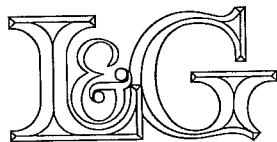


HARC, INC.
PALM DESERT, CALIFORNIA

INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008



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INDEPENDENT AUDITORS' REPORT

Board of Directors
HARC, Inc.
Palm Desert, California

We have audited the accompanying statements of financial position of HARC, Inc. as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 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. We believe our audits provide a reasonable basis for our 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, 2009 and 2008, 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.

October 23, 2009

HARC, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash	\$ 273,506	\$ 157,580
Certificates of Deposit	416,663	135,026
Grants receivable	30,000	110,000
In-kind receivable - Regional Access Project Foundation	-	20,950
Accounts receivable	-	9,834
Prepaid insurance	1,767	1,488
Deposits	1,418	1,045
Total current assets	<u>723,354</u>	<u>435,923</u>
PROPERTY AND EQUIPMENT - NET	<u>12,942</u>	<u>5,649</u>
TOTAL ASSETS	<u>\$ 736,296</u>	<u>\$ 441,572</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 5,315	\$ 845
Accrued vacation	7,762	7,124
Accrued expenses	284	795
Deferred income (See Note 4)	501,385	187,617
Total current liabilities	<u>514,746</u>	<u>196,381</u>
LONG-TERM LIABILITIES		
Deferred income (See Note 4)	33,333	100,000
Total long-term liabilities	<u>33,333</u>	<u>100,000</u>
Total liabilities	<u>548,079</u>	<u>296,381</u>
NET ASSETS		
Unrestricted	188,217	145,191
Total net assets	<u>188,217</u>	<u>145,191</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 736,296</u>	<u>\$ 441,572</u>

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

HARC, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

REVENUES	2009	2008
Contributions	\$ 85,000	\$ 172,000
Contributions - In-kind	29,750	43,432
Grants - Desert Healthcare District	125,000	100,000
Grants - California Wellness Foundation	66,667	90,475
Grants - other	21,035	20,000
Client requested services	1,800	9,834
Interest income	5,068	5,855
Total revenues	<u>334,320</u>	<u>441,596</u>
EXPENSES		
Salaries	113,436	116,944
Payroll taxes	9,639	9,303
Employee benefits	13,239	14,823
Books and subscriptions	236	-
Computer services	3,331	3,916
Client requested services	3,556	4,558
Depreciation	1,805	1,203
Dues and fees	500	665
Event	1,125	16,043
In-kind facility use	23,060	23,174
Insurance	2,919	3,802
Meeting expenses	1,974	9,284
Office supplies	2,656	3,925
Other expenses	2,844	148
Postage	47	16
Printing	26,298	22,683
Professional services		
Fundraising Fees	13,925	600
Research analyst	5,761	17,551
Project consultant	27,883	27,711
Technical writer	11,350	53,645
Strategic planner	3,000	-
Accounting and audit	5,500	5,250
In-kind accounting fees	3,820	2,980
Legal	3,133	1,155
Payroll fees	1,063	944
Technical training	2,707	8,243
Telephone	2,116	1,268
Temporary help	3,103	10,133
Travel and mileage	1,268	955
Total expenses	<u>291,294</u>	<u>360,922</u>
INCREASE IN NET ASSETS	<u>43,026</u>	<u>80,674</u>
NET ASSETS AT BEGINNING OF YEAR	<u>145,191</u>	<u>64,517</u>
NET ASSETS AT END OF YEAR	<u>\$ 188,217</u>	<u>\$ 145,191</u>

