
HOPESOURCE

A WASHINGTON NON-PROFIT ORGANIZATION

Financial Statements

For the Year Ended December 31, 2017
With Comparative Totals for 2016

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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 consolidated financial statements of HOPESOURCE (the Organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related consolidated notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization, as of December 31, 2017, 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 Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 31, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, 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. The supplementary information on pages 18-20 are presented for purposes of additional analysis and are not a required part of the consolidated 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, 2018 on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.



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

July 31, 2018

HOPESOURCE

Consolidated Statement of Financial Position

December 31, 2017 <i>(With Comparative Totals for 2016)</i>	2017	2016
<u>ASSETS</u>		
Current Assets		
Cash	\$ 423,327	\$ 229,390
Accounts Receivable	513,334	584,695
Weatherization Inventory	15,047	15,371
Commodities Inventory	4,418	3,463
Prepaid Expenses & Other Current Assets	96,058	44,051
Total Current Assets	<u>1,052,184</u>	<u>876,970</u>
Property & Equipment		
Land & Building, net	3,058,059	882,376
Leasehold Improvements, net	15,974	16,739
Equipment, net	237,325	35,272
Vehicles, net	44,492	42,253
Total Property & Equipment	<u>3,355,850</u>	<u>976,640</u>
Other Assets		
Investment in Windsor Park LLC	69,452	63,585
Investment in Westview Villa Limited Partnership	-	218,642
Investment in Hopesource II Rural Pres. Assoc. LLLP	(6)	19
Investment	2,830	2,366
Due from Westview Villa Limited Partnership	-	124,585
Due from Hopesource II Rural Pres. Assoc. LLLP	273,933	-
Due from Windsor Park LLC	11,948	12,000
Total Other Assets	<u>358,157</u>	<u>421,197</u>
Total Assets	<u>\$ 4,766,191</u>	<u>\$ 2,274,807</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	\$ 134,584	\$ 168,321
Accrued Expenses	137,574	108,786
Deferred Revenue	83,517	71,749
Tenant Security Deposits Payable	11,889	-
Loan Payable Current	19,500	18,992
Total Current Liabilities	<u>387,064</u>	<u>367,848</u>
Long Term Liabilities		
Loan Payable	2,059,616	892,477
Less Unamortized Debt Issuance Costs	(5,640)	-
Less Loan Payable Current	(19,500)	(18,992)
Total Long Term Liabilities	<u>2,034,476</u>	<u>873,485</u>
Net Assets		
Unrestricted Net Assets	2,344,478	1,020,159
Temporarily Restricted Net Assets	173	13,315
Total Net Assets	<u>2,344,651</u>	<u>1,033,474</u>
Total Liabilities and Net Assets	<u>\$ 4,766,191</u>	<u>\$ 2,274,807</u>

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

HOPESOURCE

Consolidated Statement of Activities and Change In Net Assets

Year Ended December 31, 2017 <i>(With Comparative Totals for 2016)</i>	2017		2016	
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	TOTAL
Support & Revenue				
Grants	\$ 4,911,637	\$ -	\$ 4,911,637	\$ 4,671,905
Contributions	153,975	173	154,148	188,298
Program Income	177,527	-	177,527	169,840
Other Income	362,229	-	362,229	53,290
Rent Income	163,052	-	163,052	-
Inkind Revenue	130,245	-	130,245	114,113
Release of Program Restrictions	13,315	(13,315)	-	-
Total Support & Revenues	5,911,980	(13,142)	5,898,838	5,197,446
Expenses				
Program Services:				
Housing Services	807,525	-	807,525	686,621
Nutrition Services	165,305	-	165,305	149,658
Transportation Services	997,360	-	997,360	849,427
Weatherization Services	459,105	-	459,105	394,714
Energy Services	830,078	-	830,078	901,022
Block Grants	228,449	-	228,449	240,873
Veterans Grant	1,285,361	-	1,285,361	1,296,327
Corporate	298,493	-	298,493	219,897
	5,071,676	-	5,071,676	4,738,539
Administration	468,335	-	468,335	471,717
Total Expenses	5,540,011	-	5,540,011	5,210,256
Other Revenue & Expenses				
Excess of Consideration Paid Over Net Assets				
Acquired in Acquisition of Entity	951,886	-	951,886	-
Investment Income (Loss)	464	-	464	433
Total Other Revenue & Expenses	952,350	-	952,350	433
INCREASE (DECREASE) IN NET ASSETS	1,324,319	(13,142)	1,311,177	(12,377)
NET ASSETS, BEGINNING OF YEAR	1,020,159	13,315	1,033,474	1,045,851
NET ASSETS, END OF YEAR	\$ 2,344,478	\$ 173	\$ 2,344,651	\$ 1,033,474

