HOPE Services

Financial Statements

June 30, 2019
(With Comparative Totals for 2018)

armanino

TABLE OF CONTENTS

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, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

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

Change in Accounting Principle

As described in Note 3 to the financial statements, the Organization has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited HOPE Services' 2018 financial statements, and our report dated November 2, 2018 expressed an unmodified opinion on those audited financial statements. As part of our audit of the 2019 financial statements, we also audited the adjustments to the 2018 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, 2018, adjusted for the change in accounting principle discussed above, 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 27, 2019

HOPE Services
Statement of Financial Position
June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,055,095	$ 1,410,975
Investments	4,444,533	5,097,775
Accounts receivable, current portion	4,691,898	5,444,318
Contributions receivable, current portion	24,845	42,406
Inventory	98,819	109,367
Prepaid expenses and other current assets	61,598	383,022
Total current assets	13,376,788	12,487,863
Property and equipment, net	15,458,618	16,014,900
Other assets		
Accounts receivable, net of current portion	556,688	626,204
Contributions receivable, net of current portion	72,000	-
Other assets	92,382	97,493
Investments restricted for endowment	1,009,157	1,123,427
Cash restricted for endowment	120,770	-
Total other assets	1,850,997	1,847,124
Total assets	$ 30,686,403	$ 30,349,887
LIABILITIES AND NET ASSETS		
Current liabilities		
Line of credit	$ 2,115,343	$ 3,141,813
Accounts payable	689,517	862,964
Accrued liabilities	4,975,947	4,159,583
Deferred revenue	-	4,704
Deferred rent, current portion	11,079	186,656
Vehicle notes payable	-	12,826
Note payable, current portion	108,540	11,397
Total current liabilities	7,900,426	8,379,943
Long-term liabilities		
Deferred rent, net of current portion	1,479,445	1,007,556
Note payable, net of current portion	4,873,855	3,225,544
Total long-term liabilities	6,353,300	4,233,100
Total liabilities	14,253,726	12,613,043
Net assets		
Without donor restrictions		
Undesignated	14,865,370	14,722,003
Board designated endowment	-	1,576,422
Total without donor restrictions	14,865,370	16,298,425
With donor restrictions		
Restricted for a specific purpose	192,637	203,760
Subject to appropriation and spending policy	244,743	111,232
Held in perpetuity (donor-restricted endowment corpus)	1,129,927	1,123,427
Total with donor restrictions	1,567,307	1,438,419
Total net assets	16,432,677	17,736,844
Total liabilities and net assets	$ 30,686,403	$ 30,349,887

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

HOPE Services
Statement of Activities
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Revenue and support				
State and county funding	$ 33,633,505	$ -	$ 33,633,505	$ 33,086,680
In-kind donations of salvage	9,171,509	-	9,171,509	9,981,822
Wholesale sales of salvage	4,737,991	-	4,737,991	7,155,424
Retail sales of salvage	4,433,518	-	4,433,518	2,826,398
Commercial contract services	6,023,081	-	6,023,081	6,071,406
In-kind contributions	886,350	-	886,350	903,528
Grants and contributions	692,315	87,695	780,010	910,667
Investment income, net	347,239	133,511	480,750	236,011
Rental income	267,054	-	267,054	248,784
Special events, net of costs of $139,632 and $21,417 respectively	238,017	-	238,017	49,558
Miscellaneous	53,341	-	53,341	58,253
Gain (loss) on disposition of property and equipment	(10,876)	-	(10,876)	28,902
Net assets released from restriction	92,318	(92,318)	-	-
Total revenue and support	60,565,362	128,888	60,694,250	61,557,433
Functional expenses				
Program services	37,443,208	-	37,443,208	37,674,002
Support services				
General and administrative	4,214,783	-	4,214,783	4,432,355
Fundraising				
Salvage solicitation	10,299,411	-	10,299,411	9,873,076
Other	869,506	-	869,506	634,545
Cost of goods sold (salvage)	9,171,509	-	9,171,509	9,981,822
Total functional expenses	61,998,417	-	61,998,417	62,595,800
Change in net assets (see Note 2)	(1,433,055)	128,888	(1,304,167)	(1,038,367)
Net assets, beginning of year	16,298,425	1,438,419	17,736,844	18,775,211
Net assets, end of year	$ 14,865,370	$ 1,567,307	$ 16,432,677	$ 17,736,844

HOPE Services
Statement of Functional Expenses
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

