HOPE Services

Financial Statements

June 30, 2020
(With Comparative Totals for 2019)

armanino

TABLE OF CONTENTS

armanino

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, 2020, 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, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 3 to the financial statements, the Organization has adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As described in Note 16 of the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. However, the ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited HOPE Services' 2019 financial statements, and our report dated November 27, 2019 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2020 financial statements, we also audited the adjustments to the 2019 financial statements to apply the change in accounting principle discussed above. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived. Also, in our opinion, such adjustments are appropriate and have been properly applied.

Armanino LLP

Armanino[LLP]
San Jose, California

November 16, 2020

HOPE Services
Statement of Financial Position
June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,985,418	$ 4,055,095
Investments	5,683,172	4,199,790
Accounts receivable, current portion	5,548,419	4,691,898
Contributions receivable, current portion	210,240	24,845
Inventory	93,665	98,819
Prepaid expenses and other current assets	66,697	61,598
Total current assets	14,587,611	13,132,045
Property and equipment, net	12,800,971	15,458,618
Other assets		
Accounts receivable, net of current portion	523,492	556,688
Contributions receivable, net of current portion	49,000	72,000
Other assets	98,822	92,382
Investments restricted for endowment	1,196,934	1,253,900
Cash and cash equivalents restricted for endowment	320,148	120,770
Total other assets	2,188,396	2,095,740
Total assets	$ 29,576,978	$ 30,686,403
LIABILITIES AND NET ASSETS		
Current liabilities		
Line of credit	$ -	$ 2,162,343
Accounts payable	901,744	689,517
Accrued liabilities	5,337,021	4,975,947
Deferred revenue	11,937	-
Deferred rent, current portion	35,996	11,079
Note payable, current portion	115,192	108,540
Total current liabilities	6,401,890	7,947,426
Long-term liabilities		
Deferred rent, net of current portion	1,936,579	1,479,445
Note payable, net of current portion	4,717,664	4,826,855
Total long-term liabilities	6,654,243	6,306,300
Total liabilities	13,056,133	14,253,726
Net assets		
Without donor restrictions	14,768,630	14,865,370
With donor restrictions		
Restricted for a specific purpose	235,133	192,637
Subject to appropriation and spending policy	337,155	244,743
Held in perpetuity (donor-restricted endowment corpus)	1,179,927	1,129,927
Total with donor restrictions	1,752,215	1,567,307
Total net assets	16,520,845	16,432,677
Total liabilities and net assets	$ 29,576,978	$ 30,686,403

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

HOPE Services
Statement of Activities
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenue and support				
State and county funding	$ 37,533,357	$ -	$ 37,533,357	$ 33,633,505
Commercial contract services	5,557,020	-	5,557,020	6,023,081
In-kind donations of salvage	5,169,438	-	5,169,438	9,171,509
Retail sales of salvage	3,787,538	-	3,787,538	4,433,518
Wholesale sales of salvage	1,381,900	-	1,381,900	4,737,991
Grants and contributions	1,052,657	154,896	1,207,553	780,010
In-kind contributions	843,671	-	843,671	886,350
Special events, net of costs of $53,866 and $139,632 respectively	390,579	-	390,579	238,017
Investment income, net	188,039	92,412	280,451	480,750
Rental income	265,480	-	265,480	267,054
Gain (loss) on sale and disposition of property and equipment	234,830	-	234,830	(10,876)
Miscellaneous	60,097	8,638	68,735	53,341
Net assets released from restriction	71,038	(71,038)	-	-
Total revenue and support	56,535,644	184,908	56,720,552	60,694,250
Functional expenses				
Program services				
Education, Employment, & Life Skills	39,096,208	-	39,096,208	37,443,208
Retail	12,228,932	-	12,228,932	19,470,920
Total program services	51,325,140	-	51,325,140	56,914,128
General and administrative	4,712,365	-	4,712,365	4,214,783
Fundraising	594,879	-	594,879	869,506
Total functional expenses	56,632,384	-	56,632,384	61,998,417
Change in net assets (see Note 2)	(96,740)	184,908	88,168	(1,304,167)
Net assets, beginning of year	14,865,370	1,567,307	16,432,677	17,736,844
Net assets, end of year	$ 14,768,630	$ 1,752,215	$ 16,520,845	$ 16,432,677

