

HARMONY HILL OF UNION

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2007 AND 2006



HARMONY HILL OF UNION

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INDEPENDENT AUDITOR'S REPORT

February 19, 2008

Board of Directors
Harmony Hill of Union
Union, Washington

I have audited the accompanying statements of financial position of Harmony Hill of Union (a nonprofit-corporation) as of December 31, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harmony Hill of Union as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Mary Jane Dubbs
Certified Public Accountant

HARMONY HILL OF UNION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006

ASSETS	<u>2007</u>	<u>2006</u>
Current Assets		
Cash	95,766	143,195
Accounts Receivable	8,208	18,150
Current Unconditional Promises to Give (net of allowance for uncollectable accounts of \$35,000 and \$25,000)	125,791	65,250
Prepaid Expenses	5,669	3,999
Total Current Assets	<u>235,434</u>	<u>230,594</u>
Property and Equipment		
Leasehold Improvements	3,884,124	3,819,141
Equipment	9,436	9,436
Vehicle	13,030	13,030
Total	<u>3,906,590</u>	<u>3,841,607</u>
Less Accumulated Depreciation	(399,639)	(276,877)
Total Property and Equipment	<u>3,506,951</u>	<u>3,564,730</u>
Other Assets		
Long Term Unconditional Promises to Give	<u>217,923</u>	<u>237,185</u>
TOTAL ASSETS	<u><u>3,960,308</u></u>	<u><u>4,032,509</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts Payable	56	39,746
Line of Credit	76,775	-
Accrued Uncompensated Absences	20,042	18,431
Accrued Interest Payable	10,846	10,846
Deferred Revenue	16,484	15,059
Current portion of Long-Term Debt	795,779	42,933
Total Current Liabilities	<u>919,982</u>	<u>127,015</u>
Long-Term Debt		
Notes Payable	953,498	996,293
Less Current Portion	(795,779)	(42,933)
Total Long-Term Debt	<u>157,719</u>	<u>953,360</u>
NET ASSETS		
Unrestricted	2,538,894	2,649,699
Temporarily Restricted	<u>343,713</u>	<u>302,435</u>
Total Net Assets	<u>2,882,607</u>	<u>2,952,134</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>3,960,308</u></u>	<u><u>4,032,509</u></u>

**HARMONY HILL OF UNION
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND OTHER REVENUES						
Donations	464,955	49,287	514,242	986,848	112,243	1,099,091
Program Fees	437,045	-	437,045	241,669	-	241,669
Other Revenues	16,814	-	16,814	7,901	-	7,901
Earnings on Investments	870	-	870	37,808	-	37,808
Net Assets Released from Restriction	8,009	(8,009)	-	1,025	(1,025)	-
Total Support and Other Revenue	<u>927,693</u>	<u>41,278</u>	<u>968,971</u>	<u>1,275,251</u>	<u>111,218</u>	<u>1,386,469</u>
EXPENSES						
Program Services						
Retreat Center	725,100	-	725,100	573,269	-	573,269
Supporting Services						
Administrative	181,662	-	181,662	136,448	-	136,448
Fundraising	131,736	-	131,736	132,060	-	132,060
Total Expenses	<u>1,038,498</u>	<u>-</u>	<u>1,038,498</u>	<u>841,777</u>	<u>-</u>	<u>841,777</u>
Change in Net Assets	(110,805)	41,278	(69,527)	433,474	111,218	544,692
Net Assets						
Beginning of Year	<u>2,649,699</u>	<u>302,435</u>	<u>2,952,134</u>	<u>2,216,225</u>	<u>191,217</u>	<u>2,407,442</u>
Net Assets						
End of Year	<u><u>2,538,894</u></u>	<u><u>343,713</u></u>	<u><u>2,882,607</u></u>	<u><u>2,649,699</u></u>	<u><u>302,435</u></u>	<u><u>2,952,134</u></u>