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

HOPESOURCE**Consolidated Statement of Functional Expenses****Year Ended December 31, 2017 (With Comparative Totals for 2016)**

	Housing Services	Nutrition Services	Transportation Services	Weatherization Services	Energy Services	Block Grants
Salaries	\$ 152,202	\$ 8,487	\$ 428,209	\$ 88,864	\$ 62,839	\$ 116,396
Benefits	75,588	7,527	265,005	49,001	37,557	65,520
Subcontractors Expense	7,239	-	-	-	-	-
Supplies	766	3,390	4,498	154	2,492	814
Vehicle Expenses	1,834	353	158,394	1,584	31	68
Professional Services	23,753	2,399	32,083	10,922	11,375	13,884
Communication	4,433	2,248	3,646	2,007	1,164	1,553
Travel	3,482	235	(3,656)	3,927	1,864	4,201
Advertising	175	-	154	2,919	-	50
Rent	26,704	7,128	27,511	13,349	10,831	14,930
Insurance	14,032	1,745	26,858	6,171	885	1,436
Utilities	49,842	2,275	3,748	2,257	1,986	2,331
Repair & Maintenance	65,869	4,518	4,659	3,187	2,440	2,894
Printing & Publication	1,061	1,850	1,000	568	307	244
Miscellaneous	11,740	344	349	385	214	957
Inkind Expenses	-	95,052	-	-	-	-
Conference & Training Fees	793	-	1,171	950	455	1,796
Client Expenses	218,881	27,487	796	272,265	694,973	235
Depreciation Expense	112,356	-	-	-	-	-
Capital Outlay	1,532	267	42,935	595	665	1,140
Interest Expense	35,243	-	-	-	-	-
TOTAL	\$ 807,525	\$ 165,305	\$ 997,360	\$ 459,105	\$ 830,078	\$ 228,449

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

		2017		2016	
Veterans Grant	Corporate	Total Programs	Administration	Total	Total
\$ 364,306	\$ 80,467	\$ 1,301,770	\$ 197,297	\$ 1,499,067	\$ 1,373,920
189,322	48,326	737,846	98,654	836,500	749,536
266,009	14,103	287,351	29,365	316,716	323,315
10,938	599	23,651	11,227	34,878	41,105
19,506	5,643	187,413	2,852	190,265	146,367
19,333	38,262	152,011	56,565	208,576	156,122
7,487	1,606	24,144	6,762	30,906	25,101
11,527	6,282	27,862	18,356	46,218	48,796
35	1,120	4,453	220	4,673	2,585
81,967	805	183,225	13,333	196,558	176,820
11,362	1,608	64,097	4,402	68,499	55,040
3,121	1,823	67,383	1,745	69,128	37,213
3,918	25,207	112,692	2,782	115,474	102,146
2,326	337	7,693	1,216	8,909	11,605
768	607	15,364	15,152	30,516	17,479
-	-	95,052	-	95,052	114,113
4,541	10,887	20,593	10,284	30,877	32,687
279,151	27,981	1,521,769	(2,834)	1,518,935	1,658,085
-	32,247	144,603	-	144,603	60,475
9,744	1,508	58,386	957	59,343	41,811
-	(925)	34,318	-	34,318	35,935
\$ 1,285,361	\$ 298,493	\$ 5,071,676	\$ 468,335	\$ 5,540,011	\$ 5,210,256

