

HOPE-NET
(A California Non-Profit Corporation)

FINANCIAL STATEMENTS

December 31, 2021 and 2020

HOPE-NET

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hope-Net

Report on the 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, 2021 and 2020** 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, 2021 and 2020, 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 of 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 access the risks of material misstatements 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 judgement, 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, 2020, financial statements, and we expressed a qualified audit opinion on those audited financial statements in our report dated July 21, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, 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 30, 2022 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 30, 2022**

HOPE-NET
STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

ASSETS

	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	\$ 170,521	\$ 100,691
Grants receivable	-	68,612
Prepaid expenses	2,172	5,884
Total Current Assets	172,693	175,187
FIXED ASSETS	-	57,434
OTHER ASSETS		
Interest receivable	1,140,979	1,101,152
Investments	234,907	165,559
Investment in limited partnership	9,158	9,158
Loan to limited partnership	700,200	700,200
Total Other Assets	2,085,244	1,976,069
Total Assets	\$ 2,257,937	\$ 2,208,690

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 11,222	\$ 10,315
LONG-TERM LIABILITIES		
Interest payable	1,140,979	1,101,152
Note payable	700,200	700,200
Total Long-Term Liabilities	1,841,179	1,801,352
Total Liabilities	1,852,401	1,811,667
NET ASSETS		
Without donor restrictions	405,536	339,589
With donor restrictions - vehicle	-	57,434
Total Net Assets	405,536	397,023
Total Liabilities and Net Assets	\$ 2,257,937	\$ 2,208,690

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

HOPE-NET
STATEMENTS OF ACTIVITIES

Year Ended December 31, 2021 and with comparative totals for the year ended December 31, 2020

	2021			2020
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Total</u>
REVENUE AND SUPPORT				
Government grants	\$ 50,000	\$ -	\$ 50,000	\$ 114,564
Contributions	45,813	-	45,813	64,860
Special events - fundraising	36,524	-	36,524	15,405
Interest and dividend revenue	3,521	-	3,521	3,166
Interest revenue - LAHD	42,012	-	42,012	42,012
Gains (losses) on investments	2,269	-	2,269	(2,876)
Other revenue	8,400	-	8,400	7,180
Total	188,539	-	188,539	244,311
NET ASSETS RELEASED FROM RESTRICTIONS				
	1,336	(1,336)	-	-
Total Revenue and Support	189,875	(1,336)	188,539	244,311
EXPENSES				
Program services	142,084	-	142,084	247,419
Management and general	38,981	-	38,981	48,641
Fundraising	12,930	-	12,930	24,065
Total Expenses	193,995	-	193,995	320,125
Change in Net Assets from Operations	(4,120)	(1,336)	(5,456)	(75,814)
OTHER CHANGES				
Payroll protection loan	44,775	-	44,775	-
Gains on fair value measurement	25,292	-	25,292	20,304
Return of asset to donor organization	-	(56,098)	(56,098)	-
Total Other Changes	70,067	(56,098)	13,969	20,304
Change in Net Assets	65,947	(57,434)	8,513	(55,510)
NET ASSETS - Beginning of Year	339,589	57,434	397,023	452,533
Net Assets - End of Year	\$ 405,536	\$ -	\$ 405,536	\$ 397,023

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

HOPE-NET
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2021

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
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
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2020

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
EXPENSES				
Depreciation	\$ 16,030	\$ -	\$ -	\$ 16,030
Food / Transportation	56,541	-	-	56,541
Insurance	3,476	5,223	-	8,699
Interest	42,012	-	-	42,012
Office	-	11,392	-	11,392
Payroll taxes and benefits	9,932	1,242	1,242	12,416
Postage	-	50	149	199
Professional fees	5,860	5,860	-	11,720
Rent	-	7,180	-	7,180
Special events	-	-	8,629	8,629
Telephone	-	1,990	-	1,990
Travel	1,209	1,659	-	2,868
Wages and salaries	112,359	14,045	14,045	140,449
Total Expenses	\$ 247,419	\$ 48,641	\$ 24,065	\$ 320,125

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

HOPE-NET
STATEMENTS OF CASH FLOWS

Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 8,513	\$ (55,510)
<i>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</i>		
Depreciation expense	1,336	16,030
(Gains) on fair value measurement, net	(25,292)	(20,304)
Return of asset to donor organization	56,098	-
<i>(Increase) decrease in assets:</i>		
Grant receivable	68,612	(51,937)
Prepaid expenses	3,712	(671)
Interest receivable	(39,827)	(42,012)
<i>Increase (decrease) in liabilities:</i>		
Accounts payable and accrued expenses	907	2,458
Accrued interest	39,827	42,012
Net Cash Provided by (Used in) Operating Activities	113,886	(109,934)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(44,056)	(70,374)
Net Increase (Decrease) in Cash	69,830	(180,308)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	100,691	280,999
Cash, Cash Equivalents, and Restricted Cash at End of Year	\$ 170,521	\$ 100,691
 <i>Cash, Cash Equivalents, and Restricted Cash Comprised of:</i>		
Cash	\$ 170,521	\$ 44,634
Certificates of deposit	-	56,057
Total	\$ 170,521	\$ 100,691

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, 2021 and 2020

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.

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, 2020, 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.

The Organization is subject to provisions of *Statement of Cash Flows (Topic 230): Restricted Cash* of the Financial Accounting Standards Board (FASB) Accounting Standards Update ASU No. 2016-18. This guidance 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 either 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 guidance uses 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.

