
HOPESOURCE

A WASHINGTON NON-PROFIT ORGANIZATION

Financial Statements

For the Year Ended December 31, 2016
With Comparative Totals for 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
HOPE SOURCE
Ellensburg, WA

Report on the Financial Statements

We have audited the accompanying financial statements of HOPE SOURCE (the Agency), which comprise the statement of financial position as of December 31, 2016, 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.

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, 2016, and changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Agency's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 28, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 31, 2017 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 31, 2017

HOPESOURCE

Statement of Financial Position

December 31, 2016 (With Comparative Totals for 2015)	2016	2015
<u>ASSETS</u>		
Current Assets		
Cash	\$ 229,390	\$ 236,049
Accounts Receivable	584,695	539,558
Weatherization Inventory	15,371	15,179
Commodities Inventory	3,463	1,823
Prepaid Expenses & Other Current Assets	44,051	26,436
Total Current Assets	876,970	819,045
Property & Equipment		
Land & Building, net	882,376	909,152
Leasehold Improvements, net	16,739	17,505
Equipment, net	35,272	20,750
Vehicles, net	42,253	46,095
Total Property & Equipment	976,640	993,502
Other Assets		
Investment in Windsor Park LLC	63,585	62,890
Investment in Westview Villa Limited Partnership	218,642	218,653
Investment in Hopesource II Rural Pres. Assoc. LLLP	19	-
Investment	2,366	2,597
Due from Westview Villa Limited Partnership	124,585	126,013
Due from Windsor Park LLC	12,000	16,631
Total Other Assets	421,197	426,784
Total Assets	\$ 2,274,807	\$ 2,239,331
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	168,321	164,787
Accrued Expenses	108,786	101,416
Deferred Revenue	71,749	16,289
Loan Payable Current	18,992	18,501
Total Current Liabilities	367,848	300,993
Long Term Liabilities		
Loan Payable	892,477	910,988
Less Loan Payable Current	(18,992)	(18,501)
Total Long Term Liabilities	873,485	892,487
Net Assets		
Unrestricted Net Assets	1,020,159	1,045,071
Temporarily Restricted Net Assets	13,315	780
Total Net Assets	1,033,474	1,045,851
Total Liabilities and Net Assets	\$ 2,274,807	\$ 2,239,331

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

HOPESOURCE

Statement of Activities and Change In Net Assets

Year Ended December 31, 2016 (With Comparative Totals for 2015)	2016		2015	
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TOTAL
Support & Revenue				
Grants	\$ 4,671,905	\$ -	\$ 4,671,905	\$ 4,549,245
Contributions	169,348	18,950	188,298	126,263
Program Income	169,840	-	169,840	180,982
Other Income	53,290	-	53,290	39,716
Inkind Revenue	114,113	-	114,113	78,207
Release of Program Restrictions	6,415	(6,415)	-	-
Total Support & Revenues	5,184,911	12,535	5,197,446	4,974,413
Expenses				
Program Services:				
Housing Services	686,621	-	686,621	564,278
Nutrition Services	149,658	-	149,658	93,293
Transportation Services	849,427	-	849,427	978,024
Weatherization Services	394,714	-	394,714	545,169
Energy Services	901,022	-	901,022	890,832
Block Grants	240,873	-	240,873	206,188
Veterans Grant	1,296,327	-	1,296,327	1,003,677
Corporate	219,897	-	219,897	203,554
	4,738,539	-	4,738,539	4,485,015
Administration	471,717	-	471,717	472,263
Total Expenses	5,210,256	-	5,210,256	4,957,278
Other Revenue & Expenses				
Investment Income (Loss)	433	-	433	2,561
Total Other Revenue & Expenses	433	-	433	2,561
INCREASE (DECREASE) IN NET ASSETS	(24,912)	12,535	(12,377)	19,696
NET ASSETS, BEGINNING OF YEAR	1,045,071	780	1,045,851	1,026,155
NET ASSETS, END OF YEAR	\$ 1,020,159	\$ 13,315	\$ 1,033,474	\$ 1,045,851

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

HOPESOURCE**Statement of Functional Expenses****Year Ended December 31, 2016 (With Comparative Totals for 2015)**

