

HARC, INC.
PALM DESERT, CALIFORNIA

INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013



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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, 2014 and 2013, 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, 2014 and 2013, 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 & Guttry

November 6, 2014

HARC, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash	\$ 335,968	\$ 327,188
Grants receivable	12,868	41,425
Accounts receivable	77,467	25,176
Deposits	<u>1,122</u>	<u>1,122</u>
Total current assets	<u>427,425</u>	<u>394,911</u>
PROPERTY AND EQUIPMENT - NET	<u>5,493</u>	<u>6,778</u>
TOTAL ASSETS	<u>\$ 432,918</u>	<u>\$ 401,689</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 2,619	\$ -
Accrued vacation	18,938	16,320
Deferred income (See Note 4)	<u>80,951</u>	<u>123,903</u>
Total current liabilities	<u>102,508</u>	<u>140,223</u>
LONG-TERM LIABILITIES		
Deferred income (See Note 4)	<u>37,277</u>	<u>7,998</u>
Total long-term liabilities	<u>37,277</u>	<u>7,998</u>
Total liabilities	<u>139,785</u>	<u>148,221</u>
NET ASSETS		
Unrestricted	<u>293,133</u>	<u>253,468</u>
Total net assets	<u>293,133</u>	<u>253,468</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 432,918</u>	<u>\$ 401,689</u>

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

HARC, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

REVENUES	2014	2013
Contributions	\$ 102,524	\$ 82,955
Contributions - In-kind	6,479	-
Grants - Desert Healthcare District	193,893	225,000
Grants - California Wellness Foundation	42,625	65,250
Grants - Alliance Healthcare Foundation	20,000	-
Grants - other	31,750	3,650
Client requested services	120,068	123,320
Interest income	941	1,859
Total revenues	<u>518,280</u>	<u>502,034</u>
EXPENSES		
Salaries	194,872	193,645
Payroll taxes	15,769	16,767
Employee benefits	20,486	12,532
Workers compensation insurance	2,546	3,053
Computer services	6,035	5,339
Depreciation	2,681	4,746
Equipment rental and maintenance	(54)	2,057
Event	4,987	-
Insurance	3,816	3,945
Meeting expenses	-	2,793
Office supplies	3,482	1,837
Other expenses	4,892	3,095
Postage and printing	22,978	390
Professional services		
Audit fees	6,700	6,550
Accounting fees	3,900	3,100
Data collection	84,429	174,351
Fundraising fees	11,500	8,373
Intern stipend	375	1,125
Legal	1,680	945
Payroll fees	1,223	1,026
Project consultant	64,547	10,283
Public relations	6,340	7,211
Strategic planner	-	1,500
Rent	7,011	21,481
Retirement plan	1,789	1,002
Technical training	49	-
Telephone and utilities	5,084	6,988
Travel and mileage	1,498	3,770
Total expenses	<u>478,615</u>	<u>497,904</u>
INCREASE IN NET ASSETS	<u>39,665</u>	<u>4,130</u>
NET ASSETS AT BEGINNING OF YEAR	<u>253,468</u>	<u>249,338</u>
NET ASSETS AT END OF YEAR	<u>\$ 293,133</u>	<u>\$ 253,468</u>

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

HARC, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 39,665	\$ 4,130
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	2,681	4,746
Changes in operating assets and liabilities:		
Grants receivable	28,557	29,075
Accounts receivable	(52,291)	(4,533)
Prepaid expenses	-	5,559
Accounts payable	2,619	(9,396)
Accrued vacation	2,618	680
Deferred income	<u>(13,673)</u>	<u>32,659</u>
Net cash provided by operating activities	<u>10,176</u>	<u>62,920</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of certificates of deposit, net	-	102,163
Purchases of property and equipment	<u>(1,396)</u>	<u>(1,010)</u>
Net cash provided (used) by investing activities	<u>(1,396)</u>	<u>101,153</u>
NET INCREASE IN CASH	8,780	164,073
CASH		
AT BEGINNING OF YEAR	<u>327,188</u>	<u>163,115</u>
AT END OF YEAR	<u>\$ 335,968</u>	<u>\$ 327,188</u>

