

HOPE SERVICES AND THE FOUNDATION FOR HOPE
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED
JUNE 30, 2012 AND 2011

HOPE SERVICES AND THE FOUNDATION FOR HOPE

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June 30, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
HOPE Services and The Foundation for HOPE
San Jose, California

We have audited the accompanying consolidated statement of financial position of HOPE Services and The Foundation for HOPE (collectively "HOPE") as of June 30, 2012, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of HOPE's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of HOPE for the year ended June 30, 2011 were audited by other auditors whose report, dated October 26, 2011, expressed an unqualified opinion on those statements.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HOPE as of June 30, 2012, and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information which follows on pages 27 to 28 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



SingerLewak LLP

San Jose, California
October 29, 2012

HOPE SERVICES AND THE FOUNDATION FOR HOPE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

ASSETS

	2012	2011
Current assets		
Cash and cash equivalents	\$ 432,875	\$ 482,149
Accounts receivable, net of allowance for doubtful accounts of \$305,781 and \$303,158 at June 30, 2012 and 2011, respectively	3,891,925	3,847,292
Pledges receivable	42,580	38,566
Investments	4,885,916	4,781,480
Prepaid expenses and other current assets	242,177	122,089
Total current assets	9,495,473	9,271,576
Assets limited as to use		
Cash restricted for debt service	735,268	728,126
Cash restricted for endowment	135,530	156,484
Investments restricted for endowment	967,397	940,943
Total assets limited as to use	1,838,195	1,825,553
Noncurrent assets		
Pledges receivable, less current portion	-	87,093
Property and equipment, net	13,832,324	14,344,253
Bond issuance costs	258,800	289,857
Other assets	102,948	129,401
Total noncurrent assets	14,194,072	14,850,604
Total assets	\$ 25,527,740	\$ 25,947,733

LIABILITIES AND NET ASSETS

Current liabilities		
Book overdraft	\$ 358,289	\$ 256,661
Line of credit	2,434,492	1,606,513
Notes payable, current maturities	125,238	196,468
Serial bonds, current maturities	315,000	300,000
Accounts payable	1,349,127	1,207,110
Accrued liabilities	2,339,005	2,341,219
Total current liabilities	6,921,151	5,907,971
Long-term liabilities		
Notes payable, less current maturities	547,987	675,855
Serial bonds, less current maturities	1,035,000	1,350,000
Term bonds due 2020	2,115,000	2,115,000
Total long-term liabilities	3,697,987	4,140,855
Total liabilities	10,619,138	10,048,826
Commitments (Notes 6, 7 and 8)		
Net assets		
Unrestricted		
Board designated	1,576,422	2,501,601
Unrestricted	11,944,530	12,067,498
Temporarily restricted	284,723	232,381
Permanently restricted	1,102,927	1,097,427
Total net assets	14,908,602	15,898,907
Total liabilities and net assets	\$ 25,527,740	\$ 25,947,733

The accompanying notes are an integral part of these financial statements.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support								
State and county funding	\$ 24,186,712	\$ -	\$ -	\$ 24,186,712	\$ 23,982,992	\$ -	\$ -	\$ 23,982,992
Commercial contract services	7,179,746	-	-	7,179,746	7,597,444	-	-	7,597,444
In-kind donations of professional services	1,265,292	-	-	1,265,292	962,739	-	-	962,739
Wholesale sales of salvage	4,419,473	-	-	4,419,473	4,676,643	-	-	4,676,643
Retail sales of salvage	672,487	-	-	672,487	783,989	-	-	783,989
In-kind donations of salvage	5,091,960	-	-	5,091,960	5,460,632	-	-	5,460,632
Contributions and pledges	347,088	153,114	5,500	505,702	554,376	104,990	5,100	664,466
Contributed use of facilities	286,000	-	-	286,000	286,000	-	-	286,000
United Way allocations and designations	15,249	30,000	-	45,249	27,850	35,900	-	63,750
Special events	66,695	-	-	66,695	95,366	-	-	95,366
Rental income	208,608	-	-	208,608	207,458	-	-	207,458
Other	63,958	-	-	63,958	64,026	-	-	64,026
Net assets released from restrictions	130,772	(130,772)	-	-	132,975	(132,975)	-	-
Total revenues, gains and other support	<u>43,934,040</u>	<u>52,342</u>	<u>5,500</u>	<u>43,991,882</u>	<u>44,832,490</u>	<u>7,915</u>	<u>5,100</u>	<u>44,845,505</u>
Expenses								
Program services	30,219,743	-	-	30,219,743	30,560,146	-	-	30,560,146
Support services								
General and administrative	4,176,469	-	-	4,176,469	4,206,321	-	-	4,206,321
Fundraising								
Salvage solicitation	4,962,851	-	-	4,962,851	4,964,269	-	-	4,964,269
Other	693,257	-	-	693,257	545,451	-	-	545,451
Cost of goods sold (salvage)	5,091,960	-	-	5,091,960	5,460,632	-	-	5,460,632
Total expenses	<u>45,144,280</u>	<u>-</u>	<u>-</u>	<u>45,144,280</u>	<u>45,736,819</u>	<u>-</u>	<u>-</u>	<u>45,736,819</u>
Change in net assets from operations	(1,210,240)	52,342	5,500	(1,152,398)	(904,329)	7,915	5,100	(891,314)
Investment income, net	162,093	-	-	162,093	715,952	-	-	715,952
Change in net assets	(1,048,147)	52,342	5,500	(990,305)	(188,377)	7,915	5,100	(175,362)
Net assets, beginning of year	14,569,099	232,381	1,097,427	15,898,907	14,757,476	224,466	1,092,327	16,074,269
Net assets, end of year	<u>\$ 13,520,952</u>	<u>\$ 284,723</u>	<u>\$ 1,102,927</u>	<u>\$ 14,908,602</u>	<u>\$ 14,569,099</u>	<u>\$ 232,381</u>	<u>\$ 1,097,427</u>	<u>\$ 15,898,907</u>

The accompanying notes are an integral part of these financial statements.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012