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

HOPESOURCE

Consolidated Statement of Cash Flows

Year Ended December 31, 2017 (With Comparative Totals for 2016)	2017	2016
Cash Flows From Operating Activities		
Increase (Decrease) in Net Assets	\$ 1,311,177	\$ (12,377)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) (Used) by Operating Activities:		
Depreciation	144,603	60,475
Amortization of Debt Issuance Costs	156	-
Excess of Consideration Paid Over Net Assets Acquired in Acquisition of Entity	(951,886)	-
Loss on Disposal of Assets	-	1,083
Forgiveness of Debt	(3,600)	(3,600)
Unrealized (Gain) Loss	(464)	232
Loss from Westview Villa Limited Partnership	-	11
Gain from Windsor Park LLC	(5,867)	(695)
Gain from Hopesource II Rural Pres. Assoc. LLLP	25	(19)
(Increase) Decrease in --		
Accounts Receivable	76,495	(45,137)
Due from Westview Villa Limited Partnership	-	1,428
Due from Hopesource II Rural Pres. Assoc. LLLP	(273,933)	-
Due from Winsor Park LLC	52	4,631
Inventories	(631)	(1,832)
Prepaid Expenses & Other Current Assets	(37,456)	(17,615)
Increase (Decrease) in --		
Accounts Payable	(49,125)	3,534
Accrued Expenses	28,272	7,370
Deferred Revenue	11,668	55,460
Tenant Security Deposits Payable	(1,467)	-
Net Cash Provided (Used) by Operations	248,019	52,949
Cash Flows From Investing Activities		
Transfer of Cash from Westview Villa Holdings	177,051	-
Purchase of Property & Equipment	(590,671)	(44,697)
Net Cash Provided (Used) by Investing	(413,620)	(44,697)
Cash Flows From Financing Activities		
Proceeds from Loans	375,000	-
Payments on Loans	(15,462)	(14,911)
Net Cash Provided (Used) by Financing	359,538	(14,911)
Net Increase (Decrease) in Cash	193,937	(6,659)
Cash, at Beginning of Year	229,390	236,049
Cash, at End of Year	\$ 423,327	\$ 229,390

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

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2017

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.

Westview Villa Holdings, LLC (the LLC) is a Washington limited liability company which was formed on January 2, 2017. Originally, it was formed as a Washington Limited Partnership in 1995 to construct, own, and operate the Westview Villa Apartments, a 26-unit apartment project (the Project) located in Cle Elum, Washington. The general partner, HOPESOURCE, owned .01% in the Partnership. HOPESOURCE purchased and became 100% owner on January 2, 2017.

The Partnership had received an allocation of federal low-income housing tax credits under Section 42 of the Internal Revenue Code, administered by the Washington State Housing Finance Commission (WSHFC). Under this program, housing provided by the Project is subject to monitoring of tenant eligibility by WSHFC. In addition, the LLC executed a land use restriction agreement, which requires the Project to be in compliance with IRC Section 42 for a minimum of thirty-seven years.

The summary of significant accounting policies of HOPESOURCE and its affiliate, Westview Villa Holdings, LLC, collectively the Organization, is presented to assist in understanding the Organization's financial statements. The consolidated financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. All interagency accounts and transactions have been eliminated in the consolidation. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the presentation of the consolidated financial statements.

Concentration of Revenue

The Organization 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 the Organization's programs and activities.

Accounting Basis

The Organization 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 the Organization's policy to report the grant funds as unrestricted on the statement of activities and changes in net assets.

HOPE SOURCE

Notes to the Financial Statements

Year Ended December 31, 2017

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

Property and Equipment

Property and equipment purchased by the Organization 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	15 - 40 years
Furniture & Equipment	5 - 10 years
Vehicles	5 to 6 years

Recognition of Contribution Revenue

The Organization 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.

The Organization 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, the Organization 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 the Organization'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 the Organization's policy to expense all advertising costs as incurred.

