

HOPE-NET
(A California Non-Profit Corporation)

FINANCIAL STATEMENTS

December 31, 2022 and 2021

HOPE-NET

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audited Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of **Hope-Net (a Non-Profit Organization)**, which comprise the statements of financial position as **December 31, 2022 and 2021** and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of Hope-Net, as of December 31, 2022 and 2021, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hope-Net and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Hope-Net's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is a higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hope-Net's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hope-Net's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Hope-Net's December 31, 2021, financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated June 30, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2023 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 this 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**

HOPE-NET
STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021

ASSETS

	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	\$ 57,376	\$ 132,837
Prepaid expenses	2,172	2,172
Total Current Assets	59,548	135,009
FIXED ASSETS		
	-	-
OTHER ASSETS		
Interest receivable	1,181,087	1,140,979
Investments	251,466	272,591
Investment in limited partnership	9,158	9,158
Loan to limited partnership	700,200	700,200
Total Other Assets	2,141,911	2,122,928
Total Assets	\$ 2,201,459	\$ 2,257,937

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 470	\$ 11,222
LONG-TERM LIABILITIES		
Interest payable	1,181,087	1,140,979
Note payable	700,200	700,200
Total Long-Term Liabilities	1,881,287	1,841,179
Total Liabilities	1,881,757	1,852,401
NET ASSETS		
Without donor restrictions	319,702	405,536
Total Net Assets	319,702	405,536
Total Liabilities and Net Assets	\$ 2,201,459	\$ 2,257,937

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

HOPE-NET
STATEMENTS OF ACTIVITIES

Year Ended December 31, 2022 and with comparative totals for the year ended December 31, 2021

	2022			2021
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
REVENUE AND SUPPORT				
Government grants	\$ 26,000	\$ -	\$ 26,000	\$ -
Grants - other	11,900	-	11,900	50,000
Contributions	26,773	-	26,773	45,813
Special events - fundraising	43,911	-	43,911	36,524
Interest and dividend revenue	4,831	-	4,831	3,521
Interest revenue - LAHD	42,012	-	42,012	42,012
Gains on investments	319	-	319	2,269
Donation of rent	8,400	-	8,400	8,400
Total	164,146	-	164,146	188,539
NET ASSETS RELEASED FROM RESTRICTIONS				
	-	-	-	-
Total Revenue and Support	164,146	-	164,146	188,539
EXPENSES				
Program services	159,640	-	159,640	142,084
Management and general	36,949	-	36,949	38,981
Fundraising	25,051	-	25,051	12,930
Total Expenses	221,640	-	221,640	193,995
Change in Net Assets from Operations	(57,494)	-	(57,494)	(5,456)
OTHER CHANGES				
Payroll protection loan	-	-	-	44,775
Gains (losses) on fair value measurer	(28,340)	-	(28,340)	25,292
Return of asset to donor organization	-	-	-	(56,098)
Total Other Changes	(28,340)	-	(28,340)	13,969
Change in Net Assets	(85,834)	-	(85,834)	8,513
NET ASSETS - Beginning of Year	405,536	-	405,536	397,023
Net Assets - End of Year	\$ 319,702	\$ -	\$ 319,702	\$ 405,536

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

HOPE-NET
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2022

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
EXPENSES				
Food / Transportation	\$ 34,406	\$ -	\$ -	\$ 34,406
Insurance	6,637	4,798	830	12,265
Interest	42,012	-	-	42,012
Office	-	8,530	-	8,530
Payroll taxes and benefits	9,446	1,181	1,181	11,808
Postage	-	484	1,451	1,935
Professional fees	5,312	5,313	-	10,625
Rent	-	8,400	-	8,400
Special events	-	-	13,905	13,905
Telephone	-	559	-	559
Travel	356	-	-	356
Wages and salaries	61,471	7,684	7,684	76,839
Total Expenses	\$ 159,640	\$ 36,949	\$ 25,051	\$ 221,640

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

HOPE-NET
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
EXPENSES				
Depreciation	\$ 1,336	\$ -	\$ -	\$ 1,336
Food / Transportation	27,479	-	-	27,479
Insurance	1,021	9,574	-	10,595
Interest	42,012	-	-	42,012
Office	-	6,692	-	6,692
Payroll taxes and benefits	8,942	1,118	1,118	11,178
Postage	-	36	107	143
Professional fees	5,025	5,025	-	10,050
Rent	-	8,400	-	8,400
Special events	-	-	4,701	4,701
Telephone	-	1,132	-	1,132
Travel	238	-	-	238
Wages and salaries	56,031	7,004	7,004	70,039
Total Expenses	\$ 142,084	\$ 38,981	\$ 12,930	\$ 193,995

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

HOPE-NET
STATEMENTS OF CASH FLOWS

Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (85,834)	\$ 8,513
<i>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</i>		
Depreciation expense	-	1,336
(Gains) losses on fair value measurement, net	28,340	(25,292)
Return of asset to donor organization	-	56,098
<i>(Increase) decrease in assets:</i>		
Grant receivable	-	68,612
Prepaid expenses	-	3,712
Interest receivable	(40,108)	(39,827)
<i>Increase (decrease) in liabilities:</i>		
Accounts payable and accrued expenses	(10,752)	907
Accrued interest	40,108	39,827
Net Cash Provided by (Used in) Operating Activities	(68,246)	113,886
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(7,215)	(75,682)
Net Increase (Decrease) in Cash	(75,461)	38,204
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	132,837	94,633
Cash, Cash Equivalents, and Restricted Cash at End of Year	\$ 57,376	\$ 132,837

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

December 31, 2022 and 2021

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 the Organization 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.

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, 2021, from which the information was derived.

Cash and Cash Equivalents

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.

