
HOPESOURCE

A WASHINGTON NON-PROFIT ORGANIZATION

Financial Statements

For the Year Ended December 31, 2009
With Comparative Totals for 2008

Aiken & Sanders, Inc PS

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

June 22, 2010

To the Board of Directors
Hopesource
700 E. Mountain View, Suite 501
Ellensburg, WA 98926

We have audited the accompanying statement of financial position of HOPESOURCE as of December 31, 2009; the related statement of activities and changes in net assets; statement of functional expenses; and the statement of cash flows for the year then ended. These financial statements are the responsibility of HOPESOURCE's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from HOPESOURCE's 2008 financial statements and, in our report dated April 24, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HOPESOURCE as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2010, on our consideration of HOPESOURCE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of HOPESOURCE taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Aiken & Sanders, Inc., PS
Certified Public Accountants
& Management Consultants

HOPESOURCE

Statement of Financial Position

December 31, 2009 (With Comparative Totals for 2008)	2009	2008
<u>ASSETS</u>		
Current Assets		
Cash	\$ 156,763	\$ 282,942
Accounts Receivable	194,301	154,639
Due from Westview Villa Limited Partnership	16,779	30,653
Weatherization Inventory	257	1,002
Commodities Inventory	3,638	2,823
Prepaid Expenses & Other Current Assets	28,684	4,648
Total Current Assets	400,422	476,707
Property & Equipment		
Land & Building, net	36,167	38,167
Leasehold Improvements, net	1,622	1,755
Equipment, net	4,403	-
Vehicles, net	2,516	3,145
Total Property & Equipment	44,708	43,067
Other Assets		
Investments	-	5,438
Investment in Westview Villa Limited Partnership	124,799	124,808
Total Other Assets	124,799	130,246
Total Assets	\$ 569,929	\$ 650,020
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	18,291	121,693
Accrued Expenses	20,289	20,680
Deferred Revenue	27,360	64,208
Loan Payable Current	3,600	3,600
Total Current Liabilities	69,540	210,181
Long Term Liabilities		
Loan Payable	120,000	123,600
Less Loan Payable Current	(3,600)	(3,600)
Total Long Term Liabilities	116,400	120,000
Net Assets		
Unrestricted Net Assets	370,283	305,700
Temporarily Restricted Net Assets	13,706	14,139
Total Net Assets	383,989	319,839
Total Liabilities and Net Assets	\$ 569,929	\$ 650,020

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

HOPESOURCE

Statement of Activities and Change In Net Assets

Year Ended December 31, 2009 <i>(With Comparative Totals for 2008)</i>	2009	2008		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TOTAL
Support & Revenue:				
Grants	\$ 2,319,586	\$ -	\$ 2,319,586	\$ 2,050,924
Contributions	79,301	27,520	106,821	102,524
Program Income	33,896	-	33,896	37,015
Other Income	15,092	-	15,092	22,514
Inkind Revenue	76,726	-	76,726	52,910
Service Fees	25,015	-	25,015	41,812
Fundraising	16,380	-	16,380	6,158
Release of Program Restrictions	27,953	(27,953)	-	-
Total Support & Revenues	2,593,949	(433)	2,593,516	2,313,857
Expenses:				
Program Services				
Housing Services	223,632	-	223,632	249,449
Nutrition Services	249,644	-	249,644	161,087
Transportation Services	523,866	-	523,866	720,590
Weatherization Services	189,005	-	189,005	173,505
Energy Services	867,953	-	867,953	545,513
Block Grants	217,365	-	217,365	176,082
Social Enterprise	31,604	-	31,604	4,916
Corporate	33,375	-	33,375	31,442
	2,336,444	-	2,336,444	2,062,584
Administration	192,913	-	192,913	167,123
Total Expenses	2,529,357	-	2,529,357	2,229,707
Other Revenue & Expenses:				
Investment Income (Loss)	(9)	-	(9)	(2,811)
Total Other Revenue & Expenses	(9)	-	(9)	(2,811)
INCREASE (DECREASE) IN NET ASSETS	64,583	(433)	64,150	81,339
NET ASSETS, BEGINNING OF YEAR	305,700	14,139	319,839	238,500
NET ASSETS, END OF YEAR	\$ 370,283	\$ 13,706	\$ 383,989	\$ 319,839

