HARC, INC.
PALM DESERT, CALIFORNIA

INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

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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, 2013 and 2012, 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, 2013 and 2012, 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.

Lund & Guthry

September 23, 2013

HARC, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash	$ 327,188	$ 163,115
Certificates of deposit	-	102,163
Grants receivable	41,425	70,500
Accounts receivable	25,176	20,643
Prepaid expenses	-	5,559
Deposits	1,122	1,122
Total current assets	394,911	363,102
PROPERTY AND EQUIPMENT - NET	6,778	10,514
TOTAL ASSETS	$ 401,689	$ 373,616

LIABILITIES AND NET ASSETS

	2013	2012
CURRENT LIABILITIES		
Accounts payable	$ -	$ 9,396
Accrued vacation	16,320	15,640
Deferred income (See Note 5)	123,903	90,757
Total current liabilities	140,223	115,793
LONG-TERM LIABILITIES		
Deferred income (See Note 5)	7,998	8,485
Total long-term liabilities	7,998	8,485
Total liabilities	148,221	124,278
NET ASSETS		
Unrestricted	253,468	249,338
Total net assets	253,468	249,338
TOTAL LIABILITIES AND NET ASSETS	$ 401,689	$ 373,616

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

HARC, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
REVENUES		
Contributions	$ 82,955	$ 80,075
Contributions - In-kind	-	1,602
Grants - Desert Healthcare District	225,000	91,667
Grants - California Endowment	-	36,034
Grants - California Wellness Foundation	65,250	37,125
Grants - other	3,650	15,000
Client requested services	123,320	35,237
Interest income	1,859	2,792
Total revenues	502,034	299,532
EXPENSES		
Salaries	193,645	166,090
Payroll taxes	16,767	13,965
Employee benefits	12,532	9,465
Workers compensation insurance	3,053	2,931
Computer services	5,339	4,051
Depreciation	4,746	4,120
Equipment rental and maintenance	2,057	1,773
Insurance	3,945	3,741
Meeting expenses	2,793	1,075
Office supplies	1,837	3,147
Other expenses	3,095	3,556
Postage and printing	390	2,550
Professional services		
Audit fees	6,550	6,450
Accounting fees	3,100	3,090
Contract services	-	1,796
Data collection	174,351	-
Fundraising fees	8,373	9,544
Intern stipend	1,125	3,500
Legal	945	1,260
Payroll fees	1,026	1,138
Project consultant	10,283	35,756
Public relations	7,211	14,567
Strategic planner	1,500	-
Technical writer	-	19,758
Rent	21,481	22,997
Retirement plan	1,002	6,193
Technical training	-	9,710
Telephone and utilities	6,988	6,447
Travel and mileage	3,770	1,850
Total expenses	497,904	360,520
INCREASE (DECREASE) IN NET ASSETS	4,130	(60,988)
NET ASSETS AT BEGINNING OF YEAR	249,338	310,326
NET ASSETS AT END OF YEAR	$ 253,468	$ 249,338

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

HARC, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 4,130	$ (60,988)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation	4,746	4,120
Changes in operating assets and liabilities:		
Grants receivable	29,075	49,500
Accounts receivable	(4,533)	8,628
Prepaid expenses	5,559	(3,705)
Accounts payable	(9,396)	6,235
Accrued vacation	680	1,280
Deferred income	32,659	(52,698)
Net cash provided (used) by operating activities	62,920	(47,628)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities (purchases) of certificates of deposit, net	102,163	(1,119)
Purchases of property and equipment	(1,010)	(2,619)
Net cash provided (used) by investing activities	101,153	(3,738)
NET INCREASE (DECREASE) IN CASH	164,073	(51,366)
CASH		
AT BEGINNING OF YEAR	163,115	214,481
AT END OF YEAR	$ 327,188	$ 163,115

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

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 demonstrate community involvement and concern for the quality of life for all of the residents of the Coachella 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*, 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.

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, 2013.

