
HOPESOURCE

A WASHINGTON NON-PROFIT ORGANIZATION

Consolidated Financial Statements

For the Year Ended December 31, 2018
With Comparative Totals for 2017

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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, 2018, 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 31, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, 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 19-21 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 June 25, 2019 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

June 25, 2019

HOPESOURCE

Consolidated Statement of Financial Position

December 31, 2018 (With Comparative Totals for 2017)	2018	2017
<u>ASSETS</u>		
Current Assets		
Cash	\$ 525,811	\$ 262,715
Accounts Receivable	771,738	513,334
Weatherization Inventory	14,996	15,047
Commodities Inventory	4,203	4,418
Prepaid Expenses & Other Current Assets	68,822	96,058
Total Current Assets	1,385,570	891,572
Property & Equipment		
Land & Building, net	2,965,462	3,058,059
Leasehold Improvements, net	15,208	15,974
Construction in Progress	50,082	-
Equipment, net	201,870	237,325
Vehicles, net	46,532	44,492
Total Property & Equipment	3,279,154	3,355,850
Other Assets		
Investment in Windsor Park LLC	81,289	69,452
Investment in Hopesource II Rural Pres. Assoc. LLLP	(29)	(6)
Investment	8,385	2,830
Due from Hopesource II Rural Pres. Assoc. LLLP	269,516	273,933
Due from Windsor Park LLC	23,948	11,948
Operating & Replacement Reserves	76,516	148,723
Security Deposits	12,009	11,889
Total Other Assets	471,634	518,769
Total Assets	\$ 5,136,358	\$ 4,766,191
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts Payable	\$ 231,103	\$ 134,584
Accrued Expenses	146,928	173,574
Deferred Revenue	514,969	83,517
Tenant Security Deposits Payable	12,559	11,889
Loan Payable Current	20,025	19,500
Total Current Liabilities	925,584	423,064
Long Term Liabilities		
Loan Payable	1,940,108	2,059,616
Less Unamortized Debt Issuance Costs	(5,477)	(5,640)
Less Loan Payable Current	(20,025)	(19,500)
Total Long Term Liabilities	1,914,606	2,034,476
Net Assets		
Without Donor Restrictions	2,287,120	2,308,478
With Donor Restrictions	9,048	173
Total Net Assets	2,296,168	2,308,651
Total Liabilities and Net Assets	\$ 5,136,358	\$ 4,766,191

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, 2018 (With Comparative Totals for 2017)	2018		2017	
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL	TOTAL
Support & Revenue				
Grants	\$ 5,688,977	\$ -	\$ 5,688,977	\$ 4,911,637
Contributions	261,247	18,367	279,614	154,148
Program Income	188,933	-	188,933	177,527
Other Income	29,552	-	29,552	362,229
Rent Income	168,138	-	168,138	163,052
Inkind Revenue	114,919	-	114,919	130,245
Release of Program Restrictions	9,492	(9,492)	-	-
Total Support & Revenues	6,461,258	8,875	6,470,133	5,898,838
Expenses				
Program Services:				
Housing Services	1,069,850	-	1,069,850	807,525
Nutrition Services	172,433	-	172,433	165,305
Transportation Services	1,509,096	-	1,509,096	997,360
Weatherization Services	535,022	-	535,022	459,105
Energy Services	779,971	-	779,971	830,078
Block Grants	218,528	-	218,528	228,449
Veterans Grant	1,099,779	-	1,099,779	1,285,361
Corporate	527,542	-	527,542	298,493
	5,912,221	-	5,912,221	5,071,676
Administration	570,509	-	570,509	468,335
Total Expenses	6,482,730	-	6,482,730	5,540,011
Other Revenue & Expenses				
Excess of Consideration Paid Over Net Assets				
Acquired in Acquisition of Entity	-	-	-	951,886
Investment Income (Loss)	114	-	114	464
Total Other Revenue & Expenses	114	-	114	952,350
INCREASE (DECREASE) IN NET ASSETS	(21,358)	8,875	(12,483)	1,311,177
NET ASSETS, BEGINNING OF YEAR	2,308,478	173	2,308,651	997,474
NET ASSETS, END OF YEAR	\$ 2,287,120	\$ 9,048	\$ 2,296,168	\$ 2,308,651

