
HOPESOURCE

A WASHINGTON NON-PROFIT ORGANIZATION

Financial Statements

For the Year Ended December 31, 2013
With Comparative Totals for 2012

Aiken & Sanders, Inc PS

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
HOPESOURCE
Ellensburg, WA

Report on the Financial Statements

We have audited the accompanying financial statements of HOPESOURCE (the Agency), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from HOPESOURCE's 2012 financial statements and, in our report dated June 14, 2013, we expressed an unqualified opinion on those 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 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 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 the Agency as of December 31, 2013, 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.

Other Matters
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2014 on our consideration of the Agency'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.



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

July 23, 2014

HOPESOURCE

Statement of Financial Position

December 31, 2013 (With Comparative Totals for 2012)	2013	2012
<u>ASSETS</u>		
Current Assets		
Cash	\$ 261,873	\$ 134,414
Accounts Receivable	484,016	506,920
Weatherization Inventory	22,374	15,786
Commodities Inventory	1,819	7,458
Prepaid Expenses & Other Current Assets	37,094	29,681
Total Current Assets	807,176	694,259
Property & Equipment		
Land & Building, net	28,167	30,167
Leasehold Improvements, net	19,037	19,803
Equipment, net	43,498	51,036
Vehicles, net	36,500	32,150
Total Property & Equipment	127,202	133,156
Other Assets		
Investment in Windsor Park LLC	57,600	11,342
Investment in Westview Villa Limited Partnership	218,671	124,776
Investment	1,792	1,250
Due from Westview Villa Limited Partnership	110,122	185,565
Due from Windsor Park LLC	14,204	41,918
Total Other Assets	402,389	364,851
Total Assets	\$ 1,336,767	\$ 1,192,266
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	213,535	88,364
Accrued Expenses	15,685	13,705
Deferred Revenue	15,308	68,243
Loan Payable Current	3,600	3,600
Total Current Liabilities	248,128	173,912
Long Term Liabilities		
Loan Payable	105,600	109,200
Less Loan Payable Current	(3,600)	(3,600)
Total Long Term Liabilities	102,000	105,600
Net Assets		
Unrestricted Net Assets	984,512	908,313
Temporarily Restricted Net Assets	2,127	4,441
Total Net Assets	986,639	912,754
Total Liabilities and Net Assets	\$ 1,336,767	\$ 1,192,266

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

HOPESOURCE

Statement of Activities and Change In Net Assets

Year Ended December 31, 2013 (With Comparative Totals for 2012)	2013		2012	
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TOTAL
Support & Revenue				
Grants	\$ 3,250,032	\$ -	\$ 3,250,032	\$ 3,716,176
Contributions	218,915	7,000	225,915	92,417
Program Income	17,464	-	17,464	165,206
Fare Yakima Transit	165,513	-	165,513	118,063
Other Income	19,847	-	19,847	2,958
Inkind Revenue	100,001	-	100,001	90,171
Fundraising	36,754	-	36,754	24,659
Release of Program Restrictions	9,314	(9,314)	-	-
Total Support & Revenues	3,817,840	(2,314)	3,815,526	4,209,650
Expenses				
Program Services:				
Housing Services	341,793	-	341,793	294,141
Nutrition Services	171,713	-	171,713	221,193
Transportation Services	1,086,000	-	1,086,000	1,295,987
Weatherization Services	477,712	-	477,712	536,946
Energy Services	1,022,761	-	1,022,761	1,030,201
Block Grants	195,096	-	195,096	119,436
Social Enterprise	3,899	-	3,899	1,936
Corporate	122,739	-	122,739	119,954
	3,421,713	-	3,421,713	3,619,794
Administration	320,691	-	320,691	378,145
Total Expenses	3,742,404	-	3,742,404	3,997,939
Other Revenue & Expenses				
Loss on Disposal of Assets	-	-	-	(7,034)
Investment Income (Loss)	763	-	763	(15,481)
Total Other Revenue & Expenses	763	-	763	(22,515)
INCREASE (DECREASE) IN NET ASSETS	76,199	(2,314)	73,885	189,196
NET ASSETS, BEGINNING OF YEAR	908,313	4,441	912,754	723,558
NET ASSETS, END OF YEAR	\$ 984,512	\$ 2,127	\$ 986,639	\$ 912,754

