

HARBOR INTERFAITH SERVICES, INC.

**AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION**

For The Year Ended December 31, 2008

HARBOR INTERFAITH SERVICES, INC.
AUDITED FINANCIAL STATEMENTS AND OTHER INFORMATION
For The Year Ended December 31, 2008

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	12-13
OTHER INFORMATION	
Supports and Revenues	14
Expenses Breakdown	15
Programs Detail	16

REPORT OF INDEPENDENT AUDITORS

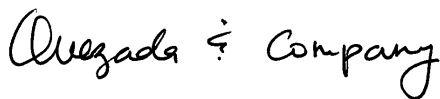
Board of Directors
Harbor Interfaith Services, Inc.

We have audited the accompanying statement of financial position of Harbor Interfaith Services, Inc. (HIS) as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of HIS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 HIS as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2009 on our consideration of HIS's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. The statistical charts presented under other information section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The statistical charts have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Pasadena, California
May 13, 2009

FINANCIAL INFORMATION

HARBOR INTERFAITH SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2008

ASSETS

Cash and cash equivalents	\$ 360,108
Grants receivable	202,351
Prepaid expenses	21,050
Land, building and equipment - net of accumulated depreciation and amortization of \$1,328,266	3,047,936

Total Assets	\$ 3,631,445
---------------------	---------------------

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 4,158
Accrued expenses	48,625
Client deposits	35,306
Deferred revenue	7,529
Note payable	467,712
Total liabilities	563,330

Net Assets

Unrestricted	2,909,269
Temporarily restricted	158,846
Total net assets	3,068,115

Total Liabilities and Net Assets	\$ 3,631,445
---	---------------------

The accompanying notes are an integral part of these financial statements.

HARBOR INTERFAITH SERVICES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Total
SUPPORTS AND REVENUES			
Government grants			
Federal	\$ 235,271	\$	\$ 235,271
State	577,814		577,814
Church and other organizations	159,601	297,882	457,483
Contributions	222,407		222,407
In-kind donations	181,258		181,258
Rental income	136,972		136,972
Interest income	4,564		4,564
Other income	4,423		4,423
Special events	57,290		57,290
Net assets released from restrictions	205,081	(205,081)	-
	<u>1,784,681</u>	<u>92,801</u>	<u>1,877,482</u>
Total Supports and Revenues			
EXPENSES			
Program Services:			
Family Shelter Program	387,335		387,335
Childcare Center	249,679		249,679
FISH & Advocacy Center	179,822		179,822
HIS Kids Club	77,768		77,768
Continuum of Care/CASA	20,849		20,849
Accelerated Learning and Living	306,970		306,970
Family Resource Center	263,341		263,341
	<u>1,485,764</u>	<u>-</u>	<u>1,485,764</u>
Total Program Services			
Support Services:			
Management and general	130,389		130,389
Fundraising	317,249		317,249
	<u>447,638</u>	<u>-</u>	<u>447,638</u>
Total Support Services			
Total Expenses	<u>1,933,402</u>	<u>-</u>	<u>1,933,402</u>
Increase (decrease) in Net Assets	(148,721)	92,801	(55,920)
Net Assets, beginning of year	<u>3,057,990</u>	<u>66,045</u>	<u>3,124,035</u>
Net Assets, end of year	<u>\$ 2,909,269</u>	<u>\$ 158,846</u>	<u>\$ 3,068,115</u>

The accompanying notes are an integral part of these financial statements.