	Support Services				Total Expenses	Non-Cash Cost of Goods Sold (Salvage)	Total
	Program Services	Fundraising					
		General and Administrative	Salvage Solicitation	Other			
Personnel costs							
Salaries and wages	\$ 16,249,837	\$ 1,831,765	\$ 1,767,475	\$ 388,231	\$ 20,237,308	\$ -	\$ 20,237,308
Benefits	4,568,422	567,016	545,493	78,057	5,758,988	-	5,758,988
Payroll taxes	1,183,803	131,258	133,256	28,666	1,476,983	-	1,476,983
Donated services	1,265,292	-	-	-	1,265,292	-	1,265,292
Total personnel costs	23,267,354	2,530,039	2,446,224	494,954	28,738,571	-	28,738,571
Cost of goods sold (salvage)	-	-	-	-	-	5,091,960	5,091,960
Occupancy	2,054,775	127,514	373,516	13,732	2,569,537	-	2,569,537
Operating supplies	1,290,194	42,831	67,210	2,608	1,402,843	-	1,402,843
Purchased services	1,477,578	665,791	1,259,917	78,884	3,482,170	-	3,482,170
Communications	245,805	46,136	41,647	12,841	346,429	-	346,429
Interest	182,627	136,543	-	2,367	321,537	-	321,537
Depreciation and amortization	566,640	290,760	69,295	6,900	933,595	-	933,595
Travel and transportation	700,771	57,360	602,112	10,704	1,370,947	-	1,370,947
Equipment rental and maintenance	130,030	62,862	19,767	4,301	216,960	-	216,960
Printing and publications	45,568	97,307	3,885	57,739	204,499	-	204,499
Bond expenses	25,352	10,399	-	441	36,192	-	36,192
Bad debt expense	3,414	-	-	-	3,414	-	3,414
Insurance	216,381	45,249	64,862	2,307	328,799	-	328,799
Other expenses	13,254	63,678	14,416	5,479	96,827	-	96,827
Total expenses	\$ 30,219,743	\$ 4,176,469	\$ 4,962,851	\$ 693,257	\$ 40,052,320	\$ 5,091,960	\$ 45,144,280
Percentage of total expenses	75%	11%	12%	2%	100%		

The accompanying notes are an integral part of these financial statements.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011

	Support Services				Total Expenses	Non-Cash Cost of Goods Sold (Salvage)	Total
	Program Services	Fundraising					
		General and Administrative	Salvage Solicitation	Other			
Personnel costs							
Salaries and wages	\$ 16,928,309	\$ 1,740,855	\$ 1,897,779	\$ 300,754	\$ 20,867,697	\$ -	\$ 20,867,697
Benefits	4,271,190	665,600	504,358	88,951	5,530,099	-	5,530,099
Payroll taxes	1,240,058	121,737	137,609	22,499	1,521,903	-	1,521,903
Donated services	962,736	-	-	-	962,736	-	962,736
Total personnel costs	23,402,293	2,528,192	2,539,746	412,204	28,882,435	-	28,882,435
Cost of goods sold (salvage)	-	-	-	-	-	5,460,632	5,460,632
Occupancy	2,259,200	137,536	447,471	15,752	2,859,959	-	2,859,959
Operating supplies	1,345,781	58,963	67,909	4,488	1,477,141	-	1,477,141
Purchased services	1,366,460	677,081	1,140,000	60,002	3,243,543	-	3,243,543
Communications	279,135	66,153	39,401	11,745	396,434	-	396,434
Interest	206,738	110,195	-	2,539	319,472	-	319,472
Depreciation and amortization	605,889	258,381	48,414	1,619	914,303	-	914,303
Travel and transportation	633,960	49,105	580,359	6,541	1,269,965	-	1,269,965
Equipment rental and maintenance	147,062	39,312	20,013	4,136	210,523	-	210,523
Printing and publications	18,840	146,786	5,421	18,251	189,298	-	189,298
Bond expenses	25,661	10,308	-	443	36,412	-	36,412
Bad debt expense	5,594	-	-	-	5,594	-	5,594
Insurance	228,531	48,726	58,247	2,478	337,982	-	337,982
Other expenses	35,002	75,583	17,288	5,253	133,126	-	133,126
Total expenses	\$ 30,560,146	\$ 4,206,321	\$ 4,964,269	\$ 545,451	\$ 40,276,187	\$ 5,460,632	\$ 45,736,819
Percentage of total expenses	76%	11%	12%	1%	100%		

The accompanying notes are an integral part of these financial statements.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	\$ (990,305)	\$ (175,362)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for uncollectible receivables	3,414	5,594
Depreciation and amortization	933,595	914,303
Amortization of bond issuance costs	31,057	31,056
Net realized and unrealized gain on investments	(43,131)	(576,955)
Loss (gain) on disposition of property and equipment	7,503	17,554
Changes in operating assets and liabilities		
Accounts receivable	(48,047)	185,097
Pledges receivable	83,079	(10,245)
Prepaid expenses and other assets	(93,635)	27,212
Accounts payable	142,017	204,920
Accrued liabilities	(2,214)	(78,658)
	23,333	544,516
Net cash provided by operating activities		
Cash flows from investing activities		
Proceeds from maturities and sales of investments	1,804,725	1,494,319
Purchases of investments	(1,892,484)	(2,387,089)
Proceeds from sale of property and equipment	3,085	3,900
Purchases of property and equipment	(432,254)	(489,260)
	(516,928)	(1,378,130)
Net cash used in investing activities		
Cash flows from financing activities		
Change in book overdraft	101,628	(266,200)
Repayments of notes and bonds payable	(499,098)	(563,565)
Borrowings on line of credit, net of repayments	827,979	844,176
	430,509	14,411
Net cash provided by financing activities		
Net decrease in cash and cash equivalents	(63,086)	(819,203)
Cash and cash equivalents at beginning of year	1,366,759	2,185,962
Cash and cash equivalents at end of year	\$ 1,303,673	\$ 1,366,759
Reconciliation of cash and cash equivalents at end of year		
Cash and cash equivalents	\$ 432,875	\$ 482,149
Cash restricted for debt service	735,268	728,126
Cash restricted for endowment	135,530	156,484
	\$ 1,303,673	\$ 1,366,759
Cash and cash equivalents at end of year		
Supplemental disclosure of cash flow information		
Interest paid	\$ 323,810	\$ 321,600

The accompanying notes are an integral part of these financial statements.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 1 – NATURE OF ACTIVITIES

HOPE Services is a private, nonprofit, tax-exempt organization which provides comprehensive services to more than 2,500 individuals with developmental and other related disabilities, and their families. The individuals served by HOPE Services may have autism spectrum disorders, Down's syndrome, and other related conditions. Services include a range of employment and job training programs, developmental activities, professional counseling, infant services, senior services, supported and independent living services, and mobility training for children, adults and seniors in five Northern California counties.

