HOPE Services

Financial Statements

June 30, 2021
(With Comparative Totals for 2020)

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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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to that matter.

Emphasis of Matter

As described in Note 18 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's 2020 financial statements, and our report dated November 16, 2020 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, 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 15, 2021

HOPE Services
Statement of Financial Position
June 30, 2021
(With Comparative Totals for 2020)

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 6,407,052	$ 2,985,418
Investments	8,722,383	5,683,172
Accounts receivable, current portion	4,513,296	5,548,419
Contributions receivable, current portion	86,288	210,240
Inventory	83,799	93,665
Prepaid expenses and other current assets	163,770	66,697
Total current assets	19,976,588	14,587,611
Property and equipment, net	12,280,382	12,800,971
Other assets		
Accounts receivable, net of current portion	524,807	523,492
Contributions receivable, net of current portion	26,000	49,000
Other assets	94,852	98,822
Investments restricted for endowment	1,713,619	1,196,934
Cash and cash equivalents restricted for endowment	324,432	320,148
Total other assets	2,683,710	2,188,396
Total assets	$ 34,940,680	$ 29,576,978
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 1,282,373	$ 901,744
Accrued liabilities	5,752,177	5,337,021
Deferred revenue	308,896	11,937
Deferred rent, current portion	26,067	35,996
Vehicle notes payable, current portion	49,356	-
Note payable, current portion	159,495	115,192
Total current liabilities	7,578,364	6,401,890
Long-term liabilities		
Deferred rent, net of current portion	1,979,470	1,936,579
Vehicle notes payable, net of current portion	167,020	-
Note payable, net of current portion	3,594,955	4,717,664
Total long-term liabilities	5,741,445	6,654,243
Total liabilities	13,319,809	13,056,133
Net assets		
Without donor restrictions	19,300,093	14,768,630
With donor restrictions		
Restricted for a specific purpose	282,727	235,133
Subject to appropriation and spending policy	852,624	337,155
Held in perpetuity (donor-restricted endowment corpus)	1,185,427	1,179,927
Total with donor restrictions	2,320,778	1,752,215
Total net assets	21,620,871	16,520,845
Total liabilities and net assets	$ 34,940,680	$ 29,576,978

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

HOPE Services
Statement of Activities
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Revenue and support				
State and county funding	$ 39,515,700	$ -	$ 39,515,700	$ 37,533,357
Commercial contract services	5,033,031	-	5,033,031	5,557,020
In-kind donations of salvage	4,019,593	-	4,019,593	5,169,438
Retail sales of salvage	3,781,896	-	3,781,896	3,787,538
Investment income, net	880,131	515,469	1,395,600	280,451
Provider Relief Fund grant	1,270,133	-	1,270,133	-
Grants and contributions	778,348	300,640	1,078,988	1,207,553
In-kind contributions	1,006,047	-	1,006,047	843,671
Gain on sale and disposition of property and equipment	696,341	-	696,341	234,830
Wholesale sales of salvage	237,697	-	237,697	1,381,900
Rental income	250,330	-	250,330	265,480
Miscellaneous	31,957	-	31,957	68,735
Special events, net of costs of $60,803 and $53,866 respectively	7,156	10,000	17,156	390,579
Net assets released from restriction	257,546	(257,546)	-	-
Total revenue and support	57,765,906	568,563	58,334,469	56,720,552
Functional expenses				
Program services				
Education, Employment, & Life Skills	38,023,681	-	38,023,681	39,096,208
Retail	9,522,019	-	9,522,019	12,228,932
Total program services	47,545,700	-	47,545,700	51,325,140
General and administrative	5,262,912	-	5,262,912	4,712,365
Fundraising	425,831	-	425,831	594,879
Total functional expenses	53,234,443	-	53,234,443	56,632,384
Change in net assets (see Note 2)	4,531,463	568,563	5,100,026	88,168
Net assets, beginning of year	14,768,630	1,752,215	16,520,845	16,432,677
Net assets, end of year	$ 19,300,093	$ 2,320,778	$ 21,620,871	$ 16,520,845