	Housing Services	Nutrition Services	Transportation Services	Weatherization Services	Energy Services	Block Grants
Salaries	\$ 147,739	\$ 3,204	\$ 368,885	\$ 96,984	\$ 72,273	\$ 127,371
Benefits	71,773	2,752	242,421	42,776	41,812	63,278
Subcontractors Expense	14,725	-	-	-	-	-
Supplies	1,801	143	4,951	319	1,486	(2,055)
Vehicle Expenses	1,515	-	118,082	3,339	235	14
Professional Services	13,730	669	20,425	14,919	8,635	12,355
Communication	2,666	450	2,287	2,708	1,163	1,941
Travel	3,632	-	4,354	4,225	1,605	2,486
Advertising	26	-	35	1,284	-	-
Rent	24,539	-	23,902	14,202	9,749	15,239
Insurance	5,665	154	26,375	6,452	656	919
Utilities	16,236	75	3,918	2,369	1,763	4,432
Repair & Maintenance	36,182	475	4,410	2,707	1,919	4,545
Printing & Publication	1,297	-	1,533	574	396	284
Miscellaneous	10,353	-	604	10	-	515
Inkind Expenses	-	114,113	-	-	-	-
Conference & Training Fees	648	-	2,430	5,472	416	1,927
Client Expenses	266,441	27,623	-	192,625	758,568	5,472
Depreciation Expense	27,542	-	17,501	-	-	-
Capital Outlay	4,176	-	7,314	3,749	346	2,150
Interest Expense	35,935	-	-	-	-	-
TOTAL	\$ 686,621	\$ 149,658	\$ 849,427	\$ 394,714	\$ 901,022	\$ 240,873

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

				2016	2015	
Veterans Grant	Corporate	Total Programs	Administration	Total	Total	
\$ 310,192	\$ 43,488	\$ 1,170,136	\$ 203,784	\$ 1,373,920	\$ 1,245,928	
158,512	22,803	646,127	103,409	749,536	607,685	
277,149	6,000	297,874	25,441	323,315	64,408	
8,458	11,390	26,493	14,612	41,105	26,343	
13,434	7,602	144,221	2,146	146,367	205,319	
18,907	36,296	125,936	30,186	156,122	174,107	
6,457	1,898	19,570	5,531	25,101	23,817	
3,030	5,229	24,561	24,235	48,796	44,769	
-	1,139	2,484	101	2,585	1,998	
68,837	7,983	164,451	12,369	176,820	143,713	
10,443	2,567	53,231	1,809	55,040	60,814	
4,194	1,521	34,508	2,705	37,213	21,354	
20,720	26,136	97,094	5,052	102,146	61,820	
4,508	238	8,830	2,775	11,605	12,769	
220	1,800	13,502	3,977	17,479	20,491	
-	-	114,113	-	114,113	78,290	
1,581	9,404	21,878	10,809	32,687	27,745	
377,120	30,853	1,658,702	(617)	1,658,085	1,872,917	
-	2,619	47,662	12,813	60,475	51,149	
12,565	931	31,231	10,580	41,811	179,938	
-	-	35,935	-	35,935	31,904	
\$ 1,296,327	\$ 219,897	\$ 4,738,539	\$ 471,717	\$ 5,210,256	\$ 4,957,278	

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

HOPESOURCE

Statement of Cash Flows

Year Ended December 31, 2016 (With Comparative Totals for 2015)	2016	2015
Cash Flows From Operating Activities		
Increase (Decrease) in Net Assets	\$ (12,377)	\$ 19,696
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) (Used) by Operating Activities:		
Depreciation	60,475	51,149
Loss on Disposal of Assets	1,083	-
Forgiveness of Debt	(3,600)	(3,600)
Unrealized (Gain) Loss	232	(293)
Loss from Westview Villa Limited Partnership	11	11
Gain from Windsor Park LLC	(695)	(2,279)
Gain from Hopesource II Rural Pres. Assoc. LLLP	(19)	-
(Increase) Decrease in --		
Accounts Receivable	(45,137)	164,301
Due from Westview Villa Limited Partnership	1,428	526
Due from Winsor Park LLC	4,631	25,171
Inventories	(1,832)	182
Prepaid Expenses & Other Current Assets	(17,615)	1,754
Increase (Decrease) in --		
Accounts Payable	3,534	(167,112)
Accrued Expenses	7,370	15,726
Deferred Revenue	55,460	13,359
Net Cash Provided (Used) by Operations	52,949	118,591
Cash Flows From Investing Activities		
Purchase of Property & Equipment	(44,697)	(942,240)
Net Cash Provided (Used) by Investing	(44,697)	(942,240)
Cash Flows From Financing Activities		
Proceeds from Loans	-	824,602
Payments on Loans	(14,911)	(12,014)
Net Cash Provided (Used) by Financing	(14,911)	812,588
Net Increase (Decrease) in Cash	(6,659)	(11,061)
Cash, at Beginning of Year	236,049	247,110
Cash, at End of Year	\$ 229,390	\$ 236,049

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

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2016

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.