NOTE 2: CASH

During 2017 and 2016, the Organization, at times, had deposits in accounts which exceeded the \$250,000 insured by the Federal Deposit Insurance Corporation (FDIC). Management does not believe the Organization is at any significant risk of loss on these accounts.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2017

NOTE 3: RESERVE ACCOUNTS

The LLC has the following reserve accounts:

Replacement Reserve:

The Agreement stipulates that a replacement reserve be created and funded initially in the amount of \$30,000; thereafter deposits are to be made at the rate of \$200 per unit per year (or \$5,200). This reserve shall be used to fund major repairs, capital expenditures and replacement of capital items in the Project. The reserve is to be established in an interest bearing account. The balance in the account at December 31, 2017 totaled \$63,216.

Operating Reserve:

The Agreement stipulates that an operating reserve be created and funded initially in the amount of \$85,000. HOPESOURCE shall fund the operating reserve from Cash Flow as defined in the Agreement in order to maintain, to the extent possible, a balance at all times of at least \$85,000. The balance in the account at December 31, 2017 totaled \$85,507.

NOTE 4: 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, 2017 and 2016, for interest was \$34,162 and \$35,935, respectively.

NOTE 5: 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 2017 and 2016, there were bad debts of \$8,198 and \$0, respectively. As of December 31, 2017, 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, 2017, all receivables are current.

NOTE 6: 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, 2017 and 2016, is \$4,418 and \$3,463, respectively.

At December 31, 2017 and 2016, the Organization had inventory of insulation and windows for use in the Weatherization program. The cost of the inventory as of December 31, 2017 and 2016, is \$15,047 and \$15,371, respectively.

HOPE SOURCE

Notes to the Financial Statements

Year Ended December 31, 2017

NOTE 7: PROPERTY, EQUIPMENT AND ACCUMULATED DEPRECIATION

Property and equipment consist of the following:

<u>Asset</u>	<u>Method</u>	<u>Life</u>	
Land			\$ 772,836
Building & Improvements	S/L	15 - 40 yrs	3,695,767
Accumulated Depreciation			(1,410,544)
			<u>\$ 3,058,059</u>
Leasehold Improvements	S/L	30 yrs	\$ 22,970
Accumulated Depreciation			(6,996)
			<u>\$ 15,974</u>
Furniture & Equipment	S/L	5 - 10 yrs	\$ 390,174
Accumulated Depreciation			(152,849)
			<u>\$ 237,325</u>
Vehicles	S/L	5 - 6 yrs	\$ 148,681
Accumulated Depreciation			(104,189)
			<u>\$ 44,492</u>

Accumulated depreciation as of December 31, 2016, was \$262,695.

NOTE 8: INVESTMENTS & FAIR VALUE MEASUREMENTS

As of December 31, 2017 and 2016, the Organization investments are in a mutual fund with a cost basis of \$1,216. As of December 31, 2017 and 2016, the investments had a fair market value of \$2,830 and \$2,366, respectively. Unrealized gain (loss) for the years ended December 31, 2017 and 2016, were \$464 and \$(232), 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:

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

Level 2: Inputs to valuation methodology include:

- A. Quoted prices for similar assets or liabilities in active markets.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2017

NOTE 8: INVESTMENTS & FAIR VALUE MEASUREMENTS (CON'T)

- 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, 2017.

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 Organization 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 Organization 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 the Organization 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, the Organization's assets at fair value as of December 31, 2017 and comparative totals for 2016:

	2017				2016
	Level 1	Level 2	Level 3	Total	Total
Westview Villa Limited Partnership	\$ -	\$ -	\$ -	\$ -	218,642
Windsor Park LLC	-	-	69,452	69,452	63,585
Hopesource II Rural Preservation Assoc. LLLP	-	-	(6)	(6)	19
Mutual Funds	2,830	-	-	2,830	2,366
	<u>\$ 2,830</u>	<u>\$ -</u>	<u>\$ 69,446</u>	<u>\$ 72,276</u>	<u>\$ 284,612</u>

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2017

NOTE 8: INVESTMENTS & 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, 2017:

	<u>Westview Villa Limited Partnership</u>	<u>Windsor Park LLC</u>	<u>Hopesource II Rural Preservation Assoc. LLLP</u>
Balance, December 31, 2016	\$ 218,642	\$ 63,585	\$ 19
Realized Gains (Losses)	(218,642)	5,867	(25)
Balance, December 31, 2017	<u>\$ -</u>	<u>\$ 69,452</u>	<u>\$ (6)</u>

Net activity for level 3 assets for the year ended December 31, 2016, was \$703.