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

HOPE Services
Statement of Functional Expenses
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	Program Services			Support Services			
	Education, Employment, & Life Skills	Retail	Total Program Services	General and Administrative	Fundraising	2021 Total	2020 Total
Personnel expenses							
Salaries and wages	$ 20,784,952	$ 1,805,534	$ 22,590,486	$ 2,587,385	$ 216,506	$ 25,394,377	$ 26,979,572
Employee benefits	5,700,848	456,096	6,156,944	788,151	53,037	6,998,132	6,608,081
Payroll taxes	1,580,126	136,934	1,717,060	179,304	16,466	1,912,830	1,969,349
Donated services	873,482	-	873,482	-	-	873,482	772,663
Total personnel expenses	28,939,408	2,398,564	31,337,972	3,554,840	286,009	35,178,821	36,329,665
Outside services	4,360,898	37,086	4,397,984	742,546	14,193	5,154,723	4,435,446
Occupancy	2,101,097	2,012,302	4,113,399	94,010	8,578	4,215,987	4,922,509
In-kind donations of salvage (cost of salvage)	-	4,019,593	4,019,593	-	-	4,019,593	5,169,438
Operating supplies	792,370	123,421	915,791	42,956	311	959,058	934,659
Depreciation and amortization	461,258	319,776	781,034	167,484	261	948,779	951,102
Travel and transportation	532,662	134,893	667,555	48,395	-	715,950	1,882,848
Communications	398,057	19,801	417,858	94,301	5,680	517,839	433,787
Printing and publications	2,283	263,050	265,333	99,488	101,134	465,955	502,227
Equipment rental and maintenance	177,147	55,629	232,776	97,569	3,156	333,501	365,962
Insurance	175,049	66,406	241,455	47,857	876	290,188	313,092
Interest	9,745	-	9,745	192,817	-	202,562	247,676
Other	28,150	71,498	99,648	80,649	5,633	185,930	135,108
Bad debt	45,557	-	45,557	-	-	45,557	8,865
Total functional expenses	$ 38,023,681	$ 9,522,019	$ 47,545,700	$ 5,262,912	$ 425,831	$ 53,234,443	$ 56,632,384
Percentage of total	71 %	18 %	89 %	10 %	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, 2021
(With Comparative Totals for 2020)

	2021	2020
Cash flows from operating activities		
Change in net assets	$ 5,100,026	$ 88,168
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	948,779	951,102
Amortization of debt issuance costs	6,000	6,000
Bad debt expense	45,557	8,865
Net realized and unrealized gains on investments	(1,305,245)	(170,687)
Gain on sale and disposition of property and equipment	(696,341)	(234,830)
Contributions restricted for investment in donor restricted endowment funds	(5,500)	(50,000)
Changes in operating assets and liabilities		
Accounts receivable	988,251	(832,190)
Contributions receivable	146,952	(162,395)
Inventory	9,866	5,154
Prepaid expenses and other assets	(93,103)	(11,536)
Accounts payable	380,629	212,231
Accrued liabilities	415,156	361,074
Deferred revenue	296,959	11,937
Deferred rent	32,962	482,051
Net cash provided by operating activities	6,270,948	664,944
Cash flows from investing activities		
Proceeds from maturities and sale of investments	4,103,124	7,883,146
Purchases of investments	(6,353,775)	(9,138,882)
Proceeds from sale of property and equipment	713,485	2,163,854
Purchases of property and equipment	(186,163)	(222,479)
Net cash provided by (used in) investing activities	(1,723,329)	685,639
Cash flows from financing activities		
Payments on note payable	(1,084,406)	(102,539)
Payments on vehicle notes payable	(42,795)	-
Net repayments on line of credit	-	(2,168,343)
Contributions restricted for investment in donor restricted endowment funds	5,500	50,000
Net cash used in financing activities	(1,121,701)	(2,220,882)
Net increase (decrease) in cash, cash equivalents and restricted cash	3,425,918	(870,299)
Cash, cash equivalents and restricted cash, beginning of year	3,305,566	4,175,865
Cash, cash equivalents and restricted cash, end of year	$ 6,731,484	$ 3,305,566

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

HOPE Services
Statement of Cash Flows
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	2021	2020
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	$ 6,407,052	$ 2,985,418
Cash and cash equivalents restricted for endowment	324,432	320,148
	$ 6,731,484	$ 3,305,566

Supplemental disclosure of cash flow information

Cash paid during the year interest	$ 202,562	$ 247,676

Supplemental schedule of noncash investing and financing activities

Purchases of vehicles using notes payable	$ 259,171	$ -

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

HOPE Services
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

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 69 years. HOPE Services serves more than 3,400 individuals and their families in eight 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 is awaiting approval of several regulatory applications before it can start to operate.

