

**HELPING OVERCOME
POVERTY'S EXISTENCE, INC.**

**AUDITED FINANCIAL STATEMENTS
JUNE 30, 2016**

HELPING OVERCOME POVERTY'S EXISTENCE, INC.

Wytheville, Virginia

AUDITED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

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Hicok, Fern & Company

Certified Public Accountants

Thomas M. Hicok, CPA, CVA, MAFF^{I,IV}•
James H. Fern, CPA, CVA^{III}•
David B. Brown, CPA
Juan J. Garcia, CPA
Karen L. Jackson, CPA
Rodney P. Jackson, CPA^{II}

155 E. Valley Street
P.O. Box 821
Abingdon, Virginia 24212-0821
(276) 628-1123
Fax: (276) 676-3000
e-mail: hicokfern&co@firmcpa.com

All Accountants Licensed in Virginia with
Additional Licensures Noted:
^I KY; ^{II} NC; ^{III} TN; ^{IV} WV

*Members of American Institute
of Certified Public Accountants*

*Members of Virginia Society of
Certified Public Accountants*

*•Members of National Association
of Certified Valuation Analysts*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Helping Overcome Poverty's Existence, Inc. (HOPE)
Wytheville, VA

Report on the Financial Statements

We have audited the accompanying financial statements of Helping Overcome Poverty's Existence, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2016 and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used that the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Hicok, Fern & Company
Certified Public Accountants

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Helping Overcome Poverty's Existence, Inc. as of June 30, 2016, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles, generally accepted in the United States of America.

Other Matters

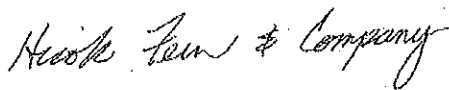
The financial statements of Helping Overcome Poverty's Existence, Inc. as of June 30, 2015, were audited by other auditors whose report dated February 12, 2016 and November 14, 2016, expressed an unmodified opinion on those statements. As part of our audit of the June 30, 2016 financial statements, we also audited adjustments described in Note O that were applied to restate the June 30, 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the June 30, 2015 financial statements of Helping Overcome Poverty's Existence, Inc. (HOPE) other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the June 30, 2015 financial statements as a whole.

Other Reporting Required by Government Auditing Standards

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules A & B are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and auditing records used to prepare the financial statements. The information has been subjected to the auditing 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 acceptable in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 14, 2016, on our consideration of Helping Overcome Poverty's Existence, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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* and should be read in conjunction with this report in considering the results of our audit.



Hicok, Fern & Company
Abingdon, Virginia
November 14, 2016

Hicok, Fern & Company

Certified Public Accountants

Thomas M. Hicok ,CPA, CVA, MAFF ^{I,IV}•
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INDEPENDENT AUDITORS 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

Board of Directors:
Helping Overcome Poverty's Existence, Inc.

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 Helping Overcome Poverty's Existence, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit, of the financial statements, we considered Helping Overcome Poverty's Existence, Inc.'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 Helping Overcome Poverty's Existence, Inc.'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 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 the 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.

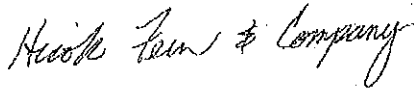
Hicok, Fern & Company
Certified Public Accountants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Helping Overcome Poverty's Existence, Inc.'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 of 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Hicok, Fern & Company
Abingdon, VA
November 14, 2016

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 STATEMENTS OF FINANCIAL POSITION
 For the Year Ended June 30, 2016 and 2015

Exhibit A

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Cash and equivalents	\$ 76,559	\$ 19,633
Prepaid expenses	10,784	8,903
Grants/accounts receivable	68,369	19,570
Notes receivable	-	3,100
Inventory	761,552	617,415
Investments	6,822	19,201
Loan escrow deposits	24,980	13,136
Mortgages receivable	167,395	176,891
Deferred notes receivable	64,877	74,138
Property and equipment - net	<u>1,490,249</u>	<u>1,546,479</u>
 Total Assets	 <u>\$ 2,671,587</u>	 <u>\$ 2,498,466</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 <u>LIABILITIES</u>		
Accounts payable	\$ 8,287	\$ 11,333
Accrued expenses	8,182	3,218
Fiscal agent liability	-	61,347
Security deposits and escrows	5,968	7,003
Accrued leave	26,339	8,842
Lines of credit	138,308	87,949
Notes payable	<u>1,704,244</u>	<u>1,563,874</u>
Total Liabilities	<u>1,891,328</u>	<u>1,743,566</u>
 <u>NET ASSETS</u>		
Unrestricted	37,541	151,067
Temporarily restricted	217,718	78,833
Permanently restricted	<u>525,000</u>	<u>525,000</u>
Total Net Assets	<u>780,259</u>	<u>754,900</u>
 Total Liabilities and Net Assets	 <u>\$ 2,671,587</u>	 <u>\$ 2,498,466</u>

