

HARC, INC.
PALM DESERT, CALIFORNIA

INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015



LUND & GUTTRY LLP / CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

Board of Directors
HARC, Inc.
Palm Desert, California

We have audited the accompanying financial statements of HARC, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and the 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 misstatement, whether due to fraud or error.

Auditor's Responsibility

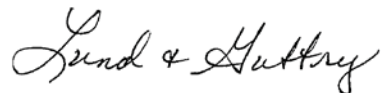
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HARC, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Lund & Guttry".

October 19, 2016

HARC, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash	\$ 377,091	\$ 291,501
Grants receivable	351,111	50,500
Accounts receivable	<u>38,775</u>	<u>38,143</u>
Total current assets	<u>766,977</u>	<u>380,144</u>
PROPERTY AND EQUIPMENT - NET	<u>4,833</u>	<u>4,116</u>
TOTAL ASSETS	<u>\$ 771,810</u>	<u>\$ 384,260</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 6,665	\$ 837
Accrued vacation	7,108	6,635
Deferred income (See Note 4)	<u>211,344</u>	<u>66,292</u>
Total current liabilities	<u>225,117</u>	<u>73,764</u>
LONG-TERM LIABILITIES		
Deferred income (See Note 4)	<u>233,312</u>	<u>7,130</u>
Total long-term liabilities	<u>233,312</u>	<u>7,130</u>
Total liabilities	<u>458,429</u>	<u>80,894</u>
NET ASSETS		
Unrestricted	<u>313,381</u>	<u>303,366</u>
Total net assets	<u>313,381</u>	<u>303,366</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 771,810</u>	<u>\$ 384,260</u>

(The accompanying notes are an integral part of these financial statements)

HARC, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

REVENUES	<u>2016</u>	<u>2015</u>
Contributions	\$ 212,901	\$ 113,671
Contributions - In-kind	22,635	13,016
Grants - Desert Healthcare District	110,548	125,368
Grants - California Healthcare Foundation	25,000	-
Grants - California Endowment	25,000	-
Grants - other	38,251	84,418
Client requested services	62,409	59,370
Interest income	837	1,011
Total revenues	<u>497,581</u>	<u>396,854</u>
EXPENSES		
Salaries	252,141	232,125
Payroll taxes	20,654	20,211
Employee benefits	19,845	20,238
Workers compensation insurance	2,324	4,156
Computer services	8,758	9,415
Depreciation	732	2,193
Insurance	4,151	3,921
Meetings	445	3,662
Office supplies	3,462	3,381
Other expenses	2,683	2,881
Postage and printing	2,539	1,089
Professional services		
Audit fees	6,900	6,800
Accounting fees	3,600	3,600
Data collection	75,000	-
Fundraising fees	6,164	8,128
Intern stipend	638	-
Legal	508	525
Payroll fees	1,665	1,495
Project consultant	5,402	17,529
Public relations	37,413	24,493
Rent	22,647	13,029
Retirement plan	1,334	1,240
Technical training	77	245
Telephone and utilities	4,163	3,524
Travel and mileage	4,321	2,741
Total expenses	<u>487,566</u>	<u>386,621</u>
INCREASE IN NET ASSETS	<u>10,015</u>	<u>10,233</u>
NET ASSETS AT BEGINNING OF YEAR	<u>303,366</u>	<u>293,133</u>
NET ASSETS AT END OF YEAR	<u>\$ 313,381</u>	<u>\$ 303,366</u>

(The accompanying notes are an integral part of these financial statements)

HARC, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 10,015	\$ 10,233
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	732	2,193
Changes in operating assets and liabilities:		
Grants receivable	(300,611)	(37,632)
Accounts receivable	(631)	39,324
Deposits	-	1,122
Accounts payable	5,828	(1,782)
Accrued vacation	473	(12,303)
Deferred income	<u>371,234</u>	<u>(44,806)</u>
Net cash provided (used) by operating activities	<u>87,040</u>	<u>(43,651)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(1,450)</u>	<u>(816)</u>
Net cash used by investing activities	<u>(1,450)</u>	<u>(816)</u>
NET INCREASE (DECREASE) IN CASH	85,590	(44,467)
CASH AT BEGINNING OF YEAR	<u>291,501</u>	<u>335,968</u>
CASH AT END OF YEAR	<u>\$ 377,091</u>	<u>\$ 291,501</u>

