

HARMONY HILL OF UNION

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

YEARS ENDED DECEMBER 31, 2008 AND 2007

HARMONY HILL OF UNION

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INDEPENDENT AUDITOR'S REPORT

February 24, 2009

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, 2008 and 2007, 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, 2008 and 2007, 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, 2008 AND 2007

ASSETS	<u>2008</u>	<u>2007</u>
Current Assets		
Cash	256,930	95,766
Accounts Receivable	39,062	8,208
Current Unconditional Promises to Give (net of allowance for uncollectible accounts of \$120,000 and \$35,000)	265,615	125,791
Prepaid Expenses	4,636	5,669
Total Current Assets	<u>566,243</u>	<u>235,434</u>
Property and Equipment		
Leasehold Improvements	3,909,750	3,884,124
Equipment	9,436	9,436
Vehicle	13,030	13,030
Total	<u>3,932,216</u>	<u>3,906,590</u>
Less Accumulated Depreciation	<u>(523,585)</u>	<u>(399,639)</u>
Total Property and Equipment	<u>3,408,631</u>	<u>3,506,951</u>
Other Assets		
Long Term Unconditional Promises to Give	<u>360,911</u>	<u>217,923</u>
TOTAL ASSETS	<u><u>4,335,785</u></u>	<u><u>3,960,308</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current Liabilities		
Accounts Payable	-	56
Line of Credit	51,487	76,775
Accrued Uncompensated Absences	13,707	20,042
Accrued Interest Payable	37,094	10,846
Deferred Revenue	12,786	16,484
Current portion of Long-Term Debt	211,385	795,779
Total Current Liabilities	<u>326,459</u>	<u>919,982</u>
Long-Term Debt		
Notes Payable	907,261	953,498
Less Current Portion	<u>(211,385)</u>	<u>(795,779)</u>
Total Long-Term Debt	<u>695,876</u>	<u>157,719</u>
NET ASSETS		
Unrestricted	2,686,924	2,538,894
Temporarily Restricted	<u>626,526</u>	<u>343,713</u>
Total Net Assets	<u>3,313,450</u>	<u>2,882,607</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>4,335,785</u></u>	<u><u>3,960,308</u></u>

**HARMONY HILL OF UNION
STATEMENT OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND OTHER REVENUES						
Donations	810,088	291,222	1,101,310	464,955	49,287	514,242
Program Fees	402,966	-	402,966	437,045	-	437,045
Other Revenues	19,732	-	19,732	16,814	-	16,814
Earnings on Investments	298	-	298	870	-	870
Net Assets Released from Restriction	8,409	(8,409)	-	8,009	(8,009)	-
Total Support and Other Revenue	1,241,493	282,813	1,524,306	927,693	41,278	968,971
EXPENSES						
Program Services						
Retreat Center	673,902	-	673,902	725,100	-	725,100
Supporting Services						
Administrative	267,546	-	267,546	181,662	-	181,662
Fundraising	152,015	-	152,015	131,736	-	131,736
Total Expenses	1,093,463	-	1,093,463	1,038,498	-	1,038,498
Change in Net Assets	148,030	282,813	430,843	(110,805)	41,278	(69,527)
Net Assets						
Beginning of Year	2,538,894	343,713	2,882,607	2,649,699	302,435	2,952,134
Net Assets						
End of Year	2,686,924	626,526	3,313,450	2,538,894	343,713	2,882,607

