HOPE Services

Financial Statements

June 30, 2018
(With Comparative Totals for 2017)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
HOPE Services
San Jose, California

We have audited the accompanying financial statements of HOPE Services (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2018, 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 Services as of June 30, 2018, 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.

Report on Summarized Comparative Information

The financial statements of HOPE Services as of June 30, 2017, were audited by other auditors whose report dated December 6, 2017, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent in all material respects, with the audited financial statements from which it has been derived.

Armanino LLP

Armanino LLP
San Jose, California

November 2, 2018

HOPE Services
Statement of Financial Position
June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,410,975	$ 290,054
Investments	5,097,775	5,618,440
Accounts receivable, net	6,070,522	5,536,397
Contributions receivable	42,406	390
Inventory	109,367	59,595
Prepaid expenses and other current assets	383,022	527,173
Total current assets	13,114,067	12,032,049
Property and equipment, net	16,014,900	14,681,472
Other assets		
Cash restricted for endowment	-	368,838
Investments restricted for endowment	1,123,427	749,589
Other assets	97,493	105,814
Total other assets	1,220,920	1,224,241
Total assets	$ 30,349,887	$ 27,937,762
LIABILITIES AND NET ASSETS		
Current liabilities		
Lines of credit	$ 3,141,813	$ 3,489,373
Accounts payable	862,964	1,322,831
Accrued liabilities	4,159,583	3,795,827
Deferred revenue	4,704	-
Deferred rent, current portion	186,656	445,547
Vehicle notes payable, current portion	12,826	59,718
Note payable, current portion	11,397	-
Total current liabilities	8,379,943	9,113,296
Long-term liabilities		
Deferred rent, net of current portion	1,007,556	36,441
Vehicle notes payable, net of current portion	-	12,814
Note payable, net of current portion	3,225,544	-
Total long-term liabilities	4,233,100	49,255
Total liabilities	12,613,043	9,162,551
Net assets		
Unrestricted		
Undesignated	14,722,003	15,834,311
Board designated endowment	1,576,422	1,576,422
Total unrestricted	16,298,425	17,410,733
Temporarily restricted	314,992	246,051
Permanently restricted	1,123,427	1,118,427
Total net assets	17,736,844	18,775,211
Total liabilities and net assets	$ 30,349,887	$ 27,937,762

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

HOPE Services
Statement of Activities
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Revenue and support					
State and county funding	$ 33,086,680	$ -	$ -	$ 33,086,680	$ 31,501,700
In-kind donations of salvage	9,981,822	-	-	9,981,822	8,249,403
Wholesale sales of salvage	7,155,424	-	-	7,155,424	7,004,924
Retail sales of salvage	2,826,398	-	-	2,826,398	1,244,479
Commercial contract services	6,071,406	-	-	6,071,406	6,694,589
Grants and contributions	765,435	140,232	5,000	910,667	1,230,590
In-kind contributions	903,528	-	-	903,528	880,098
Rental income	248,784	-	-	248,784	256,284
Investment income, net	154,058	81,953	-	236,011	513,503
Miscellaneous	58,253	-	-	58,253	50,360
Special events, net of costs of $21,417 and $27,123 respectively	49,558	-	-	49,558	77,665
Gain on disposition of property and equipment	28,902	-	-	28,902	16,984
Net assets released from restriction	153,244	(153,244)	-	-	-
Total revenue and support	61,483,492	68,941	5,000	61,557,433	57,720,579
Functional expenses					
Program services	37,674,002	-	-	37,674,002	36,350,432
Support services					
General and administrative	4,432,355	-	-	4,432,355	4,019,858
Fundraising					
Salvage solicitation	9,873,076	-	-	9,873,076	7,330,715
Other	634,545	-	-	634,545	603,814
Cost of goods sold (salvage)	9,981,822	-	-	9,981,822	8,249,403
Total functional expenses	62,595,800	-	-	62,595,800	56,554,222
Change in net assets (see Note 2)	(1,112,308)	68,941	5,000	(1,038,367)	1,166,357
Net assets, beginning of year	17,410,733	246,051	1,118,427	18,775,211	17,608,854
Net assets, end of year	$ 16,298,425	$ 314,992	$ 1,123,427	$ 17,736,844	$ 18,775,211