The Foundation for HOPE (the "Foundation") is also a private, nonprofit, tax-exempt organization dedicated to raising funds to further the goals of HOPE Services. HOPE Services approves all nominations to the Board of Trustees of the Foundation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of HOPE Services and the Foundation (collectively "HOPE"). All significant balances and transactions between the entities have been eliminated through consolidation.

Basis of Presentation

The consolidated financial statements of HOPE have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Financial Statement Presentation

HOPE segregates its assets and liabilities, and operations into three categories: unrestricted, temporarily restricted and permanently restricted. HOPE's net assets and changes therein are classified and reported as follows:

Unrestricted net assets – consist of net assets for which there are no donor-imposed restrictions or such donor-imposed restrictions were temporary and expired during the current or previous years. Certain cash limited as to its use, certain investments and a pledge receivable are reflected as designated unrestricted net assets at June 30, 2012 and June 30, 2011.

Temporarily restricted net assets – consist of contributions receivable or received that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Permanently restricted net assets – consist of all contributions receivable or received from donors that are subject to restrictions requiring the funds to be maintained permanently for the purpose of producing support for HOPE. Income from these assets is recorded as unrestricted net assets unless otherwise restricted by donor stipulations.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments and investments with an original maturity of three months or less. Cash and cash equivalents restricted by donors for use for certain purposes or restricted for debt service under the terms of the debt agreement are not considered to be available for current use, and are not included in cash and cash equivalents for purposes of the consolidated statements of financial position.

Concentrations of Credit Risk

Financial instruments that potentially subject HOPE to concentrations of credit risk consist primarily of cash and cash equivalents, investments, accounts receivable and pledges receivable.

Risks associated with cash and cash equivalents and investments are mitigated by maintaining deposits in multiple credit-worthy financial institutions. HOPE maintains its cash in bank deposit accounts which, at times, may exceed amounts insured by the Federal Deposit Insurance Corporation (“FDIC”). Effective December 31, 2010, as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, all funds in non-interest bearing accounts are fully insured by the FDIC. HOPE’s investment balances exceed the level insured by the Securities Investor Protection Corporation. As of June 30, 2012, HOPE has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash and cash equivalents or investment accounts. HOPE’s investment portfolio and invested cash are managed by HOPE’s Board of Directors and Investment Committee.

Accounts receivable consist primarily of public funding and contract service revenues. Contract service revenues are primarily from companies located in Northern California. Approximately 67% and 68% of accounts receivable at June 30, 2012 and 2011, respectively, are from government agencies. Pledges receivable represent amounts committed by donors that have not been received by HOPE. HOPE makes judgments as to the ability to collect all of its outstanding receivables and provides allowances for amounts when collection becomes doubtful. Provisions are made based upon a specific review of past due and other outstanding balances for which collection is considered uncertain.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract Service Revenues

Revenue from state and county funding is recognized based on the terms of the respective fee for service contract. Most contracts provide that HOPE will be paid at pre-established rates based on attendance of clients, coaching hours provided or other measures. Revenue from contract services provided by HOPE clients to commercial organizations is recognized upon completion of services or based on quantities of piecework completed.

In-Kind Donations

HOPE records various types of in-kind donations including professional services, tangible assets and the use of tangible assets. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets, or the use thereof, are recognized when promised or received, whichever is earlier. The amounts reflected in the accompanying consolidated financial statements as in-kind donations are offset by like amounts of expenses, or in the case of long-term assets, over the period benefited. Additionally, HOPE receives a significant amount of contributed time from volunteers, which does not meet the recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying consolidated financial statements.

Retail Sales

HOPE operates a retail store in Fremont, California under a non-cancelable operating lease to facilitate the sale of donated clothing and other household items. Revenue is recognized at the time of sale, as all sales to customers are unconditional and returns are not allowed.

Cost of Goods Sold (Salvage)

HOPE collects donated items from the general public for sale to a third party retailer of used goods and for HOPE's Fremont store. As the value of donated items is not determinable at the time of donation, HOPE has historically recorded in-kind revenue from its salvage operations equal to the annual revenue generated from wholesale and retail salvage sales, with a corresponding in-kind charge to cost of goods sold (salvage).

Inventory consists of donated clothing and other household items and is sold through HOPE's retail store or directly to other thrift stores. Inventory is valued at fair market value at the time of the donation. For slow-moving or non-salable items, necessary provisions are recorded to reduce inventory to net realizable value. As of June 30, 2012 and 2011, inventory of approximately \$26,000 and \$27,000, respectively, is included in prepaid expenses and other current assets on the consolidated statements of financial position.

Pledges Receivable

One pledge represents 35% of total pledges receivable as of June 30, 2012. As of June 30, 2011, one pledge represented 69% of the total pledges receivable.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments in marketable securities are reported at fair market value based on quoted market prices. Unrealized gains and losses are included in net investment income in the consolidated statements of activities. Income and gains on restricted investments are reported as increases in unrestricted net assets unless otherwise restricted by the donor. Investments classified as current assets are readily marketable and are available for conversion to cash within one year of the date of the consolidated statements of financial position.

Property and Equipment

Purchased property and equipment are recorded at cost. It is Hope's policy to capitalize property and equipment acquisitions over \$1,000. Donated property and equipment are recorded at their estimated fair value at the time of the donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the term of the respective leases (including anticipated renewal options, where appropriate) or the estimated useful lives of the assets.