The Notes to Financial Statements are an integral part of this statement

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2016

Exhibit B
 Page 1 of 2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, support and other changes				
Home Sales	\$ -	\$ -	\$ -	\$ -
Less Cost of homes sold	-	-	-	-
Net Home sales	-	-	-	-
Grant revenue	361,235	471,435	-	832,670
Forgiveness of debt	-	-	-	-
Contributions	69,529	-	-	69,529
Rent	91,124	-	-	91,124
Miscellaneous	5,844	-	-	5,844
Investment income	38	-	-	38
Event income	17,589	-	-	17,589
Net assets released from restrictions				
Restrictions satisfied by payments	407,445	(407,445)	-	-
Total Revenue	952,804	63,990	-	1,016,794
EXPENSES				
Program services	970,073	-	-	970,073
Management and general	74,536	-	-	74,536
Fundraising	21,721	-	-	21,721
Total expenses	1,066,330	-	-	1,066,330
Change in net assets - before extraordinary event	(113,526)	63,990	-	(49,536)
Extraordinary event	-	74,895	-	74,895
Net assets, beginning of year, as restated	151,067	78,833	525,000	754,900
Net assets, end of year	\$ 37,541	\$ 217,718	\$ 525,000	\$ 780,259

The Notes to Financial Statements are an integral part of this statement

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
Wytheville, Virginia
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Exhibit B
Page 2 of 2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Restated Total</u>
Revenue, support and other changes				
Home Sales	\$ 225,749	\$ -	\$ -	\$ 225,749
Less Cost of homes sold	(220,323)	-	-	(220,323)
Net Home sales	<u>5,426</u>	<u>-</u>	<u>-</u>	<u>5,426</u>
Grant revenue	534,568	95,772	-	630,340
Forgiveness of debt	-	-	-	-
Contributions	48,184	6,314	-	54,498
Rent	83,728	-	-	83,728
Miscellaneous	15,301	-	-	15,301
Investment income	132	-	-	132
Net assets released from restrictions				
Restrictions satisfied by payments	<u>25,605</u>	<u>(25,605)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>712,944</u>	<u>76,481</u>	<u>-</u>	<u>789,425</u>
EXPENSES				
Program services	776,382	-	-	776,382
Management and general	77,587	-	-	77,587
Fundraising	<u>17,867</u>	<u>-</u>	<u>-</u>	<u>17,867</u>
Total expenses	<u>871,836</u>	<u>-</u>	<u>-</u>	<u>871,836</u>
Change in net assets - before extraordinary event	(158,892)	76,481	-	(82,411)
Extraordinary event	-	-	-	-
Prior period Adjustment	(38,856)	-	-	(38,856)
Net assets, beginning of year	<u>348,815</u>	<u>2,352</u>	<u>525,000</u>	<u>876,167</u>
Net assets, end of year	<u>\$ 151,067</u>	<u>\$ 78,833</u>	<u>\$ 525,000</u>	<u>\$ 754,900</u>

The Notes to Financial Statements are an integral part of this statement

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 STATEMENT OF FUNCTIONAL EXPENSES
 For the Year Ended June 30, 2016