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

HOPE Services
Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

		Support Services	Fundraising					
	Program Services	General and Administrative	Salvage Solicitation	Other	Total Expenses	Non-Cash Cost of Goods Sold (Salvage)	2018 Total	2017 Total
Personnel expenses								
Salaries and wages	$ 21,170,877	$ 2,249,311	$ 3,738,266	$ 192,936	$ 27,351,390	$ -	$ 27,351,390	$ 24,925,465
Employee benefits	5,672,392	402,158	1,268,898	34,213	7,377,661	-	7,377,661	7,339,618
Payroll taxes	1,530,297	150,059	272,502	14,647	1,967,505	-	1,967,505	1,806,564
Donated services	813,332	-	-	-	813,332	-	813,332	813,332
Total personnel expenses	29,186,898	2,801,528	5,279,666	241,796	37,509,888	-	37,509,888	34,884,979
In-kind donations of salvage	-	-	-	-	-	9,981,822	9,981,822	8,249,403
Outside services	2,152,746	776,711	1,414,474	105,255	4,449,186	-	4,449,186	4,285,916
Occupancy	2,176,399	125,411	1,650,718	18,950	3,971,478	-	3,971,478	3,070,353
Travel and transportation	1,566,953	44,800	767,153	5,075	2,383,981	-	2,383,981	2,032,796
Operating supplies	1,169,105	35,524	230,094	5,061	1,439,784	-	1,439,784	1,423,131
Depreciation and amortization	556,494	171,516	209,528	1,403	938,941	-	938,941	786,514
Communications	315,775	63,639	52,010	17,333	448,757	-	448,757	413,860
Printing and publications	117,407	20,639	105,338	202,875	446,259	-	446,259	373,902
Insurance	212,430	66,742	69,547	1,374	350,093	-	350,093	301,852
Equipment rental and maintenance	183,786	84,263	37,832	30,363	336,244	-	336,244	309,940
Interest	780	208,622	772	-	210,174	-	210,174	152,241
Other	31,531	32,960	55,944	5,060	125,495	-	125,495	168,449
Amortization of bond issuance costs	-	-	-	-	-	-	-	101,953
Bad debt (recovery)	3,698	-	-	-	3,698	-	3,698	(1,067)
Total functional expenses	$ 37,674,002	$ 4,432,355	$ 9,873,076	$ 634,545	$ 52,613,978	$ 9,981,822	$ 62,595,800	$ 56,554,222
Percentage of total	72 %	8 %	19 %	1 %	100 %			
Total functional expenses	$ 37,674,002	$ 4,432,355	$ 9,873,076	$ 634,545	$ 52,613,978	$ 9,981,822	$ 62,595,800	$ 56,554,222
Salvage solicitation and non-cash cost of goods sold (salvage) excluded	-	-	(9,873,076)	-	(9,873,076)	(9,981,822)	(19,854,898)	(15,580,118)
Total functional expenses excluding salvage solicitation and non-cash cost of good sold (salvage)	$ 37,674,002	$ 4,432,355	$ -	$ 634,545	$ 42,740,902	$ -	$ 42,740,902	$ 40,974,104
Percentage of total	88 %	10 %	- %	2 %	100 %			

