

HOPE-NET
(A California Non-Profit Corporation)

FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2019 and 2018**, 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 Organization'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 Organization'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.

Basis for Qualified Opinion

As more fully described in Note (2) to the financial statements, the Organization has not conformed to U.S. GAAP, relating to consolidated financial statements. Accounting principles generally accepted in the United States of America requires financial statements to be consolidated when a nonprofit entity has ownership interest in other for-profit entities. The effects on the accompanying financial statements of the preceding practice are not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of **Hope-Net** (a nonprofit corporation) as of **December 31, 2019 and 2018**, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 of the financial statements, the Organization adopted the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. These requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Hope-Net's December 31, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 30, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2020 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
October 12, 2020**

HOPE-NET
STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	\$ 280,999	\$ 457,412
Grants receivable	16,675	-
Prepaid expenses	5,213	5,106
Total Current Assets	302,887	462,518
FIXED ASSETS (Notes 1 and 4)	73,464	-
OTHER ASSETS		
Interest receivable	1,059,140	1,017,128
Investments (Note 5)	74,881	-
Investment in limited partnership (Note 7)	9,158	9,158
Loan to limited partnership (Note 8)	700,200	700,200
Total Other Assets	1,843,379	1,726,486
Total Assets	\$ 2,219,730	\$ 2,189,004

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 7,857	\$ 881
LONG-TERM LIABILITIES		
Interest payable	1,059,140	1,017,128
Note payable (Note 8)	700,200	700,200
Total Long-Term Liabilities	1,759,340	1,717,328
Total Liabilities	1,767,197	1,718,209
NET ASSETS (Note 2)		
Without donor restrictions	379,069	470,795
With donor restrictions - vehicle	73,464	-
Total Net Assets	452,533	470,795
Total Liabilities and Net Assets	\$ 2,219,730	\$ 2,189,004

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

HOPE-NET
STATEMENTS OF ACTIVITIES

Year Ended December 31, 2019 and with comparative totals for the year ended December 31, 2018

	2019			2018
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
REVENUE AND SUPPORT				
Government grants (Note 3)	\$ 49,475	\$ -	\$ 49,475	\$ 27,585
Contributions	31,068	-	31,068	28,508
Special events - fundraising	47,764	-	47,764	49,490
Donation of vehicle (Note 6)	-	80,143	80,143	-
Interest revenue	1,459	-	1,459	2,417
Interest revenue - LAHD	42,012	-	42,012	42,012
Other revenue	6,600	-	6,600	11,480
Total	178,378	80,143	258,521	161,492
NET ASSETS RELEASED FROM RESTRICTIONS				
	6,679	(6,679)	-	-
Total Revenue and Support	185,057	73,464	258,521	161,492
EXPENSES				
Program services	213,760	-	213,760	163,782
Management and general	38,817	-	38,817	32,819
Fundraising	24,206	-	24,206	15,229
Total Expenses	276,783	-	276,783	211,830
Change in Net Assets	(91,726)	73,464	(18,262)	(50,338)
NET ASSETS - Beginning of Year	470,795	-	470,795	521,133
Net Assets - End of Year	\$ 379,069	\$ 73,464	\$ 452,533	\$ 470,795

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

HOPE-NET
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
EXPENSES				
Depreciation	\$ 6,679	\$ -	\$ -	\$ 6,679
Food / Transportation	64,184	-	-	64,184
Program - other	1,107	-	-	1,107
Insurance	1,264	5,261	-	6,525
Interest	42,012	-	-	42,012
Office	-	6,869	-	6,869
Payroll taxes and benefits	6,844	856	856	8,556
Postage	-	17	52	69
Professional fees	4,493	4,492	-	8,985
Rent (Note 9)	-	6,570	-	6,570
Special events	-	-	12,552	12,552
Telephone	-	2,716	-	2,716
Travel	1,209	1,290	-	2,499
Wages and salaries	85,968	10,746	10,746	107,460
Total Expenses	<u>\$ 213,760</u>	<u>\$ 38,817</u>	<u>\$ 24,206</u>	<u>\$ 276,783</u>

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

HOPE-NET
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
EXPENSES				
Depreciation	\$ -	\$ -	\$ -	\$ -
Food / Transportation	54,851	-	-	54,851
Insurance	63	5,519	-	5,582
Interest	42,012	-	-	42,012
Office	-	4,358	-	4,358
Payroll taxes and benefits	6,125	766	766	7,657
Postage	-	200	600	800
Professional fees	4,337	4,338	-	8,675
Rent (Note 9)	-	6,480	-	6,480
Repairs and maintenance	-	1,090	-	1,090
Penalties	-	40	-	40
Special events	-	-	6,814	6,814
Telephone	-	2,571	-	2,571
Travel	-	408	-	408
Wages and salaries	56,394	7,049	7,049	70,492
Total Expenses	<u>\$ 163,782</u>	<u>\$ 32,819</u>	<u>\$ 15,229</u>	<u>\$ 211,830</u>

