
HOPESOURCE

A WASHINGTON NON-PROFIT ORGANIZATION

Financial Statements

For the Year Ended December 31, 2010
With Comparative Totals for 2009

Aiken & Sanders, Inc PS

CERTIFIED PUBLIC ACCOUNTANTS
& MANAGEMENT CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

June 28, 2011

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, 2010; 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 2009 financial statements and, in our report dated June 22, 2010, 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, 2010, 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 28, 2011 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, 2010 (With Comparative Totals for 2009)	2010	2009
<u>ASSETS</u>		
Current Assets		
Cash	\$ 170,000	\$ 156,763
Accounts Receivable	289,160	194,301
Due from Westview Villa Limited Partnership	25,674	16,779
Weatherization Inventory	141	257
Commodities Inventory	3,563	3,638
Prepaid Expenses & Other Current Assets	15,535	28,684
Total Current Assets	504,073	400,422
Property & Equipment		
Land & Building, net	34,167	36,167
Leasehold Improvements, net	1,489	1,622
Equipment, net	43,383	4,403
Vehicles, net	1,887	2,516
Total Property & Equipment	80,926	44,708
Other Assets		
Investment in Windsor Park LLC	107,683	-
Investment in Westview Villa Limited Partnership	124,790	124,799
Total Other Assets	232,473	124,799
Total Assets	\$ 817,472	\$ 569,929
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	87,869	18,291
Accrued Expenses	17,478	20,289
Deferred Revenue	62,229	27,360
Loan Payable Current	3,600	3,600
Total Current Liabilities	171,176	69,540
Long Term Liabilities		
Loan Payable	116,400	120,000
Less Loan Payable Current	(3,600)	(3,600)
Total Long Term Liabilities	112,800	116,400
Net Assets		
Unrestricted Net Assets	526,735	370,283
Temporarily Restricted Net Assets	6,761	13,706
Total Net Assets	533,496	383,989
Total Liabilities and Net Assets	\$ 817,472	\$ 569,929

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

HOPESOURCE

Statement of Activities and Change In Net Assets

Year Ended December 31, 2010 <i>(With Comparative Totals for 2009)</i>	2010	2009		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TOTAL
Support & Revenue				
Grants	\$ 3,438,251	\$ -	\$ 3,438,251	\$ 2,319,586
Contributions	34,148	22,972	57,120	106,821
Program Income	61,465	-	61,465	33,896
Other Income	2,484	-	2,484	15,092
Inkind Revenue	60,860	-	60,860	76,726
Service Fees	24,936	-	24,936	25,015
Fundraising	8,666	-	8,666	16,380
Release of Program Restrictions	29,917	(29,917)	-	-
Total Support & Revenues	3,660,727	(6,945)	3,653,782	2,593,516
Expenses				
Program Services:				
Housing Services	528,509	-	528,509	223,632
Nutrition Services	268,770	-	268,770	249,644
Transportation Services	741,461	-	741,461	523,866
Weatherization Services	377,290	-	377,290	189,005
Energy Services	1,050,746	-	1,050,746	867,953
Block Grants	213,886	-	213,886	217,365
Social Enterprise	13,531	-	13,531	31,604
Corporate	44,260	-	44,260	33,375
	3,238,453	-	3,238,453	2,336,444
Administration	266,466	-	266,466	192,913
Total Expenses	3,504,919	-	3,504,919	2,529,357
Other Revenue & Expenses				
Investment Income (Loss)	644	-	644	(9)
Total Other Revenue & Expenses	644	-	644	(9)
INCREASE (DECREASE) IN NET ASSETS	156,452	(6,945)	149,507	64,150
NET ASSETS, BEGINNING OF YEAR	370,283	13,706	383,989	319,839
NET ASSETS, END OF YEAR	\$ 526,735	\$ 6,761	\$ 533,496	\$ 383,989

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

HOPESOURCE**Statement of Functional Expenses****Year Ended December 31, 2010 (With Comparative Totals for 2009)**