Building and improvements	7 - 40 years
Office furniture and equipment	5 - 7 years
Equipment and tools	5 - 10 years
Computer equipment	3 years
Transportation equipment	3 - 5 years
Leasehold improvements	Lesser of 15 years or remaining lease term

Donations of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Donations of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported as released from restriction when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

HOPE reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value may not be fully recoverable. HOPE evaluates the recoverability of long-lived assets by measuring the carrying amount of such assets against the estimated undiscounted future cash flows associated with them. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair value. To date, HOPE has not recorded any impairment of its long-lived assets as a result of this analysis.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

HOPE has been determined to be exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Code. HOPE is also exempt from California franchise taxes under Section 23701(d) of the California Revenue and Taxation Code.

Although HOPE is recognized as a tax-exempt nonprofit organization, it is still liable for tax on any unrelated business taxable income (“UBI”). HOPE does not believe it has UBI that should have been reported for tax purposes.

HOPE applies the provisions set forth in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification Topic No. 740 to account for uncertainty in income taxes. Management has considered its tax positions and believes that all of the positions taken by HOPE in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination; therefore, no liability for unrecognized income tax benefits has been recorded as of June 30, 2012 and 2011.

HOPE’s federal Return of Organization Exempt from Income Tax (Forms 990) for the years ended June 30, 2009 through 2011 are subject to examination by the Internal Revenue Service, generally for three years after they are filed. HOPE’s state returns (Forms 199) for the years ended June 30, 2008 through 2011 could be subject to examination by state taxing authorities, generally for four years after they are filed.

Functional Expenses

The costs of providing HOPE’s various programs and services have been summarized on a functional basis in the consolidated statements of functional expenses. Directly identifiable expenses are charged to the related program or service benefited. Indirect expenses are allocated to programs and services based principally on the percentage of personnel time spent in each area.

Advertising

Costs associated with advertising are expensed when incurred. Advertising expenses were \$171,755 and \$155,103 for the years ended June 30, 2012 and 2011, respectively.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncement

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (“ASU 2011-04”), which amends Accounting Standards Codification Topic No. 820, *Fair Value Measurement* (“ASC 820”). ASU 2011-04 does not extend the use of fair value accounting, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or International Financial Reporting Standards. ASU 2011-14 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU 2011-14 clarifies the FASB’s intent about the application of existing fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011, and is applied prospectively. The adoption of ASU 2011-04 will not have a material impact on HOPE’s financial position.

Reclassification

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation. These reclassifications have no effect on net assets or changes in net assets.

NOTE 3 – FAIR VALUE MEASUREMENTS

HOPE measures and discloses fair value measurements as required by *the Fair Value Measurements and Disclosures Topic* of the FASB Accounting Standards Codification.

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 – Valuations based on observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis as of June 30, 2012 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identifiable Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Equity securities				
Consumer goods	\$ 574,776	\$ 574,776	\$ -	\$ -
Energy and precious metals	292,375	292,375	-	-
Financial services	379,866	379,866	-	-
Healthcare	476,421	476,421	-	-
Industrial	340,675	340,675	-	-
Technology	350,065	350,065	-	-
Telecommunication services	125,390	125,390	-	-
Utilities	66,421	66,421	-	-
Foreign and other	<u>165,747</u>	<u>165,747</u>	-	-
Total equity securities	<u>2,771,736</u>	<u>2,771,736</u>	-	-
Fixed income securities				
Government	325,580	-	325,580	-
Corporate	1,130,175	-	1,130,175	-
Foreign	<u>104,011</u>	-	<u>104,011</u>	-
Total fixed income securities	<u>1,559,766</u>	-	<u>1,559,766</u>	-
Mutual funds				
Bond funds	890,242	-	890,242	-
Value funds	<u>17,592</u>	-	<u>17,592</u>	-
Total mutual funds	<u>907,834</u>	-	<u>907,834</u>	-
Exchange traded funds	<u>613,977</u>	-	<u>613,977</u>	-
Total investments at fair value	<u>\$ 5,853,313</u>	<u>\$ 2,771,736</u>	<u>\$ 3,081,577</u>	<u>\$ -</u>

HOPE SERVICES AND THE FOUNDATION FOR HOPE
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NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis as of June 30, 2011 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identifiable Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Equity securities				
Consumer goods	\$ 491,201	\$ 491,201	\$ -	\$ -
Energy and precious metals	382,972	382,972	-	-
Financial services	355,151	355,151	-	-
Healthcare	316,712	316,712	-	-
Manufacturing	191,352	191,352	-	-
Technology	317,408	317,408	-	-
Telecommunication services	97,055	97,055	-	-
Utilities	117,859	117,859	-	-
Retail services	241,873	241,873	-	-
Foreign and other	25,819	25,819	-	-
Total equity securities	<u>2,537,402</u>	<u>2,537,402</u>	<u>-</u>	<u>-</u>
Fixed income securities				
Government	508,391	-	508,391	-
Corporate	962,645	-	962,645	-
Foreign	107,816	-	107,816	-
Total fixed income securities	<u>1,578,852</u>	<u>-</u>	<u>1,578,852</u>	<u>-</u>
Mutual funds				
Blend funds	163,530	-	163,530	-
Bond funds	1,044,557	-	1,044,557	-
Index funds	11,928	-	11,928	-
Value funds	17,390	-	17,390	-
Total mutual funds	<u>1,237,405</u>	<u>-</u>	<u>1,237,405</u>	<u>-</u>
Exchange traded funds	368,764	-	368,764	-
Total investments at fair value	<u>\$ 5,722,423</u>	<u>\$ 2,537,402</u>	<u>\$ 3,185,021</u>	<u>\$ -</u>

HOPE SERVICES AND THE FOUNDATION FOR HOPE
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NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

Fair values for Level 1 investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value of Level 2 investments are determined by reference to quoted market transactions in a less active market for assets similar to those held to support the underlying assets. There have been no changes in valuation techniques and related inputs.

