale or other transfer.

Notwithstanding the foregoing, the Corporation need not comply with any of the above provisions of the Agreement if, at the time of such transaction, provision for the redemption of all Outstanding Bonds will be made as provided in the Indenture.

If a merger, consolidation, sale or other transfer is effected, as provided in the Agreement, the provisions of the Agreement above shall continue in full force and effect and no further merger, consolidation, sale or transfer shall be effected except in accordance with the above provisions of the Agreement.

Another entity may also agree to become a co-obligor and jointly and severally liable with the Corporation (without the necessity of merger, consolidation or transfer of assets) under the Agreement if the foregoing provisions are satisfied. In such event, references in the Agreement to indebtedness of the Corporation shall apply to the combined indebtedness of the Corporation and such other entity, references to the financial condition or results of operation of the Corporation shall apply to the combined financial condition and results of operation of the Corporation and such other entity, and the Corporation and such other entity shall be considered to be the Corporation for all purposes of the Agreement and the other Corporation Documents.

Rates and Charges; Debt Service Coverage

(a) The Corporation covenants and agrees to operate the Facilities as revenue-producing office facilities. The Corporation further covenants and agrees to fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rent, fees and charges for the use of the Facilities which, together with all other receipts and revenues of the Corporation and any other funds available therefor, will be sufficient in each Fiscal Year to produce Net Income Available for Debt Service equal to at least 1.25 times Aggregate Debt Service for such Fiscal Year.

(b) The Corporation further covenants and agrees that, from time to time and as often as shall be necessary, it will revise, or cause to be revised, subject to applicable requirements or restrictions imposed by law, its rental rates, fees and charges as may be necessary or proper so that the Net Income Available for Debt Service in each Fiscal Year will be not less than the amount required for such Fiscal Year under Subsection (a) of this Section. Within one hundred eighty (180) days after the end of each Fiscal Year, the Corporation shall compute the Net Income Available for Debt Service for such Fiscal Year and promptly furnish to the Trustee and the Authority a certificate setting forth the results of such computation. The Corporation further covenants and agrees that if in such Fiscal Year the Net Income Available for Debt Service shall have been less than the amount required under Subsection (a) above, it will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Corporation or the methods of operation of the Corporation that will result in producing Net Income Available for Debt Service in the amount required by Subsection (a) above in the then current Fiscal Year. Copies of the recommendations of the Management Consultant shall be filed with the Trustee and the Authority. The Corporation shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, and subject to a good faith determination of its Board of Trustees that such recommendations, in whole or in part, are in the best interests of the Corporation, revise its rates, fees and charges or its methods of operation or

collections and shall take such other action as shall be in conformity with such recommendations. If in any Fiscal Year, Net Income Available for Debt Service shall be less than 1.25 times Aggregate Debt Service, the Corporation shall comply with the recommendations of the Management Consultant, subject to the applicable requirements or restrictions imposed by law and in the event of a failure by the Corporation to so comply, the Authority or the Trustee may, in addition to the rights and remedies elsewhere set forth, institute and prosecute an action or proceeding in any court or before any board or commission having jurisdiction to compel the Corporation to comply with the recommendations and requirements of this Subsection (b). If the Corporation complies in all material respects with the reasonable recommendations of the Management Consultant in respect to said rates, fees, charges and methods of operation or collection, the Corporation will be deemed to have complied with the covenants contained in this Section for such Fiscal Year notwithstanding that Net Income Available for Debt Service shall in fact be less than the amount required under Subsection (a) of this Section; provided, however, that the requirements of this Subsection (b) as to minimum levels of Net Income Available for the Debt Service shall be deemed satisfied if (x) there is delivered to the Trustee the report of a Management Consultant (which report, includes, in the case of projections, forecast balance sheets, statements of revenues and expenses and statements of changes in financial position for each of the two succeeding Fiscal Years and a statement of the relevant assumptions upon which such forecasted statements are based, which financial statements must indicate that sufficient revenues and cash flow could be generated to pay the operating expenses of the proposed and existing facilities and the Debt Service on the other existing Funded Debt of the Corporation during such two Fiscal Years), and an opinion of such Management Consultant to the effect that applicable laws or regulations have prevented or will prevent the Corporation from generating the amount of Net Income Available for Debt Service required to be generated under this subsection as a prerequisite to the issuance of Funded Debt and, if requested by the Trustee, such report is accompanied by a an Opinion of Counsel supporting any conclusions of law supporting the opinion of such Management Consultant, (y) the report of the Management Consultant indicates that the rates charged or to be charged by the Corporation are or will be such that, in the opinion of such Management Consultant, the Corporation has generated or will generate the maximum amount of Gross Revenues reasonably practicable, given such laws or regulations, and (z) the historical debt service coverage ratio of the Corporation and the projected Net Income Available for Debt Service for the then-current Fiscal Year shall be at least 1.25 times Aggregate Debt Service for such Fiscal Year.

Notwithstanding the foregoing, the Corporation may permit the rendering of service at, or the use of, the Facilities without charge or at reduced charges, at the discretion of the Board of Trustees of the Corporation, to the extent necessary for maintaining its tax-exempt status and its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or the State or any political subdivision or instrumentality thereof, or in compliance with any recommendation for free services that may be made by the Management Consultant.