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

HOPESOURCE**Statement of Functional Expenses****Year Ended December 31, 2009 (With Comparative Totals for 2008)**

	Housing Services	Nutrition Services	Transportation Services	Weatherization Services	Energy Services	Block Grants
Salaries	\$ 48,696	\$ 3,102	\$ 259,831	\$ 59,326	\$ 85,632	\$ 106,372
Benefits	20,354	1,566	123,803	26,597	35,620	50,501
Subcontractors Expense	13,600	71,436	-	224	-	-
Supplies	232	8	401	187	1,766	5,756
Vehicle Expenses	34	-	75,705	1,399	104	6,924
Professional Services	2,506	-	5,946	1,322	4,737	1,581
Communication	2,295	368	3,754	1,735	3,942	3,450
Travel	2,878	-	1,596	7,105	337	16,903
Advertising	148	-	1,718	-	1,048	1,841
Rent	6,191	727	24,587	5,693	12,749	8,528
Insurance	1,615	116	14,917	6,248	3,626	2,820
Utilities	7,072	159	2,553	1,053	2,184	1,172
Repair & Maintenance	8,201	97	1,386	625	1,873	863
Miscellaneous	1,058	117	1,331	122	2,944	841
Inkind Expenses	354	66,632	-	-	8,052	-
Conference & Training Fees	967	75	2,768	3,466	94	7,615
Client Expenses	95,002	105,196	2,195	71,288	701,459	35
Depreciation Expense	2,133	-	-	-	-	-
Capital Outlay	215	45	1,375	2,615	1,786	2,163
Interest Expense	10,081	-	-	-	-	-
TOTAL	\$ 223,632	\$ 249,644	\$ 523,866	\$ 189,005	\$ 867,953	\$ 217,365

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

				2009		2008	
<u>Social Enterprise</u>	<u>Corporate</u>	<u>Total Programs</u>	<u>Administration</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>	<u>Total</u>
\$ 4,038	\$ 2,465	\$ 569,462	\$ 91,626	\$ 661,088	\$ 656,951		
1,632	1,740	261,813	46,841	308,654	334,570		
-	70	85,330	464	85,794	52,706		
52	1,394	9,796	8,830	18,626	27,741		
4,653	882	89,701	105	89,806	142,639		
399	766	17,257	8,518	25,775	36,899		
319	307	16,170	4,632	20,802	23,814		
364	2,971	32,154	4,327	36,481	20,021		
160	-	4,915	554	5,469	2,126		
-	-	58,475	5,124	63,599	61,800		
2,910	-	32,252	1,328	33,580	41,362		
-	-	14,193	858	15,051	14,200		
18	1,970	15,033	889	15,922	29,117		
255	8,268	14,936	7,185	22,121	15,934		
-	400	75,438	1,288	76,726	49,765		
70	1,941	16,996	3,399	20,395	11,143		
15,855	9,499	1,000,529	-	1,000,529	681,330		
629	-	2,762	259	3,021	2,133		
250	702	9,151	6,686	15,837	12,212		
-	-	10,081	-	10,081	13,244		
\$ 31,604	\$ 33,375	\$ 2,336,444	\$ 192,913	\$ 2,529,357	\$ 2,229,707		

HOPESOURCE

Statement of Cash Flows

Year Ended December 31, 2009 (With Comparative Totals for 2008)	2009	2008
Cash Flows From Operating Activities:		
Increase (Decrease) in Net Assets	\$ 64,150	\$ 81,339
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) (Used) by Operating Activities:		
Depreciation	3,021	2,133
Forgiveness of Debt	(3,600)	(3,600)
Donated Vehicle	-	(3,145)
Loss from Westview Villa Limited Partnership	9	6
Investment Loss (Gain)	-	2,811
(Increase) Decrease in --		
Accounts Receivable	(39,662)	285,813
Due from Westview Villa Limited Partnership	13,874	(30,653)
Inventories	(70)	558
Prepaid Expenses & Other Current Assets	(24,036)	(3,605)
Increase (Decrease) in --		
Accounts Payable	(103,402)	(118,062)
Accrued Expenses	(391)	10,853
Deferred Revenue	(36,848)	34,165
Net Cash Provided (Used) by Operations	(126,955)	258,613
Cash Flows From Investing Activities:		
Purchase of Equipment	(4,662)	-
Decrease in Investments	5,438	-
Net Cash Provided (Used) by Investing	776	-
Cash Flows From Financing Activities:		
	-	-
Net Increase (Decrease) in Cash	(126,179)	258,613
Cash, at Beginning of Year	282,942	24,329
Cash, at End of Year	\$ 156,763	\$ 282,942