**HARMONY HILL OF UNION
STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007				2006			
	Program Services	Supporting Services		Total	Program Services	Supporting Services		Total
	Retreat Center	Administrative	Fundraising		Retreat Center	Administrative	Fundraising	
Salaries	354,248	70,641	83,705	508,594	302,367	54,521	89,134	446,022
Payroll Taxes	38,041	7,598	9,018	54,657	31,158	5,607	9,191	45,956
Employee Benefits	41,016	8,191	9,724	58,931	45,093	8,114	13,301	66,508
Professional Services	35,241	6,400	-	41,641	26,925	8,487	-	35,412
Supplies	53,770	8,366	8,467	70,603	41,956	7,228	2,523	51,707
Printing & Publications	10,594	2,355	10,594	23,543	7,428	1,650	7,428	16,506
Postage	564	2,822	2,258	5,644	777	3,882	3,106	7,765
Rent	12,528	3,132	-	15,660	12,648	3,162	-	15,810
Utilities	33,434	8,359	-	41,793	18,534	4,633	-	23,167
Facilities	3,969	992	-	4,961	4,477	1,119	-	5,596
Telephone	3,732	2,240	1,493	7,465	4,273	2,564	1,709	8,546
Insurance	-	17,871	-	17,871	-	19,798	-	19,798
Travel	-	6,841	-	6,841	-	5,210	-	5,210
Conference & Meetings	-	1,288	-	1,288	-	764	-	764
Bank Service Charges	-	5,093	-	5,093	-	4,823	-	4,823
Miscellaneous	-	6,328	-	6,328	-	2,471	-	2,471
Promotion	15,581	-	6,477	22,058	6,007	-	5,668	11,675
Interest Expense	-	22,765	-	22,765	-	1,345	-	1,345
Depreciation	122,382	380	-	122,762	71,626	1,070	-	72,696
TOTAL EXPENSES	725,100	181,662	131,736	1,038,498	573,269	136,448	132,060	841,777

**HARMONY HILL OF UNION
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributions and Public Support	444,086	958,217
Cash Received from Program Fees and Other Revenues	437,045	241,669
Cash from Earnings on Investments	870	37,808
Other Revenues	16,814	7,901
Cash Paid to Vendors and Employees	<u>(938,400)</u>	<u>(785,063)</u>
NET CASH PROVIDED FROM OPERATING ACTIVITIES	(39,585)	460,532
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	<u>(64,983)</u>	<u>(1,236,505)</u>
NET CASH FLOW FROM INVESTING ACTIVITIES	(64,983)	(1,236,505)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from Long-Term Debt	-	250,000
Repayments on Long-Term Debt	(42,796)	(3,707)
Net Proceeds from Short-Term Borrowing	76,775	-
Collection of Unconditional Promise to Give	<u>23,160</u>	<u>15,660</u>
NET CASH FLOW FROM FINANCING ACTIVITIES	57,139	261,953
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(47,429)	(514,020)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>143,195</u>	<u>657,215</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>95,766</u>	<u>143,195</u>
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase (decrease) in Net Assets	(69,527)	544,692
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	122,762	72,696
Amortization of Discount-Unconditional Promise to Give	(15,151)	(14,635)
(Increase) Decrease in:		
Accounts Receivable	9,942	1,664
Unconditional Promises to Give in Future Years	(49,287)	(112,243)
Prepaid Expenses	(1,670)	(812)
Increase (decrease) in:		
Accounts Payable	(39,690)	(31,915)
Accrued Uncompensated Absences	1,611	1,085
Deferred Revenue	<u>1,425</u>	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(39,585)</u>	<u>460,532</u>

HARMONY HILL OF UNION NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

History of Organization

Harmony Hill of Union was incorporated July 13, 1987 in the State of Washington.

Nature of Activities

Harmony Hill of Union operates a cancer retreat center in Union, Washington. Harmony Hill of Union conducts retreat programs and rents the facilities to other organizations.

Basis of Accounting

The financial statements of Harmony Hill of Union have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Donated Assets

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Federal Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

**HARMONY HILL OF UNION
NOTES TO FINANCIAL STATEMENTS**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Property and Equipment

Property and equipment are stated at cost or at their estimated fair value at the date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Useful lives range from five years to fifty years, depending on the asset.