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, 2017 and 2016, the LLC owed the Organization development fees of \$11,948 and \$12,000, 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, 2017 and 2016, the LLLP owed the Organization development fees of \$273,933 and \$0, respectively.

NOTE 11: DEFERRED REVENUES

Deferred revenue is recognized for program (grant) advances received by the Organization 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.

HOPE SOURCE

Notes to the Financial Statements

Year Ended December 31, 2017

NOTE 12: COMPENSATED ABSENCES

The Organization 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, 2017 and 2016, vested leave has been accrued as follows and is included in accrued expenses on the statement of financial position:

	<u>2017</u>	<u>2016</u>
Annual Leave	\$ <u>38,339</u>	\$ <u>33,329</u>

NOTE 13: LOANS PAYABLE

As of December 31, 2017, long-term debt consisted of the following:

	<u>2017</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.	\$ 682,215
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)	91,200
Loan payable to Impact Capital in monthly interest payments only at interest rate of 6% maturing July 31, 2020. Secured by property.	375,000
Department of Commerce (See Below)	<u>811,201</u>
	\$ <u>2,059,616</u>

Long-term debt as of December 31, 2016, was \$892,477.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2017

NOTE 13: LOANS PAYABLE (CON'T)

Maturity of debt due within 5 years:

2018	\$	19,500
2019		20,025
2020		1,098,197
2021		3,600
2022		3,600
Thereafter		914,694
	\$	<u>2,059,616</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.

The note payable to the State of Washington Department of Commerce (the Department) in the amount of \$811,201 is non-interest bearing and is secured by a deed of trust on the property and a Housing Finance Unit Contract. A balloon payment for the full principal amount of \$811,201 is due and payable on or before April 1, 2052. The Housing Finance Unit Contract commits the LLC to renting twenty five (25) project units to households with gross annual income of less than fifty percent (50%) of the local area median income for Kittitas County, Washington. Under the agreement, if the Project is sold, refinanced, changes use, changes ownership, or is destroyed prior to the commitment term of 50 years, and the proceeds generated by such premature termination are not timely reinvested in housing for low or very low-income persons, the Department will share in the appreciated value of the property based on the Department's contingent interest as specified in the agreement. At December 31, 2017, the loan balance totaled \$811,201. Given the unique nature of the LLC's secured debt, management has determined that, as of December 31, 2017, it is not practicable to make a reasonable estimate of fair value of the mortgage note payable.

The Organization classifies debt issuance costs as a reduction to underlying loan obligations and recognizes interest expense on these costs over the life of the underlying loans. The Organization recognized \$156 in interest expense for these costs in 2017. Composition of debt issuance costs is the following:

		<u>2017</u>
Debt Issuance Costs	\$	8,112
Less: Interest Recognized		<u>(2,472)</u>
Net Debt Issuance Costs	\$	<u>5,640</u>

HOPE SOURCE

Notes to the Financial Statements

Year Ended December 31, 2017

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, 2017 and 2016.

NOTE 15: IN-KIND CONTRIBUTIONS

Volunteers contribute services toward the fulfillment of programs sponsored by the Organization. The contributed services are not recorded in the financial statements because they do not meet the requirements. During the years ended December 31, 2017 and 2016, the estimated fair value of volunteer services was \$30,144 and \$36,945, respectively.

The Organization receives donated equipment, supplies and food that are used in the programs sponsored by the Organization. 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, 2017 and 2016 were \$130,245 and \$114,113, respectively.

NOTE 16: LEASE COMMITMENTS

The Organization 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, 2017 and 2016, were \$196,558 and \$176,820, respectively.

Future minimum payments under operating leases at December 31, 2017, are:

2018	\$	226,436
2019		222,892
2020		197,268
2021		166,913
2022		169,531
	\$	<u>983,040</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 the Organization 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

The Organization did not have any subsequent events through July 31, 2018, 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, 2017.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2017

NOTE 19 – UNCERTAIN TAX POSITIONS

The Organization files income tax returns in the U.S. federal jurisdiction. The Organization is no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2014. Currently, there is no examination or pending examination with the Internal Revenue Service (IRS).

