Hope Community Services, Inc.
Financial Statements
for the Year Ended June 30, 2019

HOPE COMMUNITY SERVICES, INC.
YEAR ENDED JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Hope Community Services, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Hope Community Services, Inc., which comprise the statement of financial position as of June 30, 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.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hope Community Services, Inc., as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1, Hope Community Services, Inc., implemented the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), for the year ended June 30, 2019, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

Heinfeld Meech & Co. PC

Heinfeld, Meech & Co., P.C.
Phoenix, Arizona
October 3, 2019

HOPE COMMUNITY SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

Assets		
Cash and cash equivalents	$	1,789,533
Government receivables, net		264,492
Prepaid expenses and other current assets		49,806
Property and equipment, net		52,782
Security deposit		25,861
Total Assets	$	2,182,474
Liabilities		
Accounts payable	$	31,770
Accrued expenses		92,356
Deferred revenue		216,507
Deferred rent		1,313
Total Liabilities		341,946
Net assets		
Without donor restrictions:		
Undesignated		1,820,324
With donor restrictions:		
Purpose restricted		20,204
Total net assets		1,840,528
Total liabilities and net assets	$	2,182,474

See accompanying notes to financial statements.

HOPE COMMUNITY SERVICES, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

PUBLIC SUPPORT AND REVENUE:	Without Donor Restrictions	With Donor Restrictions	Total
Public support:			
Community support	$ 21,765	$	$ 21,765
Corporations and nongovernment grants	15,339	44,764	60,103
Foundations	14,200		14,200
Individuals	34,497		34,497
United Way	11,506		11,506
Gifts-in-kind	52,179		52,179
Total public support	149,486	44,764	194,250
Revenue:			
Governmental contracts and grants	1,979,174		1,979,174
Interest and dividends	29,017		29,017
Special events, net direct donor benefit of $25,521	44,083		44,083
Total revenue	2,052,274	-	2,052,274
Net assets released from restrictions	51,729	(51,729)	-
Total Public Support and Revenue	2,253,489	(6,965)	2,246,524
EXPENSES:			
Program services			
Foster adopt	392,741		392,741
Family support services	926,647		926,647
Behavioral health	286,805		286,805
Total program services	1,606,193	-	1,606,193
Supporting services			
General and administrative	578,616		578,616
Fundraising	231,904		231,904
Total supporting services	810,520	-	810,520
Total expenses	2,416,713	-	2,416,713
Change in net assets	(163,224)	(6,965)	(170,189)
Net assets, beginning of year	1,983,548	27,169	2,010,717
Net assets, end of year	$ 1,820,324	$ 20,204	$ 1,840,528

See accompanying notes to financial statements.

HOPE COMMUNITY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services				Supporting Services		
	Foster Adopt	Family Support Services	Behavioral Health	Total	Management and General	Fundraising	Total
Salaries and wages	$ 246,024	$ 630,850	$ 65,100	$ 941,974	$ 299,324	$ 109,481	$ 1,350,779
Payroll taxes and employee related expenses	31,178	89,927	7,611	128,716	38,446	10,543	177,705
Employee mileage	8,597	89,815	1,065	99,477	748	-	100,225
Employment expenses	9,392	22,626	4,921	36,939	2,541	932	40,412
Insurance	3,949	9,104	3,047	16,100	4,096	779	20,975
Events & meetings	-	-	34	34	422	66,116	66,572
Licenses & fees	883	1,876	2,500	5,259	3,396	1,187	9,842
Office expenses	894	1,394	541	2,829	3,308	442	6,579
Postage	179	14	-	193	1,681	1,265	3,139
Printing	19	32	90	141	2,103	2,041	4,285
Professional fees	-	-	147,312	147,312	116,889	1,885	266,086
Program supplies & activities	5,899	455	9,107	15,461	-	-	15,461
Repairs & maintenance	1,937	4,719	27,860	34,516	11,693	4,734	50,943
Security	276	259	88	623	678	283	1,584
Storage rental	1,327	-	-	1,327	3,679	1,454	6,460
Other expenses	26	195	30	251	11,309	5,244	16,804
Depreciation & amortization	2,449	11,022	2,449	15,920	2,857	408	19,185
Telephone	9,893	20,999	1,083	31,975	8,191	2,945	43,111
Rent & utilities	49,836	43,360	13,967	107,163	57,501	15,486	180,150
Bad Debt expense	-	-	-	-	9,754	-	9,754
Gifts-in-kind	19,983	-	-	19,983	-	32,200	52,183
Total	392,741	926,647	286,805	1,606,193	578,616	257,425	2,442,234
Less: Expenses Netted Against Revenue on statement of Activities:						(25,521)	(25,521)
Total expenses	$ 392,741	$ 926,647	$ 286,805	$ 1,606,193	$ 578,616	$ 231,904	$ 2,416,713