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, 2013 and 2012, there were no temporarily or permanently restricted net assets.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2013	2012
Furniture and equipment	$ 6,678	$ 6,678
Computer equipment	16,375	15,365
Leasehold improvements	1,248	1,248
Web design	1,975	1,975
	26,276	25,266
Less: accumulated depreciation	(19,498)	(14,752)
Total	$ 6,778	$ 10,514

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.

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, 2013 and 2012, 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, 2013 and 2012 was $0 and $102,163, respectively.

5. DEFERRED INCOME

Grants

The Auen Foundation

In May 2013, the Organization received a $10,000 grant from The Auen Foundation. The Organization is amortizing the grant over the life of the contract which is expected to end January 2014.

California Wellness Foundation

In October 2011, the Organization received a $120,000 grant from California Wellness Foundation. The Organization is amortizing the grant over the life of the contract which ends in September 2013.

Desert Healthcare District

In October 2012, the Organization received a one year $300,000 grant from Desert Healthcare District. The advance payment of $270,000 has been included in revenue and deferred revenue at June 30, 2013. The retention amount of 10% or $30,000 has been included in deferred revenue at June 30, 2013.

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.

Client Requested Services

Animal Samaritans

In January 2013, the Organization was contracted by Animal Samaritans to provide an evaluation of the Animal Assisted Therapy Program. The final payment of $1,805 has been included in deferred revenue.

5. DEFERRED INCOME – (continued)

Client Requested Services – (continued)

Desert Hot Springs Health and Wellness Foundation

In April 2013, the Organization was contracted by Desert Hot Springs Health and Wellness Foundation to conduct a survey of Desert Hot Springs residents, analyze collected data and provide an executive summary report. The final payment of $5,000 has been included in deferred revenue.

LGBT Community Center of the Desert

In December 2012, the Organization was contracted by LGBT Community Center of the Desert to research, develop and conduct a survey and provide a final evaluation report. The final payment of $3,875 has been included in deferred revenue.

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.

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

Grants	2013	2012
The Auen Foundation	$ 8,750	$ -
California Wellness Foundation	17,625	82,875
Desert Healthcare District	75,000	-
Desert Healthcare District - @LIKE	11,425	-
	$ 112,800	$ 82,875
Client Requested Services		
Animal Samaritans	$ 1,805	$ -
Desert Hot Springs Health and Wellness Foundation	5,000	-
LGBT Community Center of the Desert	3,785	-
Palm Springs Unified School District	8,511	16,367
	$ 19,101	$ 16,367
Total Deferred Income	$ 131,901	$ 99,242
Deferred income – current portion	$ 123,903	$ 90,757
Deferred income – long-term portion	7,998	8,485
	$ 131,901	$ 99,242

6. LEASE COMMITMENTS

The Organization entered into a five year operating lease agreement for its Palm Desert office that originally expired on June 30, 2014. The monthly rental payments were adjusted to $1,790 for the year ending June 30, 2013 upon request from the Organization. Monthly rental payments were $1,928 for the year ending June 30, 2012. Total lease payments during the years ended June 30, 2013 and 2012 were $21,481 and $22,997, respectively.

The Organization was released from the original lease agreement one year early without penalties and moved out in July 2013. A board member of the Organization is the Dean of the School of Medicine at UC Riverside and arranged for the Organization to move to offices on the UC Riverside Palm Desert Campus. A lease agreement is still in negotiations.

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, 2013, amounts received from this granting agency included in support and revenue was $225,000 which is 45% of total support and revenue. 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.

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. For the year ended June 30, 2012, contributions to the plan were $4,767. The Board did not approve any contributions to the plan for the year ended June 30, 2013.

9. SUBSEQUENT EVENTS

The Organization evaluated all potential subsequent events as of September 23, 2013 when the financial statements were authorized and available to be issued. No subsequent events or transactions, other than those discussed in Note 6, were identified after June 30, 2013 or as of September 23, 2013 that require disclosure to the financial statements.