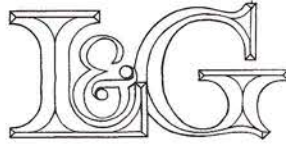


**HARC, INC.**  
**PALM DESERT, CALIFORNIA**

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

**JUNE 30, 2007**



LUND & GUTTRY LLP / CERTIFIED PUBLIC ACCOUNTANTS  
39700 BOB HOPE DRIVE • SUITE 309 • P.O. BOX 250 • RANCHO MIRAGE, CA 92270-0250  
Telephone (760) 568-2242 • Fax (760) 346-8891  
www.lundandguttery.com

## **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, 2007 and the related statements of activities and cash flows for the period September 28, 2006 through June 30, 2007. 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, 2007 and the changes in its net assets and cash flows for the period September 28, 2006 through June 30, 2007 in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Lund &amp; Guttery".

September 21, 2007

HARC, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2007

ASSETS

**CURRENT ASSETS**

Cash	\$	134,426
In-kind receivable - Regional Access Project Foundation		43,804
Prepaid insurance		2,117
Total current assets		<u>180,347</u>

**PROPERTY AND EQUIPMENT - NET**

5,662

**TOTAL ASSETS**

\$ 186,009

LIABILITIES AND NET ASSETS

**CURRENT LIABILITIES**

Accounts payable	\$	17,127
Accrued vacation		3,419
Deferred income - California Wellness Foundation		57,142
Deferred income - Regional Access Project Foundation		22,854
Total current liabilities		<u>100,542</u>

**LONG-TERM LIABILITIES**

Deferred income - Regional Access Project Foundation		<u>20,950</u>
Total long-term liabilities		<u>20,950</u>

Total liabilities

121,492

**NET ASSETS**

Unrestricted		<u>64,517</u>
Total net assets		<u>64,517</u>

**TOTAL LIABILITIES AND NET ASSETS**

\$ 186,009

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

HARC, INC.

STATEMENT OF ACTIVITIES  
FOR THE PERIOD SEPTEMBER 28, 2006 THROUGH JUNE 30, 2007

**REVENUES**

Contributions	\$ 268,320
Contributions - In-kind	2,965
Grants - California Wellness Foundation	114,288
Client requested services	19,666
Interest income	1,800
Total revenues	<u>407,039</u>

**EXPENSES**

Salaries	81,493
Payroll taxes	7,500
Employee benefits	8,046
Books and subscriptions	392
Computer services	667
Depreciation	253
Equipment rental and maintenance	100
In-kind facility use	1,905
Insurance	2,118
Meeting expenses	704
Office supplies	3,598
Other expenses	1,350
Postage	52
Printing	794
Professional services	
Macro International	133,676
Research analyst	33,500
Project consultant	32,682
Technical writer	12,200
Strategic planner	3,000
In-kind accounting fees	1,060
Legal	1,015
Payroll fees	262
Technical training	3,326
Telephone	500
Temporary help	11,825
Travel and mileage	504
Total expenses	<u>342,522</u>

**INCREASE IN NET ASSETS**

64,517

**NET ASSETS AT BEGINNING OF PERIOD**

-

**NET ASSETS AT END OF PERIOD**

\$ 64,517

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

**HARC, INC.**

**STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD SEPTEMBER 28, 2006 THROUGH JUNE 30, 2007**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Increase in net assets	\$ 64,517
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	253
Donated property and equipment	(5,915)
Changes in operating assets and liabilities:	
In-kind receivable	(43,804)
Prepaid insurance	(2,117)
Accounts payable	17,127
Accrued vacation	3,419
Deferred income - California Wellness Foundation	57,142
Deferred income - Regional Access Project Foundation	43,804
Net cash provided by operating activities	<u>134,426</u>
<b>NET INCREASE IN CASH</b>	134,426
<b>CASH</b>	
<b>AT BEGINNING OF PERIOD</b>	<u>-</u>
<b>AT END OF PERIOD</b>	<u><u>\$ 134,426</u></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 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.

##### Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Organization has not received any contributions with donor-imposed restrictions that would result in temporarily or permanently restricted net assets.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

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 has not experienced any losses on such accounts. 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, 2007:

Furniture and equipment	\$ 2,427
Computer equipment	1,513
Web design	<u>1,975</u>
	5,915
Less: accumulated depreciation	<u>(253)</u>
Total	<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, 2007 are as follows:

June 30,	
2008	\$ 22,854
2009	<u>20,950</u>
	<u>\$ 43,804</u>

California Wellness Foundation

The Organization is amortizing the remaining balance of the California Wellness Foundation grant over the remaining life of the original contract, which ends 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 is \$57,142.