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

HOPESOURCE**Consolidated Statement of Functional Expenses****Year Ended December 31, 2018 (With Comparative Totals for 2017)**

	Housing Services	Nutrition Services	Transportation Services	Weatherization Services	Energy Services	Block Grants
Salaries	\$ 293,774	\$ 12,328	\$ 518,362	\$ 102,542	\$ 69,647	\$ 110,906
Benefits	149,776	6,724	280,899	51,028	35,525	64,451
Subcontractors Expense	15,046	-	-	-	-	-
Supplies	1,220	10,517	3,652	562	1,189	244
Vehicle Expenses	2,041	1,387	184,320	2,115	23	78
Professional Services	45,460	3,811	59,508	11,742	12,529	10,748
Communication	7,147	3,034	3,995	1,832	1,381	1,464
Travel	8,139	420	564	7,221	2,311	2,405
Advertising	97	161	230	345	15	500
Rent	33,878	6,090	25,660	16,013	11,809	14,415
Insurance	11,952	1,718	43,438	4,606	944	1,225
Utilities	52,170	2,330	3,314	1,723	1,575	1,549
Repair & Maintenance	59,409	5,560	5,188	3,126	2,493	2,910
Printing & Publication	1,905	99	1,158	588	525	415
Miscellaneous	6,997	378	374	239	280	847
Inkind Expenses	1,243	90,415	-	-	-	-
Conference & Training Fees	6,714	184	6,466	5,734	2,890	3,532
Client Expenses	323,424	22,865	-	321,384	635,452	2,539
Depreciation Expense	74,246	-	-	-	-	-
Capital Outlay	1,803	4,412	371,968	4,222	1,383	300
Interest Expense	7,572	-	-	-	-	-
TOTAL	\$ 1,104,013	\$ 172,433	\$ 1,509,096	\$ 535,022	\$ 779,971	\$ 218,528

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

				2018		2017	
Veterans Grant	Corporate	Total Programs	Administration	Total	Total		
\$ 252,654	\$ 121,427	\$ 1,481,640	\$ 251,239	\$ 1,732,879	\$ 1,499,067		
136,730	67,756	792,889	120,567	913,456	836,500		
238,675	21,879	275,600	26,611	302,211	316,716		
1,537	22,429	41,350	12,735	54,085	34,878		
13,231	9,286	212,481	2,473	214,954	190,265		
39,711	5,235	188,744	51,909	240,653	208,576		
5,598	1,273	25,724	4,498	30,222	30,906		
6,549	13,219	40,828	19,589	60,417	46,218		
391	1,607	3,346	15	3,361	4,673		
58,629	6,403	172,897	17,351	190,248	196,558		
9,707	5,196	78,786	4,533	83,319	68,499		
2,714	9,915	75,290	1,897	77,187	69,128		
3,309	20,017	102,012	4,356	106,368	115,474		
1,988	318	6,996	2,162	9,158	8,909		
2,199	22,475	33,789	5,902	39,691	30,516		
108	-	91,766	342	92,108	95,052		
1,798	23,966	51,284	12,106	63,390	30,877		
317,460	58,178	1,681,302	(3,309)	1,677,993	1,518,935		
-	74,841	149,087	-	149,087	144,603		
6,791	15,097	405,976	1,370	407,346	59,343		
-	27,025	34,597	-	34,597	34,318		
\$ 1,099,779	\$ 527,542	\$ 5,946,384	\$ 536,346	\$ 6,482,730	\$ 5,540,011		