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

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

HOPESOURCE is a non-profit entity exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and is not a private foundation. HOPESOURCE operates primarily as the sponsoring agency of various federal, state, and locally funded programs aimed at providing various types of aid to the underprivileged who reside in Kittitas County, state of Washington. As a community action agency (community action agencies were founded under the Economic Opportunity Act of 1964) HOPESOURCE is a locally controlled organization and is administered with the "maximum feasible participation" of the poor. This essential element distinguishes it from other non-profit human service providers. The maximum feasible participation emphasis begins with the board of directors which, by law, must be comprised of representatives from three major elements of the community: 1/3 of low-income residents or their representatives, 1/3 of local public officials or their designees, and the remaining 1/3 of members from the private sector.

HOPESOURCE receives a substantial amount of its annual support in the form of government grants. A significant reduction in the level of this support, if it were to occur, might have a significant effect on HOPESOURCE'S programs and activities.

Accounting Basis

HOPESOURCE maintains its financial records on the accrual basis of accounting. Revenues on all grants are recognized (accrued) when qualifying expenditures under the grant are made. Grant funds are accounted for as temporarily restricted or unrestricted as provided in the particular terms of the respective grant contracts. However, if the restrictions on grant funds are met in the same year the funds are awarded, it is HOPESOURCE'S policy to report the grant funds as unrestricted on the statement of activities and changes in net assets.

Recognition of Contribution Revenue

HOPESOURCE reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities and changes in net assets as net assets released from restrictions.

HOPESOURCE reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the assets are to be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, HOPESOURCE reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

If the restrictions on restricted contributions are met in the same year the gift is received, it is HOPESOURCE'S policy to report the contribution as unrestricted on the statement of activities and changes in net assets.

Property and Equipment

Property and equipment purchased by HOPESOURCE with unrestricted funds is recorded at cost. Items of less than \$5,000 per unit cost are charged to expense as minor equipment or supplies.

Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Maintenance and repairs are charged to expense as incurred; major renewals and improvements are capitalized. When items of

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2009

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T)

Property and Equipment (Con't)

property and equipment are sold or are otherwise disposed of, the appropriate cost and related accumulated depreciation amounts are removed from the accounts, and any gain or loss is included in income.

Straight-line depreciation is provided over the estimated useful lives of the assets as follows:

Buildings & Improvements	30 years
Office equipment	7 years
Vehicles	5 to 6 years

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions affecting certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising Costs

It is HOPESOURCE'S policy to expense all advertising costs as incurred.

NOTE 2: ACCOUNTS RECEIVABLE

Grants receivable are recorded to the extent of qualifying grant expenditures made during the current year that are to be reimbursed after year end.

Historically, bad debts have been immaterial. HOPESOURCE uses the direct write-off method, which is not in accordance with generally accepted accounting principles. When an amount becomes uncollectible, it is charged to expense in the year it is deemed to be uncollectible. During 2009 and 2008, there were bad debts of \$0. As of December 31, 2009, management estimated that all accounts receivable were collectible.

Past due trade receivables are those on which no payments have been received within 30 days following the month in which they originated. No interest is charged on past due trade receivables.

NOTE 3: COMPENSATED ABSENCES

HOPESOURCE provides its employees with paid annual and sick leave in accordance with its current policies. Sick leave benefits are cumulative only to the extent of use for illness. Unused annual leave is payable to employees in cash upon their termination. Annual leave is cumulative up to a maximum of 80 hours.

At December 31, 2009 and 2008, vested leave has been accrued as follows and is included in accrued expenses on the statement of financial position:

	<u>2009</u>	<u>2008</u>
Annual Leave	\$ <u>15,133</u>	\$ <u>19,324</u>

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2009

NOTE 4: LEASE COMMITMENTS

HOPESOURCE leases facilities to be used in their programs. The lease for facilities is classified as an operating lease. Lease expense for facilities for the years ended December 31, 2009 and 2008, was \$63,599 and \$61,800, respectively.