	Program Services	Management and General	Fundraising	Total
Specific assistance to individuals	\$ 477,465	\$ -	\$ -	\$ 477,465
Salaries and wages	250,624	32,911	12,174	295,709
Employee benefits	40,653	7,101	2,667	50,421
Payroll taxes	21,805	2,402	925	25,132
Depreciation	43,466	2,288	-	45,754
Interest expense	44,061	4,285	-	48,346
Office expense	16,790	419	818	18,027
Postage and printing	3,490	1,785	882	6,157
Professional fees	794	9,508	421	10,723
Telephone and internet	13,835	4,641	3,415	21,891
Travel	4,840	1,661	-	6,501
Staff development	1,224	576	-	1,800
Utilities	12,185	3,602	217	16,004
Maintenance	18,860	510	31	19,401
Membership dues	1,084	46	-	1,130
Insurance	12,980	1,838	171	14,989
Licenses and taxes	4,532	84	-	4,616
Subscriptions	1,058	580	-	1,638
Miscellaneous	326	300	-	626
Total expenses	<u>\$ 970,072</u>	<u>\$ 74,537</u>	<u>\$ 21,721</u>	<u>\$ 1,066,330</u>

The Notes to Financial Statements are an integral part of this statement

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 STATEMENT OF FUNCTIONAL EXPENSES
 For the Year Ended June 30, 2015

Exhibit C
 Page 2 of 2

	Program Services	Management and General	Fundraising	Restated Total
Specific assistance to individuals	\$ 319,762	\$ -	\$ -	\$ 319,762
Salaries and wages	210,115	35,031	12,295	257,441
Employee benefits	36,096	6,018	2,112	44,226
Payroll taxes	19,773	3,296	1,157	24,226
Depreciation	43,348	2,281	-	45,629
Interest expense	40,385	4,487	-	44,872
Office expense	8,210	1,539	513	10,262
Postage and printing	2,644	1,322	1,322	5,288
Professional fees	1,904	11,137	-	13,041
Telephone and internet	11,857	6,020	365	18,242
Travel	9,053	477	-	9,530
Staff development	1,822	455	-	2,277
Utilities	13,533	2,388	-	15,921
Maintenance	41,480	208	-	41,688
Membership dues	504	126	-	630
Insurance	8,175	1,940	103	10,218
Licenses and taxes	5,496	542	-	6,038
Subscriptions	289	218	-	507
Miscellaneous	1,936	102	-	2,038
	<u>\$ 776,382</u>	<u>\$ 77,587</u>	<u>\$ 17,867</u>	<u>\$ 871,836</u>
Total expenses	<u>\$ 776,382</u>	<u>\$ 77,587</u>	<u>\$ 17,867</u>	<u>\$ 871,836</u>

The Notes to Financial Statements are an integral part of this statement

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virg
 STATEMENT OF CASH FLOWS
 For the Years Ended June 30, 2016 and June 30, 2015

Exhibit D

	2016	Restated 2015
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (49,536)	\$ (82,411)
Adjustments to reconcile net cash from operating activities:		
Depreciation	45,754	45,629
Extraordinary event	3,716	-
Loss on abandoned assets	37,851	-
(Increase) decrease in:		
Prepaid expenses	(1,881)	587
Grants receivable	(48,799)	33,680
Notes receivable	3,100	6,562
Inventory	(159,522)	54,267
Investments	4,880	118
Loan escrow deposits	(11,844)	13,087
Mortgage receivable	9,496	9,887
Deferred notes receivable	9,261	9,260
Increase (decrease) in:		
Accounts payable	(3,046)	(28,237)
Accrued expenses	22,461	(11,179)
Fiscal agent liability	9,832	(404)
Security deposits	(1,035)	2,223
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(129,312)</u>	<u>53,069</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(4,491)	(11,414)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(4,491)</u>	<u>(11,414)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	159,000	-
Principal payments on long-term debt	(18,630)	(18,838)
Net borrowings (payments) on lines of credit	50,359	(22,124)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>190,729</u>	<u>(40,962)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	56,926	693
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>19,633</u>	<u>18,940</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 76,559</u>	<u>\$ 19,633</u>

The Notes to Financial Statements are an integral part of this statement

NOTE A – ORGANIZATION AND NATURE OF ACTIVITIES

Helping Overcome Poverty's Existence, Inc. uses grant funds and other public and private donations to initiate, assist, coordinate, develop and carry out programs designed to assist with the housing affordability and the food security assistance needs for lower income and disadvantaged residents of Wythe, Bland, Carroll, Smyth and Grayson Counties and the City of Galax, without regard to race, religion, national origin, physical ability or household composition.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The Organization classifies its resources for accounting and reporting purposes into three net asset categories according to the existence or absence of donor-imposed restrictions. A description of the three net asset categories is as follows:

Unrestricted – Unrestricted net assets generally result from revenues derived from providing services, receiving contributions not subject to donor-imposed stipulations, realized gains and losses, and receiving dividends and interest from investing in income producing assets, less expenses incurred in providing services, raising contributions and performing administrative functions. Unrestricted net assets may be designated for specific purposes by actions of the Board of Directors.