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

HOPESOURCE**Statement of Functional Expenses****Year Ended December 31, 2013 (With Comparative Totals for 2012)**

	Housing Services	Nutrition Services	Transportation Services	Weatherization Services	Energy Services	Block Grants
Salaries	\$ 63,961	\$ 4,374	\$ 367,594	\$ 105,805	\$ 71,940	\$ 94,732
Benefits	33,820	3,624	195,733	54,790	39,225	50,268
Subcontractors Expense	5,931	10,326	-	-	-	-
Supplies	593	2	1,401	241	1,145	731
Vehicle Expenses	768	-	367,937	3,188	53	2,647
Professional Services	14,227	3,540	20,310	20,657	15,096	13,256
Communication	1,637	1,162	3,426	5,843	1,610	2,796
Travel	1,060	287	163	1,826	995	5,363
Advertising	40	-	-	221	751	-
Rent	24,412	3,660	44,501	21,182	14,424	13,010
Insurance	719	195	43,003	6,143	1,078	729
Utilities	6,528	1,119	2,069	1,679	1,402	1,254
Repair & Maintenance	16,304	1,102	5,537	3,448	1,655	2,770
Printing & Publication	861	12	2,175	1,128	1,410	945
Miscellaneous	1,063	-	511	264	211	1,260
Inkind Expenses	-	85,001	-	-	-	-
Conference & Training Fees	400	59	1,964	4,700	114	1,231
Client Expenses	155,908	57,222	8,615	242,155	868,048	3,405
Depreciation Expense	4,414	-	15,024	1,648	1,648	-
Capital Outlay	254	28	6,037	2,794	1,956	699
Interest Expense	8,893	-	-	-	-	-
TOTAL	\$ 341,793	\$ 171,713	\$ 1,086,000	\$ 477,712	\$ 1,022,761	\$ 195,096

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

				2013		2012	
Social Enterprise	Corporate	Total Programs	Administration	Total	Total		
\$ 574	\$ 46,648	\$ 755,628	\$ 156,675	\$ 912,303	\$ 892,668		
329	29,004	406,793	76,791	483,584	459,877		
-	-	16,257	-	16,257	64,294		
-	15,324	19,437	7,576	27,013	26,307		
1,699	155	376,447	3,500	379,947	307,352		
-	8,055	95,141	22,831	117,972	103,469		
-	371	16,845	5,158	22,003	15,376		
-	3,990	13,684	11,273	24,957	26,301		
-	824	1,836	150	1,986	2,202		
-	3,180	124,369	16,591	140,960	130,356		
-	(338)	51,529	1,071	52,600	55,966		
-	836	14,887	1,599	16,486	15,288		
-	1,491	32,307	3,063	35,370	69,585		
-	388	6,919	2,416	9,335	8,967		
3	1,224	4,536	4,947	9,483	8,920		
-	-	85,001	-	85,001	90,171		
393	2,028	10,889	5,056	15,945	20,465		
901	9,543	1,345,797	66	1,345,863	1,412,058		
-	-	22,734	1,648	24,382	21,961		
-	16	11,784	280	12,064	257,166		
-	-	8,893	-	8,893	9,190		
\$ 3,899	\$ 122,739	\$ 3,421,713	\$ 320,691	\$ 3,742,404	\$ 3,997,939		