NOTE 4 – INVESTMENTS

Investments consisted of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Equity securities	\$ 2,771,736	\$ 2,537,402
Fixed income securities	1,559,766	1,578,852
Mutual funds	907,834	1,237,405
Exchange traded funds	<u>613,977</u>	<u>368,764</u>
Total	<u>\$ 5,853,313</u>	<u>\$ 5,722,423</u>

Investments are classified as follows as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unrestricted and temporarily restricted investments	\$ 4,885,916	\$ 4,781,480
Investments restricted for endowment	<u>967,397</u>	<u>940,943</u>
Total	<u>\$ 5,853,313</u>	<u>\$ 5,722,423</u>

Unrestricted investment income is comprised of the following for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Dividends and interest	\$ 186,824	\$ 200,674
Net realized and unrealized gains	<u>43,131</u>	<u>576,955</u>
	229,955	777,629
Less investment expenses	<u>67,862</u>	<u>61,677</u>
Total	<u>\$ 162,093</u>	<u>\$ 715,952</u>

HOPE SERVICES AND THE FOUNDATION FOR HOPE
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June 30, 2012 and 2011

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 5,294,109	\$ 5,294,109
Building and improvements	11,517,126	11,493,270
Office furniture and equipment	506,817	501,358
Equipment and tools	503,665	501,134
Computer equipment	1,831,073	1,954,535
Transportation equipment	1,808,992	1,832,965
Leasehold improvements	<u>442,169</u>	<u>493,398</u>
	21,903,951	22,070,769
Less accumulated depreciation and amortization	<u>8,071,627</u>	<u>7,726,516</u>
Property and equipment, net	<u>\$ 13,832,324</u>	<u>\$ 14,344,253</u>

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 totaled \$933,595 and \$914,303, respectively.

NOTE 6 – BORROWING ARRANGEMENTS

Bonds Payable

Bonds payable consisted of California Health Facilities Financing Authority Insured Health Facility Refunding Revenue Bonds, as follows as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Serial bonds (4.45% - 4.90%)	\$ 1,350,000	\$ 1,650,000
Term bonds (5.375%)	<u>2,115,000</u>	<u>2,115,000</u>
	3,465,000	3,765,000
Less current maturities	<u>315,000</u>	<u>300,000</u>
Long-term bonds payable	<u>\$ 3,150,000</u>	<u>\$ 3,465,000</u>

In May 2002, the California Health Facilities Financing Authority (the "Authority") issued \$5,845,000 Series A Bonds to refinance all of HOPE's previously outstanding bonds. The term bonds were due on November 1, 2020, and required mandatory sinking fund payments beginning in 2016. The serial bonds require annual principal payments due each November 1, with interest payments due each November 1 and May 1.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
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June 30, 2012 and 2011

NOTE 6 – BORROWING ARRANGEMENTS (Continued)

Bonds Payable (Continued)

Bonds maturing on or after November 1, 2011, are subject to redemption prior to their respective dates at the option of the Authority and at the direction of HOPE. HOPE has pledged unrestricted gross revenues, as defined, under the bond agreement. The obligation is secured by deeds of trust on HOPE’s facilities.

The full amount of principal and interest on the serial bonds is insured by the Office of Statewide Health Planning and Development (“OSHPD”) of the State of California. The bond agreement provides for various restrictive covenants including, among other things, maintaining a minimum debt coverage ratio, timely financial reporting and repaying all outstanding short-term indebtedness for a 30-day period during the year. At June 30, 2012, HOPE was not in compliance with these three covenants that are calculated on an annual basis, and was in technical default. In a letter dated subsequent to June 30, 2012, OSHPD agreed to defer any action against HOPE for the year ended June 30, 2012, as a result of these covenant violations at June 30, 2012.

In addition, HOPE is required to maintain a bond reserve account in an amount equal to the maximum annual bond service requirement under the bond agreement. As a result, cash of \$735,268 and \$728,126 as of June 30, 2012 and 2011, respectively, has been restricted for debt service to satisfy this requirement.

Subsequent to the year ended June 30, 2012, HOPE refinanced the full outstanding balance of the serial bonds and the terms bond to receive a more favorable interest rate (See Note 13). As a result of the refinancing, the total amount due on the term bonds as of June 30, 2012 was settled and converted into serial bonds. The refinanced amount of the bonds was \$35,000 greater than the long-term portion of the serial bonds and term bonds at June 30, 2012 as a result of additional bond service costs and interest costs associated with the refinancing.

Subsequent refinancing of the serial bonds and term bonds payable resulted in a change in the future maturities. Future maturities as a result of this refinancing, coupled with the required principal payment from the bond trustee of \$315,000 originally due on November 1, 2012 in agreement with the initial bond issuance terms are as follows:

For the Years Ending	
<u>June 30,</u>	
2013	\$ -
2014	385,000
2015	395,000
2016	405,000
2017	410,000
Thereafter	<u>1,590,000</u>
Total	<u>\$ 3,185,000</u>

HOPE SERVICES AND THE FOUNDATION FOR HOPE
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June 30, 2012 and 2011

NOTE 6 – BORROWING ARRANGEMENTS (Continued)

Notes Payable

Notes payable consisted of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Mortgage note with bank, payable in monthly installments of \$2,549 plus variable interest at bank's prime rate (3.25% at June 30, 2012 and 2011), with all principal due on January 2015; secured by deed of trust on real property.	\$ 82,632	\$ 113,220
Mortgage note with bank, payable in monthly installments of \$2,342, including interest at 9.7% matured July 2011; secured by deed of trust on real property.	-	3,961
Vehicle notes, payable in monthly installments of \$16,075, including interest from 1.9% - 8.9% due at various dates through July 2015; secured by vehicles.	175,542	316,011
Equipment notes, non-interest bearing, payable in quarterly installments of \$3,807, matured January 2012; secured by equipment.	-	7,614
Mortgage note with bank, payable in monthly installments of \$1,960, including interest at 7.25% through December 2026; secured by deed of trust on real property.	210,686	218,618
Mortgage note with bank, payable in monthly installments of \$952, including interest at 7.25% through December 2026; secured by deed of trust on real property.	102,370	106,224
Mortgage note with individuals, payable in monthly installments of \$1,000, including interest at 7.0% through June 2025; secured by deed of trust on real property.	<u>101,995</u>	<u>106,675</u>
	673,225	872,323
Less current maturities	<u>125,238</u>	<u>196,468</u>
Long-term notes payable	<u>\$ 547,987</u>	<u>\$ 675,855</u>

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NOTE 6 – BORROWING ARRANGEMENTS (Continued)

Notes Payable (Continued)

Aggregate principal payments required are as follows:

For the Years Ending June 30,	
2013	\$ 125,238
2014	105,127
2015	83,833
2016	22,999
2017	23,552
Thereafter	<u>312,476</u>
Total	<u>\$ 673,225</u>

Line of Credit

HOPE had a \$2,500,000 line of credit with a bank bearing interest at the London Inter-Bank Offered Rate plus 2.50% (4.50% at June 30, 2011) as of June 30, 2011. The line of credit was amended on February 22, 2012, resulting in an increase in the borrowing base to \$3,200,000. The amended line now bears interest at the bank's Prime Reference Rate (3.25% at June 30, 2012). Borrowings against the line of credit were \$2,434,492 and \$1,606,513 as of June 30, 2012 and 2011, respectively.