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

HOPESOURCE

Consolidated Statement of Cash Flows

Year Ended December 31, 2018 (With Comparative Totals for 2017)	2018	2017
Cash Flows From Operating Activities		
Increase (Decrease) in Net Assets	\$ (12,483)	\$ 1,311,177
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) (Used) by Operating Activities:		
Depreciation	149,087	144,603
Amortization of Debt Issuance Costs	163	156
Excess of Consideration Paid Over Net Assets Acquired in Acquisition of Entity	-	(951,886)
Forgiveness of Debt	(3,600)	(3,600)
Unrealized (Gain) Loss	(114)	(464)
Gain from Windsor Park LLC	(11,837)	(5,867)
Gain from Hopesource II Rural Pres. Assoc. LLLP	23	25
(Increase) Decrease in --		
Accounts Receivable	(258,404)	76,495
Due from Hopesource II Rural Pres. Assoc. LLLP	4,417	(273,933)
Due from Winsor Park LLC	(12,000)	52
Inventories	266	(631)
Operating & Replacement Reserves	72,207	8,218
Security Deposits	(120)	513
Prepaid Expenses & Other Current Assets	27,236	(37,456)
Increase (Decrease) in --		
Accounts Payable	96,519	(49,125)
Accrued Expenses	(26,646)	28,272
Deferred Revenue	431,452	11,668
Tenant Security Deposits Payable	670	(1,467)
Net Cash Provided (Used) by Operations	456,836	256,750
Cash Flows From Investing Activities		
Transfer of Cash from Westview Villa Holdings	-	177,051
Net Activity for Investments	(5,441)	-
Purchase of Property & Equipment	(72,391)	(590,671)
Net Cash Provided (Used) by Investing	(77,832)	(413,620)
Cash Flows From Financing Activities		
Proceeds from Loans	-	375,000
Payments on Loans	(115,908)	(15,462)
Net Cash Provided (Used) by Financing	(115,908)	359,538
Net Increase (Decrease) in Cash	263,096	202,668
Cash, at Beginning of Year	262,715	60,047
Cash, at End of Year	\$ 525,811	\$ 262,715

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

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2018

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 without donor restrictions or with donor restrictions 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 without donor restrictions on the statement of activities and changes in net assets.

HOPE SOURCE

Notes to the Financial Statements

Year Ended December 31, 2018

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

Liquidity and Availability

The Organization has \$1,297,549 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure, consisting of cash of \$525,811 and accounts receivable of \$771,738 as of December 31, 2018. The Organization has \$776,049 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure, consisting of cash of \$262,715 and accounts receivable of \$513,334 as of December 31, 2017. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of financial position date. The Organization has ongoing grants and contracts that will reimburse the Organization allowable expenditures for that grant or contract. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Organization also has investments of \$8,385 and \$2,830, as of December 31, 2018, respectively, that the Organization can draw on to help pay for expenditures. See note 8.

The Organization has operating and replacement reserves that can be used for the LLC. See note 3.

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 with donor restrictions 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, with donor restriction net assets are reclassified to without donor restriction 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 without donor restrictions 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 with donor restrictions 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 without donor restrictions on the statement of activities and changes in net assets.

HOPE SOURCE

Notes to the Financial Statements

Year Ended December 31, 2018

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

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.

Allocation of Indirect Costs

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the Organization. Payroll and related costs are allocated based on time spent on each function. Photocopy, telephone, postage and travel costs are allocated among the program and supporting services on the basis of benefits received. Occupancy costs are allocated based on square footage. Technology costs are allocated by number of computers for each department.

NOTE 2: CASH

During 2018 and 2017, 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.

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, 2018 and 2017 totaled \$76,477 and \$63,216, respectively.

Operating Reserve:

The Agreement stipulates that an operating reserve be created and funded initially in the amount of \$85,000. HOPE SOURCE 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. Beginning in 2018, this requirement is no longer required. The balance in the account at December 31, 2018 and 2017 totaled \$39 and \$85,507, respectively.

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, 2018 and 2017, for interest was \$57,600 and \$34,162, respectively. For 2018 and 2017, the interest paid that was capitalized was \$30,575 and \$0, respectively.

HOPE SOURCE

Notes to the Financial Statements

Year Ended December 31, 2018

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 2018 and 2017, there were bad debts of \$2,925 and \$8,198, respectively. As of December 31, 2018, 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, 2018, 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, 2018 and 2017, is \$4,203 and \$4,418, respectively.

At December 31, 2018 and 2017, the Organization had inventory of insulation and windows for use in the Weatherization program. The cost of the inventory as of December 31, 2018 and 2017, is \$14,996 and \$15,047, respectively.