Impairment of Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. No impairment loss was recognized during the years ended December 31, 2022 and 2021.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 about this entity, and as further described in Note (7).

Investments

Investments are recorded at fair value. Interest and dividends, as well as realized and unrealized gains and losses on investments, are included in the statement of activities. Interest and dividends and gains and losses on investments are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation.

The Organization invests in various investment products. Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and any such changes could materially affect the amounts reported in the statement of financial position.

Description of Net Assets

The Organization is subject to the provisions of *Presentation of Financial Statements for Not-for-Profit Entities* in accordance with *Topic 958*. This guidance includes presentation of two classes of net assets and 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 statement of financial position, 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.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Donated Services

The value of donated services is not reflected in the accompanying financial statements since there is 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, 2022 and 2021, 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 2022 and 2021.

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.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in 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.

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

Reclassification

Certain amounts have been reclassified in the 2021 financial statements to be comparative with the amounts reported in 2022. These reclassifications have no effect on the Organization's financial position, results of operations, or cash flows.

Recent Accounting Pronouncements

The Organization adopted FASB Accounting Standards Update (ASU) 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* for the year ended December 31, 2022. This ASU enhances presentation and disclosures relating to nonfinancial assets. The standard has been applied retrospectively for the periods ended December 31, 2022 and 2021, as required. The adoption of this guidance did not have an impact on the financial statements.

3. GRANT REVENUE / RECEIVABLE

Emergency Food and Shelter

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. On May 25, 2022, the Organization was awarded a \$52,000 grant with the Emergency Food and Shelter National Board for the grant period November 1, 2021, through April 30, 2023. The prior grant award period was from January 27, 2020, through May 31, 2021 was recognized in 2020.

For the years ended December 31, 2022 and 2021, the Organization received and recognized \$26,000 and \$-0-, respectively in such funding. The remaining balance of the grant will be recognized in 2023.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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	\$ 4,499	\$ -	\$ -	\$ 4,499
Accumulated Depreciation	\$ 4,499	\$ -	\$ -	\$ 4,499

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; however, the Organization terminated its participation in the program and the vehicle was returned to the donor organization in February 2021.

Depreciation expense for the years ended December 31, 2022 and 2021 was \$-0- and \$1,336, respectively.

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

5. INVESTMENTS, AT FAIR VALUE

The Organization invests in a professionally managed portfolio that may include various types of mutual funds and corporate stocks.

At December 31, 2022 and 2021, investments consisted of the following:

	<u>2022</u>	<u>2021</u>
Cash / money accounts	\$ 39,152	\$ 37,684
Equities		
Apple Inc.	21,828	29,832
United Health Group Inc.	7,423	-
Alphabet Inc.	1,774	-
Mutual funds	181,289	205,075
Total Investments at Fair Value	\$ 251,466	\$ 272,591

Net investment return for the year ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 4,820	\$ 3,125
Realized gains	319	2,269
Unrealized gains and (losses)	(28,340)	25,292
Net Investment Income (Loss)	\$ (23,201)	\$ 30,686

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

5. INVESTMENTS, AT FAIR VALUE (continued)

Fair Value Measurements

For assets measured at fair value on a recurring balance as of December 31, 2022 and 2021, accounting standards require quantitative disclosures about the fair value measurements separately for each major class of assets. The Organization's investments have all been classified at the highest level of hierarchy (Level 1), in which quoted prices are in active markets for identical assets.

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 of 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 reserved 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.

During 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 in the amount of depreciation recognized for this asset.

This agreement was terminated by the Organization in February 2021 and per the agreement the vehicle was returned to the donor organization resulting in \$56,098 return of asset to be recognized by the Organization for the year ended December 31, 2021.

7. INVESTMENT IN LIMITED PARTNERSHIP

In March 1992, Hope-Net formed a California Limited Partnership, Hope West Apartments Limited Partnership (Limited Partnership) 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, 2022 and 2021, respectively.

Limited Partner Interest

The Limited Partner was initially 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

December 31, 2022 and 2021

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, 2022 and 2021 residual receipts of \$1,904 and \$2,185, respectively, were remitted by the Limited Partnership to the City.

9. DONATION OF RENT

The Organization is subject to the provisions of *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* in accordance with *Topic 958*, as described in Note (2); and receives free use of office space from a related party. This contribution is valued at \$8,400, each year for the years ended December 31, 2022 and 2021, respectively. The transaction was recorded as contribution revenue and office rent expense.

10. PAYROLL PROTECTION LOAN

During 2021 the Organization received proceeds in the amount of \$44,775 under the Payroll Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Securities Act (CARES Act), provides for loans to qualifying organizations for amounts up to 2.5 times the average monthly payroll expenses of the qualifying organization. During 2021 the Organization was granted relief from the Small Business Administration (SBA) and the entire amount received was duly forgiven.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

11. LIQUIDITY AND FUNDS AVAILABLE

The following reflects Hope-Net's financial assets as of December 31, 2022 and 2021, 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Financial assets		
Cash	\$ 57,376	\$ 132,837
Investments	251,466	272,591
Loan to limited partner	700,200	700,200
Interest receivable	1,181,087	1,140,979
Investment in limited partnership	9,158	9,158
	<u> </u>	<u> </u>
Total Financial Assets	\$ 2,199,287	\$ 2,255,765
Less those unavailable for general expenditure within one year, due to:		
Loan, net collection beyond one one year	(700,200)	(700,200)
Interest receivable, net collection beyond one year	(1,181,087)	(1,140,979)
Investments, not convertible to cash within next 12 months	(9,158)	(9,158)
	<u> </u>	<u> </u>
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	<u>\$ 308,842</u>	<u>\$ 405,428</u>

12. SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2022, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through June 28, 2023, 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, 2022**, 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 28, 2023.

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 28, 2023**