The line of credit is subject to renewal on February 1, 2013. The line of credit is collateralized by HOPE's investments with that bank, which have an aggregate fair market value of \$5,853,313 at June 30, 2012.

NOTE 7 – OPERATING LEASE ARRANGEMENTS

HOPE leases fifteen (15) separate facilities under operating lease agreements, many with renewal options, which expire at various dates through 2053. Management expects that in the normal course of business the leases will be renewed, or replaced, either by other leases or by acquisition or construction of similar facilities. HOPE also leases equipment and vehicles under operating lease agreements of five years or less.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 7 – OPERATING LEASE ARRANGEMENTS (Continued)

Future minimum lease payments, net of sublease income, for equipment, vehicles and facilities are as follows:

For the Years Ending June 30,	
2013	\$ 1,114,000
2014	849,000
2015	690,000
2016	663,000
2017	459,000
Thereafter	<u>9,511,000</u>
Total	<u>\$ 13,286,000</u>

Facilities rent expense under operating leases totaled \$1,247,033 and \$1,336,118 for the years ended June 30, 2012 and 2011, respectively, exclusive of in-kind rent. Equipment rent expense under operating lease agreements totaled \$104,787 and \$110,721 for the years ended June 30, 2012 and 2011, respectively.

HOPE leases a building in San Jose, California under an agreement expiring in 2022, which provides for annual rent of \$1. The lessor has the right to terminate this agreement upon 180 days written notice. The fair value of this rent in 2012 and 2011 has been estimated by HOPE at \$276,800, and is reflected as contributed use of facilities revenue and rent expense.

A small portion of the Children’s Discovery Museum of San Jose, California is leased for the purpose of providing a training program for HOPE clients. This program provides food service for museum visitors. The lease agreement provides for annual rent of \$2,400, plus one-half of the surplus of program income (should there be any) net of all expenses, including general, administrative and overhead costs. The lease agreement expires in August 2013. The fair value of this rent for 2012 and 2011 has been estimated by HOPE at \$9,200, and is reflected as contributed use of facilities revenue and rent expense.

The land which houses the Whittier facility is leased under a 48-year operating lease agreement which expires in 2038. Basic monthly rental payments under this lease are subject to two possible adjustments: (1) a consumer price index (CPI) based adjustment which occurs every three years, and (2) a market value adjustment which can occur, at the option of either the landlord or HOPE, every ten years.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
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June 30, 2012 and 2011

NOTE 7 – OPERATING LEASE ARRANGEMENTS (Continued)

The CPI-based adjustment is determined by the increase in CPI during the previous three-year period. Every market value adjustment is the starting point for subsequent CPI-based adjustments. The CPI-based adjustment is subject to a 3% to 5% collar, such that annual rent must increase at least 3% but no more than 5%. The market value adjustment is determined by an appraisal that can occur every ten years at the option of the landlord or HOPE. The market value adjustment establishes the new base rent although the appraised value of the property can never result in a base rent that is less than the rent determined in the appraisal from ten years earlier. The last appraisal and market value adjustment took place in June 2001. The landlord waived his right to revalue the base rent in 2010. However, the landlord retained his right to the future lease adjustments under the lease. There was no increase in rent in 2012. Future minimum lease payments of this lease have been computed and are included in the above schedule based on the June 2001 market value base rent amount.

NOTE 8 – EMPLOYEE RETIREMENT PLANS

Defined Contribution Retirement Plan

HOPE has a defined contribution retirement plan for employees meeting certain employment service requirements. Contributions are based on varying percentages of eligible employees' compensation, as defined. The benefits vest upon contribution. Retirement benefits expense related to the plan totaled \$537,336 and \$584,399 for the years ended June 30, 2012 and 2011, respectively.

Deferred Compensation Plan

HOPE has a deferred compensation plan covering certain key employees. Annual contributions to the plan are determined by HOPE's Executive Committee. HOPE contributed \$112,833 and \$120,667 to the plan during the years ended June 30, 2012 and 2011, respectively.

Retirement Pensions

HOPE currently provides one former employee with a retirement pension. The actuarially computed present value of the benefit was expensed over the period from the inception of the agreement through the employee's retirement date. Management has determined the accrued retirement payable and pension cost were not material as of and for the years ended June 30, 2012 or 2011. Retirement benefits were fully vested and unfunded at June 30, 2012 and 2011.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
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June 30, 2012 and 2011

NOTE 9 – NET ASSETS

Temporarily restricted net assets are restricted by donors for the purposes and periods described below. Temporarily restricted net assets consisted of the following as of June 30, 2012 and 2011:

	2012	2011
United Way receivable (time restrictions)	\$ 30,000	\$ 27,095
Program services (time and purpose restrictions)	254,723	200,286
Pledges receivable (time and purpose restrictions)	-	5,000
Total	\$ 284,723	\$ 232,381

Permanently restricted net assets consist of cash and investments held in perpetuity and totaled \$1,102,927 and \$1,097,427 for the years ended June 30, 2012 and 2011, respectively.

