

HOPE-NET
(A California Non-Profit Corporation)

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

HOPE-NET

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors Hope-Net

Report on the Financial Statements

We have audited the accompanying financial statements of **Hope-Net (a Non-Profit Corporation)**, which comprise the statements of financial position as of **December 31, 2017 and 2016**, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide the basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope-Net as of December 31, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2018 on our consideration of Hope-Net's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hope-Net's internal control over financial reporting and compliance.

Hoffman, Short, Rubin, DeWinter, Sanderson

**HOFFMAN, SHORT, RUBIN, DEWINTER, SANDERSON
AN ACCOUNTANCY CORPORATION**

**Covina, California
June 12, 2018**

HOPE-NET
STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash	\$ 97,135	\$ 71,728
Grant receivable (Note 3)	-	31,210
Prepaid expenses	3,805	5,016
Total Current Assets	100,940	107,954
FIXED ASSETS (Notes 1 and 4)	-	128
OTHER ASSETS		
Certificates of deposit	417,120	486,088
Interest receivable	975,673	933,661
Investment in limited partnership (Note 5)	9,158	9,158
Loan to limited partner (Note 6)	700,200	700,200
Total Other Assets	2,102,151	2,129,107
Total Assets	\$ 2,203,091	\$ 2,237,189

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 6,085	\$ 4,939
Deferred revenue	-	16,707
Total Current Liabilities	6,085	21,646
LONG-TERM LIABILITIES		
Interest payable	975,673	933,661
Note payable (Note 6)	700,200	700,200
Total Long-Term Liabilities	1,675,873	1,633,861
Total Liabilities	1,681,958	1,655,507
UNRESTRICTED NET ASSETS (Note 2)		
Undesignated	521,133	581,682
Total Liabilities and Net Assets	\$ 2,203,091	\$ 2,237,189

The accompanying Notes to Financial Statements
are an integral part of these statements

HOPE-NET
STATEMENTS OF ACTIVITIES

Years Ended December 31, 2017 and 2016

	2017	2016
UNRESTRICTED NET ASSETS		
REVENUE AND SUPPORT		
Government contracts and grants (Note 3)	\$ 16,707	\$ 14,503
Contributions	35,693	44,124
Special events	74,878	67,421
Interest revenue	3,608	3,431
Interest revenue - LAHD	42,012	42,012
Other revenue	6,645	6,632
	179,543	178,123
EXPENSES		
Program services	181,834	182,087
General and administrative	41,801	43,061
Fundraising	16,457	14,250
	240,092	239,398
(Decrease) in Net Assets	(60,549)	(61,275)
NET ASSETS - Beginning of Year	581,682	642,957
Net Assets - End of Year	\$ 521,133	\$ 581,682

The accompanying Notes to Financial Statements
are an integral part of these statements

HOPE-NET
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

	<u>PROGRAM SERVICES</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
EXPENSES				
Depreciation	\$ 128	\$ -	\$ -	\$ 128
Food	27,969	-	-	27,969
Insurance	1,515	5,514	-	7,029
Interest	42,012	-	-	42,012
Office supplies	-	5,191	-	5,191
Payroll taxes and benefits	11,362	1,420	1,420	14,202
Postage	-	221	664	885
Professional fees	4,490	4,491	-	8,981
Rent (Note 8)	-	6,480	-	6,480
Special events	-	-	6,442	6,442
Telephone	-	2,825	-	2,825
Travel/transportation	30,912	7,728	-	38,640
Wages and salaries	63,446	7,931	7,931	79,308
Total	\$ 181,834	\$ 41,801	\$ 16,457	\$ 240,092

The accompanying Notes to Financial Statements
are an integral part of these statements

HOPE-NET
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016

	<u>PROGRAM SERVICES</u>	<u>GENERAL AND ADMINISTRATIVE</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
EXPENSES				
Depreciation	\$ 1,511	\$ -	\$ -	\$ 1,511
Food	38,343	-	-	38,343
Insurance	1,667	5,288	-	6,955
Interest	42,012	-	-	42,012
Office supplies	-	6,504	-	6,504
Payroll taxes and benefits	9,991	1,249	1,249	12,489
Postage	-	176	529	705
Professional fees	4,510	4,510	-	9,020
Rent (Note 8)	-	6,480	-	6,480
Special events	-	-	5,972	5,972
Telephone	-	4,341	-	4,341
Travel/transportation	32,053	8,013	-	40,066
Wages and salaries	52,000	6,500	6,500	65,000
Total	\$ 182,087	\$ 43,061	\$ 14,250	\$ 239,398