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	3,693,583
Accumulated Depreciation			(1,500,957)
			<u>\$ 2,965,462</u>
Leasehold Improvements	S/L	30 yrs	\$ 22,970
Accumulated Depreciation			(7,762)
			<u>\$ 15,208</u>
Furniture & Equipment	S/L	5 - 10 yrs	\$ 383,820
Accumulated Depreciation			(181,950)
			<u>\$ 201,870</u>
Vehicles	S/L	5 - 6 yrs	\$ 136,798
Accumulated Depreciation			(90,266)
			<u>\$ 46,532</u>

Accumulated depreciation as of December 31, 2017, was \$1,674,578.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2018

NOTE 7: PROPERTY, EQUIPMENT AND ACCUMULATED DEPRECIATION (CON'T)

As of December 31, 2018, construction in progress was \$50,082, which includes capitalized interest of \$30,575.

NOTE 8: INVESTMENTS & FAIR VALUE MEASUREMENTS

As of December 31, 2018 and 2017, the Organization investments are in a mutual fund with a cost basis of \$6,737 and \$1,216, respectively. As of December 31, 2018 and 2017, the investments had a fair market value of \$8,385 and \$2,830, respectively. Unrealized gain (loss) for the years ended December 31, 2018 and 2017, were \$114 and \$464, 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.
- 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, 2018.

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.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2018

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

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, 2018 and comparative totals for 2017:

	2018				2017
	Level 1	Level 2	Level 3	Total	Total
Windsor Park LLC	\$ -	\$ -	\$ 81,289	\$ 81,289	\$ 69,452
Hopesource II Rural Preservation Assoc. LLLP	-	-	(29)	(29)	(6)
Mutual Funds	8,385	-	-	8,385	2,830
	\$ 8,385	\$ -	\$ 81,260	\$ 89,645	\$ 72,276

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, 2018:

	Windsor Park LLC	Hopesource II Rural Preservation Assoc. LLLP
Balance, December 31, 2017	\$ 69,452	\$ (6)
Realized Gains (Losses)	11,837	(23)
Balance, December 31, 2018	\$ 81,289	\$ (29)

Net activity for level 3 assets for the year ended December 31, 2017, was \$(212,800).

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, 2018 and 2017, the LLC owed the Organization development fees of \$23,948 and \$11,948, respectively.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2018

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, 2018 and 2017, the LLLP owed the Organization development fees of \$269,516 and \$273,933, 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.

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, 2018 and 2017, vested leave has been accrued as follows and is included in accrued expenses on the statement of financial position:

	<u>2018</u>	<u>2017</u>
Annual Leave	\$ <u>36,446</u>	\$ <u>38,339</u>

NOTE 13: LOANS PAYABLE

As of December 31, 2018, long-term debt consisted of the following:

HOPE SOURCE

Notes to the Financial Statements

Year Ended December 31, 2018

NOTE 13: LOANS PAYABLE

	<u>2018</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.	\$ 666,307
Department of Commerce - Housing Trust Fund Program. Secured by real estate (See Below)	87,600
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>\$ 1,940,108</u>

Long-term debt as of December 31, 2017, was \$2,059,616.

Maturity of debt due within 5 years:

2019	\$ 20,025
2020	1,028,482
2021	3,600
2022	3,600
2023	3,600
Thereafter	<u>880,801</u>
	<u>\$ 1,940,108</u>

During 2003, HOPE SOURCE 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, HOPE SOURCE 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.

HOPE SOURCE

Notes to the Financial Statements

Year Ended December 31, 2018

NOTE 13: LOANS PAYABLE (CON'T)

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, 2018, the loan balance totaled \$811,201. Given the unique nature of the LLC's secured debt, management has determined that, as of December 31, 2018, 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 \$163 in interest expense for these costs in 2018. Composition of debt issuance costs is the following:

	<u>2018</u>
Debt Issuance Costs	\$ 8,112
Less: Interest Recognized	<u>(2,635)</u>
Net Debt Issuance Costs	<u>\$ 5,477</u>

NOTE 14: WITH DONOR RESTRICTION NET ASSETS

The with donor restriction net assets are donor-restricted contributions that have not been expended for the donor specified purposes as of December 31, 2018 and 2017.