		Support Services						
			Fundraising					
	Program Services	General and Administrative	Salvage Solicitation	Other	Total Expenses	Non-Cash Cost of Goods Sold (Salvage)	2019 Total	2018 Total
Personnel expenses								
Salaries and wages	$ 21,120,894	$ 1,968,194	$ 3,856,759	$ 359,520	$ 27,305,367	$ -	$ 27,305,367	$ 27,351,390
Employee benefits	5,829,975	528,353	1,296,517	84,458	7,739,303	-	7,739,303	7,377,661
Payroll taxes	1,546,087	146,597	282,997	27,602	2,003,283	-	2,003,283	1,967,505
Donated services	832,992	-	-	-	832,992	-	832,992	813,332
Total personnel expenses	29,329,948	2,643,144	5,436,273	471,580	37,880,945	-	37,880,945	37,509,888
In-kind donations of salvage	-	-	-	-	-	9,171,509	9,171,509	9,981,822
Occupancy	2,036,545	100,858	2,237,954	10,714	4,386,071	-	4,386,071	3,971,478
Outside services	2,228,802	563,078	1,032,932	204,669	4,029,481	-	4,029,481	4,449,186
Travel and transportation	1,569,420	73,560	637,926	3,659	2,284,565	-	2,284,565	2,383,981
Depreciation and amortization	514,560	210,330	350,400	1,134	1,076,424	-	1,076,424	938,941
Operating supplies	865,498	19,960	162,752	4,494	1,052,704	-	1,052,704	1,439,784
Printing and publications	133,742	13,899	205,749	126,803	480,193	-	480,193	446,259
Communications	309,513	66,140	45,670	11,712	433,035	-	433,035	448,757
Equipment rental and maintenance	210,413	107,050	40,879	28,647	386,989	-	386,989	336,244
Interest	173	332,688	15	-	332,876	-	332,876	210,174
Insurance	185,226	61,835	73,994	741	321,796	-	321,796	350,093
Other	29,537	22,241	74,867	5,353	131,998	-	131,998	125,495
Bad debt	29,831	-	-	-	29,831	-	29,831	3,698
Total functional expenses	$ 37,443,208	$ 4,214,783	$ 10,299,411	$ 869,506	$ 52,826,908	$ 9,171,509	$ 61,998,417	$ 62,595,800
Percentage of total	71 %	8 %	19 %	2 %	100 %			
Total functional expenses	$ 37,443,208	$ 4,214,783	$ 10,299,411	$ 869,506	$ 52,826,908	$ 9,171,509	$ 61,998,417	$ 62,595,800
Salvage solicitation and non-cash cost of goods sold (salvage) excluded	-	-	(10,299,411)	-	(10,299,411)	(9,171,509)	(19,470,920)	(19,854,898)
Total functional expenses excluding salvage solicitation and non-cash cost of good sold (salvage)	$ 37,443,208	$ 4,214,783	$ -	$ 869,506	$ 42,527,497	$ -	$ 42,527,497	$ 42,740,902
Percentage of total	88 %	10 %	- %	2 %	100 %			

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

HOPE Services
Statement of Cash Flows
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities		
Change in net assets	$ (1,304,167)	$ (1,038,367)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	1,076,424	938,941
Amortization of debt issuance costs	6,000	6,900
Bad debt expense	29,831	3,698
Net realized and unrealized gains on investments	(370,906)	(140,650)
In-kind donation of property and equipment	(933)	(37,771)
(Gain) loss on disposition of property and equipment	10,876	(28,902)
Contributions restricted for investment in donor restricted endowment funds	(6,500)	(5,000)
Changes in operating assets and liabilities		
Accounts receivable, net	792,105	(537,823)
Contributions receivable	(54,439)	(42,016)
Inventory	10,548	(49,772)
Prepaid expenses and other assets	326,538	152,469
Accounts payable	(173,450)	(1,307,286)
Accrued liabilities	816,364	1,211,174
Deferred revenue	(4,704)	4,709
Deferred rent	296,312	712,224
Net cash provided by (used in) operating activities	1,449,899	(157,472)
Cash flows from investing activities		
Proceeds from maturities and sale of investments	2,800,702	5,223,138
Purchases of investments	(1,662,284)	(4,935,661)
Proceeds from sale of property and equipment	46,147	29,388
Purchases of property and equipment	(576,232)	(2,235,084)
Net cash provided by (used in) investing activities	608,333	(1,918,219)
Cash flows from financing activities		
Payments on capital leases	(12,826)	(59,706)
Net borrowings (repayments) on line of credit	(1,032,470)	2,882,480
Net borrowing on term loan	1,745,454	-
Contributions restricted for investment in donor restricted endowment funds	6,500	5,000
Net cash provided by financing activities	706,658	2,827,774
Net increase in cash, cash equivalents and restricted cash	2,764,890	752,083
Cash, cash equivalents and restricted cash, beginning of year	1,410,975	658,892
Cash, cash equivalents and restricted cash, end of year	$ 4,175,865	$ 1,410,975

