

HARBOR INTERFAITH SERVICES, INC.

**AUDITED FINANCIAL STATEMENTS
AND OTHER INFORMATION**

For The Year Ended December 31, 2009

HARBOR INTERFAITH SERVICES, INC.
AUDITED FINANCIAL STATEMENTS AND OTHER INFORMATION
For The Year Ended December 31, 2009

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REPORT OF INDEPENDENT AUDITORS

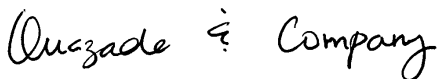
Board of Directors
Harbor Interfaith Services, Inc.

We have audited the accompanying statement of financial position of Harbor Interfaith Services, Inc. ("HIS") as of December 31, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of HIS' 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 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, 2009, 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 July 21, 2010 on our consideration of HIS' 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
July 21, 2010

FINANCIAL INFORMATION

**HARBOR INTERFAITH SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009**

ASSETS

Cash and cash equivalents	\$ 5,203,715
Grants receivable	92,086
Investments	182,423
Prepaid expenses	12,085
Land, building and equipment - net of accumulated depreciation and amortization of \$1,465,226	3,275,006
Total Assets	\$ 8,765,315

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	5,397
Accrued expenses	51,092
Client deposits	44,793
Note payable	467,712
Total liabilities	568,994

Net Assets

Unrestricted	3,237,704
Temporarily restricted	4,958,617
Total net assets	8,196,321
Total Liabilities and Net Assets	\$ 8,765,315

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

HARBOR INTERFAITH SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Government grants			
Federal	\$ 683,974	\$ -	\$ 683,974
State	22,529	-	22,529
Local	45,116	4,969,000	5,014,116
Church and other organizations	326,220	172,000	498,220
Contributions	230,094	-	230,094
In-kind donations	491,140	-	491,140
Program income	25,548	-	25,548
Rental income	156,528	-	156,528
Interest income	3,586	-	3,586
Other income	4,161	-	4,161
Fundraising income	159,137	-	159,137
Net assets released from restrictions		-	
Satisfaction of program restrictions	288,619	(288,619)	-
Satisfaction of equipment acquisition	52,610	(52,610)	-
Total Support and Revenue	<u>2,489,262</u>	<u>4,799,771</u>	<u>7,289,033</u>
EXPENSES			
Program Services:			
Family Resource Center	476,625	-	476,625
Family Shelter Program	471,933	-	471,933
Childcare Center	246,768	-	246,768
HIS Kids Club	52,787	-	52,787
Accelerated Learning and Living	326,998	-	326,998
Total Program Services	<u>1,575,111</u>	<u>-</u>	<u>1,575,111</u>
Support Services:			
Management and general	151,060	-	151,060
Fundraising	434,656	-	434,656
Total Support Services	<u>585,716</u>	<u>-</u>	<u>585,716</u>
Total Expenses	<u>2,160,827</u>	<u>-</u>	<u>2,160,827</u>
Increase in Net Assets	328,435	4,799,771	5,128,206
Net Assets, Beginning of Year	<u>2,909,269</u>	<u>158,846</u>	<u>3,068,115</u>
Net Assets, End of Year	<u>\$ 3,237,704</u>	<u>\$ 4,958,617</u>	<u>\$ 8,196,321</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, 2009

