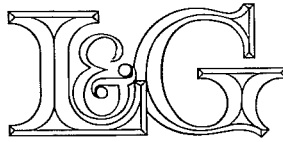


**HARC, INC.**  
**PALM DESERT, CALIFORNIA**

**INDEPENDENT AUDITORS' REPORT**  
**AND FINANCIAL STATEMENTS**

**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR THE PERIOD**  
**SEPTEMBER 28, 2006 THROUGH JUNE 30, 2007**



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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
HARC, Inc.  
Palm Desert, California

We have audited the accompanying statement of financial position of HARC, Inc. as of June 30, 2008 and the related statements of activities and cash flows for the year 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 audit 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 audit provides 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, 2008 and the changes in its net assets and cash flows for the year then ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

October 15, 2008

**HARC, INC.**

**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR JUNE 30, 2007**

**ASSETS**

	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 157,580	\$ 134,426
Certificate of Deposit	135,026	-
Grants receivable	110,000	-
In-kind receivable - Regional Access Project Foundation	20,950	43,804
Accounts receivable	9,834	-
Prepaid insurance	1,488	2,117
Deposits	1,045	-
Total current assets	<u>435,923</u>	<u>180,347</u>
<b>PROPERTY AND EQUIPMENT - NET</b>	<u>5,649</u>	<u>5,662</u>
<b>TOTAL ASSETS</b>	<u>\$ 441,572</u>	<u>\$ 186,009</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 845	\$ 17,127
Accrued vacation	7,124	3,419
Accrued expenses	795	-
Deferred income - Desert Health District	100,000	-
Deferred income - California Wellness Foundation	66,667	57,142
Deferred income - Regional Access Project Foundation	20,950	22,854
Total current liabilities	<u>196,381</u>	<u>100,542</u>
<b>LONG-TERM LIABILITIES</b>		
Deferred income - California Wellness Foundation	100,000	-
Deferred income - Regional Access Project Foundation	-	20,950
Total long-term liabilities	<u>100,000</u>	<u>20,950</u>
Total liabilities	<u>296,381</u>	<u>121,492</u>
<b>NET ASSETS</b>		
Unrestricted	<u>145,191</u>	<u>64,517</u>
Total net assets	<u>145,191</u>	<u>64,517</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 441,572</u>	<u>\$ 186,009</u>

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

# HARC, INC.

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008 WITH COMPARATIVE TOTALS FOR THE PERIOD SEPTEMBER 28, 2006 THROUGH JUNE 30, 2007

<b>REVENUES</b>	<b>2008</b>	<b>2007</b>
Contributions	\$ 172,000	\$ 268,320
Contributions - In-kind	43,432	2,965
Grants - Desert Healthcare District	100,000	-
Grants - California Wellness Foundation	90,475	114,288
Grants - other	20,000	-
Client requested services	9,834	19,666
Interest income	5,855	1,800
<b>Total revenues</b>	<b>441,596</b>	<b>407,039</b>
<b>EXPENSES</b>		
Salaries	116,944	81,493
Payroll taxes	9,303	7,500
Employee benefits	14,823	8,046
Books and subscriptions	-	392
Computer services	3,916	667
Client requested services	4,558	-
Depreciation	1,203	253
Dues and fees	665	-
Equipment rental and maintenance	-	100
Event	16,043	-
In-kind facility use	23,174	1,905
Insurance	3,802	2,118
Meeting expenses	9,284	704
Office supplies	3,925	3,598
Other expenses	748	1,350
Postage	16	52
Printing	22,683	794
Professional services		
Macro International	-	133,676
Research analyst	17,551	33,500
Project consultant	27,711	32,682
Technical writer	53,645	12,200
Strategic planner	-	3,000
Accounting and audit	5,250	-
In-kind accounting fees	2,980	1,060
Legal	1,155	1,015
Payroll fees	944	262
Technical training	8,243	3,326
Telephone	1,268	500
Temporary help	10,133	11,825
Travel and mileage	955	504
<b>Total expenses</b>	<b>360,922</b>	<b>342,522</b>
<b>INCREASE IN NET ASSETS</b>	<b>80,674</b>	<b>64,517</b>
<b>NET ASSETS AT BEGINNING OF PERIOD</b>	<b>64,517</b>	<b>-</b>
<b>NET ASSETS AT END OF PERIOD</b>	<b>\$ 145,191</b>	<b>\$ 64,517</b>