NOTE 10 – ENDOWMENT

HOPE’s endowment consists of both contributions receivable or received with donor-restrictions and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

HOPE’s Board of Directors have interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, HOPE classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified in temporarily restricted net assets until those amounts are appropriated for expenditure by HOPE in a manner consistent with the standard of prudence prescribed by SPMIFA.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2012 and 2011

NOTE 10 – ENDOWMENT (Continued)

In accordance with SPMIFA, HOPE considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of HOPE and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of HOPE
- (7) HOPE's investment policies

Endowment net assets consist of the following as of June 30, 2012:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,102,927	\$ 1,102,927
Board-designated endowment funds	1,576,422	-	1,576,422
Total	<u>\$ 1,576,422</u>	<u>\$ 1,102,927</u>	<u>\$ 2,679,349</u>

Endowment net assets consist of the following as of June 30, 2011:

	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,097,427	\$ 1,097,427
Board-designated endowment funds	1,576,422	-	1,576,422
Total	<u>\$ 1,576,422</u>	<u>\$ 1,097,427</u>	<u>\$ 2,673,849</u>

The unrestricted and board-designated endowment funds of \$1,576,422 relates to a portion of proceeds received from an estate (Note 2) that the Board of Directors established as an endowment fund in 2009.

HOPE has adopted an investment policy for endowment assets with the primary objective to preserve principal, while generating a competitive rate of return and maintaining liquidity. Under this policy, funds are invested in cash and cash equivalents, and readily marketable equity and fixed income securities, unless otherwise approved by HOPE's Board of Directors. Limiting risks and protecting principal is an integral part of the investment policy objectives.

HOPE has not appropriated any endowment funds for expenditure at June 30, 2012. Endowment investment income and gains in 2012 and 2011 have been classified as unrestricted net assets to capture endowment investment losses recorded as unrestricted net assets in prior years.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
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June 30, 2012 and 2011

NOTE 11 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors, including the passage of time. Net assets were released from restrictions as follows for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Pledge receivable (time restrictions)	\$ 26,241	\$ 14,789
Program services (time and purpose restrictions)	<u>104,531</u>	<u>118,186</u>
Total	<u>\$ 130,772</u>	<u>\$ 132,975</u>

NOTE 12 – RELATED PARTIES

A current member of HOPE's Board of Directors is the owner of the firm that brokered life insurance and long-term disability benefits for certain HOPE employees. There were no administrative fees paid directly by HOPE to the Board member's firm in fiscal 2012 or 2011.

In 1997, South County/Hope Villa Esperanza, Inc. ("SCHVE"), a nonprofit organization, was incorporated with a mission to build and maintain a housing facility for persons with disabilities financed by the U.S. Department of Housing and Urban Development. Representatives from HOPE and South County Housing Corporation serve as directors of SCHVE. While HOPE has control through majority representation on the Board of Directors, it does not have an economic interest in, or any financial commitments to, SCHVE. Therefore, SCHVE operations are not consolidated into HOPE's consolidated financial statements. For purposes of making this determination, control is defined as the direct or indirect ability to determine the direction of management and policies through ownership, contract or otherwise. Economic interest is defined as an interest in SCHVE that exists if (a) SCHVE holds or utilizes significant resources that must be used for the unrestricted or restricted purposes of HOPE, either directly or indirectly by producing income or providing services, or (b) HOPE is responsible for the liabilities of SCHVE.

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NOTE 12 – RELATED PARTIES (Continued)

Condensed financial information from SCHVE’s financial statements audited by other auditors is as follows at June 30, 2012 and 2011, and for the years then ended:

	2012	2011
Current assets	\$ 28,326	\$ 18,190
Deposits and funded reserves	127,834	119,580
Land, buildings, equipment and fixtures, net	2,510,489	2,595,574
Total assets	2,666,649	2,733,344
Current liabilities	(16,008)	(19,056)
Long-term liabilities	(1,585,624)	(1,563,068)
Unrestricted net assets	\$ 1,065,017	\$ 1,151,220
Total revenues	\$ 143,308	\$ 139,787
Total operating expenses	(144,426)	(142,426)
Excess of expenses over revenues before depreciation	(1,118)	(2,639)
Depreciation expense	(85,085)	(85,084)
Change in unrestricted net assets	\$ (86,203)	\$ (87,723)

In 1995, Arroyo Commons, Inc. (“Arroyo Commons”), a nonprofit organization, was incorporated with a mission to own and operate a housing facility for persons with disabilities financed by the U.S. Department of Housing and Urban Development. The original sponsor of this project was AID Employment, a now dissolved California public benefit corporation. In March 2012, the subject project was approved for transfer to HOPE Services as its new sponsor by the Department of Housing and Urban Development. While HOPE is the sponsoring organization, it does not have an economic interest in, or any financial commitments to, Arroyo Commons. Therefore, Arroyo Commons operations are not consolidated into HOPE’s consolidated financial statements. For purposes of making this determination, control is defined as the direct or indirect ability to determine the direction of management and policies through ownership, contract or otherwise. Economic interest is defined as an interest in Arroyo Commons that exists if (a) Arroyo Commons holds or utilizes significant resources that must be used for the unrestricted or restricted purposes of HOPE, either directly or indirectly by producing income or providing services, or (b) HOPE is responsible for the liabilities of Arroyo Commons.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
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NOTE 12 – RELATED PARTIES (Continued)

Condensed financial information from Arroyo Commons' financial statements audited by other auditors is as follows at June 30, 2012 and 2011, and for the years then ended:

	<u>2012</u>	<u>2011</u>
Current assets	\$ 2,783	\$ 4,930
Tenant security deposits	4,650	4,968
Restricted deposits	121,184	125,118
Property and equipment, net	<u>1,389,778</u>	<u>1,439,160</u>
 Total assets	 1,518,395	 1,574,176
 Current liabilities	 (8,160)	 (4,601)
Tenant security deposits	(4,476)	(3,883)
Long-term liabilities	<u>(5,888)</u>	<u>(5,888)</u>
 Unrestricted net assets	 <u>\$ 1,499,871</u>	 <u>\$ 1,559,804</u>
 Total revenues	 \$ 82,116	 \$ 82,980
Total operating expenses	<u>(80,761)</u>	<u>(77,344)</u>
 Excess of expenses over revenues before depreciation	 1,355	 5,636
 Depreciation expense	 <u>(61,288)</u>	 <u>(60,093)</u>
 Change in unrestricted net assets	 <u>\$ (59,933)</u>	 <u>\$ (54,457)</u>

The above related party transactions have been reviewed and approved by HOPE's Board of Directors.