Events of Default

Any one of the following which occurs shall constitute an Event of Default under the Agreement:

- (i) failure by the Corporation to pay or cause to be paid any amounts required to be paid under the Agreement when due or to make the deposits required to be made under the Agreement within five days after the day when such payment was due; or
- (ii) failure of the Corporation to observe and perform any covenant, condition or agreement on its part required to be observed or performed under the Agreement, other than making the payments referred to in (i) above, which continues for a period of thirty (30) days after written notice from the Trustee or the Authority, which notice shall specify such

failure and request that it be remedied, unless the Authority and the Trustee shall agree in writing to an extension of such time period; provided, however, that if the failure stated in the notice cannot be corrected within such period, the Authority and the Trustee will not unreasonably withhold their consent to an extension of such time period if corrective action is instituted within such period and diligently pursued until the default is corrected; or

- (iii) any of the representations or warranties of the Corporation made in the Agreement or in the application filed with the Authority in connection with the Bonds was false or incorrect in any material respect when made; or
- (iv) an Act of Bankruptcy occurs with respect to the Corporation; or
- (v) the occurrence of an Event of Default under the Indenture.

Remedies on Default

Whenever any Event of Default under the Agreement shall have occurred and shall continue, the Authority or the Trustee may take whatever action or institute any proceeding, at law or in equity, as may be necessary or desirable for the collection of the payments and other amounts then due and thereafter to become due under the Agreement the enforcement of the performance and observance of any obligation, agreement or covenant of the Corporation under the Agreement, including but not limited to: (i) instituting and prosecuting to judgment or final decree and enforcing any such judgment or decree against the Corporation and collect in the manner provided by law moneys decreed to be payable; and (ii) by injunctive and other equitable relief, to require the Corporation to perform each of its obligations, and to otherwise protect the Authority's rights, under the Agreement.

If, at any time after all of the Outstanding Bonds shall have been declared due and payable pursuant to the Indenture but such declaration has been rescinded in accordance with the Indenture, no amount shall be payable by the Corporation pursuant to the Agreement with respect to the principal of Bonds as to which the acceleration of maturity has been rescinded.

In case the Trustee or the Authority shall have proceeded to enforce its rights under the Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Authority, then, and in every such case, the Corporation, the Trustee and the Authority shall be restored respectively to their several positions and rights under the Agreement, and all rights, remedies and powers of the Corporation, the Trustee and the Authority shall continue as though no such action had been taken (provided, however, that any settlement of such proceedings duly entered into by the Authority, the Trustee or the Corporation shall not be disturbed by reason of this provision).

Nonliability of Authority

The Authority shall not be obligated to pay the principal (or redemption price) of or interest on the Bonds, except from Gross Revenues and other moneys and assets received by the Trustee pursuant to the Agreement. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof, nor the faith and credit of the Authority or any member is pledged to the payment of the principal (or redemption price) or interest on the Bonds. Neither the Authority nor its members, officers, directors, agents or employees or their successors or assigns shall be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in

connection with the Agreement, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Corporation under the Agreement.

The Corporation acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the Corporation to the Trustee pursuant to the Agreement, together with investment income on certain funds and accounts held by the Trustee under the Indenture, and agrees that if the payments to be made under the Agreement shall ever prove insufficient to pay all principal (or redemption price) and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Corporation shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal (or redemption price) or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the Corporation, the Authority or any third party, subject to any right of reimbursement from the Trustee, the Authority or any such third party, as the case may be, therefor but solely, in the case of the Authority, from Gross Revenues, other than with respect to any deficiency caused by the willful misconduct of the Authority.

OFFICE LEASE

Terms capitalized under this caption "OFFICE LEASE" but not defined shall have the meanings set forth in the Office Lease (the "Lease") by and between the Corporation ("Lessor"), and HRC ("Lessee") (collectively the "Parties" or, individually a "Party") relating to the premises ("Premises").

Commencement of Lease

The Lease shall be effective as of the Lease Commencement Date. The Term of the Lease shall be approximately twenty-nine years and eleven months ("Original Term") and extend to October 31, 2039, being ("Expiration Date").

Notwithstanding anything to the contrary contained in the Lease, the Original Term of the lease shall expire on the later of the (i) final scheduled date for payment of Rents with respect to the Rents that support the payment of the Bonds, and (ii) date on which all Rents have been fully paid or prepaid; provided, that, if on the scheduled Expiration Date there shall remain outstanding and unpaid any amounts under the Agreement, the Term of the Lease shall automatically be extended for a period of ten (10) years from such date, or until the Rents have been fully paid or prepaid, whichever occurs first.

Operating Expenses

As of the Lease Commencement Date, the Lessee's Share of Operating Expenses calculated by dividing the approximate rentable square footage of the Premises by the total approximate square footage of the Project and shall not be subject to revision except in connection with an actual change in the size of the Premises or a change in the space available for lease in the Project.