As of December 31, 2017 and 2016, there are no tax positions for which the deductibility is certain but for which there is uncertainty regarding the timing of such deductibility.

The Organization recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. During the years ended December 31, 2017 and 2016, the Organization recognized \$0 in interest and penalties. The Organization recognized \$0 for the payment of interest and penalties accrued at December 31, 2017 and 2016.

NOTE 20: SCHEDULE OF NON-FEDERAL AWARDS

Expenditures for certain non-federal awards for the fiscal year ended December 31, 2017, are as follows:

<u>Agency</u>	<u>Contract Number</u>	<u>Program Name</u>	<u>Amount</u>
Dept of Transportation	UCB1457	State Paratransit	\$ 115,867
Dept of Transportation	UCB1458	Transportation	180,246
Dept of Transportation	UCB 1282	State Paratransit	387,957
Dept of Commerce	S15-394102-415	Matchmaker	52,741
Dept of Commerce	17-46108-16	Consolidated Homeless Housing	41,367
Dept of Commerce	14-46108-16	Consolidated Homeless Housing	37,906
Dept of Commerce	S16-32100-213	State Community Services Block Grant	9,118
Dept of Commerce	S18-32100-213	State Community Services Block Grant	2,710
Dept of Commerce	14-46108-16	Housing and Essential Needs	80,941
Dept of Commerce	17-46108-16	Housing and Essential Needs	58,771
Puget Sound Energy	None	Energy Assist.	337,512
Puget Sound Energy	None	Energy Assist. WAP	86,485
City of Ellensburg	None	Transportation	333,191
State of Washington	G1400328	Ecology Wood Stove Exchange	66,335
Kittitas County	HH2009-001	Senior Rent Assistance	80,000
Kittitas County	None	Evergreen	19,392
Kittitas County	None	Dial Ride	10,500
City of Ellensburg	None	Dial Ride	20,101
Polaris	2010-001	Homeless Housing Program	76,894
Crest View Housing	MOU# 2008-1	Crest View Program	32,950
Emergency Food Assist	K667	EFAP	9,042
Miscellaneous	None	Miscellaneous	478,882
PUD	None	Energy & Weatherization Assistance	23,482
			<u>\$ 2,542,390</u>

HOPESOURCE

Consolidating Statement of Financial Position

As of December 2017

	HOPE SOURCE	WESTVIEW VILLA HOLDINGS LLC	ELIMINATING ENTRIES	TOTAL
ASSETS				
Current Assets				
Cash	\$ 247,631	\$ 170,240	\$ -	\$ 417,871
Accounts Receivable	511,771	1,563	-	513,334
Weatherization Inventory	15,047	-	-	15,047
Commodities Inventory	4,418	-	-	4,418
Prepaid Expenses & Other Current Assets	80,950	15,108	-	96,058
Total Current Assets	859,817	186,911	-	1,046,728
Property & Equipment				
Land & Building, net	1,230,601	1,827,458	-	3,058,059
Leasehold Improvements, net	15,974	-	-	15,974
Equipment, net	210,419	26,906	-	237,325
Vehicles, net	44,492	-	-	44,492
Total Property & Equipment	1,501,486	1,854,364	-	3,355,850
Other Assets				
Investment in Windsor Park LLC	69,452	-	-	69,452
Investment in Westview	1,134,528	-	(1,134,528)	-
Investment in Hopesource II Rural Pres. Assoc. LLLP	(6)	-	-	(6)
Investment	8,286	-	-	8,286
Due from Westview Villa Limited Partnership	82,585	-	(82,585)	-
Due from Hopesource II Rural Pres. Assoc. LLLP	273,933	-	-	273,933
Due from Windsor Park LLC	11,948	-	-	11,948
Total Other Assets	1,580,726	-	(1,217,113)	363,613
Total Assets	\$ 3,942,029	\$ 2,041,275	\$ (1,217,113)	\$ 4,766,191
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable	\$ 128,389	\$ 6,195	\$ -	\$ 134,584
Accrued Expenses	137,058	83,101	(82,585)	137,574
Deferred Revenue	83,516	1	-	83,517
Tenant Security Deposits Payable	-	11,889	-	11,889
Loan Payable Current	19,500	-	-	19,500
Total Current Liabilities	368,463	101,186	(82,585)	387,064
Long Term Liabilities				
Loan Payable	1,248,415	811,201	-	2,059,616
Less: Unamortized Debt Issuance Costs	-	(5,640)	-	(5,640)
Less: Loan Payable Current	(19,500)	-	-	(19,500)
Total Long Term Liabilities	1,228,915	805,561	-	2,034,476
Net Assets				
Unrestricted Net Assets	2,344,478	1,134,528	(1,134,528)	2,344,478
Temporarily Restricted Net Assets	173	-	-	173
Total Net Assets	2,344,651	1,134,528	(1,134,528)	2,344,651
Total Liabilities and Net Assets	\$ 3,942,029	\$ 2,041,275	\$ (1,217,113)	\$ 4,766,191