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

HOPE Services
Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities		
Change in net assets	$ (1,038,367)	$ 1,166,357
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	938,941	786,514
Amortization of debt issuance costs	6,900	100
Bad debt expense	3,698	-
Amortization of bond issuance costs	-	102,053
Net realized and unrealized gain on investments	(140,650)	(427,751)
In-kind donation of property and equipment	(37,771)	(34,000)
Gain on disposition of property and equipment	(28,902)	(16,984)
Contributions restricted for investment in donor restricted endowment funds	(5,000)	(500)
Changes in operating assets and liabilities		
Accounts receivable, net	(537,823)	(607,717)
Contributions receivable	(42,016)	19,269
Prepaid expenses and other assets	152,469	(102,407)
Inventory	(49,772)	-
Accounts payable	(1,307,286)	598,260
Accrued liabilities	1,211,174	747,295
Deferred revenue	4,709	-
Deferred rent	712,224	-
Net cash provided by (used in) operating activities	(157,472)	2,230,489
Cash flows from investing activities		
Cash unrestricted for debt service	-	324,414
Proceeds from maturities and sale of investments	5,223,138	1,892,079
Purchases of investments	(4,935,661)	(1,939,259)
Proceeds from sale of property and equipment	29,388	24,232
Purchases of property and equipment	(2,235,084)	(2,193,797)
Net cash used in investing activities	(1,918,219)	(1,892,331)
Cash flows from financing activities		
Repayments on notes payable	-	(418,360)
Payment of bond issuance costs	-	(60,000)
Repayment of bonds	-	(1,170,000)
Borrowings on line of credit, net of repayments	2,882,480	1,412,725
Payments on capital leases	(59,706)	-
Contributions restricted for investment in donor restricted endowment funds	5,000	500
Net cash provided by (used in) financing activities	2,827,774	(235,135)
Net increase in cash, cash equivalents and restricted cash	752,083	103,023
Cash, cash equivalents and restricted cash, beginning of year	658,892	555,869
Cash, cash equivalents and restricted cash, end of year	$ 1,410,975	$ 658,892

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

HOPE Services
Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	$ 1,410,975	$ 290,054
Cash restricted for endowment	-	368,838
	$ 1,410,975	$ 658,892

Supplemental disclosure of cash flow information

	2018	2017
Cash paid during the year interest	$ 210,174	$ 156,381

Supplemental schedule of noncash investing and financing activities

	2018	2017
In-kind donation of property and equipment	$ 37,771	$ 34,000

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

1. NATURE OF OPERATIONS

HOPE Services (the "Organization") is a California nonprofit benefit corporation and is the leading provider of services to people with developmental disabilities in Silicon Valley for over 66 years. HOPE Services serves more than 3,500 people and their families in six counties and provide a broad spectrum of services for infants through seniors.

Homestart provides Early Intervention services and support for children from birth to 5 years old and their families. Day and Community programs include both community-based and site-based activities infused with social integration, volunteerism, and paid employment. Community Living Services provides both Independent and Supportive Living Services to those 18 years and older. HOPE Services' Employment Services provide many opportunities to improve social skills and job training. All three HopeTHRIFT stores also employ and support HOPE Services' clients and the community. Mental Health Services provides counseling, case management, and psychiatric services to children, adolescents, young adults, adults, and senior citizens with a qualifying mental health diagnosis and a developmental disability. The Senior Services provide leisure, recreational, social, and health related activities for older adults (age 45+) with developmental disabilities year round for a full six-hour day.

The children's services, day programs, staffing, Mental Health Services, Community Living Services, and Senior Services all promote a common understanding that the world is a better place when people with disabilities are fully integrated into our community and culture.

2. CHANGE IN UNRESTRICTED NET ASSETS EXCLUDING DEPRECIATION

Change in net assets, excluding depreciation and amortization, in the "Unrestricted" column of the Statement of Activities is as follows:

	2018	2017
Change in unrestricted net assets	$ (1,112,308)	$ 1,124,387
Depreciation and amortization	938,941	786,514
	$ (173,367)	$ 1,910,901

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting.

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations. In accordance with generally accepted accounting principles, the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Unrestricted net assets* - include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund, plus any net assets designated by the Board for specific purposes.
- *Temporarily restricted net assets* - include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.
- *Permanently restricted net assets* - include those assets which are subject to a non-expiring donor restriction, such as endowments. Income from these assets is recorded as temporarily restricted net assets unless otherwise restricted by donor stipulations or until appropriated for expenditure by the Organization.

Summarized financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue, support and expenses during the period. Accordingly, actual results could differ from those estimates. The most significant estimates made by management affect the valuation of the allowance for doubtful accounts, the useful lives of property and equipment, the value of donated contributions, property and equipment, and professional services, and the fair market value of assets and liabilities. 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. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Endowment investment income other investment income restricted by a donor are reported as increases in temporarily restricted net assets. When endowment investment income is appropriated and or when other donor restrictions are met the amount is shown as a reclassification of temporarily restricted net assets to unrestricted net assets.

Fair value measurements

Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and the measurement date."