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

HOPE Services
Statement of Cash Flows
For the Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash, cash equivalents and restricted cash consisted of the following:		
Cash and cash equivalents	$ 4,055,095	$ 1,410,975
Cash restricted for endowment	120,770	-
	$ 4,175,865	$ 1,410,975

Supplemental disclosure of cash flow information

Cash paid during the year interest	$ 332,876	$ 210,174

Supplemental schedule of noncash investing and financing activities

In-kind donation of property and equipment	$ 933	$ 37,771

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

HOPE Services
Notes to Financial Statements
June 30, 2019
(With Comparative Totals for 2018)

1. NATURE OF OPERATIONS

HOPE Services ("the Organization") is a California nonprofit benefit corporation and is the leading provider of services to people with developmental disabilities in Silicon Valley for over 67 years. HOPE Services serves more than 3,200 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.

2. CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS EXCLUDING DEPRECIATION AND AMORTIZATION AND WORKERS COMPENSATION VALUATION ADJUSTMENT

Change in net assets, excluding depreciation and amortization and workers compensation valuation adjustment, in the "Without Donor Restrictions" column of the Statement of Activities is as follows:

	2019	2018
Change in net assets without donor restrictions	$ (1,433,055)	$ (1,112,308)
Depreciation and amortization	1,076,424	938,941
Workers compensation valuation adjustment	457,871	-
	$ 101,240	$ (173,367)

2. CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS EXCLUDING DEPRECIATION AND AMORTIZATION AND WORKERS COMPENSATION VALUATION ADJUSTMENT (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 in this year. Workers compensation amount paid for policy year April 2018 to March 2019 totaled $1,823,822.

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). For the current policy year April 2019 to March 2020, workers compensation premium is estimated to be $778,382.

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)

Changes in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
    a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
    b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
    c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
    d. Methods used to allocate costs among program and support functions.

The amendments have been applied on a retrospective basis for the year ended June 30, 2018.

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, 2018, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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 and the measurement date."

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

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

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *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.

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, 2019 and 2018 was $27,079 and $19,181, 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, 2019 and 2018, the Organization had inventory of $98,819 and $109,367, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2019 and 2018. The accrued vacation balance as of June 30, 2019 and 2018 was $1,605,200 and $1,641,054 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, 2019 and 2018 was $1,490,524 and $1,194,212.

State, county, and contract services revenues

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

Retail and wholesale sales of salvage

The Organization operates retail stores in Fremont, San Jose, and Watsonville, California to facilitate the sale of donated clothing and other household items. Revenue is recognized at the time of sale, as all sales to customers are unconditional and returns are not allowed.

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

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.

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 $480,193 and $446,259 for the years ended June 30, 2019 and 2018, respectively.

Functional expenses

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

Income tax

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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, 2016 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2015 and beyond remain subject to possible examination by the Franchise Tax Board.

Reclassifications

Certain reclassifications have been made to the June 30, 2018 financial statement presentation to conform to the June 30, 2019 presentation.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2019 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, 2019. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 27, 2019. The Organization has not evaluated subsequent events after November 27, 2019.

4. INVESTMENTS

Investments consisted of the following:

	2019	2018
Investments	$ 4,444,533	$ 5,097,775
Investments restricted for endowment	1,009,157	1,123,427
	$ 5,453,690	$ 6,221,202

4. INVESTMENTS (continued)

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

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

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

Investment earnings consisted of the following:

	2019	2018
Net realized and unrealized gains	$ 370,906	$ 140,650
Dividends and interest	188,505	176,488
Investment fees	(78,661)	(81,127)
	$ 480,750	$ 236,011

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2019	2018
Buildings and improvements	$ 12,717,965	$ 12,646,113
Land	5,239,795	5,239,795
Leasehold improvements	2,976,557	2,571,879
Computer equipment	1,948,668	1,836,555
Transportation equipment	1,523,382	1,642,039
Office furniture and equipment	1,200,466	1,285,804
Equipment and tools	750,239	704,702
Construction in progress	-	472,196
	26,357,072	26,399,083
Accumulated depreciation and amortization	(10,898,454)	(10,384,183)
	$ 15,458,618	$ 16,014,900

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 was $1,076,424 and $938,941, 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 and 4.75% at June 30, 2018. 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 were $2,162,343 and $3,194,813 as of June 30, 2019 and 2018, respectively.

