

HARC, INC.
PALM DESERT, CALIFORNIA

INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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, 2011 and 2010, 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, 2011 and 2010, 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 25, 2011

HARC, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash	\$ 214,481	\$ 295,830
Certificates of deposit	101,044	-
Grants receivable	120,000	230,000
Accounts receivable	29,271	5,448
Prepaid insurance	1,854	1,730
Deposits	<u>1,122</u>	<u>2,094</u>
Total current assets	<u>467,772</u>	<u>535,102</u>
PROPERTY AND EQUIPMENT - NET	<u>12,015</u>	<u>15,744</u>
TOTAL ASSETS	<u>\$ 479,787</u>	<u>\$ 550,846</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 3,161	\$ 931
Accrued vacation	14,360	9,645
Accrued expenses	-	361
Deferred income (See Note 5)	<u>134,863</u>	<u>234,828</u>
Total current liabilities	<u>152,384</u>	<u>245,765</u>
LONG-TERM LIABILITIES		
Deferred income (See Note 5)	<u>17,077</u>	<u>-</u>
Total long-term liabilities	<u>17,077</u>	<u>-</u>
Total liabilities	<u>169,461</u>	<u>245,765</u>
NET ASSETS		
Unrestricted	<u>310,326</u>	<u>305,081</u>
Total net assets	<u>310,326</u>	<u>305,081</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 479,787</u>	<u>\$ 550,846</u>

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

HARC, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010 (Restated)
REVENUES		
Contributions	\$ 57,500	\$ 63,150
Contributions - In-kind	3,228	5,515
Grants - Desert Healthcare District	191,666	291,667
Grants - California Endowment	14,838	151,385
Grants - California Wellness Foundation	33,333	66,667
Grants - other	40,395	33,333
Client requested services	102,160	45,898
Interest income	2,858	6,668
Total revenues	<u>445,978</u>	<u>664,283</u>
EXPENSES		
Salaries	182,535	164,214
Payroll taxes	15,078	14,039
Employee benefits	14,121	12,346
Workers compensation insurance	2,946	2,803
Computer services	3,670	5,527
Depreciation	4,292	3,666
Equipment rental and maintenance	1,876	1,578
Event	11,035	125
Insurance	2,482	3,949
Loss on abandoned assets	1,684	-
Meeting expenses	2,013	565
Office supplies	3,037	2,825
Other expenses	3,424	2,790
Postage and printing	27,834	5,460
Professional services		
Data collection	-	237,286
Fundraising Fees	10,406	7,502
Project consultant	54,335	3,643
Technical writer	42,302	15,232
Public relations	11,846	10,606
Strategic planner	500	6,000
Accounting and audit	6,350	5,850
In-kind accounting fees	3,228	3,690
Legal	2,275	1,645
Payroll fees	1,131	1,036
Rent	22,594	22,213
Technical training	-	6,366
Telephone and utilities	7,144	5,370
Travel and mileage	2,595	1,093
Total expenses	<u>440,733</u>	<u>547,419</u>
INCREASE IN NET ASSETS	<u>5,245</u>	<u>116,864</u>
NET ASSETS AT BEGINNING OF YEAR	<u>305,081</u>	<u>188,217</u>
NET ASSETS AT END OF YEAR	<u>\$ 310,326</u>	<u>\$ 305,081</u>

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

HARC, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 5,245	\$ 116,864
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	4,292	3,666
Donated property and equipment	-	(1,700)
Loss on abandoned assets	1,684	-
Changes in operating assets and liabilities:		
Grants receivable	110,000	(200,000)
Accounts receivable	(23,823)	(5,448)
Prepaid insurance	(124)	37
Deposits	972	(676)
Accounts payable	2,230	(4,384)
Accrued vacation	4,715	1,883
Accrued expenses	(361)	77
Deferred income	(82,888)	(299,890)
Net cash provided (used) by operating activities	<u>21,942</u>	<u>(389,571)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (purchases) of certificates of deposit, net	(101,044)	416,663
Purchases of property and equipment	<u>(2,247)</u>	<u>(4,768)</u>
Net cash provided (used) by investing activities	<u>(103,291)</u>	<u>411,895</u>
NET INCREASE (DECREASE) IN CASH	(81,349)	22,324
CASH		
AT BEGINNING OF YEAR	<u>295,830</u>	<u>273,506</u>
AT END OF YEAR	<u>\$ 214,481</u>	<u>\$ 295,830</u>

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

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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 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 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*, for the years ending June 30, 2009, 2010 and 2011 are subject to examination by the IRS, generally for three years after they were 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, 2011.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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, 2011 and 2010, there were no temporarily or permanently restricted net assets.