All monetary obligations of Lessee to Lessor under the terms of the Lease are deemed to be Rent. Lessee's obligation to pay Rent, including Base Rent, shall commence on the Rent Commencement Date. Lessee shall pay to Lessor during the Term, in addition to the Base Rent, Lessee's Share of all Operating Expenses during each calendar year of the term of the Lease in accordance with the following provisions:

"Operating Expenses" include all costs incurred by Lessor relating to the ownership and operation of the Project, calculated as if the Project was at least 100% occupied, including, but not limited to, the following:

(A) The operation, repair, and maintenance in neat, clean, safe, good order and condition, of the following: (i) Lessee shall pay to Lessor, during the remainder of the Original Term (i.e., from and after the Rent Reset Date and continuing through the Expiration Date), on a monthly basis on or before the tenth (10th) day of each calendar month occurring during the remainder of such Original Term, and in addition to the Base Rent set forth on Exhibit A to the First Amendment, the then-applicable, stipulated amount of Operating Expenses scheduled and set forth on such Exhibit A to the First Amendment; (ii) all heating, air conditioning, plumbing, electrical systems, life safety equipment, communication systems and other equipment used in common by, or for the benefit of, Lessee's or occupants of the Premises, including elevators and escalators, tenant directories, fire detection systems including sprinkler system maintenance and repair; (iii) the cost of trash disposal, janitorial and security services, pest control services, and the costs of any environmental inspections; the cost of any other service to be provided by Lessor that is elsewhere in the lease stated to be an Operating Expense; (iv) at the Lessor's request, the cost of the premiums for the insurance policies maintained by Lessor pursuant to the Lease and any deductible portion of an insured loss concerning the Buildings or the Common Areas; (v) the amount of the Real Property Taxes, if any, paid by Lessor pursuant to the Lease; (vi) the cost of water, sewer, gas, electricity, and other publicly mandated services not separately metered; (vii) labor, salaries, and applicable fringe benefits and costs, materials, supplies and tools, used in maintaining and/or cleaning the Buildings and accounting and property management fees, if requested by the Lessor, attributable to the operation of the Buildings; (viii) the cost of any capital improvement to the Buildings or the Project not covered under the provisions of the Lease provided; however, that Lessor shall allocate the cost of any such capital improvement over the remaining Term and Lessee shall not be required to pay more than Lessee's Share of the cost of such capital improvement in any given month, which monthly cost shall be an amount equal to a portion of such costs determined by calculating the number of months remaining in the Lease, which number shall be the denominator, and placing 1 as the numerator; (ix) the cost to replace equipment or improvements that have a useful life for accounting purposes of 5 years or less; (x) Reserves in the amount of One Hundred Fifty Thousand and 00/100 Dollars (\$150,000.00) per year set aside for maintenance, repair, and/or replacement of Buildings, Common Area, Premises and equipment; provided, however, in the event any such reserve amounts are included within the stipulated Operating Expenses (the "Reserve Amounts") contributed by Lessee and held by Lessor at any particular time during the Term of the Lease exceeds Five Hundred Thousand and No/100 Dollars (\$500,000.00) , the amount of the excess being referred to herein as the "Reserve Excess"), then (a) Lessee shall have the right, in its sole discretion upon written notice to Lessor, to apply any such Reserve Amounts in excess of the Reserve Threshold toward amounts that may be required to be contributed by Lessee under the Lease (Partial Damage Insured Loss), and/or (b) subject to the following terms and conditions, Lessor may allocate and utilize or otherwise contribute any such Reserve Excess to endeavors which further the missions of Lessor and Lessee (any such use being referred to herein as a "Non Premises Use"): (1) a Non Premises Use may not be made more than two times per calendar year, once each in the month of May and the other in the month of November; (2) as of the date any Non Premises Use is made, the amount of Reserve Amounts used for such Non Premises Use shall not exceed the amount reasonably necessary to achieve the business purpose of such Non Premises Use; (3) Such Non Premises Use shall be subject to prior approval by Lessee, which approval shall not be unreasonably withheld, conditioned or delayed; and (4) the cost of any other service to be provided by Lessor that is elsewhere in the Lease stated to be an Operating Expense.

(B) The inclusion of the improvements, facilities and services set forth in the Lease shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Project already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in the lease to provide the same or some of them.

Lease Payment

Lessee shall cause payment of Rent to be received by Lessor in lawful money of the United States, without offset or deduction (except as specifically permitted in the lease), on or before the day on which it is due. Rent for any period during the term of the Lease which is for less than one full calendar month shall be prorated based upon the actual number of days of such month.

Use

Lessee shall use and occupy the Premises for its usual and customary business purposes as set out in the Lanterman Act and the customary and usual directives and advice of the California Department of Developmental Services (the "Agreed Use"), or any other legal use which is reasonably comparable thereto or supportive thereof, and for no other purpose.

Maintenance; Repairs

Lessee is obligated to keep the Premises in good condition and repair. Lessee shall be responsible for payment of all costs to Lessor as additional rent under the Lease for that portion of the cost of any maintenance and repair of the Premises or any equipment (wherever located) that serves only Lessee or the Premises, to the extent such cost is attributable to causes beyond normal wear and tear. Lessee shall be responsible for the cost of painting, repairing or replacing wall coverings, and to repair or replace any improvements with the Premises.

Subject to certain provisions of the Lease, Lessor, subject to reimbursement pursuant to the Lease, shall be responsible for providing the services relating to the ownership and operation of the Project.