HARBOR INTERFAITH SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2008

	Family Shelter Program	Childcare Center	FISH & Advocacy Center	HIS Kids Club	Continuum of Care / CASA	Accelerated Learning and Living	Family Resource Center	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	\$ 155,801	\$ 155,800	\$ 62,779	\$ 24,521	\$ 4,933	\$ 106,177	\$ 169,798	\$ 679,809	\$ 62,763	\$ 84,724	\$ 147,487	\$ 827,296
Benefits	19,704	29,234	4,455	569	25	9,901	15,419	79,307	2,545	1,228	3,773	83,080
Payroll taxes	14,676	13,481	5,182	2,493	419	9,271	17,157	62,679	5,053	6,878	11,931	74,610
In-kind donations	8,116	5,910	24,903	393	12,769	250	7,755	60,096	3,593	117,569	121,162	181,258
Aid to clients	33,813	13,065	57,731	12,374		10,488	14,618	142,089	(304)		(304)	141,785
Telephone	4,316	1,519	996	545		2,242	838	10,456	4,542	2,536	7,078	17,534
Utilities	19,604	2,772	5,645			15,885	3,488	47,394	3,382	509	3,891	51,285
Office supplies, printing & postage	5,395	2,278	3,476	1,492	11	2,577	5,965	21,194	11,622	14,376	25,998	47,192
Repair & maintenance	41,573	9,446	2,866	20,727		75,721	2,972	153,305	3,855	97	3,952	157,257
Training & travel	800		66			28	794	1,688	1,017	106	1,123	2,811
Recruiting	535		110				631	1,276		71	71	1,347
Professional services	7,799	9,265	9,265	6,882	2,115	22,116	9,693	67,135	6,716	6,882	13,598	80,733
Proposal writer										45,000	45,000	45,000
Insurance	6,960	2,755	1,833	577	577	16,737	8,314	37,753	2,373	577	2,950	40,703
Property taxes	660	230	90			2,031	217	3,228	323		323	3,551
Depreciation & amortization	62,548	3,679	226	7,195		32,559	5,483	111,690	13,448		13,448	125,138
Promotional expenses			199				199	398	3,185	3,059	6,244	6,642
Sepecial event expenses										28,367	28,367	28,367
Miscellaneous expenses	5,035	245				987		6,267	6,276	5,270	11,546	17,813
Total	\$ 387,335	\$ 249,679	\$ 179,822	\$ 77,768	\$ 20,849	\$ 306,970	\$ 263,341	\$ 1,485,764	\$ 130,389	\$ 317,249	\$ 447,638	\$ 1,933,402

The accompanying notes are an integral part of these financial statements.

HARBOR INTERFAITH SERVICES, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2008

Cash flows from operating activities:	
Change in net assets	\$ (55,920)
Adjustment to reconcile change in net assets to net cash provided by operations	
Depreciation and amortization	125,138
Changes in operating assets and liabilities	
(Increase) in grants receivable	(49,191)
(Increase) in prepaid expenses	(9,343)
Increase in accounts payable	4,158
Increase in accrued expenses	7,692
Increase in client deposits	4,475
(Decrease) in deferred revenue	(7,471)
Net cash provided by operating activities	<u>19,538</u>
Cash flows from investing activities:	
Net acquisition of land, building and equipment	(481,136)
Net cash (used in) investing activities	<u>(481,136)</u>
Cash flows from financing activities:	
Increase in note payable	467,712
Net cash provided by financing activities	467,712
Net increase in cash and cash equivalents	6,114
Cash and cash equivalents, beginning of year	<u>353,994</u>
Cash and cash equivalents, end of year	<u>\$ 360,108</u>

The accompanying notes are an integral part of these financial statements.

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2008

NOTE 1 - ORGANIZATION AND OPERATIONS

Harbor Interfaith Services, Inc. (HIS) is a not for profit California Corporation. HIS contracts with federal, state and local government agencies and obtains private contributions to empower the homeless and working poor to achieve self sufficiency by providing support services including shelter, transitional housing, food, job placement, advocacy, childcare, education and life-skills training. A volunteer board of directors governs the HIS.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of HIS have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles accepted in the United States of America as applicable to not-for-profit organizations. The financial statements have been presented in accordance with the AICPA's Audit and Accounting Guide, "Not-for-Profit Organizations".

Net Assets

HIS recognizes contributions as revenue in the period received. Revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets. Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets. Temporarily restricted net assets consist of cash received with donor imposed restrictions that limit the use of the donated assets. When a donor imposed time restriction ends or the purpose of restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Recognition of Donor Restricted Contributions

Contributions received are recorded as increase in unrestricted, temporarily restricted, or permanently restricted net assets. Donor-restricted support is reported as an increase in temporarily restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. There were no permanently restricted net assets as of December 31, 2008.

Grants and Contracts

Grants and contracts with governmental agencies are deemed to be exchange transactions and accordingly, revenue is recognized when earned or when funds are utilized by HIS to carry out the activity stipulated in the grant or contract. Accordingly, amounts expended but not yet received are classified as grants receivable. Cash received in excess of expenses incurred is recorded as deferred revenue until the excess is expended for the purpose of grants and contracts, at which time they are recognized as revenue.