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

Accounts receivable consist primarily of contract service revenues. Contract service revenues are primarily from entities located in Northern California. The Organization makes estimates 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. The allowance for doubtful accounts for June 30, 2018 and 2017 was $19,181 and $28,429, respectively.

Contributions receivable

Contributions receivable represent amounts committed by donors that have not been received by the Organization. The Organization makes estimates 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. The Organization considers all contributions receivable to be fully collectible at year end; accordingly, an allowance for doubtful accounts is not considered necessary.

Inventory

Inventory consists of donated clothing and other household items and is sold through the Organization's retail stores or directly to other third parties. Inventory is valued at management's best estimate of fair market value at year-end because the value of the donated inventory is not determinable until the items are sold at the retail stores. For slow-moving or non-salable items, necessary provisions are recorded to reduce inventory to its net realizable value. As of June 30, 2018 and 2017, the Organization had inventory of $109,367 and $59,595, respectively.

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over $1,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from 3 to 40 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2018 and 2017. The accrued vacation balance as of June 30, 2018 and 2017 was $1,641,054 and $1,469,409 respectively, and is included in "accrued liabilities" on the statement of financial position.

State, county, and contract services revenues

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

Retail and wholesale sales of salvage

The Organization operates retail stores in Fremont, San Jose, and Watsonville, California 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.

The Organization collects donated items from the general public for sale to a third-party retailer of used goods and for the Organization's three retail stores. As the value of donated items is not determinable at the time of donation, the Organization 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).

Contributions and promises to give

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions and depending on whether the restrictions are met in the current fiscal period. Restricted contributions are reported as increases in restricted net assets. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

In-kind contributions

The Organization records various types of in-kind contributions including professional services, tangible assets and use of tangible assets. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. These contributed services are not reflected in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising costs

Advertising costs are expensed when incurred. Advertising expenses were $446,259 and $373,901 for the years ended June 30, 2018 and 2017, respectively.

Functional expenses

Directly identifiable expenses are charged to program and support services. Indirect functional expenses are allocated to program and support services based on an analysis of personnel time, square footage and estimated supplies and services usage.

Income tax

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization files information returns in the U.S. federal jurisdiction and state of California. The Organization's federal returns for the years ended June 30, 2015 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2014 and beyond remain subject to possible examination by the Franchise Tax Board.

Reclassifications

Certain reclassifications have been made to the June 30, 2017 financial statement presentation to conform to the June 30, 2018 presentation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2018 for potential recognition or disclosure in the financial statements. The Organization had no subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2018. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 2, 2018. The Organization has not evaluated subsequent events after November 2, 2018.

Changes in accounting principle

During the year ended June 30, 2018, the Organization adopted the provisions of Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03). Under this new accounting policy, the Organization has retrospectively presented all debt issuance costs as a direct deduction from the carrying amount of the related obligation in the statement of financial position. Amortization of the debt issuance costs is calculated using the straight line method, which approximates the effective interest method and is included as a component of interest expense. The effects of the retrospective application of the accounting change on the year ended June 30, 2017 is to decrease both total assets and total liabilities by $59,900 in the statement of financial position and reclassify $100 of amortization expense to interest expense in the statement of activities.

4. INVESTMENTS

Investments consist of the following:

	2018	2017
Investments	$ 5,097,775	$ 5,618,440
Investments restricted for endowment	1,123,427	749,589
	$ 6,221,202	$ 6,368,029

4. INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2018:

	Level 1	Level 2	Level 3	Fair Value
Equities	$ 4,064,968	$ -	$ -	$ 4,064,968
Fixed income	-	1,082,353	-	1,082,353
Mutual funds	1,073,881	-	-	1,073,881
	$ 5,138,849	$ 1,082,353	$ -	$ 6,221,202

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2017:

	Level 1	Level 2	Level 3	Fair Value
Equities	$ 3,005,739	$ -	$ -	$ 3,005,739
Mutual funds	1,295,254	-	-	1,295,254
Exchange traded funds	1,116,607	-	-	1,116,607
Fixed income	-	950,429	-	950,429
	$ 5,417,600	$ 950,429	$ -	$ 6,368,029

Investment earnings during the year consist of the following:

