

HARC, INC.
PALM DESERT, CALIFORNIA

INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016



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, 2017 and 2016, 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

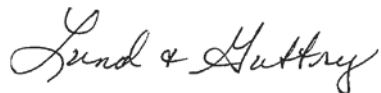
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2017 and 2016, 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 18, 2017

HARC, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS

| | <u>2017</u> | <u>2016</u> |
|-------------------------------------|-------------------|-------------------|
| CURRENT ASSETS | | |
| Cash | \$ 202,311 | \$ 377,091 |
| Grants receivable | 199,982 | 351,111 |
| Accounts receivable | <u>162,850</u> | <u>38,775</u> |
| Total current assets | <u>565,143</u> | <u>766,977</u> |
| | | |
| PROPERTY AND EQUIPMENT - NET | <u>2,192</u> | <u>4,833</u> |
| | | |
| TOTAL ASSETS | <u>\$ 567,335</u> | <u>\$ 771,810</u> |

LIABILITIES AND NET ASSETS

| | | |
|---|-------------------|-------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 3,438 | \$ 6,665 |
| Accrued vacation | 7,156 | 7,108 |
| Deferred income (See Note 4) | <u>188,899</u> | <u>211,344</u> |
| Total current liabilities | <u>199,493</u> | <u>225,117</u> |
| | | |
| LONG-TERM LIABILITIES | | |
| Deferred income (See Note 4) | <u>-</u> | <u>233,312</u> |
| Total long-term liabilities | <u>-</u> | <u>233,312</u> |
| | | |
| Total liabilities | <u>199,493</u> | <u>458,429</u> |
| | | |
| NET ASSETS | | |
| Unrestricted | <u>367,842</u> | <u>313,381</u> |
| Total net assets | <u>367,842</u> | <u>313,381</u> |
| | | |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 567,335</u> | <u>\$ 771,810</u> |

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

HARC, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| REVENUES | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Contributions | \$ 115,128 | \$ 212,901 |
| Contributions - In-kind | 27,079 | 22,635 |
| Grants - Desert Healthcare District | 339,820 | 110,548 |
| Grants - California Healthcare Foundation | 18,000 | 25,000 |
| Grants - California Endowment | - | 25,000 |
| Grants - other | 33,662 | 38,251 |
| Client requested services | 125,946 | 62,409 |
| Special events | 22,495 | - |
| Interest income | 712 | 837 |
| Total revenues | <u>682,842</u> | <u>497,581</u> |
| EXPENSES | | |
| Salaries | 268,225 | 252,141 |
| Payroll taxes | 20,645 | 20,654 |
| Employee benefits | 22,442 | 19,845 |
| Workers compensation insurance | 3,061 | 2,324 |
| Computer services | 28,821 | 8,758 |
| Depreciation | 750 | 732 |
| Disposals | 2,694 | - |
| Insurance | 3,860 | 4,151 |
| Meetings | - | 445 |
| Office supplies | 1,224 | 3,462 |
| Other expenses | 6,492 | 2,683 |
| Postage and printing | 12,071 | 2,539 |
| Professional services | | |
| Audit fees | 7,400 | 6,900 |
| Accounting fees | 3,300 | 3,600 |
| Data collection | 175,000 | 75,000 |
| Fundraising fees | 1,554 | 6,164 |
| Intern stipend | 11,484 | 638 |
| Legal | - | 508 |
| Payroll fees | 1,557 | 1,665 |
| Project consultant | 12,913 | 5,402 |
| Public relations | 10,849 | 37,413 |
| Rent | 24,012 | 22,647 |
| Retirement plan | 1,507 | 1,334 |
| Technical training | - | 77 |
| Telephone and utilities | 6,167 | 4,163 |
| Travel and mileage | 2,353 | 4,321 |
| Total expenses | <u>628,381</u> | <u>487,566</u> |
| INCREASE IN NET ASSETS | <u>54,461</u> | <u>10,015</u> |
| NET ASSETS AT BEGINNING OF YEAR | <u>313,381</u> | <u>303,366</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 367,842</u> | <u>\$ 313,381</u> |

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

HARC, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Increase in net assets | \$ 54,461 | \$ 10,015 |
| Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 750 | 732 |
| Asset disposal | 2,694 | - |
| Changes in operating assets and liabilities: | | |
| Grants receivable | 151,129 | (300,611) |
| Accounts receivable | (124,074) | (631) |
| Accounts payable | (3,227) | 5,828 |
| Accrued vacation | 48 | 473 |
| Deferred income | <u>(255,758)</u> | <u>371,234</u> |
| Net cash provided (used) by operating activities | <u>(173,977)</u> | <u>87,040</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | <u>(804)</u> | <u>(1,450)</u> |
| Net cash used by investing activities | <u>(804)</u> | <u>(1,450)</u> |
| NET INCREASE (DECREASE) IN CASH | (174,781) | 85,590 |
| CASH AT BEGINNING OF YEAR | <u>377,091</u> | <u>291,501</u> |
| CASH AT END OF YEAR | <u>\$ 202,310</u> | <u>\$ 377,091</u> |

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

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 3 to 5 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, 2017 AND 2016

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, 2017 and 2016, there were no temporarily or permanently restricted net assets.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|-----------------|-----------------|
| Computer equipment | \$ 7,387 | \$ 18,856 |
| Less: accumulated depreciation | (5,195) | (14,023) |
| Total | <u>\$ 2,192</u> | <u>\$ 4,833</u> |

4. DEFERRED INCOME

Grants

City of La Quinta

In August 2016, the Organization received a \$2,500 grant from the City of La Quinta. The Organization is amortizing the grant over the life of the contract which ends in August 2017. The balance of \$833 has been included in deferred revenue at June 30, 2017.