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, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-Lived Assets

The Organization is subject to the provisions of the Impairment or Disposal of Long-Lived Assets topic of the FASB Accounting Standard Codification (ASC) 260-10. The standard requires impairment losses to be recorded on long-lived assets when indicators of impairments are present and the undiscounted cash flows estimated to be generated by those assets (excluding interest) are less than the carrying value of the assets. In such cases, the carrying value of the assets to be held and used are adjusted to their estimated fair value and assets for sale are adjusted to their estimated fair value. Impairment or Disposal of Long-Lived Assets had no retroactive impact on the Organization's financial statements. No impairment loss was recognized during the years ended December 31, 2021 and 2020.

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.

Investments

Investments in equity securities consist of corporate stocks and mutual funds that are reported in the statement of financial positions at their fair value which is determined by reference to quoted market prices for identical securities in active market.

The Organization is subject to provisions of *Not-for-Profit Entities (Topic 958): Recognition and Measurement of Financial Assets and Technical Corrections and Improvements to Financial Instruments – Overall* of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01 and (ASU) 2018-03. This guidance is intended to improve the recognition, measurement, presentation, and disclosure of financial instruments. Among other changes, there will no longer be an available-for-sale classification for which changes in fair value were reported in comprehensive income for equity securities with readily determinable fair values. Equity investments with readily determinable fair values will be measured at fair value with changes in fair value recognized in net change in assets. ASU 2018-03 clarified the reporting of this adjustment to be presented retroactively as a cumulative change to opening Net Assets as of the beginning of the year of adoption.

At December 31, 2021 and 2020, the Organization's investments in equity securities were measured using level one input and were carried at fair value of \$234,907 and \$165,559 which included fair value measurements adjustment for unrealized gains of \$25,292 and \$20,304, respectively.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. During 2020 the Organization elected to cease participation in this program.

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 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.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

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 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, 2021 and 2020, 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 2021 and 2020.

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 in active market for identical assets and liabilities as of the reporting date.
- Level Two Inputs - Observable inputs other than Level One prices, such as quoted prices for identical instruments, quoted prices in market that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- Level Three Inputs - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

These standards do not have any financial impact on the Organization's financial statements.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification

Certain amounts have been reclassified in the 2020 financial statements to be comparative with the amounts reported in 2021. These reclassifications have no effect on the Organization's financial position, results of operations, or cash flows.

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. For the years ended December 31, 2021 and 2020, the Organization was awarded \$-0- and \$26,100, respectively in such funding.

The Organization has applied with the Emergency Food and Shelter National Board for the grant period November 1, 2021 through April 30, 2023 and was awarded \$52,000 for this period. This funding will be recognized during 2022.

During 2020 the Organization received additional funding from the Emergency Food and Shelter Program from the CARES Act Phase in the amount of \$29,900, these funds were allowed to be expended during the period January 27, 2020 to May 31, 2021, this entire grant was recognized by the Organization in 2020.

As of December 31, 2020, the Organization was owed \$42,650 under the two Emergency Food and Shelter grants.

AmeriCorps Program

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, 2020, the Organization recognized \$30,801 in costs from the grant. As of December 31, 2020, the Organization was owed \$25,662 from the agency. The Organization discontinued its involvement with the AmeriCorps program as of December 31, 2020.

4. FIXED ASSETS

Fixed assets consist of the following:

	Beginning Balance	Additions	Deductions	Ending Balance
Office Equipment	\$ 4,499	\$ -	\$ -	\$ 4,499
Vehicle	80,143	-	(80,143)	-
Total	\$ 84,642	\$ -	\$ (80,143)	\$ 4,499
Accumulated Depreciation	\$ 27,208	\$ 1,336	\$ (28,544)	\$ -

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

4. FIXED ASSETS (continued)

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, 2021 and 2020 was \$1,336 and \$16,030, respectively.

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

5. INVESTMENT IN MARKETABLE SECURITIES

The Organization invests in a professionally managed portfolio that may include various types of mutual funds and corporate stocks. Investments held are stated at fair value based upon current market quotes and are available to support current obligations. Realized gains and losses are reported in gains (losses) on investments and unrealized gains are reported as gains on fair value measurement. At December 31, 2021 and 2020, the Organization's investments managed by the brokerage firm totaled \$234,907 and \$165,559, respectively.

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.

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.

HOPE-NET
NOTES TO FINANCIAL STATEMENTS

Years Ended December 31, 2021 and 2020

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, 2021 and 2020, 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.

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, 2021 and 2020 residual receipts of \$2,185 and \$-0-, 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 \$8,400 and \$7,180 for the years ended December 31, 2021 and 2020, 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

Years Ended December 31, 2021 and 2020

11. LIQUIDITY AND FUNDS AVAILABLE

The following reflects Hope-Net's financial assets as of December 31, 2021 and 2020, 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, 2021 and 2020:

	2021	2020
Financial assets		
Cash	\$ 170,521	\$ 44,634
Certificates of deposit	-	56,057
Investments	205,075	152,290
Loan to limited partner	700,200	700,200
Interest receivable	1,140,979	1,101,152
Investment in limited partnership	9,158	9,158
Total Financial Assets	\$ 2,225,933	\$ 2,063,491
Less those unavailable for general expenditure within one year, due to:		
Certificates of deposits not available within the next 12 months	-	(30,000)
Loan, net collection beyond one one year	(700,200)	(70,200)
Interest receivable, net collection beyond one year	(1,140,979)	(1,017,128)
Investments, not convertible to cash within next 12 months	(9,158)	(9,158)
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	\$ 375,596	\$ 937,005

12. SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring subsequent to the statement of financial position date of December 31, 2021, for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through June 30, 2022, 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, 2021**, 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 30, 2022.

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 30, 2022**