

HARC, INC.
PALM DESERT, CALIFORNIA
INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011



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 statements of financial position of HARC, Inc. as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our 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, 2012 and 2011, 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 & Guttery".

October 15, 2012

HARC, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash	\$ 163,115	\$ 214,481
Certificates of deposit	102,163	101,044
Grants receivable	70,500	120,000
Accounts receivable	20,643	29,271
Prepaid expenses	5,559	1,854
Deposits	<u>1,122</u>	<u>1,122</u>
Total current assets	<u>363,102</u>	<u>467,772</u>
PROPERTY AND EQUIPMENT - NET	<u>10,514</u>	<u>12,015</u>
TOTAL ASSETS	<u>\$ 373,616</u>	<u>\$ 479,787</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 9,396	\$ 3,161
Accrued vacation	15,640	14,360
Deferred income (See Note 5)	90,757	134,863
Total current liabilities	<u>115,793</u>	<u>152,384</u>
LONG-TERM LIABILITIES		
Deferred income (See Note 5)	<u>8,485</u>	<u>17,077</u>
Total long-term liabilities	<u>8,485</u>	<u>17,077</u>
Total liabilities	<u>124,278</u>	<u>169,461</u>
NET ASSETS		
Unrestricted	<u>249,338</u>	<u>310,326</u>
Total net assets	<u>249,338</u>	<u>310,326</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 373,616</u>	<u>\$ 479,787</u>

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

HARC, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

REVENUES	<u>2012</u>	<u>2011</u>
Contributions	\$ 80,075	\$ 57,500
Contributions - In-kind	1,602	3,228
Grants - Desert Healthcare District	91,667	191,666
Grants - California Endowment	36,034	14,838
Grants - California Wellness Foundation	37,125	33,333
Grants - other	15,000	40,395
Client requested services	35,237	102,160
Interest income	2,792	2,858
Total revenues	<u>299,532</u>	<u>445,978</u>
EXPENSES		
Salaries	166,090	182,535
Payroll taxes	13,965	15,078
Employee benefits	9,465	14,121
Workers compensation insurance	2,931	2,946
Computer services	4,051	3,670
Depreciation	4,120	4,292
Equipment rental and maintenance	1,773	1,876
Event	-	11,035
Insurance	3,741	2,482
Loss on abandoned assets	-	1,684
Meeting expenses	1,075	2,013
Office supplies	3,147	3,037
Other expenses	3,556	3,424
Postage and printing	2,550	27,834
Professional services		
Accounting and audit	6,450	6,350
Contract services	1,796	-
Fundraising fees	9,544	10,406
In-kind accounting fees	3,090	3,228
Intern stipend	3,500	-
Legal	1,260	2,275
Payroll fees	1,138	1,131
Project consultant	35,756	54,335
Public relations	14,567	11,846
Strategic planner	-	500
Technical writer	19,758	42,302
Rent	22,997	22,594
Retirement plan	6,193	-
Technical training	9,710	-
Telephone and utilities	6,447	7,144
Travel and mileage	1,850	2,595
Total expenses	<u>360,520</u>	<u>440,733</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(60,988)</u>	<u>5,245</u>
NET ASSETS AT BEGINNING OF YEAR	<u>310,326</u>	<u>305,081</u>
NET ASSETS AT END OF YEAR	<u>\$ 249,338</u>	<u>\$ 310,326</u>

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

HARC, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (60,988)	\$ 5,245
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	4,120	4,292
Loss on abandoned assets	-	1,684
Changes in operating assets and liabilities:		
Grants receivable	49,500	110,000
Accounts receivable	8,628	(23,823)
Prepaid expenses	(3,705)	(124)
Deposits	-	972
Accounts payable	6,235	2,230
Accrued vacation	1,280	4,715
Accrued expenses	-	(361)
Deferred income	<u>(52,698)</u>	<u>(82,888)</u>
Net cash provided (used) by operating activities	<u>(47,628)</u>	<u>21,942</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificates of deposit, net	(1,119)	(101,044)
Purchases of property and equipment	<u>(2,619)</u>	<u>(2,247)</u>
Net cash used by investing activities	<u>(3,738)</u>	<u>(103,291)</u>
NET DECREASE IN CASH	(51,366)	(81,349)
CASH		
AT BEGINNING OF YEAR	<u>214,481</u>	<u>295,830</u>
AT END OF YEAR	<u>\$ 163,115</u>	<u>\$ 214,481</u>

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

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

1. NATURE OF ORGANIZATION

HARC, Inc. 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 supported by a collaboration of over 36 community partners to create a health assessment and resource center (HARC) for the greater Coachella Valley area. The Organization provides comprehensive, timely, objective and scientifically collected and analyzed data for organizations to use in their own strategic planning, business development and needs assessment processes. In addition, HARC partners demonstrates community involvement and concern for the quality of life for all of the residents of the Valley.