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 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

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

Notes to the Financial Statements

Year Ended December 31, 2016

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

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.

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: CASH

During 2016 and 2015, 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 3: 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, 2016 and 2015, for interest was \$27,932 and \$23,604, respectively.

NOTE 4: 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 and therefore no allowance for doubtful accounts has been established. When an amount becomes uncollectible, it is charged to expense in the year it is deemed to be uncollectible. During 2016 and 2015, there were bad debts of \$0. As of December 31, 2016, 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, 2016, all receivables are current.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2016

NOTE 5: 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, 2016 and 2015, is \$3,463 and \$1,823, respectively.

At December 31, 2015 and 2014, HOPESOURCE had inventory of insulation and windows for use in the Weatherization program. The cost of the inventory as of December 31, 2016 and 2015, is \$15,371 and \$15,179, respectively.

NOTE 6: 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			\$ 177,355
Building	S/L	30 yrs	803,277
Accumulated Depreciation			(98,256)
			<u>\$ 882,376</u>
Leasehold Improvements	S/L	30 yrs	\$ 22,970
Accumulated Depreciation			(6,231)
			<u>\$ 16,739</u>
Equipment	S/L	7 yrs	\$ 106,952
Accumulated Depreciation			(71,680)
			<u>\$ 35,272</u>
Vehicles	S/L	5 - 6 yrs	\$ 128,781
Accumulated Depreciation			(86,528)
			<u>\$ 42,253</u>

Accumulated depreciation as of December 31, 2015, was \$211,032.

NOTE 7: INVESTMENTS & FAIR VALUE MEASUREMENTS

As of December 31, 2016 and 2015, HOPESOURCE investments are in a mutual fund with a cost basis of \$1,216. As of December 31, 2016 and 2015, the investments had a fair market value of \$2,366 and \$2,597, respectively. Unrealized gain (loss) for the years ended December 31, 2016 and 2015, were \$(232) and \$293, respectively.

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 are described as follows:

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2016

NOTE 7: INVESTMENTS & FAIR VALUE MEASUREMENTS (CON'T)

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, 2016.

Westview Villa Limited Partnership, Windsor Park LLC, and Hopesource II Rural Preservation Associates LLLP: Direct capitalization under the income approach observable by the entity's financial statements. The Agency considers the measurement to be a Level 3 measurement within the fair value hierarchy because even though that measurement is based on the unadjusted fair values reported by the Project's, there has been no appraisal on the Project's assets and liabilities.

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 the Agency 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.

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, 2016 and comparative totals for 2015:

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2016

NOTE 7: INVESTMENTS & FAIR VALUE MEASUREMENTS (CON'T)

	2016				2015
	Level 1	Level 2	Level 3	Total	Total
Westview Villa Limited Partnership	\$ -	\$ -	\$ 218,642	\$ 218,642	\$ 218,653
Windsor Park LLC	-	-	63,585	63,585	62,890
Hopesource II Rural Preservation Assoc. LLLP	-	-	19	19	-
Mutual Funds	2,366	-	-	2,366	2,597
	\$ 2,366	\$ -	\$ 282,246	\$ 284,612	\$ 284,140

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, 2016:

	Westview Villa Limited Partnership	Windsor Park LLC	Hopesource II Rural Preservation Assoc. LLLP
Balance, December 31, 2015	\$ 218,653	\$ 62,890	\$ -
Realized Gains (Losses)	(11)	695	19
Balance, December 31, 2016	\$ 218,642	\$ 63,585	\$ 19

Net activity for level 3 assets for the year ended December 31, 2015, was \$2,268.

NOTE 8: WESTVIEW VILLA LIMITED PARTNERSHIP

HOPESOURCE is the Managing General Partner in the Westview Villa Limited Partnership. HOPESOURCE has an ownership interest of .01%. 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, 2016 and 2015, the Partnership owed HOPESOURCE development and administrative fees of \$124,585 and \$126,013, respectively.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2016

NOTE 9: 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 Washington Community Reinvestment Corporation and Rural Housing Service. The units are rented to families with moderate to low incomes.