	Family Resource Center	Family Shelter Program	Childcare Center	HIS Kids Club	Accelerated Learning and Living	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Salaries	\$ 252,899	\$ 211,033	\$ 153,457	\$ 21,309	\$ 105,316	\$ 744,014	\$ 67,647	\$ 93,188	\$ 160,835	\$ 904,849
Benefits	27,857	31,932	29,833	933	9,249	99,804	10,591	2,039	12,630	112,434
Payroll taxes	21,725	19,385	14,669	2,126	9,494	67,399	5,601	7,488	13,089	80,488
In-kind donations	30,575	15,623	5,698	-	-	51,896	1,988	135,645	137,633	189,529
Aid to clients	71,203	37,761	12,400	14,214	65,940	201,518	-	(45)	(45)	201,473
Telephone	1,608	3,957	1,264	609	2,000	9,438	4,657	2,583	7,240	16,678
Utilities	8,461	19,215	2,515	-	15,380	45,571	3,377	752	4,129	49,700
Office supplies, printing & postage	7,409	3,562	1,983	16	3,426	16,396	10,917	10,236	21,153	37,549
Repair & maintenance	6,270	42,290	5,742	2,864	39,569	96,735	8,701	574	9,275	106,010
Training & travel	1,039	970	-	35	23	2,067	22	234	256	2,323
Recruiting	-	729	337	110	-	1,176	125	-	125	1,301
Professional services	19,106	12,355	12,985	2,465	20,990	67,901	5,487	9,489	14,976	82,877
Proposal writer	-	-	-	-	-	-	-	45,000	45,000	45,000
Insurance	12,126	7,424	4,185	421	16,888	41,044	6,030	930	6,960	48,004
Property taxes	313	685	237	-	2,103	3,338	224	-	224	3,562
Depreciation & amortization	15,032	64,151	623	7,685	35,737	123,228	13,733	-	13,733	136,961
Promotional & fundraising expenses	682	85	-	-	31	798	3,922	119,002	122,924	123,722
Miscellaneous expenses	320	776	840	-	852	2,788	8,038	7,541	15,579	18,367
Total	\$ 476,625	\$ 471,933	\$ 246,768	\$ 52,787	\$ 326,998	\$ 1,575,111	\$ 151,060	\$ 434,656	\$ 585,716	\$ 2,160,827

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, 2009

Cash flows from operating activities:	
Change in net assets	\$ 5,128,206
Adjustment to reconcile change in net assets to net cash provided by operations	
Depreciation and amortization	136,961
In-kind donated fixed asset	(301,612)
Changes in operating assets and liabilities	
Decrease in grants receivable	110,265
Decrease in prepaid expenses	8,965
Increase in accounts payable	1,239
Increase in accrued expenses	2,467
Increase in client deposits	9,487
(Decrease) in deferred revenue	(7,531)
Net cash provided by operating activities	<u>5,088,447</u>
Ca: Accrued expenses	
Net acquisition of land, building and equipment	(62,417)
Purchase of investments	(182,423)
Net cash (used in) investing activities	<u>(244,840)</u>
Net increase in cash and cash equivalents	4,843,607
Cash and cash equivalents, beginning of year	<u>360,108</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,203,715</u></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, 2009

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, 2009.

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, 2009

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 recognizes donated services as those that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Donated goods and services are reflected in the accompanying financial statements at their estimated fair value at the 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.

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2009

Pledges

Pledges, which were not material for the year ended December 31, 2009, are recorded as they are received.

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. In accordance with the Income Taxes Topic of the Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”), the accounting for uncertainties in income taxes recognized in an entity’s financial statements and prescribes a threshold of more-likely-than-not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statement. The determination of tax exempt status is considered to be a tax position taken with respect to the provisions of FASB. HIS does not believe its financial statements include any uncertain tax positions.

NOTE 3 - FAIR VALUE MEASUREMENTS

In September 2006, the FASB ASC issued the Fair Value Measurements and Disclosures Topic, which was adopted on January 1, 2008. FASB ASC does not require any new fair value measurements, but it defines fair value, establishes a framework for measuring fair value in accordance with existing generally accepted accounting principles (“GAAP”), and expands disclosure about fair value measurements. Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value and the level of market price observability.

Investments measured and reported at fair value using Level inputs, as defined by FASB, are classified and disclosed in one of the following categories.

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 includes U.S. Treasury obligations and listed equities. As required by FASB ASC, quoted price for these investments are not adjusted, even in situations where a large position is held and sale could reasonably impact the quoted price.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include non-U.S. equities, equity funds, corporate obligations, municipal obligations, other government obligations, and money market funds.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management, judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following is a description of the valuation methodologies used for assets measured at fair value.