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2008

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in checking and money market accounts with maturities of three months or less at the time of purchase.

In-kind Donations

HIS records the value of donated goods and services when there is an objective basis available to measure their value. Donated goods and services are reflected in the accompanying financial statements at their estimated fair value at date of donation.

Land, Building and Equipment

Land, building and equipment are recorded at cost or at estimated fair market value at the date of donation, less accumulated depreciation and amortization. Donations of fixed assets are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation on buildings, leasehold improvements, equipments, and vehicles is presented by using straight-line method over estimated lives of assets, ranging from 5 to 30 years. HIS capitalizes all purchases of equipment in excess of \$1,000.

Land, building and equipment purchased with government grants are recognized as revenues and expenses in the period in which they are received. HIS capitalizes these assets and records a liability in the event that the grantors request that these assets be returned. These assets are not depreciated as they have been expensed in the year earned.

Client Deposits

Clients living at the family shelter are required to deposit a portion of their income with HIS so that at a later date they will have resources to locate permanent housing. The deposits are refunded to the clients when they exit the program.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of financial statements, and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Income Tax

HIS is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2008

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2008 consist of the following:

Cash on hand and in bank	\$ 72,517
Client deposits	35,306
Money market funds	252,285
Total	<u>\$ 360,108</u>

As of December 31, 2008, HIS's cash and cash equivalents balance is \$360,108. Accounts are with two financial institutions insured by Federal Deposit Insurance Corporation (FDIC) for up to \$250,000 per depositor and one Brokerage Company insured by Security Investors Protection Corporation (SIPC) for up to \$100,000 on cash and \$400,000 on securities.

NOTE 4 – GRANTS RECEIVABLE AND DEFERRED REVENUE

Details of grants receivable and deferred revenue as of December 31, 2008 are as follows:

Grant	Program	Balance
Grants Receivable:		
Federal:		
FEMA	Family Shelter	\$ 42,652
FEMA	Fish	4,322
LASHA	Fish	11,904
LASHA	Family Shelter	57,406
State:		
EHAP-Capital	Family Shelter	79,522
Food Bank	Family Resource Center	6,545
Total		<u>\$ 202,351</u>
Deferred Revenue:		
State:		
EHAP	Family Shelter	\$ (7,529)
Total		<u>\$ (7,529)</u>

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2008

NOTE 5 – LAND, BUILDING AND EQUIPMENT

Land, building and equipment as of December 31, 2008 consist of the following:

Land	\$ 886,123
Building and leasehold improvements	3,276,018
Vehicles	82,974
Office equipment	126,929
Construction in progress	4,158
	<u>\$ 4,376,202</u>
Less: accumulated depreciation	<u>(1,328,266)</u>
	<u><u>\$ 3,047,936</u></u>

Total additions to building and leasehold improvements amounted to \$467,713 during the fiscal year 2008. Total additions to office equipment amounted to \$9,265 during fiscal year 2008. Total additions to construction in progress amounted to \$4,158 during the fiscal year 2008 and were for HIS office building renovation project.

Depreciation expense for the year ended December 31, 2008 was \$125,138.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2008 were available for program cost was as follows:

Accelerated Learning and Living	\$ 15,000
FISH & Advocacy Center	2,274
Family Resource Center	112,983
HIS Kids Club	13,594
Childcare Center	14,995
Total	<u><u>\$ 158,846</u></u>

NOTE 7 - NET ASSETS RELEASED FROM DONORS' RESTRICTIONS

Net assets were released from donors' restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The details of net assets released from program restrictions during the year ended December 31, 2008 were as follows:

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2008

Accelerated Learning and Living	\$ 61,540
Family Shelter Program	70,000
FISH & Advocacy Center	7,949
Family Resource Center	12,017
HIS Kids Club	20,688
Childcare Center	32,887
Total	<u>\$ 205,081</u>

NOTE 8 – IN-KIND DONATIONS

HIS has in-kind donations of \$181,258 for fiscal year 2008. The in-kind donations comprised of donated goods of \$64,224 and donated services of \$117,034.