	Housing Services	Nutrition Services	Transportation Services	Weatherization Services	Energy Services	Block Grants
Salaries	\$ 108,869	\$ 7,247	\$ 300,210	\$ 74,009	\$ 65,520	\$ 84,196
Benefits	49,885	4,044	154,232	33,968	31,616	40,977
Subcontractors Expense	13,487	44,004	-	1,534	-	-
Supplies	1,384	42	785	596	1,459	10,119
Vehicle Expenses	1,299	16	132,393	229	656	289
Professional Services	9,288	3,475	12,368	20,025	14,505	12,927
Communication	4,754	2,444	5,054	4,143	3,506	3,285
Travel	6,720	278	1,297	9,185	1,428	10,239
Advertising	50	-	196	50	342	935
Rent	12,769	6,570	29,950	11,013	15,445	17,497
Insurance	2,014	261	16,406	3,502	1,556	1,944
Utilities	22,003	1,599	1,603	911	1,447	1,057
Repair & Maintenance	53,043	1,798	31,775	5,010	7,284	3,130
Printing & Publication	840	87	1,361	1,028	1,630	372
Miscellaneous	1,541	-	121	322	155	3,562
Inkind Expenses	-	60,860	-	-	-	-
Conference & Training Fees	4,199	100	1,590	4,566	607	21,029
Client Expenses	225,839	135,154	1,686	170,694	902,423	-
Depreciation Expense	-	-	-	-	-	-
Capital Outlay	741	791	50,434	36,505	1,167	2,328
Interest Expense	9,784	-	-	-	-	-
TOTAL	\$ 528,509	\$ 268,770	\$ 741,461	\$ 377,290	\$ 1,050,746	\$ 213,886

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

				2010		2009	
Social Enterprise	Corporate	Total Programs	Administration	Total	Total		
\$ 4,802	\$ 3,779	\$ 648,632	\$ 131,120	\$ 779,752	\$ 661,088		
1,875	1,942	318,539	59,356	377,895	308,654		
-	29	59,054	-	59,054	85,794		
16	3,565	17,966	13,351	31,317	18,626		
4,209	650	139,741	343	140,084	89,806		
282	497	73,367	7,771	81,138	25,775		
382	244	23,812	4,313	28,125	20,802		
79	(120)	29,106	1,340	30,446	36,481		
-	-	1,573	1,568	3,141	5,469		
575	600	94,419	11,762	106,181	63,599		
813	-	26,496	2,162	28,658	33,580		
-	10	28,630	1,051	29,681	15,051		
-	3,894	105,934	5,972	111,906	15,922		
29	578	5,925	2,974	8,899	8,607		
341	2,540	8,582	2,316	10,898	13,514		
-	-	60,860	-	60,860	76,726		
-	6,066	38,157	2,326	40,483	20,395		
128	16,721	1,452,645	-	1,452,645	1,000,529		
-	-	-	7,881	7,881	3,021		
-	3,265	95,231	10,860	106,091	15,837		
-	-	9,784	-	9,784	10,081		
\$ 13,531	\$ 44,260	\$ 3,238,453	\$ 266,466	\$ 3,504,919	\$ 2,529,357		

HOPESOURCE

Statement of Cash Flows

Year Ended December 31, 2010 (With Comparative Totals for 2009)	2010	2009
Cash Flows From Operating Activities		
Increase (Decrease) in Net Assets	\$ 149,507	\$ 64,150
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) (Used) by Operating Activities:		
Depreciation	7,881	3,021
Forgiveness of Debt	(3,600)	(3,600)
Loss from Westview Villa Limited Partnership	9	9
Profit from Windsor Park LLC	(653)	-
Capital Contributed for Windsor Park LLC	(107,030)	-
(Increase) Decrease in --		
Accounts Receivable	(94,859)	(39,662)
Due from Westview Villa Limited Partnership	(8,895)	13,874
Inventories	191	(70)
Prepaid Expenses & Other Current Assets	13,149	(24,036)
Increase (Decrease) in --		
Accounts Payable	69,579	(103,402)
Accrued Expenses	(2,811)	(391)
Deferred Revenue	34,869	(36,848)
Net Cash Provided (Used) by Operations	57,337	(126,955)
Cash Flows From Investing Activities		
Purchase of Equipment	(44,100)	(4,662)
(Increase) Decrease in Investments	-	5,438
Net Cash Provided (Used) by Investing	(44,100)	776
Cash Flows From Financing Activities		
	-	-
Net Increase (Decrease) in Cash	13,237	(126,179)
Cash, at Beginning of Year	156,763	282,942
Cash, at End of Year	\$ 170,000	\$ 156,763

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

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2010

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, 2010

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 2010 and 2009, there were bad debts of \$0. As of December 31, 2010, 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, 2010 and 2009, vested leave has been accrued as follows and is included in accrued expenses on the statement of financial position:

	<u>2010</u>	<u>2009</u>
Annual Leave	\$ <u>10,375</u>	\$ <u>15,133</u>

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2010

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, 2010 and 2009, was \$106,181 and \$63,599, respectively.