	2018	2017
Net realized and unrealized gains	$ 140,650	$ 427,751
Dividends and interest	176,488	153,476
Investment fees	(81,127)	(67,724)
	$ 236,011	$ 513,503

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2018	2017
Buildings and improvements	$ 12,646,113	$ 12,207,104
Land	5,239,795	5,239,795
Leasehold improvements	2,571,879	1,484,451
Computer equipment	1,836,555	1,676,460
Transportation equipment	1,642,039	1,770,529
Office furniture and equipment	1,285,804	1,051,516
Equipment and tools	704,702	618,126
Construction in progress	472,196	206,738
	26,399,083	24,254,719
Accumulated depreciation and amortization	(10,384,183)	(9,573,247)
	$ 16,014,900	$ 14,681,472

Depreciation and amortization expense for the years ended June 30, 2018 and 2017 was $938,941 and $786,514, respectively.

6. LINES OF CREDIT

In February 2017, the Organization entered into a revolving line of credit agreement with a bank that allows for borrowings up to $5,000,000. The line of credit bears interest at the bank's Prime Reference Rate minus 0.25% with a minimum rate of 3.5% per annum. The rate was 4.75% per annum at June 30, 2018 and 4% at June 30, 2017. The line of credit matures in April 2019. Outstanding borrowings on this line of credit were $3,194,813 and $2,194,813 as of June 30, 2018 and 2017, respectively. The line of credit is secured by first deeds of trust on several of the Organization's real estate properties and all of the Organization's personal property.

In April 2017, the Organization entered into a promissory note which provides for a non-revolving line of credit agreement with the same bank that allows for borrowings up to a $6,000,000. The line of credit bears a fixed rate of interest at 4.6% per annum and requires interest only payments during the 24-month draw period expiring in April 2019 (conversion date). Upon expiration of the draw period, the line of credit will convert to a term note and no further advances will be permitted. As of June 30, 2018, this line of credit was reclassified to a note payable (Note 9). As of June 30, 2017, this was classified as a line of credit.

The lines of credit are subjected to covenant clauses, whereby the Organization is required to meet certain key financial ratios on an annual basis. The Organization did not meet the debt service coverage ratio at June 30, 2018 as required in the line of credit agreements. The Organization has requested and received a waiver on the debt service coverage ratio covenant for the year ended June 30, 2018. The Organization has committed to working with the bank to supply quarterly financial statements and future quarterly projections.

6. LINES OF CREDIT (continued)

Lines of credit consist of the following:

	2018	2017
Line of credit, maturing April 2019	$ 3,194,813	$ 2,194,813
Line of credit convertible to note payable, maturing April 2027 (see Note 9)	-	1,354,461
	3,194,813	3,549,274
Less unamortized debt issuance costs	(53,000)	(59,900)
	$ 3,141,813	$ 3,489,374

7. OPERATING LEASE COMMITMENTS

The Organization leases seventeen separate facilities under non-cancelable 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. The Organization also leases equipment and vehicles under non-cancelable operating lease agreements of five (5) years or less.

Future minimum lease payments for equipment, facilities and vehicles are as follows:

Year ending June 30,	Vehicles	Facilities and Equipment	Total
2019	$ 1,335,581	$ 2,117,512	$ 3,453,093
2020	1,150,065	2,236,924	3,386,989
2021	725,321	2,231,694	2,957,015
2022	243,728	2,251,590	2,495,318
2023	165,217	2,235,900	2,401,117
Thereafter	108,111	15,181,524	15,289,635
	$ 3,728,023	$ 26,255,144	$ 29,983,167

Facilities rent expense under operating leases totaled $2,242,430 and $1,671,803 for the years ended June 30, 2018 and 2017, respectively, exclusive of in-kind rent. Vehicles and equipment rent expense under operating lease agreements totaled $1,465,391 and $1,220,769 for the years ended June 30, 2018 and 2017, respectively.

7. OPERATING LEASE COMMITMENTS (continued)

The Organization leases a building in San Jose, California under an agreement that expired in November 2016, which provided for annual rent of $1. Upon expiration of the agreement, the lease converted to a month-to-month arrangement under the same terms as the expired agreement. The lessor has the right to terminate this agreement upon 30-days written notice. The fair value of this rent for the years ended 2018 and 2017 has been estimated by the Organization at $52,425 and $32,766, respectively.