Insurance; Indemnity

Lessee shall obtain and keep in force a Commercial General Liability policy of insurance protecting Lessee and Lessor as an additional insured against claims for bodily injury, personal injury and property damage based upon or arising out of the ownership, use, occupancy or maintenance of the Premises and all areas appurtenant thereto. Lessor, at Lessee's expense, shall also obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Bond Trustee, insurance the loss of the full Rent for two (2) years. Lessor shall maintain liability insurance as described in the Lease, in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

Lessor, at Lessee's expense, shall obtain and keep in force a policy or policies of insurance in the name of Lessor, with loss payable to Lessor, any ground-lessor, and to any Bond Trustee insuring loss or damage to the Buildings and/or Project. The amount of such insurance shall be equal to the greater of (i) the full insurable replacement cost of the Buildings and/or Project, as the same shall exist from time to time, and (ii) the outstanding principal amount of the Bond issued to finance the Project. Lessee Owned Alterations and Utility Installations, Trade Fixtures, and Lessee's personal property shall be insured by Lessee under the Lease. Lessor, at Lessee's expense, shall also obtain and keep in force a policy or policies in the name of Lessor with loss payable to Lessor and any Bond Trustee, insuring the loss of the full Rent for two (2) years with an extended period of indemnity for additional 180 days (Rental Value insurance).

Lessee shall obtain and maintain insurance coverage on all of Lessee's personal property, Trade Fixtures, and Lessee Owned Alterations and Utility Installations. Such insurance shall be full replacement cost coverage. Lessee shall obtain and maintain loss of income and extra expense insurance in amounts as will reimburse Lessee for direct or indirect loss of earnings attributable to all perils commonly insured against by prudent Lessee's in the business of Lessee or attributable to prevention of access to the Premises as a result of such perils; the amount of insurance shall not be less than two (2) years of maximum annual Base Rent based upon the schedule of Base Rent.

Damage or Destruction

If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense, repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations) as soon as reasonably possible and the lease shall continue in full force and effect. If a Premises Partial Damage that is not an Insured Loss occurs, Lessee shall make the repairs at Lessee's expense. Notwithstanding any other provision in the Lease, if a Premises Total Destruction occurs, (a) the Lessor shall restore the Buildings and the Premises, excluding any Alterations or Utility Installations or leasehold improvements specific to Lessee's particular use of the Premises (collectively, the "Specialized Leasehold Improvements"), to substantially the same condition as it was in immediately before such destruction; (b) Lessor shall not be required to restore Specialized Leasehold Improvements or Lessee's personal property, such excluded items being the sole responsibility of Lessee to restore; (c) such destruction shall not terminate the Lease; and (d) all obligations of Lessee under the Lease shall remain in effect, except that rent shall be abated or reduced, between the date of such destruction and the date of restoration of the Buildings and the Premises by Lessor as provided in the Lease, by the ratio of (i) the useable square footage of the Premises rendered unusable or inaccessible by the destruction to (ii) the useable square footage of the Premises prior to the destruction. If the damage or destruction was caused by the gross negligence or willful misconduct of Lessee, Lessor shall have the right to recover Lessor's damages from Lessee, except as provided in the Lease.

If at any time during the last 6 months of the Lease there is damage for which the cost to repair exceeds one month's Base Rent, whether or not an Insured Loss, Lessor may terminate the lease effective 60 days following the date of occurrence of such damage by giving a written termination notice to Lessee within 30 days after the date of occurrence of such damage; provided, however, that the Lease may not be terminated if the Bonds remain outstanding.

Abatement of Rent; Lessee's Remedies.

In the event of Premises Partial Damage or Premises Total Destruction or a Hazardous Substance Condition for which Lessee is not responsible under the Lease, the Rent payable by Lessee for the period required for the repair, remediation or restoration of such damage shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired.

If Lessor shall be obligated to repair or restore the Premises and if it does not commence, in a substantial and meaningful way, such repair or restoration within 90 days after such obligation shall accrue, Lessee may give written notice to Lessor and to any Bond Trustee of which Lessee has actual notice, of Lessee's election to cause such repair or restoration to be completed and the Lease shall continue in full force and effect. Commence shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs. If the Lessee causing the repairs and renovation to be made, it shall be able to reduce any Rent payments to the extent such funds are not otherwise necessary to continue to service the debt on the Bonds issued to finance the Project.

Notwithstanding the terms described in the preceding paragraph, if Lessee is prevented from using, and does not use, the Premises or any portion thereof, for five (5) consecutive business days or ten (10) days in any twelve (12) month period (the "Eligibility Period") as a result of any damage or destruction to the Premises or any repair, maintenance or alteration performed by Lessor to the Premises after the Rent Commencement Date and required by the lease, which substantially interferes with Lessee's use of the Premises, or any failure to provide services or access to the Premises due to Lessor's gross negligence or default, then Lessee's rent shall be abated or reduced, as the case may be, after expiration of the Eligibility Period for such time that Lessee continues to be so prevented from using, and does not sue, the Premises or a portion thereof, in the proportion that the rentable area of the portion of the Premises that Lessee is prevented from using, and does not use, bears to the total rentable area of the Premises. However, if Lessee is prevented from conducting, and does not conduct, its business in any portion of the Premises for a period in excess of the Eligibility Period, and the remaining portion of the Premises is not sufficient to allow Lessee to effectively conduct its business therein, and if Lessee does not conduct its business from such remaining portion, then for such time after the Eligibility Period during which Lessee is so prevented from effectively conducting its business therein, the rent for the entire Premises shall be abated; provided, however, if Lessee reoccupies and conducts its business from any portion of the Premises during such period, the rent allocable to such reoccupied portion, based on the proportion that the rentable area of such reoccupied portion of the Premises bears to the total rentable area of the Premises, shall be payable by Lessee from the date such business operations commence.