Future minimum payments under operating leases at December 31, 2009, are:

2010	\$ 76,569
2011	79,248
2012	79,452
2013	79,656
2014	79,872
	<u>\$ 394,797</u>

NOTE 5: LOANS PAYABLE

As of December 31, 2009 and 2008, long-term debt consisted of the following:

	<u>2009</u>	<u>2008</u>
Department of Community, Trade, and Economic Development - Housing Trust Fund Program - Secured by real estate (See Below)	<u>\$ 120,000</u>	<u>\$ 123,600</u>

Maturity of debt due within 5 years:

2010	\$ 3,600
2011	3,600
2012	3,600
2013	3,600
2014	3,600
Thereafter	<u>102,000</u>
	<u>\$ 120,000</u>

During 2003, HOPESOURCE entered into an agreement with the DCTED for funds used to pay off existing debt. The promissory note and deed of trust for \$144,000, with no interest, will be forgiven \$3,600 per year until May 1, 2043. The loan is secured by the emergency shelter triplex. In the event that the property is sold, or the property is not used as required by the Contract during the term of the loan, HOPESOURCE would be liable to the DCTED for any unpaid balance of the promissory note plus an amount representing the prorated, appreciated value of the property as defined in the Contract. An imputed interest rate of 8.19% is used to calculate interest expense and contribution revenue for each year.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2009

NOTE 6: CASH

During 2009 and 2008, HOPESOURCE periodically had bank accounts that exceeded the amount insured by the Federal Deposit Insurance Corporation (FDIC).

NOTE 7: SUPPLEMENTAL DISCLOSURES - STATEMENT OF CASH FLOWS

Cash and cash equivalents include cash on hand and cash on deposit in financial institutions.

Cash paid during the years ended December 31, 2009 and 2008, for interest was \$0 and \$2,866, respectively.

NOTE 8: SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards includes the federal grant activity of HOPESOURCE and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of the financial statements.

NOTE 9: WESTVIEW VILLA LIMITED PARTNERSHIP

HOPESOURCE is the Managing General Partner in the Westview Villa Limited Partnership. HOPESOURCE has an ownership interest of 1.0%. The purpose of the partnership is to construct, maintain, and operate a low to moderate income housing project located in Cle Elum, Washington. The project is a qualified tax credit project with bond financing being provided by the Washington State Housing Finance Commission. The units are rented to families with moderate to low incomes.

During 2008 and 2007, HOPESOURCE paid for landscaping maintenance at the Partnership site. During 2009, the Partnership reimbursed HOPESOURCE \$22,428 for these costs. The Partnership owes HOPESOURCE an annual administrative fee of \$8,554 and \$8,225 for 2009 and 2008, respectively. At December 31, 2009 and 2008, the total amount due from the Partnership was \$16,779 and \$30,653, respectively.

NOTE 10: IN-KIND CONTRIBUTIONS

Volunteers contribute services toward the fulfillment of programs sponsored by HOPESOURCE. The contributed services are not recorded in the financial statements because they do not meet the requirements set out in SFAS 116. During the years ended December 31, 2009 and 2008, the estimated fair value of volunteer services was \$9,275 and \$11,275, respectively.

HOPESOURCE receives donated supplies and food that are used in the programs sponsored by HOPESOURCE. The donated supplies and food are recorded as in-kind revenue at estimated fair market value when they are received. When the donated supplies and food are used an offsetting entry to in-kind expense is made. Donated supplies and food for the years ended December 31, 2009 and 2008 were \$76,726 and \$49,765, respectively.

During 2008, HOPESOURCE received a donated van. The vehicle was capitalized as an asset on the statement of financial position, and recorded as in-kind revenue on the statement of activities at the estimated fair market value of \$3,145.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2009

NOTE 11: DEFERRED REVENUES

Deferred revenue is recognized for program (grant) advances received by HOPESOURCE that are in excess of current grant expenditures. Such amounts are restricted funds and as such can only be maintained and used in accordance with the respective grant contracts.

NOTE 12: TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets are donor-restricted contributions that have not been expended for the donor specified purposes as of December 31, 2009 and 2008.