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

HOPE-NET
STATEMENTS OF CASH FLOWS

Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (18,262)	\$ (50,338)
<i>Adjustments to reconcile change in net assets to net cash (used in) operating activities:</i>		
Depreciation expense	6,679	-
Donation of vehicle	(80,143)	-
(Increase) decrease in assets:		
Grant receivable	(16,675)	-
Prepaid expenses	(107)	(1,301)
Interest receivable	(42,012)	(41,455)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	6,976	(5,204)
Accrued interest	42,012	41,455
Net Cash (Used in) Operating Activities	(101,532)	(56,843)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(74,881)	-
Net Decrease in Cash	(176,413)	(56,843)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	457,412	514,255
Cash, Cash Equivalents, and Restricted Cash at End of Year	\$ 280,999	\$ 457,412
 <i>Cash, Cash Equivalents, and Restricted Cash Comprised of:</i>		
Cash	\$ 184,154	\$ 190,884
Certificates of deposit	96,845	266,528
Total	\$ 280,999	\$ 457,412

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, 2019 and 2018

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 (7).

The accompanying financial statements are those of the Organization and do not include the financial information of Hope West Apartments Limited Partnership, the for-profit entity that it owns a majority and controlling interest in.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

New Accounting Pronouncement

ASU No. 2016-18 - In November 2016, the Financial Accounting Standards Board (FASB) issued *ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires entities to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. The ASU requires changes in the Organization's restricted cash to be classified as operating activities, investing activities or financing activities in the Statement of Cash Flows, depending on the nature of the activities that gave rise to the restriction. The new standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods. The Partnership adopted ASU 2016-18 for year ended December 31, 2019 using the retrospective transition method for each period presented. Other than this reclassification, the adoption of ASU 2016-18 did not have a material effect on the Organization's financial position, results of operations or cash flows.

Prior Year Information

The financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended December 31, 2018, from which the information was derived.

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.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in Partnership

The Organization holds interest in a limited partnership that it sponsors and owns. Accounting principles generally accepted in United States of America require that when a 'Non-Profit Organization' owns controlling interest in a for-profit entity the activities of the other entity should be consolidated into the nonprofit organization. It is the opinion of management that including such information would make the financial statements misleading. Therefore, these financial statements do not include financial information of this entity, and as further described in Note (7).

The investment is accounted for under the equity method of accounting whereby the initial and any subsequent investments are recorded at cost or the estimated fair market value of the interest in real property used for valuing the capital contributions to the partnerships. This cost or estimated basis is then adjusted for the partnership's share of operating earnings or losses and distributions.

Description of Net Assets

The Organization is subject to provisions of *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)* of the FASB Accounting Standards Update ASU No. 2016-14. This guidance revised the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; enhances disclosures for board designated amounts, compositions of net assets with donor restrictions and how the restrictions affect the use of resources, qualitative and quantitative information about the liquidity and availability of financial assets to meet general expenditures within one year of the balance sheet date, and expenses by both their natural and functional classification, including methods used to allocate costs among program and support functions.

Net assets are classified based on existence or absence of donor-imposed restrictions as follows:

- *Without Donor Restrictions* - are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.
- *With Donor Restrictions* are net assets subject to donor-imposed stipulations that may or will be met either by the actions of the Organization and/or the passage of time. Restricted contributions whose restrictions are met in the same reporting period are reflected as contributions without donor restrictions by the Organization.

Support and Revenue

The Organization is a recipient of a grant from a Federal Agency that provides funding for the Organization's food program. 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 is also a recipient of a planning grant from the California Volunteers for the operation of an AmeriCorps program. The grant is to provide funding to cover the costs associated with building the capacity of an organization to successfully operate an AmeriCorps program. The grant can support the staffing costs, travel, materials, and other necessary costs necessary to conduct research and engage community members and partners in planning activities to solidify program design, partner involvement, match, and operational systems. The Organization is reimbursed for these associated costs up to the grant award.

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

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 Organization 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, 2019 and 2018, 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 2019 and 2018.

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

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.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurement (continued)

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.

Reclassification

Certain amounts have been reclassified in the 2018 financial statements to be comparative with the amounts reported in 2019. These reclassifications have no effect on the Organization's financial position, results of operations, or cash flows.

3. GRANT REVENUE

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, 2019 and 2018, the Organization was awarded \$32,800 and \$27,585, respectively in such funding.

The Organization has applied with the Emergency Food and Shelter National Board for the grant period January 1 - December 31, 2020 and is awaiting notification of the award amount.