There shall be no abatement of rent and Lessor shall not be liable in any respect whatsoever for the inadequacy, stoppage, interruption or discontinuance of any utility or service due to riot, strike, labor dispute, breakdown, accident, repair or other cause beyond Lessor's reasonable control or in cooperation with governmental request or directions.

Assignment and Subletting

Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or encumber (collectively, "assign" or "assignment") or sublet all or any part of Lessee's interest in the lease or in the Premises without Lessor's prior written consent. Lessee shall have the right to sublease/assign all or any portion of its Premises during the term of the lease to a qualified lessee or lessees, subject to Lessor's prior written approval.

Lessor shall withhold any consent to any proposed assignment or subletting under the Lease unless it has received (i) an opinion of Bond Counsel, as such term is defined in the Indenture, to the effect that such proposed assignment or sublease will not in and of itself have a material adverse effect on the exclusion pursuant to section 103 of the Internal Revenue Code of 1986 (the "Code") of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes or the exemption from State of California personal income taxes of interest on the Bonds and (ii) an opinion from an attorney at law or firm of attorneys expert in matters relating to section 501(c)(3) of the Code to the effect that such proposed assignment or sublease will not in and of itself (x) cause any part of the Project financed with the proceeds of the Bonds to be used in any manner other than in a manner directly related to the exempt purposes of the Lessor and the Lessee or (y) permit the operation of any portion of the Project in an activity that, as to the exempt purpose or purposes of the assignee or sublessee would be in an "unrelated trade or business" within the meaning of section 513(a) of the Code; provided, however, that all or a portion of the requirements of clause (ii) preceding may be waived if the Lessor has received an opinion of Bond Counsel to the effect that the failure to satisfy said requirements will not preclude Bond Counsel from delivering the opinion described in clause (i) preceding.

Notwithstanding the foregoing, allowing on a continuing basis a de minimis portion of the Premises to be used by a third party vendor in connection with the installation and maintenance of vending machines or payphones, the same not to constitute a subletting; provided however, that Lessee shall give Lessor at least thirty (30) days written notice of its intent to allow such use, the notice to be evidenced by a written agreement between Lessee and the proposed vendor respecting the particulars of the proposed use.

Notwithstanding the foregoing, the Lessor's consent shall not be required in the event of a Transfer to an entity that controls, is controlled by, or is in joint control with the Lessee; provided however, that Lessee shall give Lessor at least thirty (30) days written notice of its intent to make such Transfer.

Default; Breach; Remedies

A "Default" is defined as a failure by the Lessee to comply with or perform any of the terms, covenants, conditions or Rules and Regulations under the Lease. A "Breach" is defined as the occurrence of one or more of the Default provisions set forth in the Lease, and the failure of Lessee to cure such Default within any applicable grace period. If Lessee fails to perform any of its affirmative duties or obligations, within 10 days after written notice (or in case of an emergency, without notice), Lessor may, at its option, perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals.

In the event of a Breach, Lessor may, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach: (a) subject to the consent of the Owners (determined in the same manner as Owner consent is required in the Indenture) of all Bonds then Outstanding, terminate Lessee's right to possession of the Premises by any lawful means, in which case the lease shall terminate and Lessee shall immediately surrender possession to Lessor, and, in such even, the Lessor shall be entitled to recover from Lessee as provided in the Lease; (b) the Lessor may also continue the Lease and Lessee's right to possession and recover the Rent as it becomes due, in which event Lessee may sublet or assign, subject only to reasonable limitations. Acts of maintenance, efforts to relet, and/or the appointment of a receiver to protect the Lessor's interests, shall not constitute a termination of the Lessee's right to possession; and (c) Lessor may also pursue any other remedy now or hereafter available under the laws or judicial decisions of the state wherein the Premises are located. The expiration or termination of the lease and/or the termination of Lessee's right to possession shall not relieve Lessee from liability under any indemnity provisions of the lease as to matters occurring or accruing during the term of the Lease or by reason of Lessee's occupancy of the Premises.

Lessor shall not be deemed in breach of the lease unless Lessor fails within a reasonable time to perform an obligation required to be performed by Lessor. If the Lessor does not cure said breach within 30 days after receipt of said notice, or if having commenced said cure they do not diligently pursue it to completion, then Lessee may elect to cure said breach at Lessee's expense and offset from Rent the actual and reasonable cost to perform such cure, provided, however, that such offset shall not exceed an amount equal to the greater of one month's Base Rent, reserving Lessee's right to seek reimbursement from Lessor for any such expense in excess of such offset. Lessee shall document the cost of said cure and supply said documentation to Lessor.

Condemnation

If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (collectively "Condemnation"), the Lease shall terminate as to the part taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the rentable floor area of the Premises, or more than 25% of Lessee's Reserved Parking Spaces, if any, are taken by Condemnation, the lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in proportion to the reduction in utility of the Premises caused by such Condemnation. Condemnation awards and/or payments shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of this leasehold, the value of the part taken, or for severance damages; provided, however, that Lessee shall be entitled to any compensation paid by the condemnor for Lessee's relocation expenses, loss of business goodwill and/or Trade Fixtures.

