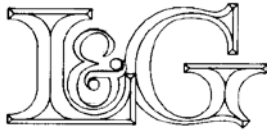


HARC, INC.
PALM DESERT, CALIFORNIA

INDEPENDENT AUDITORS' REPORT
AND FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009



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 statements of financial position of HARC, Inc. as of June 30, 2010 and 2009, 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. The prior year summarized information has been derived from the Organization's 2009 financial statements and, in our report dated October 23, 2009, we expressed an unqualified opinion on those financial statements.

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, 2010 and 2009, 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.

Lund & Guttery

October 18, 2010

HARC, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
CURRENT ASSETS		
Cash	\$ 295,830	\$ 273,506
Certificates of Deposit	-	416,663
Grants receivable	230,000	30,000
Accounts receivable	5,448	-
Prepaid insurance	1,730	1,767
Deposits	2,094	1,418
Total current assets	<u>535,102</u>	<u>723,354</u>
PROPERTY AND EQUIPMENT - NET	<u>15,744</u>	<u>12,942</u>
TOTAL ASSETS	<u>\$ 550,846</u>	<u>\$ 736,296</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 931	\$ 5,315
Accrued vacation	9,645	7,762
Accrued expenses	361	284
Deferred income (See Note 4)	234,828	501,385
Total current liabilities	<u>245,765</u>	<u>514,746</u>
LONG-TERM LIABILITIES		
Deferred income (See Note 4)	-	33,333
Total long-term liabilities	<u>-</u>	<u>33,333</u>
Total liabilities	<u>245,765</u>	<u>548,079</u>
NET ASSETS		
Unrestricted	305,081	188,217
Total net assets	<u>305,081</u>	<u>188,217</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 550,846</u>	<u>\$ 736,296</u>

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

HARC, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

REVENUES	2010	2009
Contributions	\$ 63,150	\$ 85,000
Contributions - In-kind	5,515	29,750
Grants - Desert Healthcare District	291,667	125,000
Grants - California Endowment	151,385	-
Grants - California Wellness Foundation	66,667	66,667
Grants - other	33,333	21,035
Client requested services	45,898	1,800
Interest income	6,668	5,068
Total revenues	<u>664,283</u>	<u>334,320</u>
EXPENSES		
Salaries	164,214	113,436
Payroll taxes	14,039	9,639
Employee benefits	12,346	13,239
Workers compensation insurance	2,803	-
Books and subscriptions	370	236
Computer services	5,527	3,331
Client requested services	-	3,556
Depreciation	3,666	1,805
Dues and fees	585	500
Equipment rental and maintenance	1,578	-
Event	125	1,125
In-kind facility use	-	23,060
Insurance	3,949	2,919
Meeting expenses	565	1,974
Office supplies	2,825	2,656
Other expenses	1,835	2,844
Postage	716	47
Printing	4,744	26,298
Professional services		
Data collection	237,286	-
Fundraising Fees	7,502	13,925
Research analyst	-	5,761
Project consultant	3,643	27,883
Technical writer	15,232	11,350
Public relations	10,606	-
Strategic planner	6,000	3,000
Accounting and audit	5,850	5,500
In-kind accounting fees	3,690	3,820
Legal	1,645	3,133
Payroll fees	1,036	1,063
Rent	22,213	-
Technical training	6,366	2,707
Telephone	3,479	2,116
Temporary help	-	3,103
Travel and mileage	1,093	1,268
Utilities	1,891	-
Total expenses	<u>547,419</u>	<u>291,294</u>
INCREASE IN NET ASSETS	<u>116,864</u>	<u>43,026</u>
NET ASSETS AT BEGINNING OF YEAR	<u>188,217</u>	<u>145,191</u>
NET ASSETS AT END OF YEAR	<u>\$ 305,081</u>	<u>\$ 188,217</u>

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

HARC, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 116,864	\$ 43,026
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	3,666	1,805
Donated property and equipment	(1,700)	(625)
Changes in operating assets and liabilities:		
Grants receivable	(200,000)	80,000
In-kind receivable	-	20,950
Accounts receivable	(5,448)	9,834
Prepaid insurance	37	(279)
Deposits	(676)	(373)
Accounts payable	(4,384)	4,470
Accrued vacation	1,883	638
Accrued expenses	77	(511)
Deferred income	(299,890)	247,101
Net cash provided (used) by operating activities	<u>(389,571)</u>	<u>406,036</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales (purchases) of certificates of deposit, net	416,663	(281,637)
Purchases of equipment	(4,768)	(8,473)
Net cash provided (used) by investing activities	<u>411,895</u>	<u>(290,110)</u>
NET INCREASE IN CASH	22,324	115,926
CASH		
AT BEGINNING OF YEAR	<u>273,506</u>	<u>157,580</u>
AT END OF YEAR	<u>\$ 295,830</u>	<u>\$ 273,506</u>

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

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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 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, 2010 and 2009, there were no temporarily or permanently restricted net assets.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

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 had approximately \$80,000 in excess of the \$250,000 FDIC insurance limits at June 30, 2010.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 4,431	\$ 4,431
Computer equipment	15,017	8,549
Leasehold improvements	1,248	1,248
Web design	<u>1,975</u>	<u>1,975</u>
	22,671	16,203
Less: accumulated depreciation	<u>(6,927)</u>	<u>(3,261)</u>
Total	<u>\$ 15,744</u>	<u>\$ 12,942</u>

4. DEFERRED INCOME

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 has amortized 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 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 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 amortized the grant over the life of the contract which ended in May 2010.

Community Foundation

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

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

4. DEFERRED INCOME – (continued)

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 is amortizing the entire cost of the project over a 12 month period which ends in April 2011.

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

	<u>2010</u>	<u>2009</u>
Desert Healthcare District	\$ 183,333	\$ 275,000
California Wellness Foundation	33,333	100,000
California Endowment	-	151,385
Community Foundation	-	8,333
Eisenhower Medical Center	<u>18,162</u>	<u>-</u>
	<u>\$ 234,828</u>	<u>\$ 534,718</u>
Deferred income – current portion	\$ 234,828	\$ 501,385
Deferred income – long-term portion	<u>-</u>	<u>33,333</u>
	<u>\$ 234,828</u>	<u>\$ 534,718</u>

5. 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 \$1,849 for the year ending June 30, 2010. 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, 2010 was \$22,213. Future minimum operating lease payments are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 22,544
2012	22,544
2013	22,544
2014	<u>22,544</u>
	<u>\$ 90,176</u>

6. 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, 2010, amounts received from these two granting agencies included in support and revenue was approximately \$443,000 which was 67% of total support and revenue. During the year ended June 30, 2009, amounts received from the two largest granting agencies included in support and revenue was approximately \$192,000 which was 57% of total support and revenue.

HARC, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

7. SUBSEQUENT EVENTS

The Organization evaluated all potential subsequent events as of October 18, 2010 when the financial statements were authorized and available to be issued. No subsequent events or transactions were identified after June 30, 2010 or as of October 18, 2010 that require disclosure to the financial statements.