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

**HARC, INC.**

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**WITH COMPARATIVE TOTALS FOR THE PERIOD**  
**SEPTEMBER 28, 2006 THROUGH JUNE 30, 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 80,674	\$ 64,517
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,203	253
Donated property and equipment	-	(5,915)
Changes in operating assets and liabilities:		
Grants receivable	(110,000)	-
In-kind receivable	22,854	(43,804)
Accounts receivable	(9,834)	-
Prepaid insurance	629	(2,117)
Deposits	(1,045)	-
Accounts payable	(16,282)	17,127
Accrued vacation	3,705	3,419
Accrued expenses	795	-
Deferred income - Desert Healthcare District	100,000	-
Deferred income - California Wellness Foundation	109,525	57,142
Deferred income - Regional Access Project Foundation	(22,854)	43,804
Net cash provided by operating activities	<u>159,370</u>	<u>134,426</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of certificate of deposit	(135,026)	-
Purchases of equipment	(1,190)	-
Net cash used by investing activities	<u>(136,216)</u>	<u>-</u>
<b>NET INCREASE IN CASH</b>	23,154	134,426
<b>CASH</b>		
<b>AT BEGINNING OF PERIOD</b>	<u>134,426</u>	<u>-</u>
<b>AT END OF PERIOD</b>	<u>\$ 157,580</u>	<u>\$ 134,426</u>

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

## HARC, INC.

### NOTES TO 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 35 community partners to create a health assessment and resource center (HARC) for the greater Coachella Valley area. The Organization will provide 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 will be demonstrating community involvement and concern for the quality of life for all of the residents of the Valley.

Desert Healthcare Foundation acted on behalf of HARC, Inc. for most of the year ended June 30, 2007 by collecting cash receipts and paying cash disbursements. A separate accounting was established by Desert Healthcare Foundation specifically for HARC, Inc. to track and record these transactions. In April 2007, a final settlement was made between HARC, Inc. and Desert Healthcare Foundation. HARC, Inc. made a final payment to Desert Healthcare Foundation for \$78,000 for the reimbursement of payroll and benefits paid by Desert Healthcare for HARC employees. Desert Healthcare Foundation made a final payment of \$155,000 to HARC, Inc. for the payout of the remaining California Wellness Foundation grant and for any other accumulated income less accumulated expenses.

#### 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.

**HARC, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

**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, 2008 and 2007, there were no temporarily or permanently restricted net assets.

**Concentration of Credit Risk**

The Organization maintains its cash in deposit accounts, which at times, may exceed federally insured limits. The Organization had balances of approximately \$198,000 in excess of the \$100,000 FDIC insurance limits at June 30, 2008. (In October 2008, the FDIC insurance limits were increased to \$250,000 per account.) Management believes it is not exposed to any significant credit risk related to cash.

**3. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30:

	<u>2008</u>	<u>2007</u>
Furniture and equipment	\$ 2,427	\$ 2,427
Computer equipment	2,703	1,513
Web design	<u>1,975</u>	<u>1,975</u>
	7,105	5,915
Less: accumulated depreciation	<u>(1,456)</u>	<u>(253)</u>
Total	<u>\$ 5,649</u>	<u>\$ 5,662</u>

**4. DEFERRED INCOME**

**Regional Access Project Foundation**

The Organization will be 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. Future in-kind donations from Regional Access Project Foundation as of June 30, 2008 and June 30, 2007 are \$20,950 and \$43,804, respectively.

**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. The deferred income balance for California Wellness Foundation at June 30, 2008 is \$166,667.

**HARC, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**4. DEFERRED INCOME – (continued)**

The Organization was amortizing the remaining balance of a previous grant from California Wellness Foundation grant over the remaining life of the original contract, which ended in December 2007. As noted in Footnote 1, the total remaining balance was paid to the Organization by Desert Healthcare Foundation in the final settlement between the entities in April 2007. The deferred income balance for California Wellness Foundation at June 30, 2007 was \$57,142.

**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 ends in December 2009. The deferred income balance for Desert Healthcare District at June 30, 2008 is \$100,000.