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

HOPE Services
Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Program Services			Support Services				
	Education, Employment, & Life Skills	Retail	Total Program Services	General and Administrative	Fundraising	Total Expenses	2020 Total	2019 Total
Personnel expenses								
Salaries and wages	$ 21,740,993	$ 2,621,167	$ 24,362,160	$ 2,300,211	$ 317,201	$ 26,979,572	$ 26,979,572	$ 27,305,367
Employee benefits	5,382,593	556,699	5,939,292	612,845	55,944	6,608,081	6,608,081	7,739,303
Payroll taxes	1,593,429	193,242	1,786,671	159,583	23,095	1,969,349	1,969,349	2,003,283
Donated services	772,663	-	772,663	-	-	772,663	772,663	832,992
Total personnel expenses	29,489,678	3,371,108	32,860,786	3,072,639	396,240	36,329,665	36,329,665	37,880,945
In-kind donations of salvage (cost of salvage)	-	5,169,438	5,169,438	-	-	5,169,438	5,169,438	9,171,509
Occupancy	2,819,536	2,028,885	4,848,421	66,471	7,617	4,922,509	4,922,509	4,386,071
Outside services	3,316,193	363,006	3,679,199	668,371	87,876	4,435,446	4,435,446	4,029,481
Travel and transportation	1,318,038	487,361	1,805,399	77,106	343	1,882,848	1,882,848	2,284,565
Depreciation and amortization	423,581	348,170	771,751	178,627	724	951,102	951,102	1,076,424
Operating supplies	780,440	105,056	885,496	47,727	1,436	934,659	934,659	1,052,704
Printing and publications	182,826	146,427	329,253	89,531	83,443	502,227	502,227	480,193
Communications	321,711	29,210	350,921	77,181	5,685	433,787	433,787	433,035
Equipment rental and maintenance	218,931	50,473	269,404	90,563	5,995	365,962	365,962	386,989
Insurance	182,475	62,373	244,848	67,439	805	313,092	313,092	321,796
Interest	64	139	203	247,473	-	247,676	247,676	332,876
Other	33,870	67,286	101,156	29,237	4,715	135,108	135,108	131,998
Bad debt	8,865	-	8,865	-	-	8,865	8,865	29,831
Total functional expenses	$ 39,096,208	$ 12,228,932	$ 51,325,140	$ 4,712,365	$ 594,879	$ 56,632,384	$ 56,632,384	$ 61,998,417
Percentage of total	69 %	22 %	91 %	8 %	1 %	100 %		

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

HOPE Services
Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	$ 88,168	$ (1,304,167)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	951,102	1,076,424
Amortization of debt issuance costs	6,000	6,000
Bad debt expense	8,865	29,831
Net realized and unrealized gains on investments	(170,687)	(370,906)
In-kind donation of property and equipment	-	(933)
(Gain) loss on sale and disposition of property and equipment	(234,830)	10,876
Contributions restricted for investment in donor restricted endowment funds	(50,000)	(6,500)
Changes in operating assets and liabilities		
Accounts receivable, net	(832,190)	792,105
Contributions receivable	(162,395)	(54,439)
Inventory	5,154	10,548
Prepaid expenses and other assets	(11,536)	326,538
Accounts payable	212,231	(173,450)
Accrued liabilities	361,074	816,364
Deferred revenue	11,937	(4,704)
Deferred rent	482,051	296,312
Net cash provided by operating activities	664,944	1,449,899
Cash flows from investing activities		
Proceeds from maturities and sale of investments	7,883,146	2,800,702
Purchases of investments	(9,138,882)	(1,662,284)
Proceeds from sale of property and equipment	2,163,854	46,147
Purchases of property and equipment	(222,479)	(576,232)
Net cash provided by investing activities	685,639	608,333
Cash flows from financing activities		
Payments on capital leases	(102,539)	(12,826)
Net repayments on line of credit	(2,168,343)	(1,032,470)
Net borrowing on term loan	-	1,745,454
Contributions restricted for investment in donor restricted endowment funds	50,000	6,500
Net cash provided by (used in) financing activities	(2,220,882)	706,658
Net increase (decrease) in cash, cash equivalents and restricted cash	(870,299)	2,764,890
Cash, cash equivalents and restricted cash, beginning of year	4,175,865	1,410,975
Cash, cash equivalents and restricted cash, end of year	$ 3,305,566	$ 4,175,865

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

HOPE Services
Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	$ 2,985,418	$ 4,055,095
Cash and cash equivalents restricted for endowment	320,148	120,770
	$ 3,305,566	$ 4,175,865

Supplemental disclosure of cash flow information

Cash paid during the year interest	$ 247,676	$ 332,876

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

HOPE Services
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

1. NATURE OF OPERATIONS

HOPE Services ("the Organization") is a California nonprofit benefit corporation and has been the leading provider of services to people with developmental disabilities in Silicon Valley for over 68 years. HOPE Services serves more than 3,400 people and their families in six counties and provides 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.