NOTE 13: PROPERTY, EQUIPMENT AND ACCUMULATED DEPRECIATION

Equipment, vehicles, leasehold improvements, land and buildings consist of the following:

<u>Asset</u>	<u>Method</u>	<u>Life</u>	<u>2009</u>	<u>2008</u>
Land			\$ 15,000	\$ 15,000
Building	S/L	30 yrs	60,000	60,000
Accumulated Depreciation			(38,833)	(36,833)
			<u>\$ 36,167</u>	<u>\$ 38,167</u>
Leasehold Improvements	S/L	30 yrs	\$ 3,976	\$ 3,976
Accumulated Depreciation			(2,354)	(2,221)
			<u>\$ 1,622</u>	<u>\$ 1,755</u>
Equipment	S/L	7 yrs	\$ 16,864	\$ 12,202
Accumulated Depreciation			(12,461)	(12,202)
			<u>\$ 4,403</u>	<u>\$ -</u>
Vehicles	S/L	5 - 6 yrs	\$ 25,056	\$ 55,223
Accumulated Depreciation			(22,540)	(52,078)
			<u>\$ 2,516</u>	<u>\$ 3,145</u>

NOTE 14: INVENTORY

Inventories of USDA surplus commodities are shown at the cost value provided by the USDA. The cost of inventory of USDA Surplus Commodities at December 31, 2009 and 2008 is \$3,638 and \$2,823, respectively.

At December 31, 2009 and 2008, HOPESOURCE had inventory of insulation and windows for the Weatherization program. The cost of the inventory as of December 31, 2009 and 2008, is \$257 and \$1,002, respectively.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2009

NOTE 15 – CONTINGENCIES

Amounts received or receivable from government agencies are subject to audit and potential adjustment by the contracting agencies. Any disallowed claims, including amounts already collected, would become a liability of HOPESOURCE if so determined in the future. It is management's belief that no material amounts received or receivable will be required to be returned in the future.

NOTE 16 – SCHEDULE OF NON-FEDERAL AWARDS

Expenditures for certain non-federal awards for the fiscal year ended December 31, 2009, are as follows:

<u>Agency</u>	<u>Contract Number</u>	<u>Program Name</u>	<u>Amount</u>
Dept of Transportation	GCA5302	Rural Mobility	\$ 265,837
Dept of Transportation	GCA5302	Central Transit	103,465
CTED	F09-32105-016	CSBG	5,669
CTED	08-46105-19	ESAP	17,995
CTED	08-46104-10	Transitional Housing Operation	10,052
Puget Sound Energy	None	Energy Assist.	39,799
Kittitas County	None	Transportation	7,875
City of Ellensburg	None	Transportation	13,500
Fee for Service	None	People for People	19,032
State of Washington	MOU# 2007-1	Ecology Wood Stove Exchange	151
Kittitas County	None	Senior Rent Assistance	57,534
CWU	#7667	Central Transit	125,274
Social Enterprise HS	None	Social Enterprise	30,975
Crest View Housing	None	Crest View Program	40,226
			<u>\$ 737,384</u>

NOTE 17 - SUBSEQUENT EVENTS

HOPESOURCE did not have any subsequent events through June 22, 2010, which is the date the financial statements were available to be issued for events requiring recording or disclosure in the financial statements for the year ended December 31, 2009.

NOTE 18 – UNCERTAIN TAX POSITIONS

HOPESOURCE files income tax returns in the U.S. federal jurisdiction. HOPESOURCE is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2006. Currently, there is no examination or pending examination with the Internal Revenue Service (IRS).

HOPESOURCE adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FASB ASC 740-10), on January 1, 2009. As of December 31, 2009, there are no tax positions for which the deductibility is certain but for which there is uncertainty regarding the timing of such deductibility.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2009

NOTE 18 – UNCERTAIN TAX POSITIONS (CON'T)

HOPESOURCE recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the year ended December 31, 2009, HOPESOURCE recognized \$0 in interest and penalties. HOPESOURCE recognized \$0 for the payment of interest and penalties accrued at December 31, 2009.

NOTE 19 – FAIR VALUE MEASUREMENTS

HOPESOURCE adopted Financial Accounting Standards Board Statement No. 157 as of January 1, 2009. FASB Statement No. 157, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that HOPESOURCE has the ability to access.

Level 2: Inputs to valuation methodology include:

- A. Quoted prices for similar assets or liabilities in active markets.
- B. Quoted prices for identical or similar assets or liabilities in inactive markets.
- C. Inputs other than quoted prices that are observable for the asset or liability.
- D. Inputs that are principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2009.