Temporary Restricted – Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently Restricted – Permanently restricted net assets generally represent the historical cost (market value at date of gift) of contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise be removed by the Organization.

Contributions

Contributions received including unconditional promises to give, are generally recorded as restricted, temporarily restricted or permanently restricted support depending on the existence and or nature of any donor restrictions in the period received, as applicable. However, contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenue of the unrestricted net asset class.

Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that require specialized skills and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Contributed Services

During the year ended June 30, 2016 and 2015, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk

As of June 30, 2016 and 2015, substantially all grants receivable are obligations of governmental agencies and nonprofit organizations.

Recognition of Bad Debt

The organization's policy is to charge bad debts to expense based on the direct write off method which approximates the allowance method.

Advertising Costs

The Organization expenses advertising costs as they are incurred.

Economic Dependency

The Organization receives the majority of its funding from federal, state and local governmental agencies. The Organizations' operations are dependent upon continuing support from those grantors.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all cash on hand, checking accounts, and savings to be cash or cash equivalents.

Property and Equipment

Property and equipment that is purchased by the Organization that had a useful life in excess of one year is capitalized and depreciated over the estimated useful life of the respective asset on a straight line basis. Donations of property and equipment are recorded as support at their estimated fair value. Such donations

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Function Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program and supporting services.

NOTE C – Inventory

Inventory is valued at cost and consists of real estate and supplies held for the development of housing complexes of \$761,552 and \$617,415 as of June 30, 2016 and 2015, respectively.

NOTE D – Investments

Investments are comprised of the following:

	<u>2016</u>	<u>2015</u>
H.O.P.E. Inc., owns 1/2% interest in Southridge Partners, Inc., which is a partner in Southridge, L.P. The limited partnership was formed to construct and operate an apartment complex in Wytheville, VA. Southridge Partners, Inc. owns a 0.009% interest in Southridge, L.P. This investment is carried at the cost basis.	\$ -	\$ 7,500
Edward Jones Money Market Account, recorded at the fair market value	6,822	11,701
	<u>\$ 6,822</u>	<u>\$ 19,201</u>

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE E – Property and Equipment

Major classes of property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 308,825	\$ 323,532
Buildings and improvements	1,418,798	1,416,045
Equipment	84,235	84,107
Construction in process	-	-
	<u>1,811,858</u>	<u>1,823,684</u>
Less: Accumulated Depreciation	<u>(321,609)</u>	<u>(277,205)</u>
	<u>\$ 1,490,249</u>	<u>\$ 1,546,479</u>

NOTE F: Notes Payable

Notes Payable consists of the following:

	<u>2016</u>	<u>2015</u>
Federation of Appalachian Housing Enterprises, Inc., \$258,000 note issued October 2014, bearing interest at 5.25%, interest payable monthly, due October 17, 2018, secured by deed of trust against real property in Wythe County, VA	\$ 190,298	\$ 191,942
Federation of Appalachian Housing Enterprises, Inc., issued October 2012, bearing interest at 5.5%, due May 31, 2019, secured by deed of trust against real property in Wytheville, VA	41,466	42,615
Virginia Housing Development Authority, issued June 26, 2013, bearing interest at 3.0%, payable in monthly installments of \$1,859.27 including principal and interest, due July 2043, secured by deed of trust on property in Hillsville, VA	413,356	423,107

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE F: Notes Payable (Continued)