On March 6, 2020, HopeWorks, a wholly owned entity, was created to house HOPE Services' federal contracts. There are no assets transferred to it as of current. HopeWorks has submitted its application for tax exempt status which probably won't be approved until early 2021 and also pending application to pay sub-minimum wages based on productivity.

2. CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS EXCLUDING NON-CASH EXPENSES AND UNUSUAL EXPENSES (REVENUE)

Change in net assets, excluding depreciation and amortization and as well as non-cash and unusual expenses in the "Without Donor Restrictions" column of the Statement of Activities is as follows:

	2020	2019
Change in net assets without donor restrictions	$ (96,740)	$ (1,433,055)
Depreciation and amortization	951,102	1,076,424
Workers compensation valuation adjustment	(371,938)	457,871
Lease modification for Whittier property	470,971	-
Gain on sale of Portola property	(223,301)	-
	$ 730,094	$ 101,240

2. CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS EXCLUDING NON-CASH EXPENSES AND UNUSUAL EXPENSES (REVENUE) (continued)

Workers compensation valuation adjustment - The Organization's workers compensation insurance policy from April 2016 to March 2019 was a retrospective plan whereby the Organization was responsible for the first $250,000 (Limit) per incident in claims. Under this arrangement, the Organization provides an initial payment and then is responsible for the claims cost up to the Limit. In the policy year April 2018 to March 2019, the cost of claims settled was much higher than anticipated. As a result, the claims manager estimates that the incurred claims cost was $457,871 more than the total amount paid so far for those three policy years. This amount is included as operating costs for year ended June 30, 2019. In September 2020, the estimated cost for the remaining open claims got adjusted downward which resulted in a credit of $371,938 for year ended June 30, 2020.

The Organization switched to a guaranteed cost plan for the current policy year started in April 2019, which transfers the risk to the insurance carrier. With a guaranteed cost plan, the Organization's exposure is limited to the premium amount paid which is based on a percentage of payroll cost (rates are fixed based on job classifications).

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.

In accordance with accounting principles generally accepted in the United States of America, the Organization reports its financial position and operating activities in two classes of net assets:

- *Net assets without donor restrictions* - 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.

- *Net assets with donor restrictions* - include contributions received from donors that are restricted for specific purposes or for subsequent periods. When a donor restriction expires, net assets with donor restrictions are classified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Net assets held in perpetuity include those assets which are subject to a non-expiring donor restriction, such as endowments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. The Organization adopted ASU 2018-08 with a date of the initial application of July 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on the Organization's financial position, result of operations, or cash flows.

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, 2019, 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 and other investment income restricted by a donor are reported as increases in net assets with donor restrictions. When donor restrictions are met (either by passage of time or by use), net assets with donor restrictions are re-classified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction.

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 on 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. 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, 2020 and 2019 was $20,663 and $27,079, 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, 2020 and 2019, the Organization had inventory of $93,665 and $98,819, 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 support without donor restriction 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, 2020 and 2019. The accrued vacation balance as of June 30, 2020 and 2019 was $1,665,033 and $1,605,200 respectively, and is included in "accrued liabilities" on the statement of financial position.

Deferred rent

The Organization records rent expense on a straight-line basis on its facilities leases which contains fixed annual rental increases. The difference between rent expense and payments made under the lease are reflected as deferred rent. Deferred rent as of June 30, 2020 and 2019 was $1,972,575 and $1,490,524.

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. The revenue generated from these fundings is recorded as state and county funding and commercial contract services in the statement of activities. These fundings meet the criteria to be classified as conditional contributions under GAAP revenue recognition for nonprofit organizations as they contain barriers related to incurrence of qualifying expenditures and a right of return or release. The Organization has elected a simultaneous release option to account for these grants. Therefore, they are recorded as support revenue without donor restriction upon satisfaction of the barriers. In the event amounts are received and have not been earned, the Organization records such amounts as deferred revenue until earned.