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2009

Fixed income and Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value (“NAV”) of shares held by HIS at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while HIS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, HIS’ assets at fair value as of December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market mutual funds	\$ -	\$ 182,423	\$ -	\$ 182,423
Total Investment at fair value	<u>\$ -</u>	<u>\$ 182,423</u>	<u>\$ -</u>	<u>\$ 182,423</u>

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2009 consist of the following:

Cash on hand and in bank	\$ 5,158,922
Client deposits	44,793
Total	<u>\$ 5,203,715</u>

NOTE 5 – INVESTMENTS

Investments consist of funds in money market mutual funds. As of December 31, 2009, the balance is \$182,423.

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2009

NOTE 6 – GRANTS RECEIVABLE

Details of grants receivable as of December 31, 2009 are as follows:

Grant	Program	Balance
Grants Receivable:		
Federal:		
<i>Department of Housing and Urban Development</i>		
LASHA	Family Shelter	\$ 981
LASHA	Accelerated Learning and Living	5,044
LASHA	Family Shelter (Redemption)	26,816
<i>Department of Health and Human Services</i>		
LASHA	Family Shelter	11,324
<i>Department of Agriculture</i>		
Food Bank	Family Resource Center	7,921
State:		
EHAP	Family Shelter	15,000
Other:		
	United Way	25,000
Total		<u>\$ 92,086</u>

NOTE 7 – LAND, BUILDING AND EQUIPMENT

Land, building and equipment as of December 31, 2009 consist of the following:

Land	\$ 886,123
Building and leasehold improvements	3,319,072
Vehicles	82,974
Office equipment	126,929
Construction in progress	325,134
	<u>\$ 4,740,232</u>
Less: accumulated depreciation	(1,465,226)
	<u>\$ 3,275,006</u>

Total additions to building and leasehold improvements amounted to \$43,055 during the fiscal year 2009. Total additions to construction in progress amounted to \$320,976, which includes \$268,366 of in-kind donated legal services, during the fiscal year 2009 and pertains to the rebuild project referred to in Note 17.

Depreciation expense for the year ended December 31, 2009 was \$136,961.

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2009

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2009 were available for program cost was as follows:

Childcare Center	\$ 1,100
Family Resource Center	4,957,517
Total	<u>\$ 4,958,617</u>

NOTE 9 – 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, 2009 were as follows:

Accelerated Learning and Living	\$ 15,000
Family Resource Center	251,740
HIS Kids Club	23,594
Childcare Center	50,895
Total	<u>\$ 341,229</u>

NOTE 10 – IN-KIND DONATIONS

HIS had in-kind donations of \$491,140 for fiscal year ended December 31, 2009. The in-kind donations comprised of donated goods and services.

NOTE 11 – 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 the fiscal year ended December 31, 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, 2009, the total consideration of shelter nights served is \$254,638, aggregating \$459,238 in shelter nights served since receipt of the loan. No accrual for the interest has been made because management believes HIS will fully comply with the conditions and the loan will be forgiven.

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2009

NOTE 12 – FUNDRAISING EVENT

During the fiscal year ended December 31, 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 the fiscal year ended December 31, 2009, HIS received \$159,137 in fundraising donations, and total event expenditure amounted to \$112,122 which was recorded in promotional and fundraising expense.

NOTE 13 – RETIREMENT PROGRAM

HIS has an employee voluntary retirement program under a 403(b) group plan that is open to all employees. HIS does not contribute to the plan.

NOTE 14 – 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, 2009, 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.

NOTE 15 – PROGRAMS

HIS merged the following agency programs. The Family Resource Center serves as the umbrella for the following programs: FISH – Emergency Food and Advocacy Center, Continuum of Care – home visitation program, and HOPE for seniors (Having Opportunities and Producing Excellence). The Family Resource Center continues to provide the same level of services to the homeless and working poor. The Family Resource Center is a one-stop center that addresses the needs of the entire family.