Waivers

No waiver by Lessor or Lessor as to a Default or Breach of any term, covenant or condition hereof by Lessee, shall be deemed a waiver of any other term, covenant or condition of the Lease, or of any subsequent Default or Breach by Lessor or Lessee of the same or of any other term, covenant or condition of the Lease. Lessor's or Lessee's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's or Lessee's consent to, or approval of, any subsequent or similar act by Lessee or Lessor, or be construed as the basis of an estoppel to enforce the provision or provisions of the lease requiring such consent.

The acceptance of Rent by Lessor shall not be a waiver of any Default or Breach by Lessee. Any payment by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualifying statements or conditions made by Lessee in connection therewith, which statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

Subordination

As long as the Bonds remain outstanding, the Lessor shall not take any action that would make the Lease subordinate to any other ground lease, mortgage, deed of trust, or other hypothecation or security device.

Additional Covenants

Under the terms of the Agreement, the Authority and the Lessor each have covenanted to comply with certain covenants set forth in the Indenture and the "Tax Certificate" (as defined in the Indenture), which will be incorporated by reference therein under the terms of the Agreement, and to facilitate the Lessor's compliance with the obligations outlined in the Agreement and the Indenture, the Lessee has covenanted to cooperate with the Lessor by providing any information requested by the Lessor and by complying with the terms of the Tax Certificate, which are incorporated by reference as if fully set forth in the Lease.

Limitations on Indebtedness

The Lessee will not create, incur, assume or otherwise become or remain obligated in respect of, or permit to be outstanding, any Debt, including lease payments, without the written consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then outstanding, other than (a) Debt, including lease payments, existing on the date of the First Amendment; (b) any refinancing or replacement of such Debt; (c) additional Debt, including lease payments, provided that the ratio of the maximum Debt obligations of Lessee to the overall operating budget of Lessee in any calendar year does not exceed the ratio of the maximum Debt obligations of Lessee to the overall operating budget of Lessee in the calendar year in which the First Amendment is entered into, and (d) indebtedness, not for borrowed money, incurred in the ordinary course of business, including any short term leases.

Source of Payments

Rent under the Lease shall be paid from any source of legally available funds of the Lessee, and the Lessee covenants to take such action as may be necessary to include all Rent due under the Lease in its budget and requests to DDS and to make the necessary annual appropriations and/or requests for all such Rent, which covenants of the Lessee shall be deemed to be, and shall be, ministerial duties imposed by law, and it shall be the duty of each and every officer of the Lessee to take such action and do such things as are required by law in the performance of the official duties of such officials to enable the Lessee to carry out and perform the covenants made by the Lessee under the Lease. During the Term of the Lease, the Lessor will furnish to the Bond Trustee, no later than 20 days following the adoption of the budget for its then-current fiscal period, a certificate of the Lessee to the effect that the Rents due in that fiscal period have been included in the requests of the Lessee to DDS for such fiscal period. Notwithstanding any other provision, the Lessee may not use funds from its purchase of services budget for the payment of any Rent.

Third Party Beneficiary

The Bond Trustee shall be a third-party beneficiary under the Lease while the Bonds remain outstanding, to the extent permitted by applicable law.

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT, dated as of July 1, 2015 (this “Disclosure Agreement”), is executed and delivered by the Harbor Developmental Disabilities Foundation, known as the Harbor Regional Center, a California nonprofit corporation (“HRC”), the Del Harbor Foundation, a California nonprofit public benefit corporation (the “Corporation” and, together with HRC, the “Obligated Persons”) and Wells Fargo Bank, National Association, as trustee (the “Trustee”), in connection with the issuance by the California Municipal Finance Authority (the “Authority”) of \$_____ aggregate principal amount of the California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 (the “Bonds”).

WITNESSETH:

WHEREAS, this Disclosure Agreement is being executed and delivered by the Obligated Persons and the Dissemination Agent for the benefit of the owners and beneficial owners of the Bonds and in order to assist the purchaser of the Bonds in complying with the Rule (as defined herein);

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

Section 1. Definitions. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture of Trust, dated as of July 1, 2015 (the “Indenture”), by and among the Authority, the Corporation and Wells Fargo Bank, National Association, as Trustee. In addition, the following capitalized terms shall have the following meanings:

“Annual Report” means any Annual Report provided by the Obligated Persons pursuant to, and as described in, Sections 2 and 3 hereof.

“Annual Report Date” means each March 1 after the end of the Fiscal Year.

“Disclosure Representative” means the Executive Director of the Corporation or his or her designee, or such other officer or employee as the Obligated Persons shall designate in writing to the Dissemination Agent and the Trustee from time to time.

“Dissemination Agent” means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Obligated Persons and which has filed with the Trustee a written acceptance of such designation.

“EMMA” shall mean Electronic Municipal Market Access system, maintained on the internet at <http://emma.msrb.org> by the MSRB.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the Obligated Persons, with notice of such selection or change in fiscal year to be provided as set forth herein.

“Listed Events” means any of the events listed in Section 4 hereof and any other event legally required to be reported pursuant to the Rule.