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

HOPESOURCE

Statement of Cash Flows

Year Ended December 31, 2013 (With Comparative Totals for 2012)	2013	2012
Cash Flows From Operating Activities		
Increase (Decrease) in Net Assets	\$ 73,885	\$ 189,196
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) (Used) by Operating Activities:		
Depreciation	24,382	21,961
Forgiveness of Debt	(3,600)	(3,600)
Capitalized Inkind Donations	(15,000)	-
Unrealized Gain	(395)	(166)
Loss from Westview Villa Limited Partnership	8	8
(Gain)/Loss from Windsor Park LLC	(229)	15,638
Investment Adjustment-Windsor Park LLC	(46,028)	
Loss on Disposal of Assets	-	7,034
(Increase) Decrease in --		
Accounts Receivable	22,904	(89,209)
Due from Westview Villa Limited Partnership	75,443	2,378
Due from Winsor Park LLC	27,714	(41,918)
Inventories	(949)	(16,977)
Prepaid Expenses & Other Current Assets	(7,413)	2,373
Increase (Decrease) in --		
Accounts Payable	125,171	(1,658)
Accrued Expenses	1,980	(7,721)
Deferred Revenue	(52,935)	2,166
Net Cash Provided (Used) by Operations	<u>224,938</u>	<u>79,505</u>
Cash Flows From Investing Activities		
Capital Contributed for Westview Villa Limited Partnership	(93,903)	-
Purchase of Investments	(147)	-
Purchase of Equipment	(3,429)	(14,663)
Net Cash Provided (Used) by Investing	<u>(97,479)</u>	<u>(14,663)</u>
Cash Flows From Financing Activities		
	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash	127,459	64,842
Cash, at Beginning of Year	<u>134,414</u>	<u>69,572</u>
Cash, at End of Year	<u>\$ 261,873</u>	<u>\$ 134,414</u>

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

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2013

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.

Concentration of Revenue

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, 2013

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 2013 and 2012, there were bad debts of \$0. As of December 31, 2013, management estimated that all accounts receivable were collectible.

Past due trade receivables are those on which no payments have been received within 90 days following the month in which they originated. No interest is charged on past due trade receivables. As of December 31, 2013, all receivables are current.

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, 2013 and 2012, vested leave has been accrued as follows and is included in accrued expenses on the statement of financial position:

	<u>2013</u>	<u>2012</u>
Annual Leave	\$ <u>15,685</u>	\$ <u>13,705</u>

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2013

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, 2013 and 2012, were \$124,197 and \$131,259, respectively.

Future minimum payments under operating leases at December 31, 2013, are:

2014	\$ 124,557
2015	124,771
2016	118,465
2017	116,513
2018	116,740
	<u>\$ 601,046</u>

NOTE 5: LOANS PAYABLE

As of December 31, 2013, long-term debt consisted of the following:

	<u>2013</u>
Department of Commerce - Housing Trust Fund Program - Secured by real estate (See Below)	<u>\$ 105,600</u>

Long-term debt as of December 31, 2012, was \$109,200.

Maturity of debt due within 5 years:

2014	\$ 3,600
2015	3,600
2016	3,600
2017	3,600
2018	3,600
Thereafter	87,600
	<u>\$ 105,600</u>

During 2003, HOPESOURCE entered into an agreement with Department of Commerce 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 Department of Commerce 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, 2013

NOTE 6: CASH

During 2013 and 2012, HOPESOURCE, at times, had deposits in accounts which exceeded the \$250,000 insured by the Federal Deposit Insurance Corporation (FDIC). Management does not believe HOPESOURCE is at any significant risk of loss on these accounts.

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, 2013 and 2012, for interest was \$0 for both years.

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.

At December 31, 2013 and 2012, the Partnership owed HOPESOURCE development and administrative fees of \$110,122 and \$185,565, respectively.

NOTE 10: WINDSOR PARK LLC

HOPESOURCE is the Managing General Partner in the Windsor Park LLC. HOPESOURCE has an ownership interest of 5.0%. The purpose of the LLC is to acquire, rehabilitate, and operate three low to moderate income housing projects located in Ellensburg, Cle Elum, and Roslyn, Washington. There are a total of 98 units. The project is a qualified tax credit project with financing being provided by Department of Commerce. The units are rented to families with moderate to low incomes.

At December 31, 2013 and 2012, the LLC owed HOPESOURCE development fees of \$14,204 and \$41,918, respectively.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2013

NOTE 11: 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 FASB ASC 958. During the years ended December 31, 2013 and 2012, the estimated fair value of volunteer services was \$31,233 and \$31,040, respectively.

HOPESOURCE receives donated equipment, supplies and food that are used in the programs sponsored by HOPESOURCE. The donated equipment, supplies and food are recorded as in-kind revenue at estimated fair market value when they are received. Equipment exceeding \$5,000 in value are capitalized while donated supplies and food, when used, are expensed. Donated equipment, supplies and food for the years ended December 31, 2013 and 2012 were \$100,001 and \$90,171, respectively.

NOTE 12: 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 13: 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, 2013 and 2012.