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, 2018 and 2017, the estimated fair value of volunteer services was \$37,536 and \$30,144, 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, 2018 and 2017 were \$114,919 and \$130,245, respectively.

HOPE SOURCE

Notes to the Financial Statements

Year Ended December 31, 2018

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, 2018 and 2017, were \$190,248 and \$196,558, respectively.

Future minimum payments under operating leases at December 31, 2018, are:

2019	\$	222,892
2020		197,268
2021		166,913
2022		169,531
2023		172,201
	\$	<u>928,805</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 June 25, 2019, 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, 2018.

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 2015. Currently, there is no examination or pending examination with the Internal Revenue Service (IRS).

As of December 31, 2018 and 2017, 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, 2018 and 2017, the Organization recognized \$0 in interest and penalties. The Organization recognized \$0 for the payment of interest and penalties accrued at December 31, 2018 and 2017.

HOPESOURCE

Notes to the Financial Statements

Year Ended December 31, 2018

NOTE 20: SCHEDULE OF NON-FEDERAL AWARDS

Expenditures for certain non-federal awards for the fiscal year ended December 31, 2018, are as follows:

<u>Agency</u>	<u>Contract Number</u>	<u>Program Name</u>	<u>Amount</u>
Dept of Transportation	UCB1457	State Paratransit	\$ 269,826
Dept of Transportation	UCB1458	Transportation	306,170
Dept of Commerce	S17-394102-415	Matchmaker	73,295
Dept of Commerce	18-46108-16	Consolidated Homeless Housing	179,740
Dept of Commerce	S18-32100-213	State Community Services Block Grant	12,496
Dept of Commerce	18-46108-16	Housing and Essential Needs	195,735
Puget Sound Energy	None	Energy Assist.	253,649
Puget Sound Energy	None	Energy Assist. WAP	214,148
City of Ellensburg	None	Transportation	623,819
City of Ellensburg	None	Weatherization	31,939
Kittitas County	HH2009-001	Senior Rent Assistance	125,507
Kittitas County	None	Evergreen	23,010
Kittitas County	None	Dial Ride	12,000
City of Ellensburg	None	Dial Ride	46,591
Polaris	2010-001	Homeless Housing Program	32,100
Polaris	HH2018-003	Affordable Housing Program	64,110
Emergency Food Assist	K667	EFAP	10,956
Miscellaneous	None	Miscellaneous	634,536
PUD	None	Energy & Weatherization Assistance	37,063
			<u>\$ 3,146,690</u>

NOTE 21: CHANGE IN PRESENTATION

The Organization adopted Accounting Standards Update 2016-14 (ASU 2016-14) during the year ended December 31, 2018. ASU 2016-14 requires net assets to be presented as 'without donor restrictions' and 'with donor restrictions' on the statement of financial position. Also on the statement of activities, the columns will be labeled as 'without donor restrictions' and 'with donor restrictions'. Prior to adoption, the net assets on the statement of financial position were presented as unrestricted, temporarily restricted, and permanently restricted. Also on the statement of activities, the columns were also labeled as unrestricted, temporarily restricted, and permanently restricted. There was no changes in the net asset classes and there was no reclassifications.