The Organization was awarded a \$75,000 planning grant from the California Volunteers for the associated costs in planning and designing an AmeriCorps program. Once designed and implemented the program will focus on addressing factors that contribute to food insecurity, such as poverty, public health, education, the environment, public safety, and employment, by developing and mobilizing resources that create long-term sustainable benefits at the community level. The planning period for this grant is August 15, 2019 to August 14, 2020. For the year ended December 31, 2019 the Organization recognized \$16,675 in costs from the grant.

4. FIXED ASSETS

Fixed assets consist of the following:

	Beginning Balance	Additions	Deductions	Ending Balance
Office Equipment	\$ 4,499	\$ -	\$ -	\$ 4,499
Vehicles	-	80,143	-	80,143
Total	\$ 4,499	\$ 80,143	\$ -	\$ 84,642
Accumulated Depreciation	\$ 4,499	\$ 6,679	\$ -	\$ 11,178

As described in Note (6) the vehicle was donated to the Organization for their participation in the Older Expansion Program with the Los Angeles Regional Food Bank and the Food Bank retains a five-year security interest in the vehicle.

Depreciation expense for the years ended December 31, 2019 and 2018 was \$6,679 and \$0-, respectively.

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

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

5. INVESTMENTS

The Organization invests in a professionally managed portfolio that may include various types of mutual funds. These investments are exposed to various risks, such as fluctuations in market value, interest rate, or credit risk. Therefore, the Organization's investments may be subject to significant fluctuations in fair value.

The Organization's investments, which consists of various mutual funds, are reported at fair value in the accompanying Statements of Financial Position and are measured using Level One methodology whereby the fair value of the investments are based on quoted net asset values of the shares held by the Organization at year-end. The methodology used to measure fair value may not be indicative of net realizable value or reflective of future fair values. At December 31, 2019, due to materiality levels, the unrealized gain/loss on investments was not recorded.

6. DONATION OF VEHICLE / RESTRICTED DONATION

During 2019, the Organization entered into an agreement with the Los Angeles Regional Food Bank (LARFB) to participate in the Older Adult Expansion Program. As a participant in the program the Organization was provided with a refrigeration equipped vehicle and other resources to assist in the food service delivery program. The agreement stated the Organization would be listed as the registered owner on the vehicle, however, the LARFB would retain a security interest in the vehicle for a period of five years from the date the vehicle was provided to the Organization. During this lien period the LARFB reserves the right to reclaim the vehicle upon termination of the agreement at the LARFB's sole discretion. At the end of the lien period the Organization retains the right of ownership to the vehicle.

As of December 31, 2019, the Organization recognized a restricted donation of \$80,143, the fair market value of the vehicle at the date of donation. The restrictions on the donation will be released over a five-year time-period.

7. 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, 2019 and 2018, 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 for a net carrying value of (\$1,387,482). These financial statements only reflect the operations of the Organization and do not report the results of operations and the investment value of its interest in the Hope West Apartments Limited Partnership.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

8. 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 the Organization 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, 2019 and 2018 residual receipts of \$-0- and \$557, respectively, were remitted by the Limited Partnership to the City.

9. DONATION OF RENT

Hope-Net receives free use of office space from a related party valued at \$6,570 for the years ended December 31, 2019 and 2018, each year. The transaction was recorded as contribution revenue and office rent expense.

10. LIQUIDITY AND FUNDS AVAILABLE

The following reflects Hope-Net's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Financial assets available to meet cash needs for general expenditures within one year as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Financial assets		
Cash	\$ 184,154	\$ 190,884
Certificates of deposit	96,845	266,528
Investments	74,881	-
Loan to limited partner	700,200	700,200
Interest receivable	1,059,140	1,017,128
Investment in limited partnership	9,158	9,158
	<u>\$ 2,124,378</u>	<u>\$ 2,183,898</u>
Less those unavailable for general expenditure within one year, due to:		
Certificates of deposits not available within the next 12 months	-	(66,260)
Loan, net collection beyond one year	(700,200)	(700,200)
Interest receivable, net collection beyond one year	(1,017,128)	(975,673)
Investments, not convertible to cash within next 12 months	(9,158)	(9,158)
	<u>\$ 397,892</u>	<u>\$ 432,607</u>
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 397,892</u>	<u>\$ 432,607</u>

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2019 and 2018

11. SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2019, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through October 12, 2020, the date these financial statements were available to be issued. Except for the matter below, there were no subsequent events or requiring adjustments to or disclosures of as stated herein.

In recent months, the COVID-19 outbreak in the United States has caused some business disruption and as a result, economic uncertainties have arisen which are likely to negatively impact the Organization's operating results. However, the related financial impact and duration cannot be reasonably estimated.



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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, 2019**, 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 October 12, 2020.

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
October 12, 2020**