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

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

	2021	2020
Change in net assets without donor restrictions	$ 4,531,463	$ (96,740)
Provider Relief Fund grant	(1,270,133)	-
Depreciation and amortization	948,779	951,102
Gain on sale and disposition of property and equipment	(696,341)	-
Workers compensation valuation adjustment	-	(371,938)
Lease modification for Whittier property	-	470,971
Gain on sale and disposition of property and equipment	-	(234,830)
	$ 3,513,768	$ 718,565

2. CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS EXCLUDING NON-CASH EXPENSES AND UNUSUAL EXPENSES (REVENUE) AND (GAINS) (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 May 2014, the Financial Accounting Standards Board issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606), which provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Organization adopted ASU 2014-09 with a date of the initial adoption of July 1, 2020, using the full retrospective method.

The adoption of ASU 2014-09 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, 2020, 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, 2021 and 2020 was $41,441 and $20,663, respectively.

Contributions receivable

Unconditional promises to give are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give, if any, are recognized only when the barriers on which they depend are substantially met and the promises become unconditional. 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, 2021 and 2020, the Organization had inventory of $83,799 and $93,665, respectively.

Property and equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Equipment purchases over $5,000 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2021 and 2020. The accrued vacation balance as of June 30, 2021 and 2020 was $1,789,358 and $1,665,033 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, 2021 and 2020 was $2,005,537 and $1,972,575.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retail and wholesale sales of salvage (continued)

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 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 $465,955 and $502,227 for the years ended June 30, 2021 and 2020, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2018 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2017 and beyond remain subject to possible examination by the Franchise Tax Board.

Reclassifications

Certain reclassifications have been made to the June 30, 2020 financial statement presentation to conform to the June 30, 2021 presentation.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2021 for potential recognition or disclosure in the financial statements. The Organization had subsequent events (see Note 19) that required recognition or disclosure in the financial statements for the fiscal year ended June 30, 2021. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 15, 2021.

4. INVESTMENTS

Investments consisted of the following:

	2021	2020
Investments	$ 8,722,383	$ 5,683,172
Investments restricted for endowment	1,713,619	1,196,934
	$ 10,436,002	$ 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, 2021:

	Level 1	Level 2	Level 3	Fair Value
Equities	$ 5,976,189	$ -	$ -	$ 5,976,189
Fixed income	-	4,310,802	-	4,310,802
Mutual funds	149,011	-	-	149,011
	$ 6,125,200	$ 4,310,802	$ -	$10,436,002

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

Investment earnings consisted of the following:

	2021	2020
Net realized and unrealized gains	$ 1,305,245	$ 170,687
Dividends and interest	157,967	186,294
Investment fees	(67,612)	(76,530)
	$ 1,395,600	$ 280,451

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2021	2020
Buildings and improvements	$ 11,621,629	$ 11,621,629
Land	4,223,482	4,223,482
Leasehold improvements	2,976,557	2,976,557
Office furniture and equipment	1,208,516	1,208,516
Transportation equipment	1,195,238	1,527,959
Computer equipment	1,038,048	1,965,855
Equipment and tools	661,733	665,353
	22,925,203	24,189,351
Accumulated depreciation and amortization	(10,644,821)	(11,388,380)
	$ 12,280,382	$ 12,800,971

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 was $948,779 and $951,102, respectively.

6. LINE OF CREDIT

On July 8, 2020, the Organization entered into a new line of credit agreement with a bank that allows for borrowings up to $3,000,000. The agreement expired on August 24, 2021. On August 25, 2021, the Organization renewed the Line of Credit agreement with the same bank (see Note 19). The 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.

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, 2021 and 2020. The Organization has committed to working with the bank to supply quarterly financial statements and future quarterly projections.

There was no outstanding balance on the line of credit as of June 30, 2021 and 2020.