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

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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, 2014.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 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, 2014 and 2013, there were no temporarily or permanently restricted net assets.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ -	\$ 6,678
Computer equipment	14,615	16,375
Leasehold improvements	-	1,248
Web design	<u>1,975</u>	<u>1,975</u>
	16,590	26,276
Less: accumulated depreciation	<u>(11,097)</u>	<u>(19,498)</u>
Total	<u>\$ 5,493</u>	<u>\$ 6,778</u>

4. DEFERRED INCOME

Grants

Alliance Healthcare Foundation

In February 2014, the Organization received a \$20,000 grant from the Alliance Healthcare Foundation. The Organization amortized the grant over the life of the contract which ended June 30, 2014.

The Auen Foundation

In May 2013, the Organization received a \$10,000 grant from The Auen Foundation. The Organization amortized the grant over the life of the contract which ended January 2014.

California Wellness Foundation

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

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

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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

Desert Healthcare District

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 and the retention amount of 10% or \$12,868 has been included in deferred revenue at June 30, 2014.

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 revenue at June 30, 2014.

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.

Kaiser Foundation Hospitals

In September 2014, the Organization received a one year \$15,000 grant from Kaiser Foundation Hospitals. The Organization is amortizing the grant over the life of the contract which ends September 2014.

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 contract was completed in April 2014.

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 contract was completed in June 2014.

Susan G. Komen – Inland Empire and San Diego

In April 2014, the Organization was contracted by Susan G. Komen Foundation located in the Inland Empire and San Diego to research, develop and conduct a survey and provide a final evaluation report. Payments totaling \$7,000 have 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 a payment schedule and a total of \$59,800 has been included in deferred revenue.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

4. DEFERRED INCOME – (continued)

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

<u>Grants</u>	<u>2014</u>	<u>2013</u>
The Auen Foundation	\$ -	\$ 8,750
California Wellness Foundation	25,000	17,625
Desert Healthcare District	12,868	75,000
Desert Healthcare District - @LIKE	8,341	11,425
Kaiser Foundation Hospitals	2,500	-
	<u>\$ 48,709</u>	<u>\$ 112,800</u>
<u>Client Requested Services</u>	<u>2014</u>	<u>2013</u>
Animal Samaritans	\$ -	\$ 1,805
Desert AIDS Project – Get Tested Coachella Valley	59,800	-
Desert Hot Springs Health and Wellness Foundation	-	5,000
LGBT Community Center of the Desert	-	3,785
Susan G. Komen – Inland Empire and San Diego	7,000	-
Palm Springs Unified School District	-	8,511
Other	2,719	-
	<u>\$ 69,519</u>	<u>\$ 19,101</u>
Total Deferred Income	<u>\$ 118,228</u>	<u>\$ 131,901</u>
Deferred income – current portion	\$ 80,951	\$ 123,903
Deferred income – long-term portion	37,277	7,998
	<u>\$ 118,228</u>	<u>\$ 131,901</u>

5. 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, 2014 upon request from the Organization.

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. The monthly rental payments are \$1 per month.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

5. LEASE COMMITMENTS – (continued)

Total lease payments, including in-kind rent, during the years ended June 30, 2014 and 2013 was \$7,011 and \$21,481, 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, 2014, amounts received from this granting agency included in support and revenue was \$193,892 which is 37% of total support and revenue. During the year ended June 30, 2013, amounts received from this granting agency included in support and revenue was approximately \$225,000 which is 45% 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. 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 Board did not approve any contributions to the plan for the years ended June 30, 2014, 2013, and 2012. Administrative fees for the plan for the years ended June 30, 2014 and 2013 were \$1,660 and \$1,002, respectively.

8. SUBSEQUENT EVENTS

The Organization evaluated all potential subsequent events as of November 6, 2014 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, 2014 or as of November 6, 2014 that require disclosure to the financial statements.