NOTE 16 – CONCENTRATION OF REVENUE SOURCE

HIS’ revenue from government grants aggregated \$5,720,619, accounting for approximately 78% of the total revenue of \$7,289,033 as of December 31, 2009.

NOTE 17 – SIGNIFICANT EVENTS

In October 2009, HIS received a contribution of \$4,969,000 from the County of Los Angeles for the construction of a new service center, which will replace the existing Family Resource Center, Child Care Center and administrative offices. HIS has entered into an agreement with an architect firm for services

HARBOR INTERFAITH SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS
For The Year Ended December 31, 2009

with a total fee of \$239,700 that is payable in phases, coinciding with the phases of the construction plan, which was not recorded as a payable because the agreement may be terminated by either party; HIS was in phase three – the schematic design and entitlement services phase – of the construction plan as of December 31, 2009. HIS had \$325,134 in construction in progress, as described in Note 7, as of December 31, 2009, which is comprised of \$52,610 expended of temporary restricted funds, \$4,158 expended of unrestricted funds and \$268,366 of in-kind legal services related to the construction of the new service center were received and capitalized as construction in progress as of December 31, 2009.

NOTE 18 – SUBSEQUENT EVENTS

In connection with the preparation of the financial statements, HIS evaluated subsequent events through July 21, 2010, which was the date the financial statements were available for issuance, and concluded that no additional disclosures are required.

**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, 2009, and have issued our report thereon dated July 21, 2010. 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’ 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’ internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of HIS’ 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' 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.

Quzade & Company

Pasadena, California
July 21, 2010

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Harbor Interfaith Services, Inc.

Compliance

We have audited the compliance of Harbor Interfaith Services, Inc. (“HIS”), a nonprofit public benefit corporation, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. HIS’ major federal programs are identified in the summary of auditor’s result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of HIS’ management. Our responsibility is to express an opinion on HIS’ compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HIS’ compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on HIS’ compliance with those requirements.

In our opinion, HIS complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended December 31, 2009.

Internal Control Over Compliance

The management of HIS is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered HIS’ internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the HIS’ internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Harbor Interfaith Services (HIS), and the related statements of activities, functional expenses and cash flows as of and for the year ended December 31, 2009, and have issued our report thereon dated July 21, 2010. Our audit was performed for the purpose of forming opinions on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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.

Quisade & Company

Pasadena, California
July 21, 2010

**HARBOR INTERFAITH SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL, STATE, AND LOCAL/OTHER AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009**

Federal Grantor/Program Title	Grant Period	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures			
				Federal	State	Local/Other	Total
U.S. Department of Agriculture State Administrative Matching Grants for Food Stamp Program	October '08 - September '09	10.561	08-85121	\$ 4,194	\$ 47,519	\$ -	\$ 51,713
U.S. Department of Housing and Urban Development Supportive Housing Program	January '09 - December '09	14.235	CA16B70057	127,673	-	-	127,673
Passed through Los Angeles Homeless Service Authority Emergency Food Pantry and Advocacy Center	April '08 - March '09	14.218	2008CDBG28	6,451	-	-	6,451
Family Shelter Program	April '09 - March '10	14.218	2009CDBG06	105,353	-	-	105,353
You Can Have It All	April '09 - March '10	14.218	2009CDBG21	11,590	-	-	11,590
New City Emergency Program	April '08 - March '09	14.231	2008NCEP02	101,249	-	-	101,249
U.S. Department of Health and Human Services Passed through County of Los Angeles Department of Public Social Services Emergency Shelter Services	July '08 - June '10	93.558	2008DPSS10 & 2009DPSS10	101,278	-	-	101,278
Passed through California Department of Community Services and Development Community Services Block Grant Services	July '08 - June '10	93.569	4HF08083	37,489	-	-	37,489
U.S. Department of Homeland Security Passed through Federal Emergency Management Agency Emergency Food and Shelter Program	November '08 - October '09	97.024	Phase27	124,160	-	-	124,160
Passed through the American Recovery and Reinvestment Act of 2009 Emergency Food and Shelter Program	July '08 - June '09	97.114	PhaseAR	32,785	-	-	32,785
County of Los Angeles Chief Executive Office	Not applicable	Not applicable	10DE336-001	-	-	52,610	52,610
Department of Public Social Services	July '08 - June '09	Not applicable	FSA 07012	-	-	7,080	7,080
California Department of Housing and Community Development Emergency Housing and Assistance Program	August '08 - October '09	Not applicable	07-EHAP3978	-	25,013	-	25,013
TOTAL EXPENDITURES OF FEDERAL, STATE AND LOCAL/OTHER AWARDS				\$ 652,222	\$ 72,532	\$ 59,690	\$ 784,444