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*, for the years ending June 30, 2009, 2010 and 2011 are subject to examination by the IRS, generally for three years after they were 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.

Concentration of Credit Risk

The Organization maintains its cash in deposit accounts, which at times, may exceed federally insured limits. The Organization did not have any monies in excess of the \$250,000 FDIC insurance limits at June 30, 2012.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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, 2012 and 2011, there were no temporarily or permanently restricted net assets.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 6,678	\$ 6,678
Computer equipment	15,365	12,745
Leasehold improvements	1,248	1,248
Web design	<u>1,975</u>	<u>1,975</u>
	25,266	22,646
Less: accumulated depreciation	<u>(14,752)</u>	<u>(10,631)</u>
Total	<u>\$ 10,514</u>	<u>\$ 12,015</u>

4. INVESTMENTS

Fair Value Hierarchy

The Organization applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis.

GAAP establishes 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 Organization has the ability to access at the measurement date.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

4. INVESTMENTS – (continued)

- Level 2 inputs are inputs other than quoted prices included within 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.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. At June 30, 2012 and 2011, all certificates of deposit are measured at fair value on a recurring basis and were valued at Level 1 inputs (quoted prices in active markets for identical assets). Fair value of the Organization's certificates of deposit at June 30, 2012 and 2011 was \$102,163 and \$101,044, respectively.

5. DEFERRED INCOME

Desert Healthcare District

In June 2009, the Organization received a three year grant from Desert Healthcare District. The first year of the grant has been included in revenue and deferred revenue at June 30, 2009. The amount granted for the second year of the agreement is \$200,000 and has been included in revenue and deferred revenue at June 30, 2010. The amount granted for the third and final year of the agreement is \$100,000 and has been included in revenue and deferred revenue at June 30, 2011.

California Endowment

In March 2011, the Organization received a grant from the California Endowment and amortized the grant over the life of the contract which ended in March 2012.

California Wellness Foundation

In October 2011, the Organization received a grant from California Wellness Foundation. The Organization is amortizing the grant over the life of the contract which ends in September 2013.

Eisenhower Medical Center

In December 2009, the Organization was hired by Eisenhower Medical Center for the preparation of a special report covering the designated area of the Coachella Valley to be extrapolated from the 2007 and 2010 Community Health Monitor. The Organization amortized the entire cost of the project over a 12 month period which ended in April 2011.

Palm Springs Unified School District

In February 2011, the Organization was hired by Palm Springs Unified School District to perform statistical data recording and reporting for the District's Child Nutrition Study. The Organization is amortizing the entire cost of the project over a 44 month period which ends in August 2014.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

5. DEFERRED INCOME – (continued)

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

	<u>2012</u>	<u>2011</u>
Desert Healthcare District	\$ -	\$ 91,667
California Endowment	-	36,034
California Wellness Foundation	82,875	-
Palm Springs Unified School District	<u>16,367</u>	<u>24,239</u>
	<u>\$ 99,242</u>	<u>\$ 151,940</u>
Deferred income – current portion	\$ 90,757	\$ 134,863
Deferred income – long-term portion	<u>8,485</u>	<u>17,077</u>
	<u>\$ 99,242</u>	<u>\$ 151,940</u>

6. LEASE COMMITMENTS

The Organization entered into a five year operating lease agreement for its Palm Desert office that expires on June 30, 2014 with monthly rental payments of \$1,928 for the year ending June 30, 2012. The monthly rental payments shall be adjusted by the increase, if any, in the Consumer Price Index every anniversary. Total lease payments during the years ended June 30, 2012 and 2011 were \$22,997 and \$22,594, respectively. Future minimum operating lease payments are as follows:

<u>Year Ending June 30,</u>	
2013	\$ 23,136
2014	<u>23,136</u>
	<u>\$ 46,272</u>

7. 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, 2012, amounts received from this granting agency included in support and revenue was approximately \$91,600 which is 31% of total support and revenue. During the year ended June 30, 2011, amounts received from this granting agency included in support and revenue was approximately \$192,000 which was 43% of total support and revenue.

8. 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. In October 2011, the Board approved an annual contribution to the plan in an amount equal to three percent of the compensation of eligible employees for the plan year. 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 did not make contributions to a Profit Sharing Plan for the year ended June 30, 2011. For the year ended June 30, 2012, contributions to the plan were \$4,767.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

9. SUBSEQUENT EVENTS

The Organization evaluated all potential subsequent events as of October 15, 2012 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2012 or as of October 15, 2012 that require disclosure to the financial statements.