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

HARC, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 43,026	\$ 80,674
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,805	1,203
Donated property and equipment	(625)	-
Changes in operating assets and liabilities:		
Grants receivable	80,000	(110,000)
In-kind receivable	20,950	22,854
Accounts receivable	9,834	(9,834)
Prepaid insurance	(279)	629
Deposits	(373)	(1,045)
Accounts payable	4,470	(16,282)
Accrued vacation	638	3,705
Accrued expenses	(511)	795
Deferred income	247,101	186,671
Net cash provided by operating activities	<u>406,036</u>	<u>159,370</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificates of deposit	(281,637)	(130,026)
Purchases of equipment	<u>(8,473)</u>	<u>(1,190)</u>
Net cash used by investing activities	<u>(290,110)</u>	<u>(136,216)</u>
NET INCREASE IN CASH	115,926	23,154
CASH		
AT BEGINNING OF YEAR	<u>157,580</u>	<u>134,426</u>
AT END OF YEAR	<u><u>\$ 273,506</u></u>	<u><u>\$ 157,580</u></u>

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

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

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 35 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 demonstrates community involvement and concern for the quality of life for all of the residents of the 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 exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and is also exempt from the State of California franchise and income tax under Section 23701d of the State Revenue and Taxation Code.

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.

Net Assets

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (FSAS) 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 in three classes of net assets; 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, 2009 and 2008, there were no temporarily or permanently restricted net assets.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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 balances in excess of the \$250,000 FDIC insurance limits at June 30, 2009.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2009</u>	<u>2008</u>
Furniture and equipment	\$ 4,431	\$ 2,427
Computer equipment	8,549	2,703
Leasehold improvements	1,248	-
Web design	<u>1,975</u>	<u>1,975</u>
	16,203	7,105
Less: accumulated depreciation	<u>(3,261)</u>	<u>(1,456)</u>
Total	<u>\$ 12,942</u>	<u>\$ 5,649</u>

4. DEFERRED INCOME

Regional Access Project Foundation

The Organization was receiving in-kind donations from Regional Access Project Foundation for rent, cleaning and insurance through May 2009 and has recorded these future donations as deferred income for purposes of matching revenues with expenses.

California Wellness Foundation

In January 2008, the Organization received a grant from California Wellness Foundation. The Organization is amortizing this grant over the life of the contract which ends in December 2010.

Desert Healthcare District

In January 2008, the Organization received a grant from Desert Healthcare District. The Organization is amortizing the grant over the life of the contract which ended in December 2008.

In June 2009, the Organization received a three year grant from Desert Healthcare District. The first year of the grant has been included in revenue and deferred revenue at June 30, 2009. The amount granted for the second year of the agreement is \$200,000 and will be amortized between June 2010 and May 2011. The amount granted for the third and final year of the agreement is \$100,000, and will be amortized between June 2011 and June 2012.

California Endowment

In May 2009, the Organization received a grant from the California Endowment. The Organization is amortizing the grant over the life of the contract which ends in May 2010.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

4. DEFERRED INCOME – (continued)

Community Foundation

In April 2009, the Organization received a grant from the Community Foundation. The Organization is amortizing the grant over the life of the contract which ends in April 2010.

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

	<u>2009</u>	<u>2008</u>
Desert Healthcare District	\$ 275,000	\$ 100,000
California Wellness Foundation	100,000	166,667
Regional Access Program Foundation	-	20,950
California Endowment	151,385	-
Community Foundation	<u>8,333</u>	<u>-</u>
	<u>\$ 534,718</u>	<u>\$ 287,617</u>
Deferred income – current portion	\$ 501,385	\$ 187,617
Deferred income – long-term portion	<u>33,333</u>	<u>100,000</u>
	<u>\$ 534,718</u>	<u>\$ 287,617</u>

5. 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 two granting agencies. During year ended June 30, 2009, amounts received from these granting agencies included in support and revenue was approximately \$192,000 which was 57% of total support and revenue. During the year ended June 30, 2008, amounts received from these granting agencies included in support and revenue was approximately \$191,000 which was 43% of total support and revenue.

6. SUBSEQUENT EVENTS

Statement of Financial Accounting Standards #165 requires that HARC, Inc. assess and disclose the date and basis for that date through which potential subsequent events have been evaluated. The date represents the date the financial statements were issued or available to be issued. The Organization evaluated all potential subsequent events as of October 23, 2009 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2009 or as of October 23, 2009 that require disclosure to the financial statements.