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

HARBOR INTERFAITH SERVICES
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2009

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal, State, and Local/Other Awards (the “Schedule”) presents the activity of all expenditures of federal award programs of Harbor Interfaith Services (“HIS”). HIS’ reporting entity is defined in Note 1 and Note 2 of its financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the Schedule.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying Schedule is presented using the accrual basis of accounting.

HARBOR INTERFAITH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2009

Part I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes No

Significant deficienc(ies) identified that are not considered to be material weakness(es)? _____ Yes None reported

Noncompliance material to financial statements noted? _____ Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes No

Significant deficienc(ies) identified that are not considered to be material weakness(es)? _____ Yes None reported

Type of auditors' report issued on compliance for Major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.218	Community Development Block Grants
93.558	Emergency Shelter Services
97.024	Emergency Food and Shelter Program
97.114	Emergency Food and Shelter Program – ARRA

Dollar Threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee is qualified as low-risk auditee? _____ Yes No

HARBOR INTERFAITH SERVICES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2009

Part II - Financial Statement Findings Section

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of *Government Auditing Standards*.

None reported.

Part III - Federal Award Findings and Questioned Costs Section

This section identifies reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required to be reported by Circular A-133 section .510.

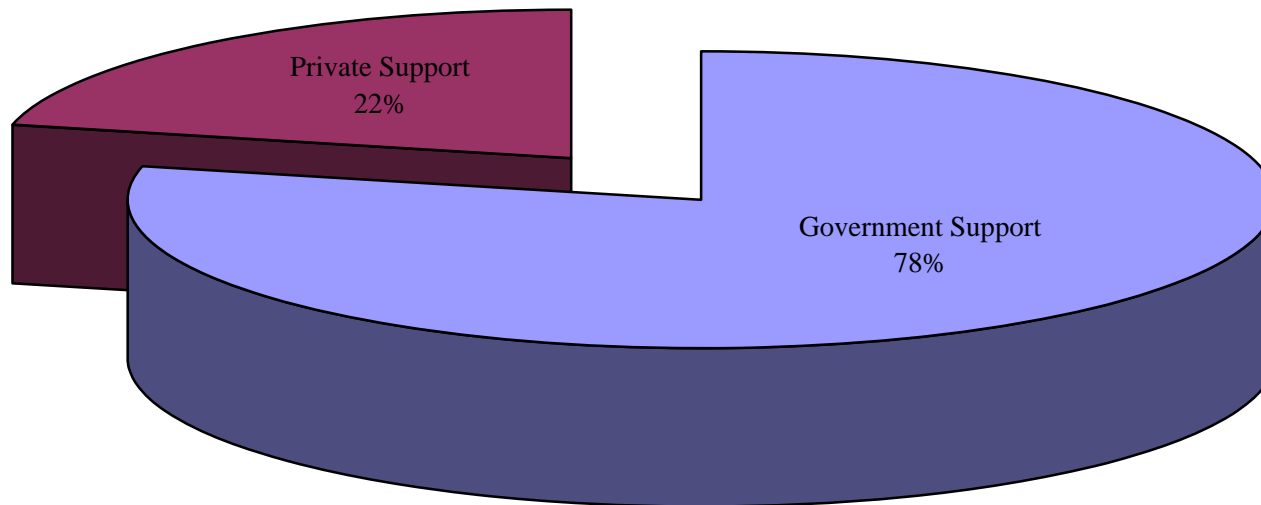
None reported.