HOPESOURCE

Consolidating Statement of Financial Position

As of December 2018

	HOPESOURCE	WESTVIEW VILLA HOLDINGS LLC	ELIMINATING ENTRIES	TOTAL
ASSETS				
Current Assets				
Cash	\$ 515,124	\$ 10,687	\$ -	\$ 525,811
Accounts Receivable	767,970	3,768	-	771,738
Weatherization Inventory	14,996	-	-	14,996
Commodities Inventory	4,203	-	-	4,203
Prepaid Expenses & Other Current Assets	66,134	2,688	-	68,822
Total Current Assets	1,368,427	17,143	-	1,385,570
Property & Equipment				
Land & Building, net	1,203,825	1,761,637	-	2,965,462
Leasehold Improvements, net	15,208	-	-	15,208
Construction in Progress	50,082	-	-	50,082
Equipment, net	177,273	24,597	-	201,870
Vehicles, net	46,532	-	-	46,532
Total Property & Equipment	1,492,920	1,786,234	-	3,279,154
Other Assets				
Investment in Windsor Park LLC	81,289	-	-	81,289
Investment in Westview	1,098,989	-	(1,098,989)	-
Investment in Hopesource II Rural Pres. Assoc. LLLP	(29)	-	-	(29)
Investment	8,385	-	-	8,385
Due from Hopesource II Rural Pres. Assoc. LLLP	269,516	-	-	269,516
Due from Windsor Park LLC	23,948	-	-	23,948
Operating & Replacement Reserves	-	76,516	-	76,516
Security Deposits	-	12,009	-	12,009
Total Other Assets	1,482,098	88,525	(1,098,989)	471,634
Total Assets	\$ 4,343,445	\$ 1,891,902	\$ (1,098,989)	\$ 5,136,358
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts Payable	\$ 222,739	\$ 8,364	\$ -	\$ 231,103
Accrued Expenses	146,413	515	-	146,928
Deferred Revenue	513,218	1,751	-	514,969
Tenant Security Deposits Payable	-	12,559	-	12,559
Loan Payable Current	20,025	-	-	20,025
Total Current Liabilities	902,395	23,189	-	925,584
Long Term Liabilities				
Loan Payable	1,128,907	811,201	-	1,940,108
Less: Unamortized Debt Issuance Costs	-	(5,477)	-	(5,477)
Less: Loan Payable Current	(20,025)	-	-	(20,025)
Total Long Term Liabilities	1,108,882	805,724	-	1,914,606
Net Assets				
Without Donor Restrictions	2,323,120	1,062,989	(1,098,989)	2,287,120
With Donor Restrictions	9,048	-	-	9,048
Total Net Assets	2,332,168	1,062,989	(1,098,989)	2,296,168
Total Liabilities and Net Assets	\$ 4,343,445	\$ 1,891,902	\$ (1,098,989)	\$ 5,136,358

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, 2018

	<u>HOPESOURCE</u>	<u>WESTVIEW VILLA HOLDINGS LLC</u>	<u>ELIMINATING ENTIRES</u>	<u>TOTAL</u>
Support & Revenue				
Grants	\$ 5,688,977	\$ -	\$ -	\$ 5,688,977
Contributions	279,614	-	-	279,614
Program Income	188,933	-	-	188,933
Other Income	24,973	5,154	(461)	29,666
Rent Income	-	168,138	-	168,138
Inkind Revenue	114,919	-	-	114,919
Release of Program Restrictions	-	-	-	-
Total Support & Revenues	6,297,416	173,292	(461)	6,470,247
Expenses				
Program Services:				
Housing Services	895,182	174,668	-	1,069,850
Nutrition Services	172,433	-	-	172,433
Transportation Services	1,509,096	-	-	1,509,096
Weatherization Services	535,022	-	-	535,022
Energy Services	779,971	-	-	779,971
Block Grants	218,528	-	-	218,528
Veterans Grant	1,099,779	-	-	1,099,779
Corporate	527,542	-	-	527,542
	5,737,553	174,668	-	5,912,221
Administration	536,346	34,163	-	570,509
Total Expenses	6,273,899	208,831	-	6,482,730
INCREASE (DECREASE) IN NET ASSETS	23,517	(35,539)	(461)	(12,483)
NET ASSETS, BEGINNING OF YEAR	2,308,651	1,098,528	(1,098,528)	2,308,651
NET ASSETS, END OF YEAR	\$ 2,332,168	\$ 1,062,989	\$ (1,098,989)	\$ 2,296,168