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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 with or without donor restrictions depending on the nature of donor restrictions. Restricted contributions are reported as increases in net assets with donor restrictions. When the restriction is met on a contribution received in a prior fiscal period, the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

Contributions that are considered conditional promises to give which contain barriers and a right of return or right of release are not recognized until the conditions on which they depend are met, at which time, the gift is recognized as either grants and contributions revenue with or without restriction.

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.

Advertising costs

Advertising costs are expensed when incurred. Advertising expenses were $502,227 and $480,193 for the years ended June 30, 2020 and 2019, 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. Occupancy and depreciation and amortization expense is allocated based on square footage, operating supplies is charged to the actual department receiving the supplies, purchased services are charged to the actual department using the service, and travel and transportation are charged to the actual department using the vehicle.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2016 and beyond remain subject to possible examination by the Franchise Tax Board.

Reclassifications

Certain reclassifications have been made to the June 30, 2019 financial statement presentation to conform to the June 30, 2020 presentation.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2020 for potential recognition or disclosure in the financial statements. The Organization had subsequent events (see Note 17) that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2020. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 16, 2020.

4. INVESTMENTS

Investments consisted of the following:

	2020	2019
Investments	$ 5,683,172	$ 4,199,790
Investments restricted for endowment	1,196,934	1,253,900
	$ 6,880,106	$ 5,453,690

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2020:

	Level 1	Level 2	Level 3	Fair Value
Equities	$ 3,905,388	$ -	$ -	$ 3,905,388
Fixed income	-	2,821,146	-	2,821,146
Mutual funds	153,572	-	-	153,572
	$ 4,058,960	$ 2,821,146	$ -	$ 6,880,106

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2019:

	Level 1	Level 2	Level 3	Fair Value
Equities	$ 3,530,206	$ -	$ -	$ 3,530,206
Fixed income	-	865,556	-	865,556
Mutual funds	1,057,928	-	-	1,057,928
	$ 4,588,134	$ 865,556	$ -	$ 5,453,690

Investment earnings consisted of the following:

	2020	2019
Net realized and unrealized gains	$ 170,687	$ 370,906
Dividends and interest	186,294	188,505
Investment fees	(76,530)	(78,661)
	$ 280,451	$ 480,750

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2020	2019
Buildings and improvements	$ 11,621,629	$ 12,717,965
Land	4,223,482	5,239,795
Leasehold improvements	2,976,557	2,976,557
Computer equipment	1,965,855	1,948,668
Transportation equipment	1,527,959	1,523,382
Office furniture and equipment	1,208,516	1,200,466
Equipment and tools	665,353	750,239
	24,189,351	26,357,072
Accumulated depreciation and amortization	(11,388,380)	(10,898,454)
	$ 12,800,971	$ 15,458,618

Depreciation and amortization expense for the years ended June 30, 2020 and 2019 was $951,102 and $1,076,424, respectively.

6. LINE OF CREDIT

In February 2017, the Organization entered into a revolving line of credit agreement with a bank that allowed for borrowings up to $5,000,000. The rate was 5.25% per annum at June 30, 2019. The line of credit expired on August 5, 2019. The line of credit was secured by first deeds of trust on several of the Organization's real estate properties and all of the Organization's personal property. Outstanding borrowings on this line of credit was $2,162,343 as of June 30, 2019. The line of credit was paid off in full in July 2019.

On August 6, 2019, the Organization entered into new line of credit agreement with the same bank that allows for borrowings up to $3,000,000. The rate was 5.0% per annum at August 6, 2019.

Additionally, on July 8, 2020, the Organization entered into a new line of credit agreement with the same bank that allows for borrowings up to $3,000,000. The new agreement will expire on August 24, 2021. The new agreement specifies a lifetime minimum interest rate of 3%, and removed the cash collateral requirements for draws greater than $1,000,000 specified in the previous line of credit agreement. All other terms of the new agreement were the same as the previous agreement (see Note 17).

The line of credit is subject to covenant clauses, whereby the Organization is required to meet certain key financial ratios on an annual basis. The Organization was in compliance with the covenant clauses for the years ended June 30, 2020 and 2019. The Organization has committed to working with the bank to supply quarterly financial statements and future quarterly projections.