	2016	2015
Virginia Housing Development Authority, issued September 2006, bearing interest at 3.5%, due October 2036, secured by deed of trust in property in Wytheville, VA	\$ 82,229	\$ 84,733
Union First Market Bank, issued December 2001, bearing interest at 7.5%, payable in monthly installments of \$505.75 including interest, due December 2021, secured by deed of trust on property in Wytheville, VA	27,395	30,977
Federation of Appalachian Housing Enterprises, Inc., bearing interest at 5.25%, interest only payments due beginning September 1, 2016, with final payment due February 13, 2017, secured by a deed of trust on property in Wytheville, VA.	159,000	-
Department of Housing and Community Development, issued September 2006, bearing interest at 3.0%, interest only note, due November 2021, secured by deed of trust on property in Wytheville, VA	25,000	25,000
Housing Assistance Council, SHOP 2010, \$270,000 issued June 20, 2013, bearing interest at 0.0% thru maturity, then at prime, repayment due on pro rata sale of land or at maturity September 30, 2018, note is forgivable up to 90% upon sale of land to qualified low income individuals, secured by deed of trust on property in Wythe County, VA	265,500	265,500
Commonwealth of Virginia, Department of Housing and Community Development, Amended HOME Loan, issued March 2013, bearing deferred interest at 1.0% per annum, deferred principle and interest due December 31, 2028, secured by deed of trust on property in Hillsville, VA	500,000	500,000
	\$ 1,704,244	\$ 1,563,874

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE F: Notes Payable (Continued)

Principle Maturities of long-term debt are as follows:

<u>For the year ending June 30:</u>	2017	\$ 176,037
	2018	17,747
	2019	515,798
	2020	19,341
	2021	45,193
	2022-2026	83,163
	2027-2031	593,594
	2032-2036	109,304
	2037-2041	99,100
	2042-2047	44,967
		<u>\$ 1,704,244</u>

NOTE G: Lines of Credit

The Organization maintains a bank line of credit which provided for borrowings not to exceed \$124,600. Under the terms of the agreement, interest is payable monthly at the Prime Rate plus 1%; the line is secured by real estate. As of June 30, 2016 the Organization has borrowed \$92,705 against the line of credit. The line of credit expires October 7, 2017.

The Organization also maintains a \$75,000 line of credit with the Federation of Appalachian Housing Enterprises, Inc., bearing interest at 5.25% due November 30, 2016. Under terms of the agreement interest only payments are required. The line is secured by the 2015-2016 DHCD Virginia Homeless Solutions Grant. The Line of credit is used as a funding source for the reimbursable DHCD Grant; the Line of Credit is repaid after submitting and receiving grant funds from DHCD. As of June 30, 2016 the Organization has borrowed \$45,602 against the line of credit.

NOTE H: Forgivable Portions of Debt

The Organization received loans from various organizations to purchase and develop land into affordable housing for qualified individuals. These loans allow for a portion or all of the loans to be forgiven if certain criteria are met. As of June 30, 2016, the Organization has the following forgivable portion of debt:

The Organization entered into a loan agreement with the Virginia Department of Housing and Community Development (DHCD), via a grant from the Department of Housing and Urban Development (HUD) through the Federal HOME Investment Partnership Program, dated September 2006 in the amount of \$25,000 for the development of an affordable housing unit in Wytheville, VA. This loan is deferred for a compliance period of fifteen (15) years from the date of the deed of trust.

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

NOTE H: Forgivable Portions of Debt (Continued)

The Organization entered into a loan agreement with the Housing Assistance Council under the Self-Help Home Ownership Opportunity Program (SHOP), dated June 2013, in the amount of \$270,000, for the acquisition and site development of eighteen lots in Wytheville, VA. The loan is "forgivable" on a pro rata share of indebtedness for any of the eighteen lots transferred to qualified buyers. For the fiscal years ended June 30, 2016 and 2015, the Organization sold and transferred zero (0) and two (2) lots, respectively to qualified individuals, no debt forgiveness will be recognized until the project's completion has been certified by the Housing Assistance Council.

The Organization entered into a deferred loan agreement with the Virginia Department of Housing and Community Development (DHCD), via a grant from the Department of Housing and Urban Development (HUD) through the Federal HOME Investment Partnership Program, dated March 2013, in the amount of \$500,000 for the development of affordable housing units in Hillsville, VA. This loan is a deferred for a compliance period of fifteen (15) years from the deed of trust. The loan may be deferred and forgiven at the discretion of the DHCD if the Organization agrees to extend the compliance period for an additional term, not to exceed an additional twenty (20) years.