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

HOPESOURCE

Consolidating Statement of Functional Expenses

Year Ended December 31, 2018

	<u>HOPESOURCE</u>	<u>WESTVIEW VILLA HOLDINGS LLC</u>	<u>ELIMINATING ENTIRES</u>	<u>TOTAL</u>
Salaries	\$ 1,700,332	\$ 32,547	\$ -	\$ 1,732,879
Benefits	905,582	7,874	-	913,456
Subcontractors Expense	302,211	-	-	302,211
Supplies	54,085	-	-	54,085
Vehicle Expenses	214,954	-	-	214,954
Professional Services	223,951	16,702	-	240,653
Communication	27,802	2,420	-	30,222
Travel	60,164	253	-	60,417
Advertising	3,309	52	-	3,361
Rent	190,248	-	-	190,248
Insurance	77,412	5,907	-	83,319
Utilities	45,994	31,193	-	77,187
Repair & Maintenance	73,572	32,796	-	106,368
Printing & Publication	9,158	-	-	9,158
Miscellaneous	33,259	3,507	-	36,766
Inkind Expenses	92,108	-	-	92,108
Conference & Training Fees	62,378	1,012	-	63,390
Client Expenses	1,677,993	-	-	1,677,993
Depreciation Expense	77,607	71,480	-	149,087
Capital Outlay	407,346	-	-	407,346
Bad Debt Expense	-	2,925	-	2,925
Interest Expense	34,434	163	-	34,597
Total	\$ 6,273,899	\$ 208,831	\$ -	\$ 6,482,730

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

HOPESOURCE

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2018

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	F18-32100-013	\$ 142,119	\$ -	142,119
LIHEAP Weatherization Assistance Program	93.568	F17-53101-415	137,230	-	137,230
LIHEAP	93.568	F19-32606-066	3,490	-	3,490
LIHEAP	93.568	F18-32606-066	598,319	-	598,319
LIHEAP	93.568	F17-32606-066	14,925	-	14,925
Passed Through Kittitas Valley Health Network:					
Rural Health Care Services Outreach Program	93.912	P10RH31087	61,332	-	61,332
Passed Through Yakima County:					
Special Programs for the Aging-Title III Part B	93.044	2015-HS	26,774	-	26,774
			<u>984,189</u>	<u>-</u>	<u>984,189</u>
Department of Housing & Urban Development					
Passed Through State Department of Commerce:					
Supportive Housing Program	14.235	WA00298LOT011703	24,679	-	24,679
Supportive Housing Program	14.235	WA00298LOT011602	34,001	-	34,001
Community Development Block Grant	14.228	17-62210-008	42,496	-	42,496
Community Development Block Grant	14.228	18-62210-008	47,633	-	47,633
			<u>148,809</u>	<u>-</u>	<u>148,809</u>
Department of Agriculture					
Rural Community Development Initiative					
	10.446	None	-	83,049	83,049
Passed Through State Department of General Administration:					
Emergency Food Assistance Program (Commodities)	10.569	None	22,811	-	22,811
Passed Through USDA Rural Development:					
USDA Housing Preservation	10.433	None	14,192	-	14,192
			<u>37,003</u>	<u>83,049</u>	<u>120,052</u>
Department of Energy					
Passed Through State Department of Commerce:					
Weatherization Assistance	81.042	F17-43103-415	23,662	-	23,662
Weatherization Assistance	81.042	F18-53103-415	22,551	-	22,551
			<u>46,213</u>	<u>-</u>	<u>46,213</u>
Bonneville Power Administration					
Passed Through State Department of Commerce:					
BPA Weatherization	81.999	F18-53104-415	42,644	-	42,644
			<u>42,644</u>	<u>-</u>	<u>42,644</u>
Department of Transportation					
Passed Through State of Washington Dept. of Transportation:					
Elderly & Persons with Disabilities Program	20.513	UCB 1457	343,334	-	343,334
Department of Veterans Affairs					
VA Supportive Services for Veteran Families					
VA Supportive Services for Veteran Families	64.033	15-WA-338	-	286,439	286,439
VA Supportive Services for Veteran Families	64.033	15-WA-338	-	671,676	671,676
Passed Through Metropolitan Development Council:					
VA Supportive Services for Veteran Families	64.033	C2015-WA-501E	265,352	-	265,352
			<u>265,352</u>	<u>958,115</u>	<u>1,223,467</u>
			<u>\$ 1,867,544</u>	<u>\$ 1,041,164</u>	<u>\$ 2,908,708</u>

HOPESOURCE

Notes to the Schedule of Expenditures of Federal Awards

Year Ended December 31, 2018

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 \$238,675.

HOPESOURCE

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2018

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, 2018, 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 June 25, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



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

June 25, 2019

**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, 2018. 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, 2018.

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

June 25, 2019

HOPESOURCE

Schedule of Findings and Questioned Costs

Year Ended December 31, 2018

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

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.