At December 31, 2016 and 2015, the LLC owed HOPESOURCE development fees of \$12,000 and \$16,631, respectively.

NOTE 10: HOPESOURCE II RURAL PRESERVATION ASSOCIATES LLLP

During 2016, HOPESOURCE became the Managing General Partner in the Hopesource II Rural Preservation Associates LLLP. HOPESOURCE has an ownership interest of .01%. The purpose of the LLC is to acquire, own, develop, construct, rehabilitate, lease, manage and operate six low to moderate income housing projects located in Ellensburg, Leavenworth, Cashmere, and Selah, Washington. There are a total of 146 units. The project is a qualified tax credit project with financing being provided by Department of Commerce, Churchill Mortgage Investment, LLC and USDA Rural Development. The units are rented to families with moderate to low incomes.

At December 31, 2016, the LLLP owed HOPESOURCE development fees of \$0.

NOTE 11: 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, 2016 and 2015, vested leave has been accrued as follows and is included in accrued expenses on the statement of financial position:

	<u>2016</u>	<u>2015</u>
Annual Leave	\$ <u>33,329</u>	\$ <u>24,508</u>

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.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2016

NOTE 13: LOANS PAYABLE

As of December 31, 2016, long-term debt consisted of the following:

	<u>2016</u>
Loan payable to Cashmere Valley Bank in monthly installments of \$3,154 including interest at 3.25% maturing February 25, 2020. Secured by property.	\$ 697,677
Loan payable to William & Sandra Sparks in monthly interest payments only at \$417 at 5.00% maturing February 27, 2020. Secured by property.	100,000
Department of Commerce - Housing Trust Fund Program. Secured by real estate (See Below)	<u>94,800</u>
	<u>\$ 892,477</u>

Long-term debt as of December 31, 2015, was \$914,588.

Maturity of debt due within 5 years:

2017	\$ 18,992
2018	19,500
2019	20,025
2020	753,570
2021	3,600
Thereafter	<u>76,790</u>
	<u>\$ 892,477</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.

NOTE 14: 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, 2016 and 2015.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2016

NOTE 15: 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. During the years ended December 31, 2016 and 2015, the estimated fair value of volunteer services was \$36,945 and \$25,328, 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, 2016 and 2015 were \$114,113 and \$78,207, respectively.

NOTE 16: LEASE COMMITMENTS

HOPESOURCE leases facilities and vehicles to be used in their programs. The leases for facilities and vehicles are classified as operating leases. Lease expense for the years ended December 31, 2016 and 2015, were \$176,820 and \$143,713, respectively.

Future minimum payments under operating leases at December 31, 2016, are:

2017	\$	200,611
2018		171,194
2019		167,830
2020		164,346
2021		166,913
	\$	<u>870,894</u>

NOTE 17: 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 18: SUBSEQUENT EVENTS

HOPESOURCE did not have any subsequent events through July 31, 2017, 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, 2016.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2016

NOTE 19 – 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 2013. Currently, there is no examination or pending examination with the Internal Revenue Service (IRS).

As of December 31, 2016 and 2015, 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, 2016 and 2015, HOPESOURCE recognized \$0 in interest and penalties. HOPESOURCE recognized \$0 for the payment of interest and penalties accrued at December 31, 2016 and 2015.

NOTE 20: SCHEDULE OF NON-FEDERAL AWARDS

Expenditures for certain non-federal awards for the fiscal year ended December 31, 2016, are as follows:

<u>Agency</u>	<u>Contract Number</u>	<u>Program Name</u>	<u>Amount</u>
Dept of Transportation	UCB1282	State Paratransit	\$ 799,785
Dept of Commerce	S15-394102-415	Matchmaker	105,355
Dept of Commerce	14-46108-16	Consolidated Homeless Housing	162,699
Dept of Commerce	S16-32100-213	State Community Services Block Grant	2,492
Dept of Commerce	None	Housing and Essential Needs	168,090
Puget Sound Energy	None	Energy Assist.	360,625
Puget Sound Energy	None	Energy Assist. WAP	89,879
City of Ellensburg	None	Transportation	98,121
State of Washington	G1400328	Ecology Wood Stove Exchange	17,490
Kittitas County	HH2009-001	Senior Rent Assistance	80,535
Kittitas County	None	Evergreen	20,195
Kittitas County	None	Dial Ride	7,875
Polaris	2010-001	Homeless Housing Program	72,697
Crest View Housing	MOU# 2008-1	Crest View Program	36,088
Emergency Food Assist	K667	EFAP	7,922
Miscellaneous	None	Miscellaneous	361,610
PUD	None	Weatherization Assistance	15,397
PUD	None	Energy Assistance	3,928
			<u>\$ 2,410,783</u>