NOTE 9 – EXPENDITURES OF FEDERAL AND STATE AWARDS

The details of the program expenditures for the year ended December 31, 2008 was as follows:

<u>Program Grants</u>	<u>Federal Expenditures</u>	<u>State Expenditures</u>
Federal:		
FEMA (Shelter)	\$ 52,127	\$
FEMA (Fish)	39,135	
USDA	2,795	
HUD	127,673	
Food Bank	13,541	
State and local:		
LASHA (Shelter)		239,249
LASHA (Fish)		49,862
Proposition 10		234,604
EHAP		37,471
CSBG		12,809
Other		3,819
Total	<u>\$ 235,271</u>	<u>\$ 577,814</u>

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2008

NOTE 10 – NOTE PAYABLE

The Department of Housing and Community Development granted HIS a forgivable loan of \$467,712 for the Family Shelter rehabilitation project (shelter). The shelter capital development project (the project) was completed in fiscal year 2008. The loan term will be for seven years and bare interest of 3% per annum.

The loan is forgivable upon the satisfaction that HIS completes seven (7) years of utilizing the shelter for the purpose specified in the initial application and that HIS provides shelter night service in the amount of the loan. As of December 31, 2008, the total consideration of shelter nights served is \$204,600. No accrual for the interest has been made because management believes HIS will fully comply with the conditions and the loan will be forgiven.

NOTE 11 – FUNDRAISING EVENT