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 per month, with all subsequent principal and interest payments to be due on the same day each month after that. On July 8 2020, the agreement was amended to reduce the interest rate from 4.6% to 3.95%, and monthly principal and interest payments were reduced to $25,697 per month. 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 note payable were $3,789,450 and $4,873,856 as of June 30, 2021 and 2020, respectively. This 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.

In September 2021, the Organization again amended the agreement (see Note 19).

The note payable is detailed as follows:

	2021	2020
Note payable	$ 3,789,450	$ 4,873,856
Less unamortized debt issuance costs	(35,000)	(41,000)
Current portion	(159,495)	(115,192)
	$ 3,594,955	$ 4,717,664

The future maturities of the note payable are as follows:

Year ending June 30,	
2022	$ 159,495
2023	166,001
2024	172,401
2025	179,805
2026	187,140
Thereafter	2,924,608
	$ 3,789,450

8. VEHICLE NOTES PAYABLE

Vehicle notes payable are detailed as follows:

	2021	2020
Vehicle notes, payable in varying monthly installments, including interest at a rate of 4.49%, due at various dates through August 2025; secured by vehicles.	$ 216,376	$ -
Current portion	(49,356)	-
	$ 167,020	$ -

The future maturities of the notes payable are as follows:

Year ending June 30,	
2022	$ 49,356
2023	51,618
2024	53,984
2025	56,458
2026	4,960
	$ 216,376

9. 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.

9. OPERATING LEASE COMMITMENTS (continued)

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

Year ending June 30,	Vehicles	Facilities and Equipment	Total
2022	$ 129,787	$ 2,565,492	$ 2,695,279
2023	57,992	2,358,227	2,416,219
2024	37,703	2,244,140	2,281,843
2025	-	2,059,737	2,059,737
2026	-	2,075,938	2,075,938
Thereafter	-	11,241,417	11,241,417
	$ 225,482	$ 22,544,951	$ 22,770,433

Facilities rent expense under operating leases totaled $2,507,113 and $2,914,733 for the years ended June 30, 2021 and 2020, respectively, exclusive of in-kind rent. Vehicles and equipment rent expense under operating lease agreements totaled $488,033 and $1,265,805 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020 has been estimated by the Organization at $68,618 and $81,979, respectively (see Note 11).

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2021	2020
Restricted for a specific purpose	$ 282,727	$ 235,133
Subject to appropriation and spending policy	852,624	337,155
Held in perpetuity (donor-restricted endowment corpus)	1,185,427	1,179,927
	$ 2,320,778	$ 1,752,215

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

	2021	2020
Releases - restricted donations	$ 257,546	$ 71,038

11. 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:

	2021	2020
Donated services	$ 873,482	$ 761,692
Donated rent	68,618	81,979
Donated property and equipment	63,947	-
	$ 1,006,047	$ 843,671

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.

12. PROVIDER RELIEF FUND GRANT

As part of the CARES Act, the U.S. Department of Public Health and Human Services ("HHS") distributed Provider Relief Funds, to eligible hospitals, healthcare providers and thrift stores for financial relief. The HHS targeted funding to providers impacted by COVID-19 based on an estimation of loss in income, including lost net revenue and COVID-19 expenses. In December 2020, the Organization applied for and received a total of $1,270,133 in Provider Relief Funds. In accordance with the CARES Act, the Organization has used the relief funds received to cover some of its loss of revenue related to its thrift stores as a result of COVID-19 (see Note 18). The Organization has submitted reporting to the HHS on September 29, 2021.

13. CONCENTRATIONS

Approximately 68% and 73% of the total state and county funding revenue for the years ended June 30, 2021 and 2020, respectively, was provided from one state funding agency.

Three customers represent 88% and 91% of the total accounts receivable as of June 30, 2021 and 2020, respectively.

14. RELATED PARTY

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 ("HUD"). 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. On Nov 24, 2020, a Modified Transfer of Physical Assets ("Modified TPA") was submitted to HUD. On June 28, 2021, the Modified TPA was approved, granting the withdrawal of HOPE Services as the sponsor and replacing it with Eden Housing, Inc. as the new sponsor. The approval is contingent upon compliance with the terms and conditions of this transfer as agreed to by HUD.