7. NOTE PAYABLE

In April 2017, the Organization entered into a promissory note which provides for a non-revolving line of credit agreement that allowed for borrowings up to $6,000,000. The line of credit bore a fixed rate of interest at 4.6% per annum and required interest only payments during the 24-month draw period which expired in April 2019 (conversion date). Upon expiration of the draw period, the line of credit was converted to a term note and no further advances were permitted. Beginning on May 27, 2019, the Organization started to pay this loan in ninety-five (95) principal and interest payments in amount of $28,271 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 convertible to note payable were $4,873,856 and $4,982,395 as of June 30, 2020 and 2019, respectively. This line of credit convertible to note payable is secured by first deeds of trust on several of the Organization's real estate properties and all of the Organization's personal property.

On July 8, 2020, the agreement was amended to reduce the interest rate from 4.6% to 3.95%. Monthly principal and interest payments due will be in amount of $25,697.

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

	2020	2019
Line of credit convertible to note payable, maturing April 2027	$ 4,873,856	$ 4,982,395
Less unamortized debt issuance costs	(41,000)	(46,000)
Current portion	(115,192)	(108,540)
	$ 4,717,664	$ 4,827,855

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

Year ending June 30,	
2021	$ 115,192
2022	119,959
2023	124,852
2024	129,455
2025	135,226
Thereafter	4,249,172
	$ 4,873,856

8. OPERATING LEASE COMMITMENTS

The Organization leases fourteen 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
2021	$ 451,533	$ 2,518,617	$ 2,970,150
2022	132,362	2,294,722	2,427,084
2023	58,412	2,298,041	2,356,453
2024	37,240	2,214,211	2,251,451
2025	-	2,010,729	2,010,729
Thereafter	-	13,302,415	13,302,415
	$ 679,547	$ 24,638,735	$ 25,318,282

Facilities rent expense under operating leases totaled $2,914,733 and $2,514,982 for the years ended June 30, 2020 and 2019, respectively, exclusive of in-kind rent. Vehicles and equipment rent expense under operating lease agreements totaled $1,265,805 and $1,394,172 for the years ended June 30, 2020 and 2019, respectively.

The Organization leases a building in San Jose, California under an agreement that expired in November 2016, which provided for monthly 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 June 30, 2020 and 2019 has been estimated by the Organization at $81,979 and $52,425, respectively.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2020	2019
Program services (purpose restrictions)	$ 235,133	$ 192,637
Unappropriated endowment earnings	337,155	244,743
Held in perpetuity (donor-restricted endowment corpus)	1,179,927	1,129,927
	$ 1,752,215	$ 1,567,307

9. NET ASSETS WITH DONOR RESTRICTIONS (continued)

Net assets with donor restrictions released from restriction during the year were as follows:

	2020	2019
Releases - restricted donations	$ 71,038	$ 92,318

10. 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:

	2020	2019
Donated services	$ 761,692	$ 832,992
Donated rent	81,979	52,425
Donated property and equipment	-	933
	$ 843,671	$ 886,350

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.

11. CONCENTRATIONS

Approximately 73% and 80% of the total state and county funding revenue for the years ended June 30, 2020 and 2019, respectively, was provided from one state funding agency.

Three customers represent 91% and 84% of the total accounts receivable as of June 30, 2020 and 2019, respectively.

12. RELATED PARTIES

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 U.S. 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 the above determinations, 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.

13. 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.

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 endowment net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 as held in perpetuity is classified as net assets with donor restrictions 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:

13. ENDOWMENT (continued)

Interpretation of relevant law (continued)

(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.

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, 2020 and 2019.

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% - 7% 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, 2020 and 2019.

13. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions: Subject to Appropriation and Spending Policy	With Donor Restrictions: Held in Perpetuity	Total
Donor restricted endowment funds	$ -	$ 337,155	$ 1,179,927	$ 1,517,082

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions: Subject to Appropriation and Spending Policy	With Donor Restrictions: Held in Perpetuity	Total
Donor restricted endowment funds	$ -	$ 244,743	$ 1,129,927	$ 1,374,670

Changes in endowment net assets for the fiscal year ended June 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions: Subject to Appropriation and Spending Policy	With Donor Restrictions: Held in Perpetuity	Total
Balance, June 30, 2019	$ -	$ 244,743	$ 1,129,927	$ 1,374,670
Investment return				
Dividends and interest	-	40,057	-	40,057
Net unrealized and realized gains	-	53,355	-	53,355
Total investment return	-	93,412	-	93,412
Grants and contributions	-	-	50,000	50,000
Appropriation of endowment net assets for expenditure	-	(1,000)	-	(1,000)
	-	92,412	50,000	142,412
Balance, June 30, 2020	$ -	$ 337,155	$ 1,179,927	$ 1,517,082

13. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2019 is as follows:

		With Donor Restrictions		
	Without Donor Restrictions	Subject to Appropriation and Spending Policy	Held in Perpetuity	Total
Balance, June 30, 2018	$ 1,576,422	$ 111,232	$ 1,123,427	$ 2,811,081
Investment return				
Dividends and interest	-	20,659	-	20,659
Net unrealized and realized gains	-	112,852	-	112,852
Total investment return	-	133,511	-	133,511
Grants and contributions	-	-	6,500	6,500
Transfer to undesignated funds	(1,576,422)	-	-	(1,576,422)
	(1,576,422)	133,511	6,500	(1,436,411)
Balance, June 30, 2019	$ -	$ 244,743	$ 1,129,927	$ 1,374,670

14. 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 $583,732 and $630,000 for the years ended June 30, 2020 and 2019 , 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 two key employees. Annual contributions to the plan are determined by the Organization's Executive Committee. The Organization contributed $86,000 and $86,160 to this plan during the years ended June 30, 2020 and 2019, respectively.

15. LIQUIDITY AND AVAILABILITY OF RESOURCES

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization could draw upon its line of credit after July 8, 2020 (see Note 6).

Long-term investments and restricted cash include endowment funds consisting of donor-restricted endowments. As described in Note 13, the normal spending rate is up to 5% - 7% on a 12-quarter rolling average of the market value. Accordingly, approximately $115,000 of appropriations from the endowment will be available within the next 12 months.

Short-term receivables consist of accounts and contributions receivable expected to be received within one year from June 30, 2020. Unrestricted short-term accounts and contributions receivable will be available to support general operations of the Organization.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2020 to fund general expenditures and other obligations when they become due.

Available financial assets consisted of the following:	
Cash and cash equivalents	$ 2,985,418
Investments	5,683,172
Accounts receivable	6,071,911
Contributions receivable	259,240
Investments restricted for endowment	1,196,934
Cash and cash equivalents restricted for endowment	320,148
	16,516,823
Less amounts unavailable for general expenditure within one year:	
Held in perpetuity (donor-restricted endowment)	(1,179,927)
Subject to appropriation and spending policy ($337,155 less planned appropriation of $115,000)	(222,155)
Long-term accounts receivable (SCCMH pending reconciliation)	(523,492)
Long-term contributions receivable	(49,000)
Restricted for a specific purpose	(235,133)
	(2,209,707)
Financial assets available to meet cash needs for general expenditures within one year	$ 14,307,116

16. RISKS AND UNCERTAINTIES

While the Organization's services have generally been considered essential in nature, several of HOPE Services' programs were temporarily interrupted by the COVID-19 pandemic. Community Living Services continued to operate with no change. Mental Health Services have primarily shifted to telehealth delivery through the use of video and phone conferencing. Day Services have evolved into a distant learning program called “From Hope to Home”. Training and Employment Services were halted as most employers closed down. However, employers are slowly bringing workers back. Lastly, HopeThrift was closed for a couple months and reopened in June after including essential goods as part of its merchandise offering. Retail sales could be further impacted if additional closures become necessary due to potential exposures. Protocols are in place to reduce the likelihood of such instances. The Organization was forced to postpone the annual In Concert With Hope fundraising event. The event was originally scheduled to take place in June 2020, but instead was held as a virtual event in October 2020. The Organization believes the ultimate impact of the COVID-19 pandemic on its operating results, cash flows and financial condition is likely to be determined by factors which are uncertain, unpredictable and outside of its control. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially adversely impact the Organization's business.

17. SUBSEQUENT EVENTS

On July 8, 2020, the Organization entered in to a new Line of Credit agreement with First Republic Bank, replacing the previous agreement which expired on June 24, 2020. The new agreement is not significantly different than the previous agreement, except in that the new agreement implements an interest rate floor of 3.0%, and removes the cash collateral requirement on draws greater than $1,000,000 specified under the previous agreement (see Note 6). Additionally, on July 8, 2020, the Organization amended its Term Loan agreement with First Republic Bank. The amendment reduced the interest rate from 4.6% fixed to 3.95% fixed (see Note 7).