HOPESOURCE

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2016

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Grantor's Number	Expenditures		Total
			From Pass-Through Awards	From Direct Awards	
Department of Health and Human Services					
Passed Through State Department of Commerce:					
Community Services Block Grant	93.569	F15-32100-013	\$ 16,962	\$ -	16,962
Community Services Block Grant	93.569	F16-32100-013	146,469	-	146,469
LIHEAP Weatherization Assistance Program	93.568	F16-43101-415	95,441	-	95,441
LIHEAP	93.568	F15-32606-066	577,672	-	577,672
LIHEAP	93.568	F16-32606-066	57,721	-	57,721
Passed Through Yakima County:					
Special Programs for the Aging-Title III Part B	93.044	2015-HS	34,521	-	34,521
			<u>928,786</u>	<u>-</u>	<u>928,786</u>
Department of Housing & Urban Development					
Passed Through State Department of Commerce:					
Supportive Housing Program	14.235	WA0029BOT011602	33,379	-	33,379
Supportive Housing Program	14.235	WA0087LOT011306	12,932	-	12,932
Community Development Block Grant	14.228	15-64007-005	55,377	-	55,377
Community Development Block Grant	14.228	16-64007-005	49,943	-	49,943
			<u>151,631</u>	<u>-</u>	<u>151,631</u>
Department of Agriculture					
Passed Through State Department of General Administration:					
Emergency Food Assistance Program (Commodities)	10.569	None	27,623	-	27,623
Passed Through USDA Rural Development:					
USDA Housing Preservation	10.433	None	15,526	-	15,526
			<u>43,149</u>	<u>-</u>	<u>43,149</u>
Department of Energy					
Passed Through State Department of Commerce:					
Weatherization Assistance	81.042	F15-43103-415	21,942	-	21,942
Weatherization Assistance	81.042	F16-43103-415	23,837	-	23,837
			<u>45,779</u>	<u>-</u>	<u>45,779</u>
Bonneville Power Administration					
Passed Through State Department of Commerce:					
BPA Weatherization	81.999	F15-43104-415	56,715	-	56,715
			<u>56,715</u>	<u>-</u>	<u>56,715</u>
Department of Veterans Affairs					
VA Supportive Services for Veteran Families	64.033	15-WA-338	-	175,938	175,938
VA Supportive Services for Veteran Families	64.033	15-WA-338	-	687,259	687,259
Passed Through Metropolitan Development Council:					
VA Supportive Services for Veteran Families	64.033	C2015-WA-501E	572,322	-	572,322
			<u>572,322</u>	<u>863,197</u>	<u>1,435,519</u>
			<u>\$ 1,798,382</u>	<u>\$ 863,197</u>	<u>\$ 2,661,579</u>

HOPESOURCE

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2016

NOTE 1: BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the HOPESOURCE'S financial statements. The HOPESOURCE uses the accrual basis of accounting.

NOTE 2: DE-MINIMIS COST RATE

The HOPESOURCE did not use the 10% de-minimis cost rate.

NOTE 3: SUB RECIPIENTS

Included in the Department of Veterans Affairs VA Supportive Services for Veteran Families program, are amounts passed on to sub recipients of \$277,149.

HOPESOURCE

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2016

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, 2016, 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 31, 2017.

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.

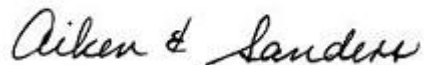
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

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

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

July 31, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors
HOPESOURCE
Ellensburg, WA

Report on Compliance for Each Major Federal Program

We have audited HOPESOURCE (the Agency) compliance with the types of compliance requirements described in the *OMB 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Project'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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



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

July 31, 2017

HOPESOURCE

Schedule of Findings and Questioned Costs

Year Ended December 31, 2016

Section I - Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unmodified

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: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance, Section 200.516(a): No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
93.568	Low Income Home Energy Assistance Program
93.569	Community Services Block Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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.