HARMONY HILL OF UNION
STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008				2007			
	Program	Supporting			Program	Supporting		
	Services	Services			Services	Services		
	Retreat				Retreat			
	Center	Administrative	Fundraising	Total	Center	Administrative	Fundraising	Total
Salaries	310,754	97,483	103,830	512,067	354,248	70,641	83,705	508,594
Payroll Taxes	33,073	10,375	11,050	54,498	38,041	7,598	9,018	54,657
Employee Benefits	41,159	12,912	13,752	67,823	41,016	8,191	9,724	58,931
Professional Services	37,260	7,195	-	44,455	35,241	6,400	-	41,641
Supplies	48,862	12,138	3,794	64,794	53,770	8,366	8,467	70,603
Printing & Publications	9,496	2,111	9,496	21,103	10,594	2,355	10,594	23,543
Postage	593	2,962	2,370	5,925	564	2,822	2,258	5,644
Rent	12,528	3,132	-	15,660	12,528	3,132	-	15,660
Utilities	40,835	10,209	-	51,044	33,434	8,359	-	41,793
Facilities	4,650	1,162	-	5,812	3,969	992	-	4,961
Telephone	4,559	2,735	1,823	9,117	3,732	2,240	1,493	7,465
Insurance	-	25,988	-	25,988	-	17,871	-	17,871
Travel	-	11,165	-	11,165	-	6,841	-	6,841
Conference & Meetings	-	936	-	936	-	1,288	-	1,288
Bank Service Charges	-	6,433	-	6,433	-	5,093	-	5,093
Miscellaneous	-	9,955	-	9,955	-	6,328	-	6,328
Promotion	6,567	-	5,900	12,467	15,581	-	6,477	22,058
Interest Expense	-	50,275	-	50,275	-	22,765	-	22,765
Depreciation	123,566	380	-	123,946	122,382	380	-	122,762
TOTAL EXPENSES	673,902	267,546	152,015	1,093,463	725,100	181,662	131,736	1,038,498

HARMONY HILL OF UNION
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contributions and Public Support	748,823	444,086
Cash Received from Program Fees and Other Revenues	402,966	437,045
Cash from Earnings on Investments	298	870
Other Revenues	19,732	16,814
Cash Paid to Vendors and Employees	(936,664)	(938,400)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	235,155	(39,585)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(25,626)	(64,983)
NET CASH FLOW FROM INVESTING ACTIVITIES	(25,626)	(64,983)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayments on Long-Term Debt	(46,237)	(42,796)
Net Proceeds (Payments) from Short-Term Borrowing	(25,288)	76,775
Collection of Unconditional Promise to Give	23,160	23,160
NET CASH FLOW FROM FINANCING ACTIVITIES	(48,365)	57,139
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	161,164	(47,429)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	95,766	143,195
CASH AND CASH EQUIVALENTS AT END OF YEAR	256,930	95,766
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase (decrease) in Net Assets	430,843	(69,527)
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	123,946	122,762
Amortization of Discount-Unconditional Promise to Give	(14,751)	(15,151)
(Increase) Decrease in:		
Accounts Receivable	(30,854)	9,942
Unconditional Promises to Give in Future Years	(291,222)	(49,287)
Prepaid Expenses	1,033	(1,670)
Increase (decrease) in:		
Accounts Payable	(56)	(39,690)
Accrued Uncompensated Absences	(6,334)	1,611
Accrued Interest Payable	26,248	-
Deferred Revenue	(3,698)	1,425
NET CASH PROVIDED BY OPERATING ACTIVITIES	235,155	(39,585)

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 \$250,000. At December 31, 2008 and 2007, the Organization's uninsured cash balances total \$15,369 and \$-0-, respectively.

NOTE C – LINE OF CREDIT

The Organization has a revolving line of credit with an interest rate of the current prime rate plus 2.5% and a \$150,000 limit. The balance as of December 31, 2008 and 2007 was \$51,487 and \$76,775, respectively.

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%. In 2008, the terms of this note were renegotiated, to be effective January 31, 2009. The renegotiated terms include interest payable annually on the anniversary date at 3.45% with the entire principal of the note being due on January 31, 2014.

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, 2008 is \$157,261.

Maturities on long-term debt are as follows:

<u>Year Ending December 31</u>	
2009	211,385
2010	54,228
2011	52,836
2012	-
2013	-
Thereafter	588,812

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, 2008, the Organization has met the \$5.55 million challenge.

NOTE F – UNCONDITIONAL PROMISES TO GIVE

The Organization has received unconditional promises to give \$591,315 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, 2008 and 2007 was \$120,000 and \$35,000, 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	249,955	15,660	265,615
Receivable in one to five years	341,360	78,300	419,660
Receivable in more than five years	<u>-</u>	<u>399,330</u>	<u>399,330</u>
 Total unconditional promises to give	 591,315	 493,290	 1,084,605
Less : Discount to net present value	(32,509)	(305,570)	(338,079)
Less: Allowance for Uncollectible	<u>(120,000)</u>	<u>-</u>	<u>(120,000)</u>
 Net unconditional promises to give	 <u>438,806</u>	 <u>187,720</u>	 <u>626,526</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, 2008 was \$8,905.

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 3% of their wages. The employer contribution for the year ended December 31, 2008 was \$4,504.