NOTE 13 – SUBSEQUENT EVENTS

On September 28, 2012, HOPE refinanced its existing serial and term bonds originally issued through California Health Facilities Financing Authority ("CHFFA") in 2002. The refinancing agreement also involved issuance of the new bonds through CHFFA, and resulted in the settlement of the existing bonds in the full amount outstanding of \$3,465,000. The outstanding balance was refinanced by serial bonds, eliminating the term bond, for a total amount of \$3,185,000 at new interest rates ranging from 1.50% to 2.50%. The refinanced bonds will mature in November 2020.

SUPPLEMENTARY INFORMATION

HOPE SERVICES AND THE FOUNDATION FOR HOPE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2012

	HOPE Services	The Foundation for HOPE	Consolidated
ASSETS			
Current assets			
Cash and cash equivalents	\$ 432,875	\$ -	\$ 432,875
Accounts receivable, net of allowance for doubtful accounts of \$305,781	3,891,925	-	3,891,925
Pledges receivable	42,580	-	42,580
Due from (to) affiliate	50,902	(50,902)	-
Investments	4,487,205	398,711	4,885,916
Prepaid expenses and other current assets	242,177	-	242,177
Total current assets	<u>9,147,664</u>	<u>347,809</u>	<u>9,495,473</u>
Assets limited as to use			
Cash restricted for debt service	735,268	-	735,268
Cash restricted for endowment	-	135,530	135,530
Investments restricted for endowment	-	967,397	967,397
Total assets limited as to use	<u>735,268</u>	<u>1,102,927</u>	<u>1,838,195</u>
Noncurrent assets			
Property and equipment, net	13,832,324	-	13,832,324
Bond issuance costs	258,800	-	258,800
Other assets	102,948	-	102,948
Total noncurrent assets	<u>14,194,072</u>	<u>-</u>	<u>14,194,072</u>
Total assets	<u>\$ 24,077,004</u>	<u>\$ 1,450,736</u>	<u>\$ 25,527,740</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Book overdraft	\$ 358,289	\$ -	\$ 358,289
Line of credit	2,434,492	-	2,434,492
Notes payable, current maturities	125,238	-	125,238
Serial bonds, current maturities	315,000	-	315,000
Accounts payable	1,349,127	-	1,349,127
Accrued liabilities	2,339,005	-	2,339,005
Total current liabilities	<u>6,921,151</u>	<u>-</u>	<u>6,921,151</u>
Long-term liabilities			
Notes payable, less current maturities	547,987	-	547,987
Serial bonds, less current maturities	1,035,000	-	1,035,000
Term bonds due 2020	2,115,000	-	2,115,000
Total long-term liabilities	<u>3,697,987</u>	<u>-</u>	<u>3,697,987</u>
Total liabilities	<u>10,619,138</u>	<u>-</u>	<u>10,619,138</u>
Net assets			
Unrestricted			
Board designated	1,576,422	-	1,576,422
Unrestricted	11,596,721	347,809	11,944,530
Temporarily restricted	284,723	-	284,723
Permanently restricted	-	1,102,927	1,102,927
Total net assets	<u>13,457,866</u>	<u>1,450,736</u>	<u>14,908,602</u>
Total liabilities and net assets	<u>\$ 24,077,004</u>	<u>\$ 1,450,736</u>	<u>\$ 25,527,740</u>

The accompanying notes are an integral part of these financial statements.

HOPE SERVICES AND THE FOUNDATION FOR HOPE
CONSOLIDATING STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	HOPE Services			The Foundation for HOPE			Consolidated
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Permanently Restricted	Total	
Revenues, gains and other support							
State and county funding	\$ 24,186,712	\$ -	\$ 24,186,712	\$ -	\$ -	\$ -	\$ 24,186,712
Commercial contract services	7,179,746	-	7,179,746	-	-	-	7,179,746
In-kind donations of professional services	1,265,292	-	1,265,292	-	-	-	1,265,292
Wholesales sales of salvage	4,419,473	-	4,419,473	-	-	-	4,419,473
Retail sales of salvage	672,487	-	672,487	-	-	-	672,487
In-kind donations of salvage	5,091,960	-	5,091,960	-	-	-	5,091,960
Contributions and pledges	347,088	153,114	500,202	-	5,500	5,500	505,702
Contributed use of facilities	286,000	-	286,000	-	-	-	286,000
United Way allocations and designations	15,249	30,000	45,249	-	-	-	45,249
Special events	66,695	-	66,695	-	-	-	66,695
Rental income	208,608	-	208,608	-	-	-	208,608
Other	63,958	-	63,958	-	-	-	63,958
Net assets released from restrictions	130,772	(130,772)	-	-	-	-	-
Total revenues, gains and other support	43,934,040	52,342	43,986,382	-	5,500	5,500	43,991,882
Expenses							
Program services	30,219,743	-	30,219,743	-	-	-	30,219,743
Support services							
General and administrative	4,176,469	-	4,176,469	-	-	-	4,176,469
Fundraising							
Salvage solicitation	4,962,851	-	4,962,851	-	-	-	4,962,851
Other	693,257	-	693,257	-	-	-	693,257
Cost of goods sold (salvage)	5,091,960	-	5,091,960	-	-	-	5,091,960
Total expenses	45,144,280	-	45,144,280	-	-	-	45,144,280
Change in net assets from operations	(1,210,240)	52,342	(1,157,898)	-	5,500	5,500	(1,152,398)
Investment income, net	145,521	-	145,521	16,572	-	16,572	162,093
Change in net assets	(1,064,719)	52,342	(1,012,377)	16,572	5,500	22,072	(990,305)
Net assets, beginning of year	14,237,862	232,381	14,470,243	331,237	1,097,427	1,428,664	15,898,907
Net assets, end of year	\$ 13,173,143	\$ 284,723	\$ 13,457,866	\$ 347,809	\$ 1,102,927	\$ 1,450,736	\$ 14,908,602

The accompanying notes are an integral part of these financial statements.