Westview Villa Limited Partnership: Capital balance per audited financial statements.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although HOPESOURCE believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, HOPESOURCE's assets at fair value as of December 31, 2009:

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2009

NOTE 19 – FAIR VALUE MEASUREMENTS (CON'T)

Assets at Fair Value as of December 31, 2009

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Westview Villa Limited Partnership	\$ <u>-</u>	\$ <u>124,799</u>	\$ <u>-</u>	\$ <u>124,799</u>

HOPESOURCE

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2009

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
Department of Health and Human Services			
Passed Through State Department of Commerce:			
LIHEAP Weatherization Assistance Program	93.568	F09-431-415	\$ 115,777
LIHEAP	93.568	F10-32106-066	164,943
LIHEAP	93.568	F09-32106-066	717,036
Community Services Block Grant	93.569	F09-32105-016	59,177
Community Services Block Grant	93.569	F08-32105-016	4,363
ARRA-Community Services Block Grant	93.710	F09-3210F-313	70,191
Passed Through Yakima County:			
Special Programs for the Aging-Title III Part B	93.044	2009-HS	29,335
			<u>1,160,822</u>
Department of Housing & Urban Development			
Passed Through State Department of Commerce:			
Supportive Housing Program	14.235	WA01B70-1010	63,620
Community Development Block Grant	14.228	09-64007-005	107,965
Emergency Shelter Grants Program	14.231	10-46000-218	21,728
Emergency Shelter Grants Program	14.231	08-46106-46	12,176
			<u>205,489</u>
Department of Agriculture			
Passed Through State Department of General Administration:			
Emergency Food Assistance Program (Administrative)	10.568	None	41,897
ARRA-Emergency Food Assistance Program (Administrative)	10.568	None	6,726
Emergency Food Assistance Program (Commodities)	10.569	None	97,058
			<u>145,681</u>
Department of Energy			
Passed Through State Department of Commerce:			
ARRA-Weatherization Assistance	81.042	F09-431AR-415	12,298
Weatherization Assistance	81.042	F09-431-03-415	45,048
Weatherization Assistance	81.042	F08-431-03-415	17,133
			<u>74,479</u>
Bonneville Power Administration			
Passed Through State Department of Commerce:			
BPA Weatherization	81.999	F09-446-415	8,000
BPA Weatherization	81.999	F07-446-415	13,249
			<u>21,249</u>

HOPESOURCE

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2009

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>
Department of Homeland Security			
ARRA-Emergency Food & Shelter National Board Program	97.114	AR-8898-00	13,922
Emergency Food & Shelter National Board Program	97.024	25-8898-00	29,665
			<u>43,587</u>
			\$ <u><u>1,651,307</u></u>

HOPESOURCE

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2009

No prior year findings.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

June 22, 2010

To the Board of Directors
Hopesource
700 E. Mountain View, Suite 501
Ellensburg, WA 98926

We have audited the financial statements of the Hopesource as of and for the year ended December 31, 2009, and have issued our report thereon dated June 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hopesource's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hopesource's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hopesource's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hopesource's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Aiken & Sanders".

Aiken & Sanders, Inc., PS
Certified Public Accountants
& Management Consultants

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

June 22, 2010

To the Board of Directors
Hopesource
700 E. Mountain View, Suite 501
Ellensburg, WA 98926

Compliance

We have audited the compliance of the Hopesource with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. Hopesource's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hopesource's management. Our responsibility is to express an opinion on Hopesource's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hopesource's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hopesource's compliance with those requirements.

In our opinion, Hopesource complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

Internal Control Over Compliance

The management of Hopesource is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Hopesource's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hopesource's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the Board of Directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Aiken & Sanders, Inc., PS
Certified Public Accountants
& Management Consultants

HOPESOURCE

Schedule of Findings and Questioned Costs

Year Ended December 31, 2009

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified: No

Significant Deficiencies identified not considered to be material weaknesses: No

Noncompliance material to financial statements noted: No

Federal Awards

Internal control over major programs:

Material weaknesses identified: No

Significant Deficiencies identified not considered to be material weaknesses: No

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a): No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
93.568	Low-Income Home Energy Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee: Yes

Section II – Financial Statement Findings:

No matters were reported.

Section III – Federal Award Findings and Questioned Costs:

No matters were reported.