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. The line of credit will mature on June 24, 2020. There is no collateral required on the first $999,999 of the line of credit and the rest is secured by cash collateral.

The lines of credit are subjected to covenant clauses, whereby the Organization is required to meet certain key financial ratios on an annual basis. The Organization did not meet the debt service coverage ratio at June 30, 2018 as required in the line of credit agreement. The Organization requested and received a waiver on the debt service coverage ratio covenant for the year ended June 30, 2018. The Organization was in compliance with the covenant clauses for the year ended June 30, 2019. The Organization has committed to working with the bank to supply quarterly financial statements and future quarterly projections.

6. LINE OF CREDIT (continued)

Line of credit is detailed as follows:

	2019	2018
Line of credit, extension to June 2020	$ 2,162,343	$ 3,194,813
Less unamortized debt issuance costs	(47,000)	(53,000)
	$ 2,115,343	$ 3,141,813

The line of credit was fully paid off in July 2019 (see Note 17).

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 a $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 will be permitted. Beginning on May 27, 2019, the Organization started to pay this loan in ninety-five (95) principal and interest payments each, with all subsequent principal and interest payments to be due on the same day each month after that. The amount of principal and interest due each month will be in equal amounts, will be based on a three-hundred (300) month amortization period. On April 27, 2027, the Organization will pay one final principal and interest payment, which will be for all principal and accrued interest not yet paid. Outstanding borrowings on the line of credit convertible to note payable were $4,982,395 and $3,236,941 as of June 30, 2019 and 2018, 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.

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

	2019	2018
Line of credit convertible to note payable, maturing April 2027	$ 4,982,395	$ 3,236,941
Current portion	(108,540)	(11,397)
	$ 4,873,855	$ 3,225,544

7. NOTE PAYABLE (continued)

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

Year ending June 30,	
2020	$ 108,540
2021	114,347
2022	119,795
2023	125,503
2024	130,911
Thereafter	4,383,299
	$ 4,982,395

8. OPERATING LEASE COMMITMENTS

The Organization leases seventeen separate facilities under non-cancelable operating lease agreements, many with renewal options, which expire at various dates through 2053. Management expects that in the normal course of business the leases will be renewed or replaced, either by other leases or by acquisition or construction of similar facilities. The Organization also leases equipment and vehicles under non-cancelable operating lease agreements of five (5) years or less.

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

Year ending June 30,	Vehicles	Facilities and Equipment	Total
2020	$ 1,100,839	$ 2,487,937	$ 3,588,776
2021	689,040	2,254,261	2,943,301
2022	257,511	2,253,863	2,511,374
2023	179,428	2,238,173	2,417,601
2024	114,834	2,154,343	2,269,177
Thereafter	-	13,029,454	13,029,454
	$ 2,341,652	$ 24,418,031	$ 26,759,683

Facilities rent expense under operating leases totaled $2,514,982 and $2,242,430 for the years ended June 30, 2019 and 2018, respectively, exclusive of in-kind rent. Vehicles and equipment rent expense under operating lease agreements totaled $1,394,172 and $1,465,391 for the years ended June 30, 2019 and 2018, respectively.

8. OPERATING LEASE COMMITMENTS (continued)

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, 2019 and 2018 has been estimated by the Organization at $52,425 and $52,425, respectively.

9. BOARD DESIGNATED NET ASSETS

The unrestricted board designated endowment funds of $1,576,422 relate to a portion of proceeds received from an estate that the Board of Directors designated in 2009. As of June 30, 2019, the Board of Directors undesignated these funds for general operations use. The unrestricted board designated endowment funds as of June 30, 2019 and 2018 was $0 and $1,576,422, respectively.

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

	2019	2018
Program services (purpose restrictions)	$ 192,637	$ 203,760
Unappropriated endowment earnings	244,743	111,232
Held in perpetuity (donor-restricted endowment corpus)	1,129,927	1,123,427
	$ 1,567,307	$ 1,438,419

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

	2019	2018
Releases - restricted donations	$ 92,318	$ 153,244

11. IN-KIND CONTRIBUTIONS

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

11. IN-KIND CONTRIBUTIONS (continued)

In-kind contributions consisted of the following:

	2019	2018
Donated services	$ 832,992	$ 813,332
Donated property and equipment	933	37,771
Donated rent	52,425	52,425
	$ 886,350	$ 903,528

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. CONCENTRATIONS

Approximately 80% and 83% of the total state and county funding revenue for the year ended June 30, 2019 and 2018, respectively, was provided from one state funding agency.