Future minimum payments under operating leases at December 31, 2010, are:

2011	\$ 86,541
2012	86,541
2013	80,466
2014	78,441
2015	78,441
	<u>\$ 410,430</u>

NOTE 5: LOANS PAYABLE

As of December 31, 2010 and 2009, long-term debt consisted of the following:

	<u>2010</u>	<u>2009</u>
Department of Commerce - Housing Trust Fund Program - Secured by real estate (See Below)	<u>\$ 116,400</u>	<u>\$ 120,000</u>

Maturity of debt due within 5 years:

2011	\$ 3,600
2012	3,600
2013	3,600
2014	3,600
2015	3,600
Thereafter	98,400
	<u>\$ 116,400</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, 2010

NOTE 6: CASH

During 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, the Partnership owes Hopesource administrative fees of \$25,674 and \$16,779, 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 project located in Ellensburg, Cle Elum, and Roslyn, Washington. There will be a total of 98 units. The project is a qualified tax credit project with bond financing being provided by HOPESOURCE. The units are rented to families with moderate to low incomes.

During late 2010, the LLC acquired the three housing projects and are in the process of rehabbing the buildings.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2010

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, 2010 and 2009, the estimated fair value of volunteer services was \$6,078 and \$9,275, 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, 2010 and 2009 were \$60,860 and \$76,726, 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, 2010 and 2009.

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, 2010 and 2009, is \$3,563 and \$3,638, respectively.

At December 31, 2010 and 2009, HOPESOURCE had inventory of insulation and windows for the Weatherization program. The cost of the inventory as of December 31, 2010 and 2009, is \$141 and \$257, 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 June 28, 2011, 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, 2010.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2010

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>	<u>2010</u>	<u>2009</u>
Land			\$ 15,000	\$ 15,000
Building	S/L	30 yrs	60,000	60,000
Accumulated Depreciation			(40,833)	(38,833)
			<u>\$ 34,167</u>	<u>\$ 36,167</u>
Leasehold Improvements	S/L	30 yrs	\$ 3,976	\$ 3,976
Accumulated Depreciation			(2,487)	(2,354)
			<u>\$ 1,489</u>	<u>\$ 1,622</u>
Equipment	S/L	7 yrs	\$ 60,964	\$ 16,864
Accumulated Depreciation			(17,581)	(12,461)
			<u>\$ 43,383</u>	<u>\$ 4,403</u>
Vehicles	S/L	5 - 6 yrs	\$ 25,056	\$ 25,056
Accumulated Depreciation			(23,169)	(22,540)
			<u>\$ 1,887</u>	<u>\$ 2,516</u>

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 2007. 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, 2010, 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 year ended December 31, 2010, HOPESOURCE recognized \$0 in interest and penalties. HOPESOURCE recognized \$0 for the payment of interest and penalties accrued at December 31, 2010.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2010

NOTE 19: SCHEDULE OF NON-FEDERAL AWARDS

Expenditures for certain non-federal awards for the fiscal year ended December 31, 2010, are as follows:

<u>Agency</u>	<u>Contract Number</u>	<u>Program Name</u>	<u>Amount</u>
Dept of Transportation	GCA6168	Rural Mobility	\$ 229,259
Dept of Transportation	GCA6168	State Paratransit	82,607
Dept of Transportation	GCA6168	Central Transit	113,324
Dept of Transportation	GCA6169	Transportation Capital	49,090
CTED	10-46104-10A	Transitional Housing Operation	11,886
CTED	10-46104-10	Transitional Housing Operation	13,333
Puget Sound Energy	None	Energy Assist.	272,085
Puget Sound Energy	None	Energy Assist. WAP	5,024
City of Ellensburg	None	Transportation	13,500
Fee for Service	None	People for People	24,936
State of Washington	MOU	Ecology Wood Stove Exchange	8,704
Kittitas County	HH2009-001	Senior Rent Assistance	55,945
CWU	#7667	Central Transit	82,826
Polaris	2010-001	Homeless Housing Program	81,025
Polaris	AH2011-001	Affordable Housing Program	9,479
HPRP County	AH2011-002	Homeless Prevention & Rapid Re-Housing	62,351
Crest View Housing	MOU# 2008-1	Crest View Program	67,814
			<u>\$ 1,183,188</u>

NOTE 20: FAIR VALUE MEASUREMENTS

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.

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.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2010

NOTE 20: FAIR VALUE MEASUREMENTS (CON'T)

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, 2010.