The land which houses the Whittier facility is leased under a 48-year operating lease agreement which expires in 2038. Prior to an amendment effective June 1, 2013, the basic monthly rental payments under this lease were 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 the Organization, every ten years. The amendment effectively eliminated the CPI adjustment and replaced it with a 5% periodic rate adjustment occurring every five years, with the first adjustment occurring on June 5, 2016. The amendment also changed the date of the next market rate adjustment to occur on June 5, 2026, with a following market adjustment occurring ten years later.

The market value adjustment is determined by an appraisal that can occur every ten years at the option of the landlord or the Organization. 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 June 2013. However, the landlord retained his right to the future lease adjustments under the lease. 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.

8. VEHICLE NOTES PAYABLE

Vehicle notes payable consist of the following

	2018	2017
Vehicle notes, payable in varying monthly installments, including interest at rates ranging from 0.9% - 8.24%, due at various dates through April 2019; secured by vehicles.	$ 12,826	$ 72,532
Current portion	(12,826)	(59,718)
	$ -	$ 12,814

9. LINE OF CREDIT CONVERTIBLE TO NOTE PAYABLE

In April 2017, the Organization entered into a promissory note which provides for a non-revolving line of credit agreement that allows for borrowings up to a $6,000,000. The line of credit bears a fixed rate of interest at 4.6% per annum and requires interest only payments during the 24-month draw period expiring in April 2019 (conversion date). Upon expiration of the draw period, the line of credit will convert to a term note and no further advances will be permitted. Beginning on May 27, 2019, the Organization will pay this loan in ninety-five (95) principal and interest payments each, with all subsequent principal and interest payments to be due on the same day each month after that. The amount of principal and interest due each month will be in equal amounts, will be based on a three-hundred (300) month amortization period. On April 27, 2027, the Organization will pay one final principal and interest payment, which will be for all principal and accrued interest not yet paid. Outstanding borrowings on the line of credit were $3,236,941 and $1,354,461 as of June 30, 2018 and 2017, respectively. This line of credit is also secured by first deeds of trust on several of the Organization's real estate properties and all of the Organization's personal property.

As of June 30, 2017, this note was classified as a line of credit (see Note 6) and was reclassified to a note payable as of June 30, 2018 due to the conversion described above.

See Note 6 for related debt covenant compliance information.

The line of credit convertible to note payable is detailed as follows:

	2018	2017
Line of credit convertible to note payable, maturing April 2027	$ 3,236,941	$ -
Current portion	(11,397)	-
	$ 3,225,544	$ -

The future maturities of the line of credit convertible to note payable are as follows:

Year ending June 30,	
2019	$ 11,397
2020	70,268
2021	74,027
2022	77,554
2023	81,249
Thereafter	2,922,446
	$ 3,236,941

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10. BOARD DESIGNATED NET ASSETS

The unrestricted board designated endowment funds of $1,576,422 relate to a portion of proceeds received from an estate that the Board of Directors designated in 2009.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	2018	2017
Program services (time and purpose restrictions)	$ 203,760	$ 216,772
Unappropriated endowment earnings	111,232	29,279
	$ 314,992	$ 246,051

Temporarily restricted net assets released from restriction during the year were as follows:

	2018	2017
Releases - restricted donations	$ 153,244	$ 246,004

12. IN-KIND CONTRIBUTIONS

The Organization records various types of in-kind donations, including professional services, property and equipment and rent.

In-kind contributions consisted of the following:

	2018	2017
Donated services	$ 813,332	$ 813,332
Donated property and equipment	37,771	34,000
Donated rent	52,425	32,766
	$ 903,528	$ 880,098

The Organization also receives donated services that do not require specific expertise but which are nonetheless central to the Organization's operations. The value of these services is not reflected in the financial statements.

13. CONCENTRATIONS

Approximately 83% and 82% of total state and county funding revenue for the year ended June 30, 2018 and 2017, respectively, was provided from one state funding agency.

13. CONCENTRATIONS (continued)

Three customers represent 80% and 76% of the total accounts receivable of June 30, 2018 and 2017, respectively.