See accompanying notes to financial statements.

HOPE COMMUNITY SERVICES, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:	
Change in net assets	$ (170,189)
Adjustments to reconcile change in net income to net cash provided by/used for operating activities:	
Depreciation & amortization	19,185
Change in allowance and bad debts	11,027
Changes in assets and liabilities:	
Government receivables	(73,244)
Prepaid expenses and other current assets	(35,789)
Security deposit	(3,744)
Accounts payable	16,909
Accrued expenses	(9,746)
Deferred revenue	(72,814)
Deferred rent	(13,007)
Net cash provided by/used for operating activities	(331,412)
Cash flows from investing activities:	
Purchases of property and equipment	(21,725)
Net cash provided by/used for investing activities	(21,725)
Net increase/decrease in cash and cash equivalents	(353,137)
Cash and cash equivalents, beginning of year	2,142,670
Cash and cash equivalents, end of year	$ 1,789,533

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Hope Community Services, Inc., (the Organization) was incorporated on November 5, 1986 in the state of Arizona as a nonprofit corporation under the name West Valley Child Crisis Center, Inc. In June 2018, the Organization changed their name to Hope Community Services, Inc. The Organization was established to find temporary and permanent homes for children (from infant to teens) in the Phoenix metropolitan area who are victims of, or at risk of, domestic violence, abuse, or abandonment. In addition, the Organization provides outpatient behavioral health services to include trauma-focused therapy, parenting skills training and equine assisted therapy. The Organization's primary source of revenue for its programs are government contracts, health insurance contracts, grants, and contributions.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The financial statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing not-for-profit accounting and financial reporting principles. The Organization is required to report information regarding its financial position and activities according to two classes based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met either by actions of the Organization and/or the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds must be maintained in perpetuity.

Donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions. 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. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Included within cash and cash equivalents is certificates of deposit of $1,528,505 with initial maturities of three months or less. The certificates of deposit are reported at cost plus accrued interest which approximates fair value. The certificates bear interest of 2.10 percent.

Concentrations of Credit Risk

Financial instruments that potentially expose the Organization to concentrations of credit risk consist principally of cash and cash equivalents. The Organization maintains its cash and cash equivalents in bank deposit accounts, which, for short periods of time, may exceed federally insured limits. There was no uninsured cash at year end. To minimize risk, cash accounts are maintained at high-quality financial institutions and credit exposure is limited to any one institution.

Government Receivables

Government receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to government receivables. At year end, the valuation allowance for government receivables was $13,417.

Property and Equipment

All acquisitions of property and equipment with a cost in excess of $5,000 and all expenses for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from three years for vehicles, furniture and equipment to 40 years for buildings. Depreciation expense for the current fiscal year was $19,185.

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Management does not believe impairment indicators are present.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Compensated Absences

Employees are entitled to personal time off (PTO), depending on job classification, length of service, and other factors. It is the Organization's policy to recognize the cost of compensated absence when leave is earned by employees. As of June 30, 2019, the balance in accrued PTO was $35,008 and is included in the accrued expenses on the Statement of Financial Position.

Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively.

Donated Services and In-Kind Contributions

Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as increases in net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without restrictions at that time.

Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising activities; however the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed in generally accepted accounting principles.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses.

Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and wages	Time and effort
Payroll taxes and employee related expenses	Time and effort
Professional fees	Time and effort
Rent and utilities	Time and effort

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar State of Arizona tax provisions. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(1). The Organization's Form 990, *Return of Organization Exempt from Income Taxes,* is generally subject to examination by the Internal Revenue Service for three years after the date filed.

New Accounting Pronouncement

During the fiscal year, the Organization adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

Date of Management's Review

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 3, 2019, which is the date the financial statements were available to be issued.

NOTE 2 – LIQUIDITY AND AVAILABILITY

The following represents the Organization's financial assets at fiscal year end:

Financial assets at year end:		
Cash and cash equivalents	$	1,789,533
Government receivables, net		264,492
Total financial assets		2,054,025
Less amounts not available to be used within one year:		
Net assets with donor restrictions	$	20,204
Less: Net assets with purpose restrictions to be met in less than a year		(20,404)
Financial assets available to meet general expenditures over the next twelve months	$	2,054,025

NOTE 2 – LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. As part of its liquidity plan, excess cash is invested in short-term investments, including certificates of deposit.

NOTE 3 – GOVERNMENT RECEIVABLES

All government receivables are due within one year. The following is a summary of the Organization's government receivables at June 30, 2019.

Gross government receivables	$	277,909
Less: Allowance for uncollectibles		(13,417)
Total	$	264,492

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following.

Furniture and equipment	$	112,774
Work in progress – new campus		12,807
Total property and equipment		125,581
Less: Accumulated depreciation		(72,799)
Net property and equipment	$	52,782

Work in progress – The Organization has begun the process of seeking financing for the purchase of land at Indian School and 115th Avenue and for the construction of a new campus at that location. The purchase price of the land and construction costs of the new campus are expected to be approximately $700,000 and $170,000, respectively. As of fiscal year end, the Organization had entered into a letter of intent to purchase the land, but has no further contractual commitments related to the project. The Organization has spent $12,807 in design and architectural fees associated with the new campus.

NOTE 5 – NET ASSETS

Net assets without donor restrictions at year end of $1,820,324 were all considered undesignated. Net assets with donor restrictions were as follows:

Specific Purpose		
Equine program	$	5,142
Mentoring program		5,000
Foster adopt program		3,167
Training		2,524
Staff retention		1,630
Marketing materials		1,544
Program supplies		824
Recruitment		373
Total	$	20,204

Net assets released from donor restrictions are as follows:

Satisfaction of Purpose Restrictions		
Equine program	$	21,704
Behavioral health program		9,800
Foster adopt program		90
Training		13,500
Staff retention		1,072
Marketing materials		3,168
Program supplies		1,768
Recruitment		627
Total	$	51,729

NOTE 6 – OPERATING LEASE COMMITMENT

The Organization is obligated under operating leases for office space. The first lease expires July 31, 2019. The second lease expires July 31, 2022. Rent expense for the year ended June 30, 2019 totaled $160,551, which includes common area maintenance charges of $63,356.

The following is a schedule by years of future minimum rental payments under the leases at year end:

Year End:		
	2020	$ 101,492
	2021	103,424
	2022	106,527
	2023	8,899
Total		$ 320,342

NOTE 7 – CONCENTRATION

The Organization receives a substantial portion of its total revenue, approximately 73 percent excluding public support and other income, under contracts negotiated with the Arizona Department of Child Safety (DCS). At June 30, 2019, 84 percent of their government receivables were from DCS. If the Organization is unable to renegotiate its contracts with DCS in the future, it would have an adverse effect on the operations of the Organization.

NOTE 8 – LITIGATION AND CLAIMS

In March and April of 2019, HCS resolved the two outstanding claims against them. Costs related to these claims were covered by the Organization's insurance.