Three customers represent 84% and 80% of the total accounts receivable as of June 30, 2019 and 2018, respectively.

13. RELATED PARTIES

In 1997, Eden/Hope Villa Esperanza, Inc. (EHVE), a nonprofit organization, was incorporated with a mission to build and maintain a housing facility for persons with disabilities financed by the U.S. Department of Housing and Urban Development. Representatives from HOPE Services and Eden Housing Inc. serve as directors of EHVE. While HOPE Services has control through majority representation on the Board of Directors, it does not have an economic interest in, or any financial commitments to, EHVE. Therefore, EHVE operations are not consolidated into HOPE Services' financial statements.

In 1995, Arroyo Commons, Inc. (Arroyo Commons), a nonprofit organization, was incorporated with a mission to own and operate a housing facility for persons with disabilities financed by the U.S. Department of Housing and Urban Development. The original sponsor of this project was AID Employment, a now dissolved California public benefit corporation. In March 2012, the subject project was approved for transfer to HOPE Services as its new sponsor by the Department of Housing and Urban Development. While HOPE Services is the sponsoring organization, it does not have an economic interest in, or any financial commitments to Arroyo Commons. Therefore, Arroyo Commons operations are not consolidated into HOPE Services' financial statements.

13. RELATED PARTIES (continued)

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.

14. ENDOWMENT

The Organization's endowment consists of several individual funds established for a variety of purposes. Its endowment included 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

(1) The duration and preservation of the fund

(2) The purposes of the Organization and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the Organization

(7) The investment policies of the Organization

14. ENDOWMENT (continued)

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, 2019 and 2018.

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, 2019 and 2018.

Endowment composition

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

14. ENDOWMENT (continued)

Endowment composition (continued)

Endowment net asset composition by type of fund as of June 30, 2018 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	$ -	$ 111,232	$ 1,123,427	$ 1,234,659
Board designated funds	1,576,422	-	-	1,576,422
	$ 1,576,422	$ 111,232	$ 1,123,427	$ 2,811,081

Changes in endowment net assets for the fiscal year ended 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
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 (see Note 9)	(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. ENDOWMENT (continued)

Endowment composition (continued)

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

		With Donor Restrictions		
	Without Donor Restrictions	Subject to Appropriation and Spending Policy	Held in Perpetuity	Total
Balance, June 30, 2017	$ 1,576,422	$ 29,279	$ 1,118,427	$ 2,724,128
Investment return				
Dividends and interest	-	23,820	-	23,820
Net unrealized and realized gains	-	58,133	-	58,133
Total investment return	-	81,953	-	81,953
Grants and contributions	-	-	5,000	5,000
	-	81,953	5,000	86,953
Balance, June 30, 2018	$ 1,576,422	$ 111,232	$ 1,123,427	$ 2,811,081

15. 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 $630,000 and $599,070 for the years ended June 30, 2019 and 2018, 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 $86,160 and $33,000 to this plan during the years ended June 30, 2019 and 2018, respectively.

16. 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 (see Note 6).

Long-term investments and restricted cash include endowment funds consisting of donor-restricted endowments. As described in Note 14, the normal spending rate is up to 5% - 7% on a 12-quarter rolling average of the market value. Accordingly, approximately $60,229 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, 2019. 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, 2019 to fund general expenditures and other obligations when they become due.

Available financial assets consisted of the following:	
Cash and cash equivalents	$ 4,055,095
Investments	4,444,533
Accounts receivable, current portion	5,248,586
Contributions receivable, current portion	96,845
Investments restricted for endowment	1,009,157
Cash restricted for endowment	120,770
	14,974,986
Less amounts unavailable for general expenditure within one year:	
Investments restricted for endowment	(1,009,157)
Cash restricted for endowment	(120,770)
Long-term accounts receivable (SCCMH pending reconciliation)	(556,688)
Restricted for a specific purpose	(192,637)
Subject to appropriation and spending policy	(184,514)
	(2,063,766)
Financial assets available to meet cash needs for general expenditures within one year	$ 12,911,220

17. SUBSEQUENT EVENTS

The Organization settled the sale of its Portola building in Salinas on July 11, 2019 for total consideration of $2,150,000 and gain of $223,000. With the net proceeds from the sale, the Organization paid off its Line of Credit. Subsequent to that the Organization renewed the Line of Credit on August 6, 2019 with the new maturity date of June 24, 2020. The maximum principal amount decreased from $5,000,000 to $3,000,000 per the renewal agreement (see Note 6).