(The accompanying notes are an integral part of these financial statements)

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1. **NATURE OF ORGANIZATION**

HARC, Inc. (Health Assessment and Research for Communities; formerly known as Health Assessment Resource Center) was developed under the umbrella of Desert Healthcare Foundation and incorporated as a free-standing non-profit organization on September 28, 2006. HARC, Inc. is dedicated to providing objective, reliable research, analysis and technical services to communities in order to facilitate better decision making regarding health and quality of life. The data that HARC gathers and disseminates to the community helps organizations prioritize needs, design programs and services to address those needs, and obtain funding to implement those programs and services, as well as to track the progress the community has made. HARC also provides customized research and evaluation services to organizations both locally in Coachella Valley and across the nation. These customized research solutions allow organizations to obtain the information they need to make evidence-based decisions, thereby improving the effectiveness and the efficiency of the programs they offer to improve community well-being.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Accounting Basis

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Property and Equipment

Property and equipment are stated at cost and depreciated on the straight-line basis over their estimated useful lives ranging from 5 to 7 years. The Organization capitalizes all property and equipment over \$500. Donations of property and equipment are recorded at their estimated fair value.

Tax-Exempt Status

The Organization is a not-for-profit corporation that is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3), and from California franchise taxes under related state tax regulations and classified by the Internal Revenue Service as other than a private foundation. The Organization may be subject to tax on income from any unrelated business operations. The Organization does not currently have any unrelated business operations.

The Organization's Form 990, *Return of Organization Exempt from Income Tax*, are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Use of Estimates

Preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Concentration of Credit Risk

The Organization maintains its cash in deposit accounts, which at times, may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits of \$250,000. Management is aware of this matter and does not expect any losses on the uninsured balances.

Net Assets

The Organization is required to report information regarding its financial position and activities in three classes of net assets in accordance with generally accepted accounting principles; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. At June 30, 2016 and 2015, there were no temporarily or permanently restricted net assets.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 18,856	\$ 17,407
Less: accumulated depreciation	(14,023)	(13,291)
Total	<u>\$ 4,833</u>	<u>\$ 4,116</u>

4. DEFERRED INCOME

Grants

The Auen Foundation

In September 2014, the Organization received a \$5,000 grant from The Auen Foundation. The Organization is amortizing the grant over the life of the contract which ended August 2015.

California Wellness Foundation

In January 2014, the Organization received a \$50,000 grant from California Wellness Foundation. The Organization amortized the grant over the life of the contract which ended in December 2014.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

4. DEFERRED INCOME – (continued)

Grants – (continued)

Desert Healthcare District

In November 2015, the Organization received a three year \$499,955 grant from Desert Healthcare District. The total advance payment received was \$149,987, of which \$99,991 has been included in revenue at June 30, 2016. The balance of \$351,358 and the retention amount of 10% or \$49,996 for a total of \$401,354 are included in deferred revenue at June 30, 2016.

In November 2014, the Organization received a one year \$125,000 grant from Desert Healthcare District. The advance payment of \$112,500 has been included in revenue at June 30, 2015 and the retention amount of \$11,947 has been included in revenue at June 30, 2016.

In December 2013, the Organization received a seven month \$128,676 grant from Desert Healthcare District. The advance payment of \$115,808 has been included in revenue at June 30, 2014 and the retention amount of 10% or \$12,868 has been included in revenue at June 30, 2015.

Desert Health Care District - @LIKE

In June 2013, the Organization received a three year \$11,425 grant from the Desert Healthcare District to provide a report that will document the overall impact of the @LIKE program on health outcomes. The Organization is amortizing the grant over the life of the contract which ends September 2016. The balance of \$2,170 is included in deferred revenue at June 30, 2016.