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

HOPESOURCE

Consolidating Statement of Activities and Changes in Net Assets

Year Ended December 31, 2017				
	HOPESOURCE	WESTVIEW VILLA HOLDINGS LLC	ELIMINATING ENTIRES	TOTAL
Support & Revenue				
Grants	\$ 4,911,637	\$ -	\$ -	\$ 4,911,637
Contributions	154,148	-	-	154,148
Program Income	177,527	-	-	177,527
Other Income	318,126	5,153	39,414	362,693
Rent Income	-	163,052	-	163,052
Inkind Revenue	130,245	-	-	130,245
Release of Program Restrictions	-	-	-	-
Total Support & Revenues	5,691,683	168,205	39,414	5,899,302
Expenses				
Program Services:				
Housing Services	634,523	173,002	-	807,525
Nutrition Services	165,305	-	-	165,305
Transportation Services	997,360	-	-	997,360
Weatherization Services	459,105	-	-	459,105
Energy Services	830,078	-	-	830,078
Block Grants	228,449	-	-	228,449
Veterans Grant	1,285,361	-	-	1,285,361
Corporate	298,493	-	-	298,493
	4,898,674	173,002	-	5,071,676
Administration	433,718	34,617	-	468,335
Total Expenses	5,332,392	207,619	-	5,540,011
Other Revenue & Expenses				
Excess of Consideration Paid Over Net Assets Acquired in Acquisition of Entity	951,886	-	-	951,886
Total Other Revenue & Expenses	951,886	-	-	951,886
INCREASE (DECREASE) IN NET ASSETS	1,311,177	(39,414)	39,414	1,311,177
NET ASSETS, BEGINNING OF YEAR	1,033,474	1,173,942	(1,173,942)	1,033,474
NET ASSETS, END OF YEAR	\$ 2,344,651	\$ 1,134,528	\$ (1,134,528)	\$ 2,344,651

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

HOPESOURCE

Consolidating Statement of Functional Expenses

Year Ended December 31, 2017

	HOPESOURCE	WESTVIEW VILLA HOLDINGS LLC	ELIMINATING ENTIRES	TOTAL
Salaries	\$ 1,474,481	\$ 24,586	\$ -	\$ 1,499,067
Benefits	830,918	5,582	-	836,500
Subcontractors Expense	316,716	-	-	316,716
Supplies	34,878	-	-	34,878
Vehicle Expenses	190,265	-	-	190,265
Professional Services	191,640	16,936	-	208,576
Communication	28,519	2,387	-	30,906
Travel	45,779	439	-	46,218
Advertising	4,453	220	-	4,673
Rent	196,558	-	-	196,558
Insurance	62,619	5,880	-	68,499
Utilities	44,901	24,227	-	69,128
Repair & Maintenance	84,355	31,119	-	115,474
Printing & Publication	8,909	-	-	8,909
Miscellaneous	19,944	2,374	-	22,318
Inkind Expenses	95,052	-	-	95,052
Conference & Training Fees	30,178	699	-	30,877
Client Expenses	1,518,935	-	-	1,518,935
Depreciation Expense	59,787	84,816	-	144,603
Capital Outlay	59,343	-	-	59,343
Bad Debt Expense	-	8,198	-	8,198
Interest Expense	34,162	156	-	34,318
Total	\$ 5,332,392	\$ 207,619	\$ -	\$ 5,540,011