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, 2013 and 2012, is \$1,819 and \$7,458, respectively.

At December 31, 2013 and 2012, HOPESOURCE had inventory of insulation and windows for use in the Weatherization program. The cost of the inventory as of December 31, 2013 and 2012, is \$22,374 and \$15,786, respectively.

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: SUBSEQUENT EVENTS

HOPESOURCE did not have any subsequent events through July 23, 2014, 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, 2013.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2013

NOTE 17: 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>	
Land			\$ 15,000
Building	S/L	30 yrs	60,000
Accumulated Depreciation			(46,833)
			<u>\$ 28,167</u>
Leasehold Improvements	S/L	30 yrs	\$ 22,970
Accumulated Depreciation			(3,933)
			<u>\$ 19,037</u>
Equipment	S/L	7 yrs	\$ 84,520
Accumulated Depreciation			(41,022)
			<u>\$ 43,498</u>
Vehicles	S/L	5 - 6 yrs	\$ 79,811
Accumulated Depreciation			(43,311)
			<u>\$ 36,500</u>

Accumulated depreciation as of December 31, 2012, was \$110,717.

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 2010. Currently, there is no examination or pending examination with the Internal Revenue Service (IRS).

HOPESOURCE adopted the provisions of FASB 740-10, *Accounting for Uncertainty in Income Taxes*, on January 1, 2009. As of December 31, 2013 and 2012, there are no tax positions for which the deductibility is certain but for which there is uncertainty regarding the timing of such deductibility.

HOPESOURCE recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended December 31, 2013 and 2012, HOPESOURCE recognized \$0 in interest and penalties. HOPESOURCE recognized \$0 for the payment of interest and penalties accrued at December 31, 2013 and 2012.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2013

NOTE 19: SCHEDULE OF NON-FEDERAL AWARDS

Expenditures for certain non-federal awards for the fiscal year ended December 31, 2013, are as follows:

<u>Agency</u>	<u>Contract Number</u>	<u>Program Name</u>	<u>Amount</u>
Dept of Transportation	UCB1132	State Paratransit	\$ 229,384
Dept of Transportation	UCB1181, 1001	Yakima Transit	147,970
Dept of Transportation	GCB1595	Capital - State Share	38,502
Dept of Commerce	S11-94102-415	Matchmaker	144,231
Dept of Commerce	12-46108-16	Consolidated Homeless Housing	108,467
Dept of Commerce	K667	Emergency Food Assistance Program	24,598
Dept of Commerce	S14-32100-213	State Community Services Block Grant	8,728
Dept of Commerce	S12-32103-213	State Community Services Block Grant	4,656
Dept of Commerce	None	Housing and Essential Needs	25,945
Puget Sound Energy	None	Energy Assist.	457,517
Puget Sound Energy	None	Energy Assist. WAP	45,328
City of Ellensburg	None	Transportation	38,037
State of Washington	G1200248, G1400248	Ecology Wood Stove Exchange	24,552
Kittitas County	HH2009-001	Senior Rent Assistance	67,000
Kittitas County	None	None	9,130
City of Yakima	None	Yakima Transit	102,671
CWU	#7667	Central Transit	43,258
CWU	None	Yakima Transit	157,233
Polaris	2010-001	Homeless Housing Program	62,418
Crest View Housing	MOU# 2008-1	Crest View Program	52,181
Miscellaneous Programs	None	None	28,542
			<u>\$ 1,820,348</u>

NOTE 20: INVESTMENTS & FAIR VALUE MEASUREMENTS

As of December 31, 2013 and 2012, HOPESOURCE investments are in a mutual fund with a cost basis of \$1,216. As of December 31, 2013 and 2012, the investments had a fair market value of \$1,792 and \$1,250, respectively. Unrealized gain for the years ended December 31, 2013 and 2012, were \$395 and \$166, respectively.

FASB ASC 820, 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 ASC 820 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.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2013

NOTE 20: FAIR VALUE MEASUREMENTS (CON'T)

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, 2013.

Westview Villa Limited Partnership: Direct capitalization under the income approach observable by the entity's financial statements.

Windsor Park LLC: Direct capitalization under the income approach observable by the entity's financial statements.