Client Requested Services

ACT for MS

In February 2016, the Organization was contracted by ACT for MS to provide advice and services related to strength training and circulation therapy. The Organization is being paid according a payment schedule and a total of \$6,375 has been included in deferred revenue.

Desert AIDS Project – Get Tested Coachella Valley

In March 2014, the Organization was contracted by Desert AIDS Project to provide advice and services related to the Get Tested Coachella Valley program. The Organization is being paid according to a payment schedule for the years ended June 30, 2016 and 2015 a total of \$11,900 and \$37,000, respectively, has been included in deferred revenue.

Mizell Senior Center – A Matter of Balance

In August 2015, the Organization was contracted by Mizell Senior Center to provide advice and services related to “A Matter of Balance”, a fall prevention program. The Organization is being paid according to a payment schedule and a total of \$11,667 has been included in deferred revenue.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

**4. DEFERRED INCOME – (continued)
Client Requested Services – (continued)**

Latino Commission

In May 2016, the Organization was contracted by Latino Commission to provide an evaluation related to the Latino Commission's residential substance abuse treatment facilities for teens. The Organization is being paid according to a payment schedule and a total of \$10,500 has been included in deferred revenue.

Safe Schools Desert Cities

In May 2016, the Organization was contracted by Safe Schools Desert Cities to provide a program evaluation related to the Safe Schools LGBT youth summit. The Organization is being paid according to a payment schedule and a total of \$690 has been included in deferred revenue

The deferred income balances at June 30 are summarized as follows:

<u>Grants</u>	<u>2016</u>	<u>2015</u>
The Auen Foundation	\$ -	\$ 1,665
Desert Healthcare District	401,354	12,500
Desert Healthcare District - @LIKE	2,170	4,840
First Foundation Bank	-	3,750
Regional Access Project Foundation	-	3,250
SD Human Dignity Foundation	-	10,417
	<u>\$ 403,524</u>	<u>\$ 36,422</u>
<u>Client Requested Services</u>	<u>2016</u>	<u>2015</u>
ACT for MS	\$ 6,375	\$ -
Desert AIDS Project – Get Tested Coachella Valley	11,900	37,000
Mizell Senior Center – A Matter of Balance	11,667	-
Latino Commission	10,500	-
Safe Schools Desert Cities	690	-
	<u>\$ 41,132</u>	<u>\$ 37,000</u>
Total Deferred Income	<u>\$ 444,656</u>	<u>\$ 73,422</u>
Deferred income – current portion	\$ 211,344	\$ 66,292
Deferred income – long-term portion	<u>233,312</u>	<u>7,130</u>
	<u>\$ 444,656</u>	<u>\$ 73,422</u>

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

5. LEASE COMMITMENTS

In July 2013, the Organization entered a lease with the UC Riverside Palm Desert Campus. The rental payments are \$1 per month on an annual lease agreement.

Total lease payments, including in-kind rent, during the years ended June 30, 2016 and 2015 were \$22,635 and \$13,029, respectively.

6. CONCENTRATION OF REVENUE

The Organization's operations rely significantly on obtaining grants and contributions from outside agencies and donors. The Organization received a substantial portion of its revenues from one granting agency. During the year ended June 30, 2016, amounts received from this granting agency included in support and revenue was \$110,548 which is 22% of total support and revenue. During the year ended June 30, 2015, amounts received from this granting agency included in support and revenue was approximately \$125,368 which is 32% of total support and revenue.

7. 401(k) PROFIT SHARING PLAN

Regular employees are eligible to enroll in HARC's 401(k) Profit Sharing Plan on the Plan's enrollment date. Eligible employees may contribute a percentage of their annual pay or a fixed amount to the Plan for each 12 month consecutive period in which they have been employed with HARC. The Organization may authorize discretionary contributions to the plan. The Board did not approve any contributions to the plan for the years ended June 30, 2016 and 2015.

8. SUBSEQUENT EVENTS

The Organization evaluated all potential subsequent events as of October 19, 2016 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2016 or as of October 19, 2016 that require disclosure to the financial statements.