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

HOPESOURCE

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2017					
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	F17-32100-013	\$ 141,406	\$ -	141,406
Community Services Block Grant	93.569	F16-32100-013	15,587	-	15,587
LIHEAP Weatherization Assistance Program	93.568	F17-53101-415	31,519	-	31,519
LIHEAP Weatherization Assistance Program	93.568	F16-43101-415	65,600	-	65,600
LIHEAP	93.568	F17-32106-066	36,972	-	36,972
LIHEAP	93.568	F16-32106-066	545,575	-	545,575
Passed Through Kittitas Valley Health Network:					
Rural Health Care Services Outreach Program	93.912	P10RH31087	41,550	-	41,550
Passed Through Yakima County:					
Special Programs for the Aging-Title III Part B	93.044	2015-HS	26,895	-	26,895
			<u>905,104</u>	<u>-</u>	<u>905,104</u>
Department of Housing & Urban Development					
Passed Through State Department of Commerce:					
Supportive Housing Program	14.235	WA0029BLOT011602	14,880	-	14,880
Supportive Housing Program	14.235	WA0029BLOT011501	15,502	-	15,502
Community Development Block Grant	14.228	17-62210-008	38,507	-	38,507
Community Development Block Grant	14.228	16-62210-008	29,734	-	29,734
			<u>98,623</u>	<u>-</u>	<u>98,623</u>
Department of Agriculture					
Rural Community Development Initiative					
	10.446	None	-	63,701	63,701
Passed Through State Department of General Administration:					
Emergency Food Assistance Program (Commodities)	10.569	None	27,487	-	27,487
Passed Through USDA Rural Development:					
USDA Housing Preservation	10.433	None	40,219	-	40,219
			<u>67,706</u>	<u>63,701</u>	<u>131,407</u>
Department of Energy					
Passed Through State Department of Commerce:					
Weatherization Assistance	81.042	F17-53103-415	23,725	-	23,725
Weatherization Assistance	81.042	F16-43103-415	20,048	-	20,048
			<u>43,773</u>	<u>-</u>	<u>43,773</u>
Bonneville Power Administration					
Passed Through State Department of Commerce:					
BPA Weatherization	81.999	F17-53104-415	23,131	-	23,131
BPA Weatherization	81.999	F15-43104-415	70,647	-	70,647
			<u>93,778</u>	<u>-</u>	<u>93,778</u>
Department of Transportation					
Passed Through State of Washington Dept. of Transportation:					
Elderly & Persons with Disabilities Program	20.513	UCB 1457	147,412	-	147,412
Department of Veterans Affairs					
VA Supportive Services for Veteran Families					
VA Supportive Services for Veteran Families	64.033	15-WA-338	-	219,936	219,936
VA Supportive Services for Veteran Families	64.033	15-WA-338	-	715,516	715,516
Passed Through Metropolitan Development Council:					
VA Supportive Services for Veteran Families	64.033	C2015-WA-501E	489,247	-	489,247
			<u>489,247</u>	<u>935,452</u>	<u>1,424,699</u>
			<u>\$ 1,845,643</u>	<u>\$ 999,153</u>	<u>\$ 2,844,796</u>

HOPESOURCE

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2017

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 \$266,009.

HOPESOURCE

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2017

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 consolidated financial statements of HOPESOURCE (the Organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related consolidated notes to the financial statements, and have issued our report thereon dated July 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 consolidated 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 Organization's consolidated 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, 2018

**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 Organization) 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 Organization's major federal programs for the year ended December 31, 2017. The Organization'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 Organization'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 Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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, 2017.

Report on Internal Control over Compliance

Management of the Organization 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 Organization'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 Organization'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, 2018

HOPESOURCE

Schedule of Findings and Questioned Costs

Year Ended December 31, 2017

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>
64.033	VA Supportive Services for Veteran Families Program
20.513	Enhanced Mobility of Seniors & Individuals with Disabilities

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.