Restricted and Unrestricted Revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is 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 and reported in the Statement of Activities as net assets released from restrictions.

Temporarily Restricted Funds

Temporarily Restricted Funds consist of unconditional promises to give in future years.

Permanently Restricted Funds

Harmony Hill of Union has no permanently restricted funds.

NOTE B – CONCENTRATION OF CREDIT RISK

The Organization maintains its cash balances in one financial institution located in Seattle, Washington. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At December 31, 2007 and 2006, the Organization's uninsured cash balances total \$-0- and \$10,940, respectively.

The Organization also has investments in various money market funds through investment brokers that are not insured and impose credit risk to the Organization. The balances in these money market funds at December 31, 2007 and 2006 total \$-0- and \$41,147, respectively.

NOTE C – LINE OF CREDIT

The Organization has a revolving line of credit with an interest rate of the current prime rate plus 3% and a \$100,000 limit. The balance as of December 31, 2007 was \$76,775.

**HARMONY HILL OF UNION
NOTES TO FINANCIAL STATEMENTS**

NOTE D – LONG TERM NOTE PAYABLE

On July 30, 2005, a \$750,000 note was signed payable to a major contributor. Interest on the note is payable annually on the anniversary date at 3.45%. The entire principal balance is due on the 3rd anniversary, July 30, 2008.

On November 8, 2006, a \$250,000 note was signed payable to the Organization's financial institution. The annual interest rate is 7.75%. The monthly payments are \$5,052. The last payment is due November 8, 2011. The balance as of December 31, 2007 is \$203,498.

Maturities on long-term debt are as follows:

<u>Year Ending December 31</u>	
2007	795,779
2008	50,160
2009	54,188
2010	53,371
2011	-
Thereafter	-

NOTE E – CONDITIONAL PROMISE TO GIVE

In 2005, the organization received a one-time capital challenge grant in the amount of \$500,000. The organization must raise \$5.55 million by December 31, 2008 as well as satisfy interim reporting requirements to receive the funds no later than March 5, 2009. As of December 31, 2007, the Organization has raised \$4.72 million of the \$5.55 million challenge.

NOTE F – UNCONDITIONAL PROMISES TO GIVE

The Organization has received unconditional promises to give \$197,607 in future years. The promise to give in more than one year has been discounted at 5%. The allowance for uncollectible amounts at December 31, 2007 and 2006 was \$35,000 and \$25,000, respectively.

Beginning April 1, 2000, the Organization has a 30 year lease with two five year options for free use of the 13 acre facility. The fair market value of the facility is \$626,400. This contribution was recorded in the year it was received as a temporarily restricted donation. The amount to be realized in the future is recorded as an unconditional promise to give. The promise to give in more than one year has been discounted at 8%.

**HARMONY HILL OF UNION
NOTES TO FINANCIAL STATEMENTS**

NOTE F – UNCONDITIONAL PROMISES TO GIVE (continued)

	<u>Cash</u>	<u>Facility</u>	<u>Total</u>
Receivable in less than one year	110,131	15,660	125,791
Receivable in one to five years	87,476	78,300	165,776
Receivable in more than five years	—	414,990	414,990
Total unconditional promises to give	197,607	508,950	706,557
Less : Discount to net present value	(7,888)	(319,956)	(327,844)
Less: Allowance for Uncollectible	<u>(35,000)</u>	<u>---</u>	<u>(35,000)</u>
Net unconditional promises to give	<u>154,719</u>	<u>188,994</u>	<u>343,713</u>

NOTE G – HARMONY HILL ENDOWMENT FUND

Greater Tacoma Community Foundation maintains the Harmony Hill Endowment Fund. The earnings on this fund are distributed to the organization annually. The market value of the fund as of December 31, 2007 was \$13,532.

NOTE H – RETIREMENT PLAN

The Organization established a retirement plan under Section 408(p) of the Internal Revenue Code during the year ended December 31, 2007. Under the SIMPLE plan the company matches the employees' contribution up to 1% of their wages. The employer contribution for the year ended December 31, 2007 was \$2,402.

NOTE I – RECLASSIFICATIONS

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