**HARBOR INTERFAITH SERVICES
SUMMARY OF PRIOR FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2009**

There is no prior year finding.

OTHER INFORMATION

2009 Supports and Revenues



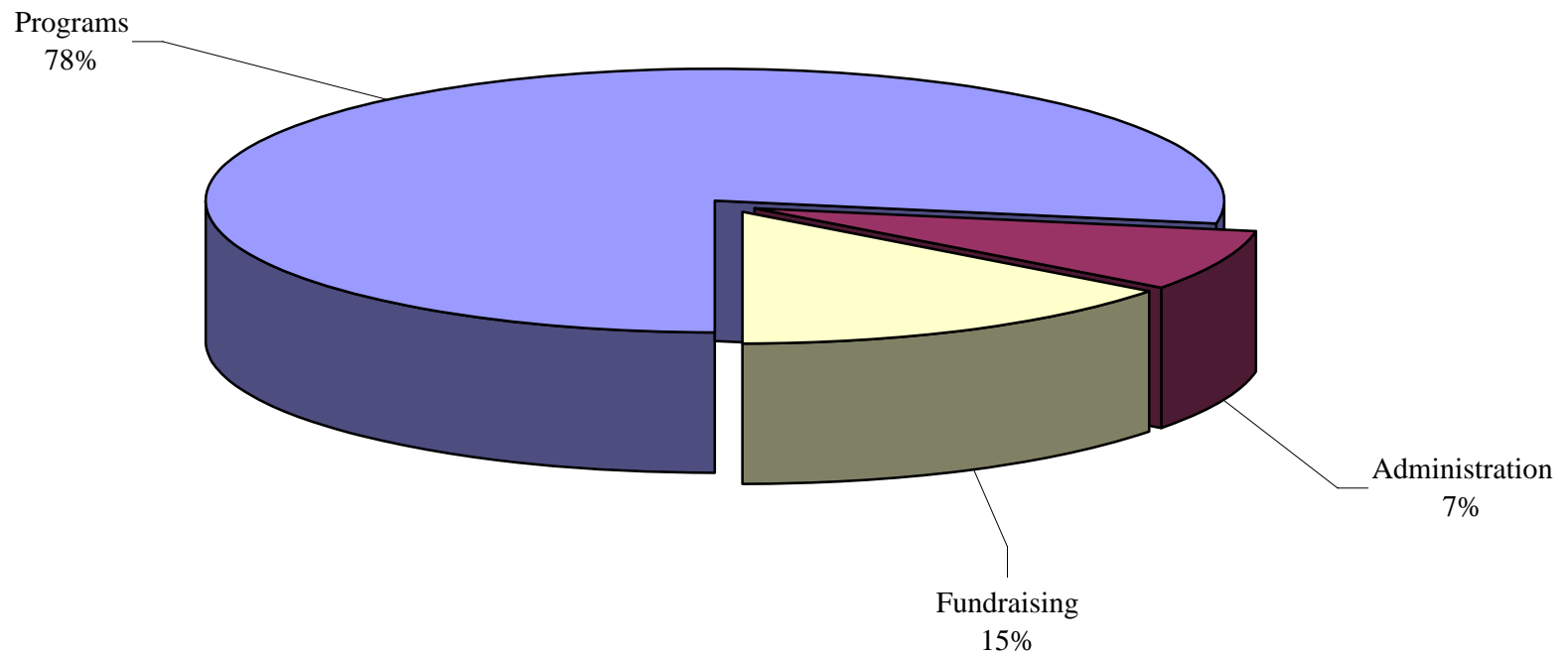
Note:

Government support for 2009 includes a contribution of \$4,969,000 from the County of Los Angeles toward Harbor Interfaith Services' capital campaign.