Mutual Fund: Based on net asset values (NAV) at year end.

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 tables sets forth by level, within the fair value hierarchy, HOPESOURCE'S assets at fair value as of December 31, 2013 and comparative totals for 2012:

	2013				2012
	Level 1	Level 2	Level 3	Total	Total
Westview Villa Limited Partnership	\$ -	\$ -	\$ 218,671	\$ 218,671	\$ 124,776
Windsor Park LLC	-	-	57,600	57,600	11,342
Mutual Funds	1,792	-	-	1,792	1,250
	<u>\$ 1,792</u>	<u>\$ -</u>	<u>\$ 276,271</u>	<u>\$ 278,063</u>	<u>\$ 137,368</u>

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2013

NOTE 20: FAIR VALUE MEASUREMENTS (CON'T)

Changes in Level 3 Assets:

The following table sets forth a summary of changes in the fair value of HOPESOURCE'S level 3 assets for the year ended December 31, 2013:

	<u>Westview Villa Limited Partnership</u>	<u>Windsor Park LLC</u>
Balance, December 31, 2012	\$ 124,776	\$ 11,342
Realized Gains (Losses)	(8)	229
Purchases	93,903	-
Capital Adjustment	-	46,029
Balance, December 31, 2013	<u>\$ 218,671</u>	<u>\$ 57,600</u>

Net activity for level 3 assets for the year ended December 31, 2012, was \$(15,646).

HOPESOURCE

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2013

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:			
Community Services Block Grant	93.569	F13-32100-013	\$ 94,491
Community Services Block Grant	93.569	F12-32100-013	16,257
LIHEAP Weatherization Assistance Program	93.568	F13-43101-415	103,051
LIHEAP Weatherization Assistance Program	93.568	F12-43101-415	123,554
LIHEAP	93.568	F13-32106-066	169,654
LIHEAP	93.568	F12-32106-066	476,005
Passed Through Yakima County:			
Special Programs for the Aging-Title III Part B	93.044	2013-HS	29,914
			<u>1,012,926</u>
Department of Housing & Urban Development			
Passed Through State Department of Commerce:			
Supportive Housing Program	14.235	WA0087BOT011104	18,188
Supportive Housing Program	14.235	WA0087LOT011205	21,087
Community Development Block Grant	14.228	13-64007-005	56,005
Community Development Block Grant	14.228	12-64007-005	42,601
			<u>137,881</u>
Department of Agriculture			
Passed Through State Department of General Administration:			
Emergency Food Assistance Program (Administrative)	10.568	None	10,149
Emergency Food Assistance Program (Commodities)	10.569	None	57,687
Subtotal Cluster			<u>67,836</u>
Department of Energy			
Passed Through State Department of Commerce:			
ARRA-Weatherization Assistance	81.042	F12-43103-415	18,056
Weatherization Assistance	81.042	F13-43103-415	5,217
			<u>23,273</u>
Bonneville Power Administration			
Passed Through State Department of Commerce:			
BPA Weatherization	81.999	F13-43104-415	6,639
BPA Weatherization	81.999	F11-43104-415	45,646
			<u>52,285</u>
Department of Transportation			
Passed Through State of Washington Department of Transportation			
Job Access and Reverse Commute Program	20.516	UCB1181	51,148
State Operating and Consolidated Grant	20.509	GCB1595	12,834
State Operating and Consolidated Grant	20.509	UCOO5313	212,965
State Operating and Consolidated Grant	20.509	UCO1001-01	103,987
			<u>380,934</u>
			<u>\$ 1,675,135</u>

HOPESOURCE

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2013

No prior year findings.

INDEPENDENT AUDITOR'S 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

To the Board of Directors
HOPESOURCE
Ellensburg, WA

We have audited, in accordance with the 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, the financial statements of HOPESOURCE (the Agency), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

July 23, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
HOPESOURCE
Ellensburg, WA

Report on Compliance for Each Major Federal Program

We have audited HOEPSOURCE (the Agency) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended December 31, 2013. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the Agency'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on

compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



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

July 23, 2014

HOPESOURCE

Schedule of Findings and Questioned Costs

Year Ended December 31, 2013

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>
20.509	Formula Grants for Rural Areas
93.569	Community Services Block Grant

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.