14. RELATED PARTIES

In 1997, Eden/Hope Villa Esperanza, Inc. (EHVE), 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 Services and Eden Housing Inc. serve as directors of EHVE. While HOPE Services has control through majority representation on the Board of Directors, it does not have an economic interest in, or any financial commitments to, EHVE. Therefore, EHVE operations are not consolidated into HOPE Services' financial statements.

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 Services 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 Services' 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 the related entity that exists if the related entity holds or utilizes significant resources that must be used for the unrestricted or restricted purposes of HOPE Services, either directly or indirectly by producing income or providing services, or if HOPE Services is responsible for the liabilities of the related entity.

15. ENDOWMENT

The Organization's endowment consists of several individual funds established for a variety of purposes. Its endowment includes both board designated and donor restricted endowment funds. As required by generally accepted accounting principles (GAAP), 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.

15. ENDOWMENT (continued)

Interpretation of relevant law

The Organization's Board of Directors has interpreted the California version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, the Organization 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 as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization 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 the Organization 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 the Organization

(7) The investment policies of the Organization

Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the Organization diversifies its investments, subject to practicality constraints, among a variety of asset classes so as to provide a balance that will enhance total real return while avoiding undue risk concentration in any single asset class or investment category.

15. ENDOWMENT (continued)

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2018 and 2017.

Spending policy

The Organization has adopted a spending policy whereby the Organization shall distribute funds from the return on each endowment fund at its "normal spending rate" according to its investment policy and guidelines established by the Board of Directors. Currently, the normal spending rate is up to 5% on a 12-quarter rolling average of the market value. Return on the endowment funds that exceed the normal spending allocation will normally be added to the principal (and accounted for in the temporarily restricted fund). At the discretion of the Board of Directors, some portion or all of such excess may be expended for a particular need or project related to the purpose of the endowment.

The Organization did not appropriate any endowment funds for expenditure for the years ended June 30, 2018 and 2017.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 111,232	$ 1,123,427	$ 1,234,659
Board designated funds	1,576,422	-	-	1,576,422
	$ 1,576,422	$ 111,232	$ 1,123,427	$ 2,811,081

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 29,279	$ 1,118,427	$ 1,147,706
Board designated funds	1,576,422	-	-	1,576,422
	$ 1,576,422	$ 29,279	$ 1,118,427	$ 2,724,128

15. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the year ended June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2017	$ 1,576,422	$ 29,279	$ 1,118,427	$ 2,724,128
Investment return				
Dividends and interest	-	23,820	-	23,820
Net unrealized and realized gains	-	58,133	-	58,133
Total investment return	-	81,953	-	81,953
Grants and contributions	-	-	5,000	5,000
	-	81,953	5,000	86,953
Balance, June 30, 2018	$ 1,576,422	$ 111,232	$ 1,123,427	$ 2,811,081

Changes in endowment net assets for the year ended June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2016	$ 1,576,422	$ -	$ 1,117,927	$ 2,694,349
Investment return				
Dividends and interest	-	7,226	-	7,226
Net unrealized and realized gains	-	22,053	-	22,053
Total investment return	-	29,279	-	29,279
Grants and contributions	-	-	500	500
	-	29,279	500	29,779
Balance, June 30, 2017	$ 1,576,422	$ 29,279	$ 1,118,427	$ 2,724,128

16. EMPLOYEE RETIREMENT PLANS

Defined contribution retirement plan

The Organization instituted a defined contribution retirement plan (the "Plan") in 1978 for employees meeting certain employment service requirements. The Plan operates under Internal Revenue Code Section 403(b).

Eligible employees can defer a percentage of their gross salary into the Plan, not to exceed the annual IRS limits. Retirement benefits expense related to the Plan totaled $599,070 and $580,196 for the years ended June 30, 2018 and 2017, respectively. The employer discretionary contributions are equal to the predetermined percentage of eligible compensation based on each participant's completed years of service. The benefits fully vest upon contribution.

Deferred compensation plan

The Organization has a deferred compensation plan covering one key employee and one former employee. Annual contributions to the plan are determined by Organization's Executive Committee. The Organization contributed $33,000 and $100,000 to this plan during the years ended June 30, 2018 and 2017, respectively.