During 2008, HIS established the South Bay Auxiliary of Harbor Interfaith Services, Inc. (Auxiliary), which is a sub-committee of the Board, comprised of volunteers. The primary function of the Auxiliary is to hold an annual fundraising event to procure funds for HIS programs. In fiscal year 2008, HIS received \$105,794 in fundraising donations, of which \$57,290 was recorded in special events and \$48,504 was recorded in contributions. Total event expenditure amounted to \$27,848 and was recorded in fundraising expense.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Line of Credit

HIS has a line of credit for \$100,000 with an interest rate of 11.25%. As of December 31, 2008, there was no outstanding borrowing under this line of credit.

Federal and State Funds

HIS has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Harbor Interfaith Services, Inc.

We have audited the financial statements of Harbor Interfaith Services, Inc. (HIS) as of and for the year ended December 31, 2008, and have issued our report thereon dated May 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered HIS's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HIS's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HIS's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance an Other Matters

As part of obtaining reasonable assurance about whether HIS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

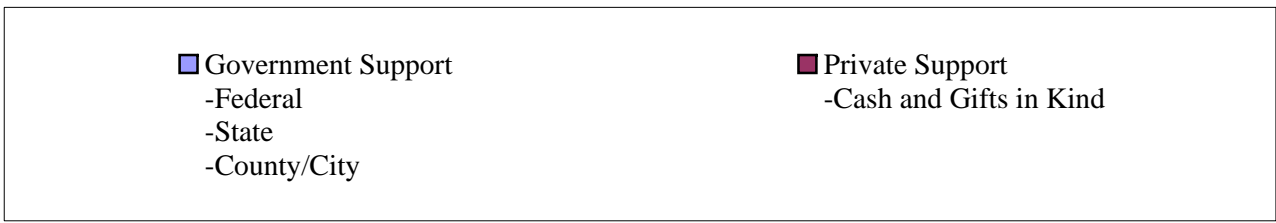
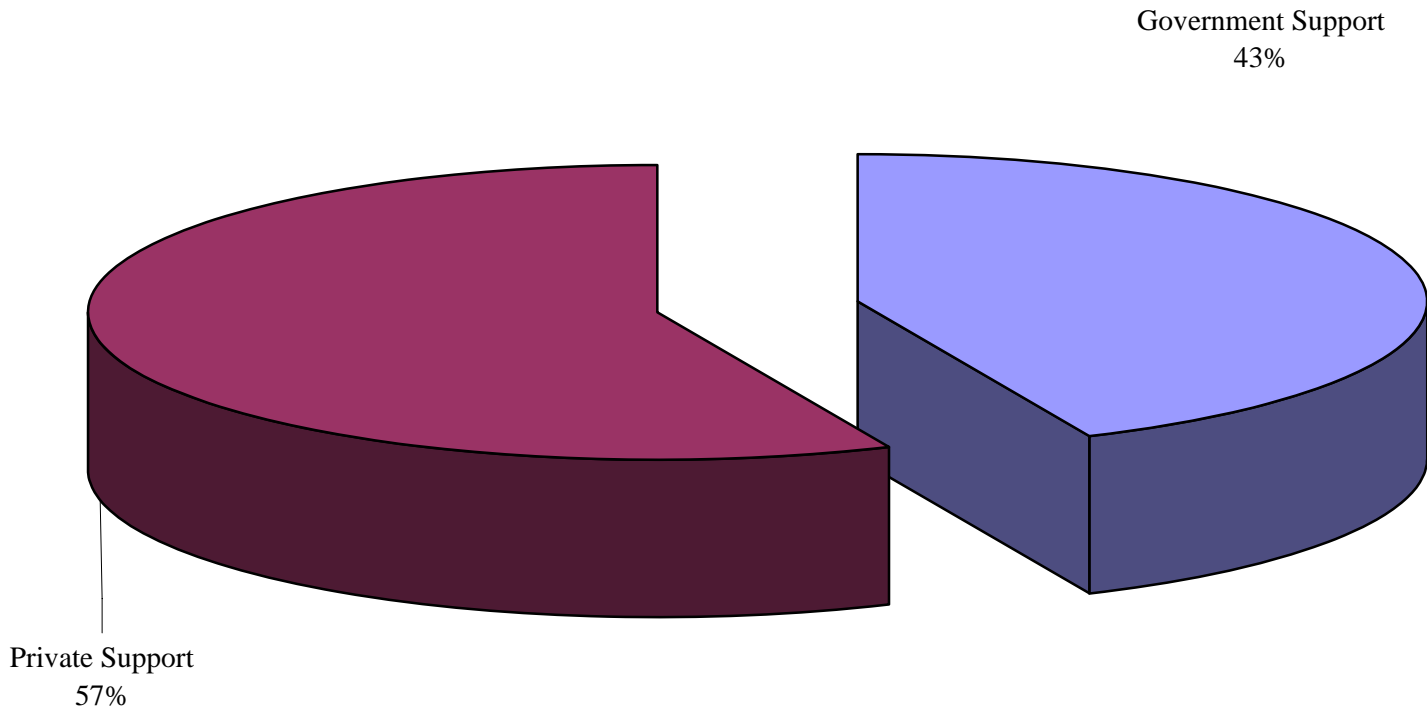
This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Quezada & Company