The accompanying Notes to Financial Statements
are an integral part of these statements

HOPE-NET
STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (60,549)	\$ (61,275)
<i>Adjustments to reconcile change in net assets to net cash (used in) operating activities:</i>		
Depreciation expense	128	1,511
(Increase) decrease in assets:		
Grant receivable	31,210	6,851
Prepaid expenses	1,211	(1,753)
Interest receivable	(42,012)	(25,427)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,146	1,017
Deferred revenue	(16,707)	16,707
Accrued interest	42,012	25,427
	(43,561)	(36,942)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from (deposits to) certificates of deposit	68,968	(3,412)
	25,407	(40,354)
Cash at Beginning of Year	71,728	112,082
Cash at End of Year	\$ 97,135	\$ 71,728

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash Paid During the Years for:

Interest	\$	-	\$	-
Income tax		-		-

The accompanying Notes to Financial Statements
are an integral part of these statements

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

1. ORGANIZATION

Hope-Net (the Organization), a California non-profit Corporation was formed in June 1988. The primary purpose of the Organization is to provide food services for people in need on a nondiscriminatory basis, free of charge.

Hope-Net is a general partner and limited partner in Hope West Apartments, L.P., as further described in Note (5).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting and in accordance with U.S. generally accepted accounting principles.

Cash and Cash Equivalents

For purpose of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

Capitalization and Depreciation

Fixed assets are recorded at cost when purchased or at estimated fair market value at the date of bequest or gift. Donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Depreciation is provided on a straight-line basis in amounts sufficient to amortize the cost of the assets over their estimated useful lives of five to ten years. Major additions, betterments and improvements are capitalized, while expenditures for maintenance and repairs are charges to expense as incurred. The Organization capitalizes all expenditures for fixed assets in excess of \$2,500.

Net Assets

None of the Organization's net assets are subject to donor-imposed stipulations and may be expendable for any purpose in performing the primary objectives of the Organization. Accordingly, all net assets are accounted for as unrestricted net assets.

Support and Revenue

The Organization receives a grant from a Federal Agency. Support from this grant is recognized in the period earned and can only be utilized for program eligible food expenses. The grant requires the fulfillment of certain conditions as set forth in the instrument of the grant and failure to fulfill the conditions could result in return of the funds to the grantor.

The Organization also receives donations from public and private foundations, fundraising events and other sources and recognizes these revenues when received.

Functional Allocation of Expenses

The costs of providing the various projects and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the various projects and the supporting services benefited.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code and California Franchise Tax Board under Section 23701(d). Accordingly, no provision for income taxes is included in the financial statements. In addition, the Project has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

The Organization's federal and state income tax returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those tax returns. In general, the federal income tax returns have a three year statute of limitations, and the state income tax returns have a four year statute of limitations.

The Organization evaluates all significant tax positions. As of December 31, 2017 and 2016, the Organization does not believe that it has taken any positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next year. It is the Organization's policy to recognize any interest and penalties in the year incurred. There was no interest or penalties incurred in 2017 and 2016.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Donated Services

The value of donated services is not reflected in the accompanying financial statements since there are no objective basis available by which to measure the value of such services.

Fair Value Measurement

In accordance with U.S. generally accepted accounting principles, valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs are internally derived, reflecting what the reporting entity believes to be market assumptions. U.S. generally accepted accounting principles classifies these inputs into the following hierarchy:

- Level One Inputs – Quoted prices for identical instruments in active market.
- Level Two Inputs – Quoted prices for identical instruments in active market; quoted prices for identical or similar instruments in markets that are not active; and model derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level Three Inputs – Instruments with primarily unobservable value drivers.