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.

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.

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.

15. ENDOWMENT (continued)

Interpretation of relevant law (continued)

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.

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, 2021 and 2020.

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.

15. ENDOWMENT (continued)

Spending policy (continued)

The Organization did not appropriate any endowment funds for expenditure for the years ended June 30, 2021 and 2020.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2021 is as follows:

		With Donor Restrictions		
	Without Donor Restrictions	Subject to Appropriation and Spending Policy	Held in Perpetuity	Total
Donor restricted endowment funds	$ -	$ 852,624	$ 1,185,427	$ 2,038,051

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

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

15. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2021 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, 2020	$ -	$ 337,155	$ 1,179,927	$ 1,517,082
Investment return				
Dividends and interest	-	21,205	-	21,205
Net unrealized and realized gains	-	494,264	-	494,264
Total investment return	-	515,469	-	515,469
Grants and contributions	-	-	5,500	5,500
Balance, June 30, 2021	$ -	$ 852,624	$ 1,185,427	$ 2,038,051

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

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 $632,243 and $583,732 for the years ended June 30, 2021 and 2020 , 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 four key employees. Annual contributions to the plan are determined by the Organization's Executive Committee. The Organization contributed $158,833 and $86,000 to this plan during the years ended June 30, 2021 and 2020, respectively.

17. 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 is able draw upon its line of credit (see Note 6).

Long-term investments and restricted cash include endowment funds consisting of donor-restricted endowments. As described in Note 15, the normal spending rate is up to 5% - 7% on a 12-quarter rolling average of the market value. Accordingly, approximately $108,102 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, 2021. Unrestricted short-term accounts and contributions receivable will be available to support general operations of the Organization.

17. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2021 to fund general expenditures and other obligations when they become due.

Available financial assets consisted of the following:	
Cash and cash equivalents	$ 6,407,052
Investments	8,722,383
Accounts receivable, net	5,038,103
Contributions receivable	112,288
Investments restricted for endowment	1,713,619
Cash and cash equivalents restricted for endowment	324,432
	22,317,877
Less amounts unavailable for general expenditure within one year:	
Held in perpetuity (donor-restricted endowment corpus)	(1,185,427)
Subject to appropriation and spending policy ($852,624 less planned appropriation of $108,102)	(744,522)
Long-term accounts receivable (Santa Clara County Mental Health ("SCCMH") pending reconciliation)	(524,807)
Long-term contributions receivable	(26,000)
Restricted for a specific purpose	(282,727)
	(2,763,483)
Financial assets available to meet cash needs for general expenditures within one year	$ 19,554,394

18. RISKS AND UNCERTAINTIES

HOPE Services' programs, considered essential in nature, remain interrupted by the COVID-19 pandemic. Community Living Services continue to operate with no change. Mental Health Services are primarily delivered through telehealth using of video and phone conferencing, with very limited in-person services provided. Day Services continue to be provided through “From Hope to Home”, our distant learning program. Near the end of the fiscal year, HOPE Services started allowing a limited number of vaccinated clients to return for in-person services. Training and Employment Services are provided at a limited capacity as not all employers have resumed normal operations. Lastly, HopeTHRIFT remained open for most of the year. However, store hours have been scaled back and store capacity has been limited to comply with County guidelines. The 3rd annual In Concert With Hope virtual fundraising event was held in October and was deemed a success. Planning for the 4th annual event is in place. The Regional Centers (San Andreas Regional Center and Golden Gate Regional Center) transitioned to Alternative Services model using monthly flat rate billing in lieu of billing based on historical average attendance. This has proven to be slightly favorable to HOPE. However, this is expected to revert when normal operations resume. The situation surrounding COVID-19 remains fluid, and if new variants occur, they could materially adversely impact the Organization's business.

19. SUBSEQUENT EVENTS

On August 25, 2021, the Organization renewed the Line of Credit agreement with First Republic Bank, replacing the previous agreement which expired on August 24, 2021 (see Note 6).

Additionally, on September 1, 2021, the Organization refinanced its Term Loan agreement with First Republic Bank. The new term loan reduced the interest rate from 3.95% fixed to 3.35% fixed and the principal amount is reduced to $3,500,000 (see Note 7).