Reclassifications

Certain reclassifications have been made to the 2010 amounts in order to conform to the 2011 presentation

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 6,678	\$ 4,431
Computer equipment	12,745	15,017
Leasehold improvements	1,248	1,248
Web design	<u>1,975</u>	<u>1,975</u>
	22,646	22,671
Less: accumulated depreciation	<u>(10,631)</u>	<u>(6,927)</u>
Total	<u>\$ 12,015</u>	<u>\$ 15,744</u>

4. INVESTMENTS

Fair Value Hierarchy

The Organization applies Generally Accepted Accounting Principles (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

4. INVESTMENTS – (continued)

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. At June 30, 2011 and 2010, all certificates of deposit are measured at fair value on a recurring basis and were valued at Level 1 inputs (quoted prices in active markets for identical assets). Fair value of the Organization's certificates of deposit at June 30, 2011 and 2010 was \$101,044 and \$0, respectively.

5. DEFERRED INCOME

Desert Healthcare District

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 has been included in revenue and deferred revenue at June 30, 2010. The amount granted for the third and final year of the agreement is \$100,000 and has been included in revenue and deferred revenue at June 30, 2011.

California Endowment

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

In March 2011, the Organization received a grant from the California Endowment and is amortizing the grant over the life of the contract which ends in March 2012 and has been included in revenue and deferred revenue at June 30, 2011.

California Wellness Foundation

In January 2008, the Organization received a grant from California Wellness Foundation. The Organization amortized the grant over the life of the contract which ended in December 2010.

Eisenhower Medical Center

In December 2009, the Organization was hired by Eisenhower Medical Center for the preparation of a special report covering the designated area of the Coachella Valley to be extrapolated from the 2007 and 2010 Community Health Monitor. The Organization amortized the entire cost of the project over a 12 month period which ended in April 2011.

Palm Springs Unified School District

In February 2011, the Organization was hired by Palm Springs Unified School District to perform statistical data recording and reporting for the District's Child Nutrition Study. The Organization is amortizing the entire cost of the project over a 44 month period which ends in August 2014.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

5. DEFERRED INCOME – (continued)

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

	<u>2011</u>	<u>2010</u>
Desert Healthcare District	\$ 91,667	\$ 183,333
California Endowment	36,034	-
California Wellness Foundation	-	33,333
Eisenhower Medical Center	-	18,162
Palm Springs Unified School District	<u>24,239</u>	<u>-</u>
	<u>\$ 151,940</u>	<u>\$ 234,828</u>
Deferred income – current portion	\$ 134,863	\$ 234,828
Deferred income – long-term portion	<u>17,077</u>	<u>-</u>
	<u>\$ 151,940</u>	<u>\$ 234,828</u>

6. LEASE COMMITMENTS

The Organization entered into a five year operating lease agreement for its Palm Desert office that expires on June 30, 2014 with monthly rental payments of \$1,879 for the year ending June 30, 2011. The monthly rental payments shall be adjusted by the increase, if any, in the Consumer Price Index every anniversary. Total lease payments during the year ended June 30, 2011 was \$22,594. Future minimum operating lease payments are as follows:

<u>Year Ending June 30,</u>	
2012	\$ 23,135
2013	23,135
2014	<u>23,135</u>
	<u>\$ 69,405</u>

7. 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, 2011, amounts received from this granting agency included in support and revenue was approximately \$192,000 which is 43% of total support and revenue. During the year ended June 30, 2010, amounts received from the two largest granting agencies included in support and revenue was approximately \$443,000 which was 67% of total support and revenue.

8. SUBSEQUENT EVENTS

The Organization evaluated all potential subsequent events as of October 25, 2011 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2011 or as of October 25, 2011 that require disclosure to the financial statements.