In adopting the fair value measurement in accordance with U.S. generally accepted accounting principles, related disclosures are segregated for assets and liabilities measured at fair value based on the level used within the hierarchy to determine their fair values. These standards do not have any financial impact on the Organization's financial statements.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

3. GRANT REVENUE / RECEIVABLE

The Organization receives funding from the Emergency Food and Shelter National Board (a Federal Program) to provide food services to people in need. The application is submitted annually in July of each year to receive reimbursement for the cost incurred in providing such services. For the years ended December 31, 2017 and 2016, grant receivable consists of \$-0- and \$31,210, respectively in such funding.

The Organization has submitted an application with the Emergency Food and Shelter National Board for the grant period January 1 - December 31, 2018, notification of amount awarded for grant year will occur in August, 2018.

4. FIXED ASSETS

Fixed assets consist of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Office Equipment	\$ 12,668	\$ -	\$ -	\$ 12,668
Vehicles	7,557	-	-	7,557
Total	\$ 20,225	\$ -	\$ -	\$ 20,225
Accumulated Depreciation	\$ 20,097	\$ 128	\$ -	\$ 20,225

Depreciation expense for the years ended December 31, 2017 and 2016 was \$128 and \$1,511, respectively.

The depreciation policies followed by the Organization are described in Note (2).

5. INVESTMENT IN LIMITED PARTNERSHIP

In March, 1992, Hope-Net formed a California Limited Partnership, Hope West Apartments Limited Partnership (Limited Partnership) in order to acquire certain land, as well as to develop, hold, maintain and operate such developed land as a low-income housing project. The general partners were Hope-Net and Los Angeles Community Design Center and the sole limited partner was Hope-Net. Subsequently, the Limited Partnership Agreement was amended and the ownership interests of the partners were transferred as follows:

General Partner Interest

The general partners initially were Hope-Net and Los Angeles Community Design Center. Their general partnership interest was transferred to West Boulevard General Partnership with Hope-Net and Los Angeles Community Design Center each owning one-half of 1%. Hope-Net's investment in the Limited Partnership, accounted for on the cost method, was \$9,158 as of December 31, 2017 and 2016, respectively.

Limited Partner Interest

The Limited Partner was initially was Hope-Net, and their interest was transferred to MHIFED 94 Limited Partnership, who remained the limited partner until April 20, 2015. Effective at that date, MHIFED 94 Limited Partnership withdrew from the Partnership and Hope-Net assumed the 99% limited partner interest.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

6. LOAN TO LIMITED PARTNERSHIP AND NOTE PAYABLE TO CITY OF LOS ANGELES

The City of Los Angeles (the City) funded a loan in the amount of \$700,200 to Hope-Net in June, 1993, to assist Hope-Net in conducting its neighborhood revitalization activities. The proceeds of the loan were, in turn, loaned to the Limited Partnership to acquire land and to construct a low-income housing apartment project (the Project). The note payable to the City and the Project bear identical terms. Both notes mature 40 years from the date of issuance of the Certificate of Occupancy for the Project. The loans bear simple interest at a rate of 6% per year. Interest is payable from "residual receipts" of the apartment complex, if any, as defined in the loan agreement. Interest due and unpaid in any year shall accrue and be paid to the lender from residual receipts in subsequent years. The note payable to the City is secured by a security interest in the loan to the Limited Partnership which is secured by a security interest in favor of Hope-Net in the Project's deed of trust. During the years ended December 31, 2017 and 2016 residual receipts of \$-0- and \$16,585, respectively, were remitted by the Limited Partnership to the City.

7. DONATION OF RENT

Hope-Net receives free use of office space from a related party valued at \$6,480 for the years ended December 31, 2017 and 2016, each year. The transaction was recorded as contribution revenue and office rent expense.

8. SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2017 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through June 12, 2018, the date these financial statements were available to be issued. No such material events or transactions were noted to have occurred.



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**INDEPENDENT AUDITORS' 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**

**To the Board of Directors
Hope-Net**

We have audited, in accordance with the 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, the financial statements of **Hope-Net (the Organization)**, which comprise the statement of financial position as of **December 31, 2017**, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hoffman, Short, Rubin, DeWinter, Sanderson

**HOFFMAN, SHORT, RUBIN, DEWINTER, SANDERSON
AN ACCOUNTANCY CORPORATION**

**Covina, California
June 12, 2018**