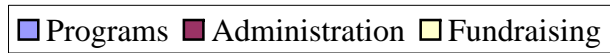
■ Government Support
-Federal
-State
-County/City

■ Private Support
-Cash and Gifts in Kind

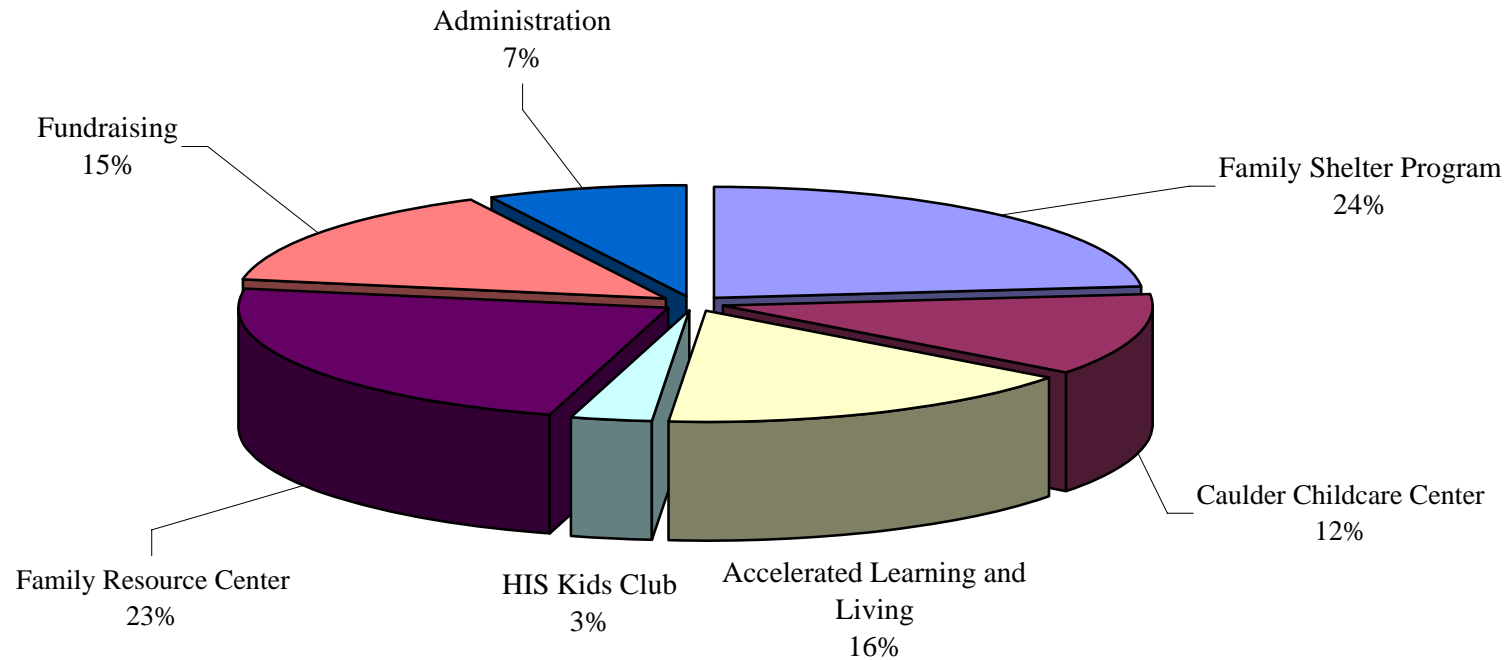
2009 Expenses Breakdown



Note: Expenses excluded donated services



2009 Programs Detail



Note: Expenses excluded donated services