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

Windsor Park LLC: Capital balance per K-1 of tax return.

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, 2010 and 2009:

Assets at Fair Value as of December 31, 2010

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Westview Villa Limited Partnership	\$ -	\$ -	\$ 124,790	\$ 124,790
Windsor Park LLC	-	-	107,683	107,683
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,473</u>	<u>\$ 232,473</u>

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	\$ -	\$ -	\$ 124,799	\$ 124,799

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2010

NOTE 20: FAIR VALUE MEASUREMENTS (CON'T)

Gains and Losses:

The following table sets forth a summary of changes in the fair value of Hopesource's assets for the years ended December 31, 2010 and 2009:

	<u>Westview Villa Limited Partnership</u>	<u>Windsor Park LLC</u>
Balance, December 31, 2009	\$ 124,799	\$ -
Realized Gains (Losses)	(9)	653
Capital Contribution	-	107,030
Balance, December 31, 2010	<u>\$ 124,790</u>	<u>\$ 107,683</u>
Balance, December 31, 2008	\$ 124,808	\$ -
Realized Gains (Losses)	(9)	-
Capital Contribution	-	-
Balance, December 31, 2009	<u>\$ 124,799</u>	<u>\$ -</u>

HOPESOURCE

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2010

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	F09-32100-013	\$ 56,796
Community Services Block Grant	93.569	F10-32100-013	8,949
ARRA-Community Services Block Grant	93.710	F09-3210F-313	123,805
Subtotal Cluster			<u>189,550</u>
LIHEAP Weatherization Assistance Program	93.568	F09-43101-415	175,050
LIHEAP Weatherization Assistance Program	93.568	F11-43101-415	6,772
LIHEAP	93.568	F10-32106-066	732,086
LIHEAP	93.568	F11-32106-066	122,293
Passed Through Yakima County:			
Special Programs for the Aging-Title III Part B	93.044	2010-HS	34,946
			<u>1,260,697</u>
Department of Housing & Urban Development			
Passed Through State Department of Commerce:			
Supportive Housing Program	14.235	WA0087BOT010801	23,085
Supportive Housing Program	14.235	WA0087BOT010802	15,786
Community Development Block Grant	14.228	10-64007-005	78,721
Emergency Shelter Grants Program	14.231	10-46000-218	106,306
HOME Program	14.239	07-47104-008	107,030
ARRA-Homeless Prevention and Rapid Rehousing Program	14.257	10-46111-614	97,725
			<u>428,653</u>
Department of Agriculture			
Passed Through State Department of General Administration:			
Emergency Food Assistance Program (Administrative)	10.568	None	58,837
ARRA-Emergency Food Assistance Program (Administrative)	10.568	None	19,458
Emergency Food Assistance Program (Commodities)	10.569	None	134,257
Subtotal Cluster			<u>212,552</u>
Department of Energy			
Passed Through State Department of Commerce:			
ARRA-Weatherization Assistance	81.042	F09-431AR-415	210,277
Weatherization Assistance	81.042	F09-43103-415	131
			<u>210,408</u>
Bonneville Power Administration			
Passed Through State Department of Commerce:			
BPA Weatherization	81.999	F10-43104-415	22,219
			<u>22,219</u>

Year Ended December 31, 2010

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Federal Expenditures
Department of Transportation			
Passed Through State of Washington Department of Transportation State Operating and Consolidated Grant	20.509	GCA6168	200,903
			<u>200,903</u>
			\$ <u><u>2,335,432</u></u>

HOPESOURCE

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2010

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 28, 2011

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

We have audited the financial statements of HOPESOURCE as of and for the year ended December 31, 2010, and have issued our report thereon dated June 28, 2011. 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 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 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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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 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*.

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

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

June 28, 2011

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

Compliance

We have audited the Homesource's compliance 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, 2010. Homesource'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 referred to above is the responsibility of Homesource's management. Our responsibility is to express an opinion on Homesource'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 identified in the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about Homesource'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 of Homesource's compliance with those requirements.

In our opinion, Homesource complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs identified in the accompanying schedule of findings and questioned costs for the year ended December 31, 2010.

Internal Control Over Compliance

Management of Homesource is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Homesource's internal control over compliance with the 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 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 Homesource's internal 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.

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 that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. 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.

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

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

HOPESOURCE

Schedule of Findings and Questioned Costs

Year Ended December 31, 2010

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
81.042	Weatherization Assistance for Low-Income Persons
81.042	ARRA-Weatherization Assistance for Low-Income Persons

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.