Coachella Valley Spotlight

In June 2017, the Organization received a \$25,000 grant from Coachella Valley Spotlight to provide educational training related to the triannual survey. This training is scheduled to take place in Fall of 2017. The balance of \$25,000 has been included in deferred revenue at June 30, 2017.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

**4. DEFERRED INCOME – (continued)
Grants – (continued)**

The Community Foundation

In September 2016, the Organization received a \$9,454 grant from The Community Foundation. The Organization is amortizing the grant over the life of the contract which ends in September 2017. The balance of \$1,576 has been included in deferred revenue at June 30, 2017.

Desert Healthcare District

In November 2015, the Organization received a three year \$499,955 grant from Desert Healthcare District. The balances included in deferred revenue at June 30, 2017 and 2016 were \$61,534 and \$401,354, respectively.

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 amortized the grant over the life of the contract which ended September 2016. The balance of \$2,170 was included in deferred revenue for the year ended June 30, 2016.

Client Requested Services

ABC Recovery

In March 2017, the Organization was contracted by ABC Recovery to evaluate their integrated care project. The Organization is being paid according to a payment schedule and a total of \$2,550 has been included in deferred revenue at June 30, 2017.

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 to a payment schedule for the years ended June 30, 2017 and 2016 a total of \$2,125 and \$6,375, respectively, has been included in deferred revenue at June 30, 2017.

American Red Cross

In September 2016, the Organization was contracted by American Red Cross to provide a program evaluation. The Organization is being paid according to a payment schedule and a total of \$1,000 has been included in deferred revenue at June 30, 2017.

City of Temecula

In March 2017, the Organization was contracted by the City of Temecula to provide advice and services related to cancer care and support. The Organization is being paid according to a payment schedule and a total of \$59,798 has been included in deferred revenue at June 30, 2017.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

Clinicas de Salud del Pueblo

In January 2017, the Organization was contracted by the Clinicas de Salud del Pueblo to provide data collection and analysis related to client satisfaction surveys. The Organization is being paid according to a payment schedule and a total of \$20,350 has been included in deferred revenue at June 30, 2017.

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 completed services related to the agreement in 2017. The balance of deferred revenue for the year ended June 30, 2016 was \$11,900 and has been recognized in revenue for the year ended June 30, 2017.

Eisenhower Medical Center

In March 2017, the Organization was contracted by Eisenhower Medical Center to provide data collection and analysis related to LGBTQ surveys. The Organization is being paid according to a payment schedule and a total of \$7,366 has been included in deferred revenue for the year ended June 30, 2017.

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 \$1,667 and \$11,667 has been included in deferred revenue for the years ended June 30, 2017 and 2016, respectively.

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 \$3,500 and \$10,500 has been included in deferred revenue for the years ended June 30, 2017 and 2016, respectively

Regional Access Program

In April 2017, the Organization was contracted by Regional Access Program to create a database of nonprofit organizations. The Organization is being paid according to a payment schedule and a total of \$1,600 has been included in deferred revenue at June 30, 2017.

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 completed services related to the agreement in 2017. The balance of deferred revenue for the year ended June 30, 2016 was \$690 and has been recognized in revenue for the year ended June 30, 2017.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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

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

| <u>Grants</u> | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Desert Healthcare District | \$ 61,534 | \$ 401,354 |
| Desert Healthcare District - @LIKE | - | 2,170 |
| Coachella Valley Spotlight | 25,000 | - |
| The Community Foundation | 1,576 | - |
| City of La Quinta | 833 | - |
| | <u>\$ 88,943</u> | <u>\$ 403,524</u> |
| | | |
| <u>Client Requested Services</u> | <u>2017</u> | <u>2016</u> |
| ABC Recovery | \$ 2,550 | \$ - |
| ACT for MS | 2,125 | 6,375 |
| American Red Cross | 1,000 | - |
| City of Temecula | 59,798 | - |
| Clinicas de Salud | 20,350 | - |
| Desert AIDS Project – Get Tested Coachella Valley | - | 11,900 |
| Eisenhower Medical Center | 7,366 | - |
| Mizell Senior Center – A Matter of Balance | 1,667 | 11,667 |
| Latino Commission | 3,500 | 10,500 |
| Regional Access Program | 1,600 | - |
| Safe Schools Desert Cities | - | 690 |
| | <u>\$ 99,956</u> | <u>\$ 41,132</u> |
| | | |
| Total Deferred Income | <u>\$ 188,899</u> | <u>\$ 444,656</u> |
| | | |
| Deferred income – current portion | \$ 188,899 | \$ 211,344 |
| Deferred income – long-term portion | - | 233,312 |
| | <u>\$ 188,899</u> | <u>\$ 444,656</u> |

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, 2017 and 2016 were \$24,012 and \$22,647, respectively.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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, 2017, amounts received from this granting agency included in support and revenue was \$339,820 which is 50% of total support and revenue. During the year ended June 30, 2016, amounts received from this granting agency included in support and revenue was approximately \$110,548 which is 22% 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, 2017 and 2016.

8. SUBSEQUENT EVENTS

The Organization evaluated all potential subsequent events as of October 18, 2017 when the financial statements were authorized and available to be issued. Other than the item indicated below, no subsequent events or transactions were identified after June 30, 2017 or as of October 18, 2017 that require disclosure to the financial statements.

With Board approval, the Organization secured a line of credit in the amount of \$120,000 in July 2017. The Organization has not drawn on these funds as of this report date.