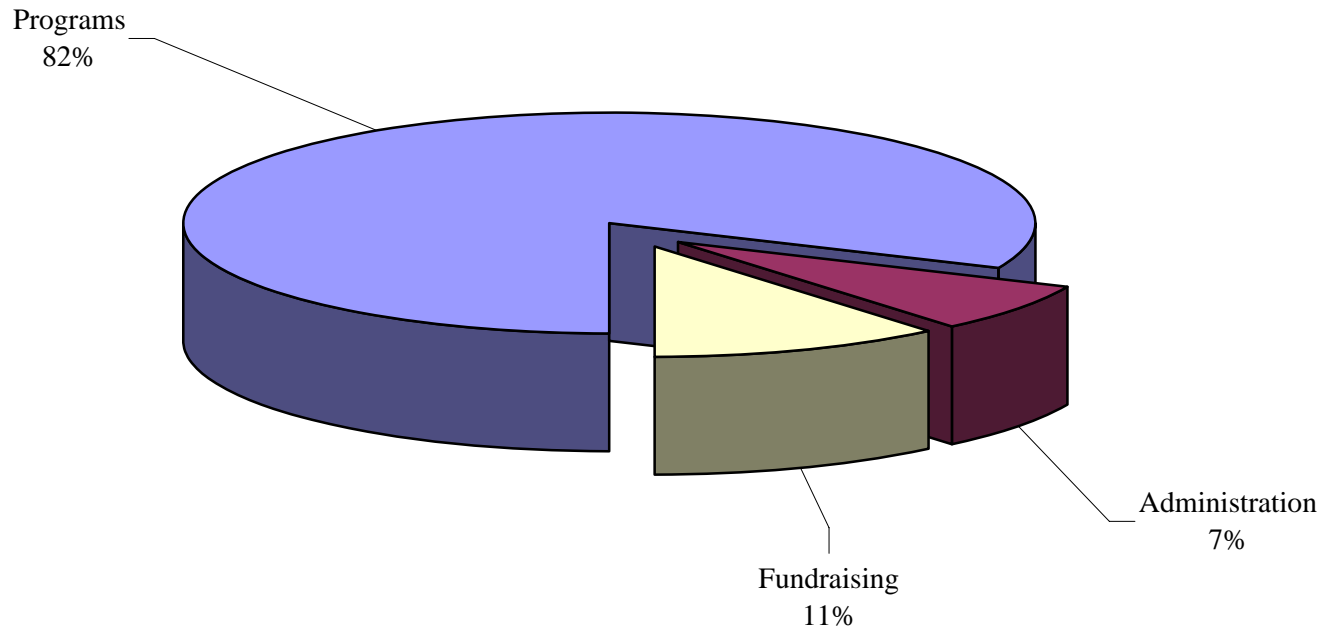
Pasadena, California
May 13, 2009

OTHER INFORMATION

2008 Supports and Revenues



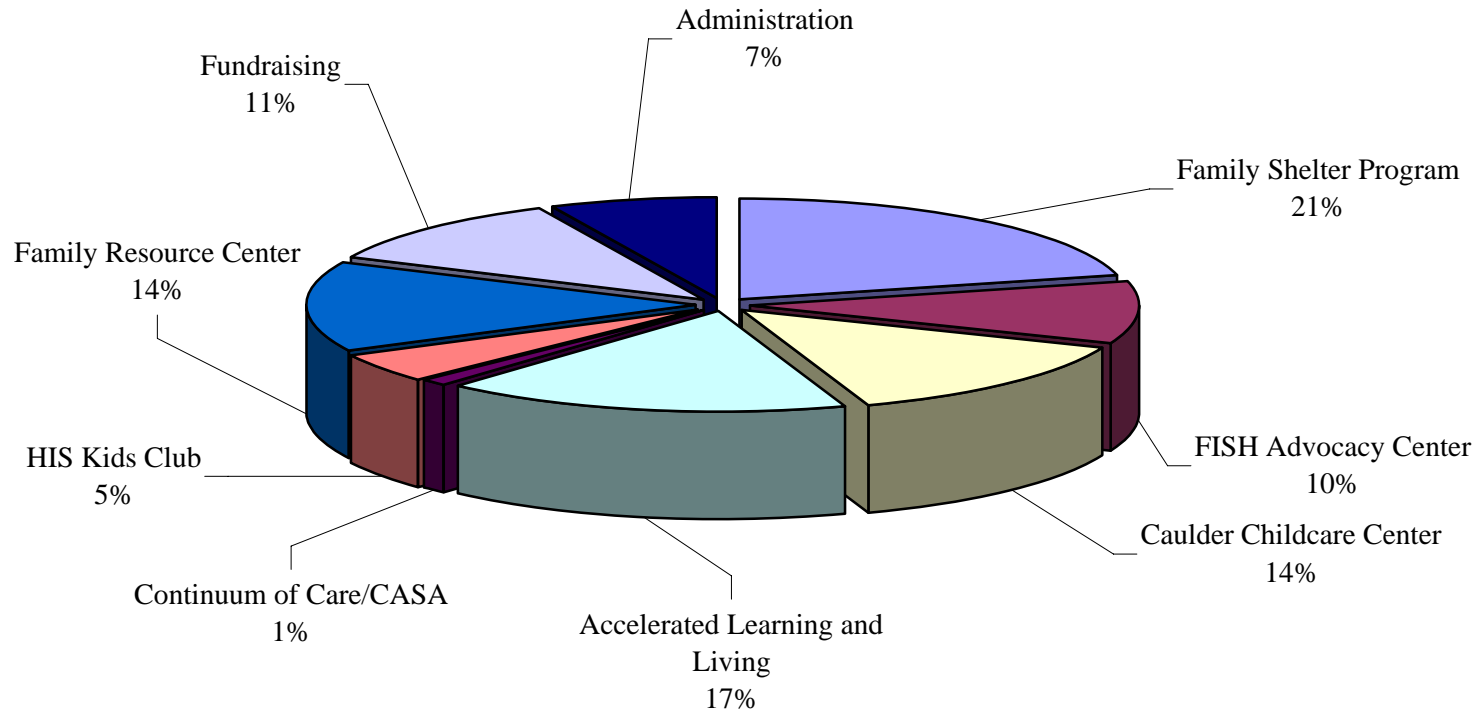
2008 Expenses Breakdown



Note:
Expenses excluded donated services



2008 Programs Detail



Note:
Expenses excluded donated services

Family Shelter Program	FISH Advocacy Center	Caulder Childcare Center
Accelerated Learning and Living	Continuum of Care/CASA	HIS Kids Club
Family Resource Center	Fundraising	Administration