“**MSRB**” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through EMMA.

“**Official Statement**” means the Official Statement, dated _____, 2015, relating to the Bonds.

“**Participating Underwriter**” means Westhoff, Cone & Holmstedt.

“**Repository**” means, until otherwise designated by the SEC, EMMA.

“**Rule**” means Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same has been or may be amended from time to time.

“**SEC**” shall mean the United States Securities and Exchange Commission.

Section 2. Provision of Annual Reports.

(a) The Obligated Persons shall provide, or shall cause the Dissemination Agent to provide, to MSRB, through EMMA, not later than 15 days prior to the Annual Report Date, an Annual Report which is consistent with the requirements of Section 3 of this Disclosure Agreement. The Annual Report must be submitted in electronic format, accompanied by such identifying information as provided by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 3 of this Disclosure Agreement. Not later than 15 Business Days prior to such date, the Obligated Persons shall provide the Annual Report to the Dissemination Agent. If the Fiscal Year changes for the Obligated Persons, the Obligated Persons shall give notice of such change in the manner provided under Section 4(e) hereof.

(b) If by 15 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, through EMMA, the Dissemination Agent has not received a copy of the Annual Report the Dissemination Agent shall contact the Obligated Persons to determine if the Obligated Persons are in compliance with subsection (a). The Obligated Persons shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Obligated Persons and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports to, the MSRB each year prior to the date for providing the Annual Report; and

(ii) (if the Dissemination Agent is other than the Trustee), to the extent appropriate information is available to it, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

Section 3. Content of Annual Reports. The Obligated Persons' Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of each of the Obligated Persons for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to nonprofit entities from time to time by the Financial Accounting Standards Board. If the Obligated Persons' audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) The following tables presented in Appendix A to the Official Statement, updated for the fiscal year covered by the Annual Report or, with respect to (iii) and (iv) below, updated for the most current fiscal year available:

(i) For HRC, the table under the caption "THE HARBOR REGIONAL CENTER – California State Department of Developmental Services Contract" entitled "Harbor Regional Center DDS Contract Revenues."

(ii) For HRC, the table under the caption "THE HARBOR REGIONAL CENTER – Caseload" entitled "Harbor Regional Center Caseload."

(iii) For HRC, the table under the caption "THE HARBOR REGIONAL CENTER – Revenues and Expenses" entitled "Harbor Regional Center Revenues and Expenses"; and for the Corporation, a table of revenues and expenses in a form substantially similar thereto.

(iv) For HRC, the table under the caption "THE HARBOR REGIONAL CENTER – Assets and Liabilities" entitled "Harbor Regional Center Statement of Financial Position"; and for the Corporation, a statement of financial position in a form substantially similar thereto.

(iii) For HRC, the Retirement plan information presented in Appendix A to the Official Statement under the caption "THE HARBOR REGIONAL CENTER – Retirement Plan," to the extent not included in section (i) above.

(c) In addition to any of the information expressly required to be provided under subsections (a), (b) and (c) of this Section, the Obligated Persons shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Obligated Persons is an "obligated person" (as defined by the Rule), which are available to the public on EMMA or filed with the SEC. The Obligated Persons shall clearly identify each such document to be included by reference.

Section 4. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 4, the Obligated Persons shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, in a timely manner not more than ten (10) Business Days after the event:

- (1) principal and interest payment delinquencies;
- (2) defeasances;
- (3) tender offers;
- (4) rating changes;
- (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax- status of the Bonds;
- (6) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (7) unscheduled draws on credit enhancements reflecting financial difficulties;
- (8) substitution of credit or liquidity providers or their failure to perform; or
- (9) bankruptcy, insolvency, receivership or similar proceedings.

For these purposes, any event described in the immediately preceding paragraph (9) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Obligated Persons in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Persons, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Persons.

(b) Pursuant to the provisions of this Section 4, the Obligated Persons shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the Obligated Persons or their termination;
- (2) appointment of a successor or additional Trustee or the change of the name of a Trustee;
- (3) nonpayment related defaults;
- (4) modifications to the rights of Owners;

- (5) a notices of prepayment; or
- (6) release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the Obligated Persons obtains knowledge of the occurrence of a Listed Event, described in subsection (b) of this Section 4, the Obligated Persons shall as soon as possible determine if such event would be material under applicable federal securities law.

(d) If the Obligated Persons determines that knowledge of the occurrence of a Listed Event described in subsection (b) of this Section 4 would be material under applicable federal securities law, the Obligated Persons shall promptly notify the Dissemination Agent in writing and instruct the Dissemination Agent to report the occurrence to the Repository in a timely manner not more than ten (10) Business Days after the event.

(e) If the Dissemination Agent has been instructed by the Obligated Persons to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB.

Section 5. Filings with the MSRB. All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The Obligated Persons' obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Obligated Persons shall give notice of such termination in the same manner as for a Listed Event under Section 4 hereof.

Section 7. Dissemination Agent. The Obligated Persons may, from time to time, appoint or engage another Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. Notwithstanding any other provision to this Disclosure Agreement to the contrary, the Obligated Persons may provide any Annual Report to Beneficial Owners by means of posting such Annual Report on an internet site that provides open access to Beneficial Owners.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligated Persons may amend this Disclosure Agreement, provided no amendment increasing or affecting the obligations or duties of the Dissemination Agent shall be made without the consent of such party, and any provision of this Disclosure Agreement may be waived if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to the Obligated Persons and the Dissemination Agent to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Obligated Persons from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including

any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Obligated Persons chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Obligated Persons shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Obligated Persons or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee, at the written direction of any Participating Underwriter or the holders of at least 25% of the aggregate amount of principal evidenced by Outstanding Bonds and upon being indemnified to its reasonable satisfaction, shall, or any holder or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Obligated Persons, Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Obligated Persons, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall not be responsible for the form or content of any Annual Report or notice of Listed Event. The Dissemination Agent shall receive reasonable compensation for its services provided under this Disclosure Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Obligated Persons agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Obligated Persons under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Obligated Persons, the Trustee, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

HARBOR DEVELOPMENTAL DISABILITIES
FOUNDATION

By: _____
Authorized Representative

DEL HARBOR FOUNDATION

By: _____
Authorized Representative

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Obligor: HARBOR DEVELOPMENTAL DISABILITIES FOUNDATION
DEL HARBOR FOUNDATION

Name of Issue: CALIFORNIA MUNICIPAL FINANCE AUTHORITY
REFUNDING REVENUE BONDS (HARBOR REGIONAL
CENTER PROJECT), SERIES 2015

Date of Execution and Delivery: July __, 2015

NOTICE IS HEREBY GIVEN that the Obligated Persons have not provided an Annual Report with respect to the above-captioned Bonds as required by the Continuing Disclosure Agreement, dated as of July 1, 2015, by and among the Obligated Persons and [_____]. [The Obligated Persons anticipate that the Annual Report will be filed by _____.]

Dated: ____, 20__ [_____] , on behalf of the Obligated
Persons

cc: Harbor Developmental Disabilities Foundation
Del Harbor Foundation

APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

§ _____
California Municipal Finance Authority
Refunding Revenue Bonds
(Harbor Regional Center Project)
Series 2015

Ladies and Gentlemen:

We have acted as Bond Counsel to the California Municipal Finance Authority (the “Authority”) in connection with the issuance by the Authority of \$ _____ aggregate principal amount of California Municipal Finance Authority Refunding Revenue Bonds (Harbor Regional Center Project) Series 2015 (the “Bonds”) pursuant to the provisions of the Joint Exercise of Powers Act, comprising Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code (the “Act”), and an Indenture of Trust, dated as of July 1, 2015 (the “Indenture”), by and among the Authority, the Del Harbor Foundation (the “Corporation”), a nonprofit public benefit corporation organized under the laws of the State of California, and Wells Fargo Bank, National Association, a national banking association organized under the laws of the United States of America, as trustee (the “Trustee”).

The Indenture provides that Authority will lend the proceeds of the Bonds to the Corporation pursuant to a Loan Agreement, dated as of July 1, 20015 (the “Loan Agreement”), by and between the Authority and the Corporation, which the Corporation will use to: (i) refund on an advance basis the California Municipal Finance Authority Revenue Bonds (Harbor Regional Center Project), Series 2009 currently outstanding in the aggregate principal amount of \$25,000,000 (the “Prior Bonds”), (ii) fund a debt service reserve fund for the Bonds, (iii) fund a funded interest fund for the Bonds through November 1, 2015, and (iv) pay the costs of issuing the Bonds. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of Indenture, the Loan Agreement, the Deed of Trust, the Office Lease, the opinions of counsel to the Authority, the Trustee and the Corporation, certificates of the Authority, the Trustee, the Corporation, HRC and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Allen Matkins Leck Gamble Mallory & Natsis LLP, counsel to the Corporation, regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”). We note that such opinion is subject to a number of qualifications and limitations. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the

factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the fifth and sixth paragraphs hereof.

Based upon the foregoing, we are of the opinion that:

1. The Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of California, including the Act, and the Indenture. The Bonds constitute the valid and legally binding obligations of the Authority as provided in the Indenture, are enforceable in accordance with their terms and the terms of the Indenture and are entitled to the benefits of the Act and the Indenture.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge of the Revenues to secure the payment of the principal of and interest on the Bonds, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.

4. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Bonds.

5. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. We are of the further opinion that, under existing statutes, regulations, rulings and court decisions, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and, therefore, that interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Non-compliance with such requirements could cause the interest on the Bonds to fail to be excluded from the gross income of the owners thereof retroactive to the date of issuance of the Bonds. Pursuant to the Resolution and in the *Tax Certificate as to Arbitrage and the Provisions of Sections 103 and 141-150 of the Internal Revenue Code of 1986* being delivered by the Authority and the Corporation in connection with the issuance of the Bonds, each of the Authority and Corporation is making representations relevant to the determination of, and is undertaking certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching our opinions described in the immediately preceding paragraph, we have assumed the accuracy of such representations and the present and future compliance by the Authority and Corporation with such covenants. Further, except as stated in the preceding paragraph, we express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the Bonds. Furthermore, we

express no opinion as to any federal, state or local tax law consequence with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any fact or circumstance that may hereafter come to our attention or to reflect any change in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of results and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

No opinion is expressed herein on the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds.

This opinion is limited to the laws of the State of California and the federal laws of the United States.

Respectfully submitted,

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FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272