NOTE I: Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
National Alliance to End Homelessness Challenge Grant	\$ 6,123	\$ 31,455
Community Food Kitchen	46,527	-
HOPE Packs	28,368	-
HOPE Ministry Center Phase 2 Capital Campaign	100,000	-
Fresh Start	-	1,023
Financial Literacy	-	1,383
Wythe Bland Foundation - Backpack expansion grant	36,700	40,001
Neighbor Works Grant	-	4,971
	<u>\$ 217,718</u>	<u>\$ 47,378</u>

NOTE J: Permanently restricted net assets

The Organization received grant funding of \$403,000 from the Wythe Bland Foundation for the purpose of purchasing an office complex used by the organization. The grant included a requirement for securing additional matching contributions of \$122,000. In June 2014, the Organization secured the required matching funds and completed the purchase of the office complex. The office complex (land and building)

NOTE J: Permanently Restricted Net Assets (Continued)

are owned by HOPE, Inc., however, a forfeiture clause was recorded on the deed. The forfeiture clause states that title to the office complex and any improvements thereon shall transfer to the Wythe Bland Foundation, in the event the property ceases to be used for a period of greater than sixty (60) days as an office complex owned and operated by HOPE, Inc. or its not-for-profit successor. Based on the Forfeiture clause, the grant funds and matching funds were deemed permanently restricted net assets.

NOTE K: Extraordinary Event

The Organization received distributions of cash from other independent community service programs that elected to dissolve their existence during the fiscal year and become programs of HOPE, Inc. This has been recorded at the fair market value of the distributed assets on their books, and is reflecting the \$74,895 as an extraordinary item outside of the normal course of business.

NOTE L: Retirement Benefits

The Organization has a savings incentive match plan for employees of small employers (SIMPLE) as an employee benefit. All employees are eligible under the plan. For each calendar year, the Organization will contribute a matching contribution to each eligible employee's SIMPLE IRA equal to the employee's contribution up to 3.0% of the employee's compensation for the calendar year. For the years ended June 30, 2016 and 2015, employer contributions to the plan totaled \$7,052 and \$4,911, respectively.

NOTE M: Amount Due From Related Party

The Organization has a note receivable from Southridge, L.P., a related party, in the amount of \$123,239. This note originated on June 18, 2001 to construct and rehabilitate the complex commonly known as Southridge Apartments. The Organization, obtained a grant from the Federal Home Loan Bank of Atlanta in the amount of \$123,239; which was passed on to Southridge, L.P. as a loan. The entire principal amount is due and payable on May 1, 2031. There is no interest due on the loan. Management feels at the maturity date of the loan that this note will be forgiven. Therefore, this receivable is not reflected in these financial statements. This project was closed during the year ended June 30, 2016, therefore the land and investment amounts were written off.

NOTE N: Subsequent Events

The Organization has evaluated subsequent events through November 14, 2016, the date which the financial statements were available to be issued.

NOTE O: Prior Period Adjustment and Prior Period Restatement

Management discovered errors in accounting for deferred notes receivable from the sale of affordable houses to qualified individuals. Houses were sold to qualified individuals at a price below the Organization's costs to develop. A portion of the excess development costs were recorded as a deferred notes receivable that is forgiven over a fifteen (15) year period, and the remainder is recorded as specific assistance to individuals (an expense in the year of sale). Errors were noted in two prior house sales; causing an overstatement to the deferred notes receivable asset account. A prior period adjustment of \$38,856 was made to reduce deferred notes receivable and beginning net assets to correct balances as of July 1, 2014.

Management of the Organization identified certain adjustments that needed to be corrected on the financial statements for the year ended June 30, 2015. The following changes were made on the restated financial statements. Loan escrow deposits were understated by \$4,636. An adjustment was made to increase the loan escrow deposits from \$8,500 as originally reported, to reflect the actual restated balance of \$13,136. Insurance expense was reduced from \$14,854 to \$10,218 based on this adjustment. Deferred notes receivable were understated by \$15,737. An adjustment was made to increase deferred notes receivable from \$58,401 to the actual restated balance of \$74,138. Specific assistance to individuals (expense) was reduced by \$15,737; from \$335,499 to \$319,762 based on this adjustment. The cumulative effect of these corrections resulted in an increase in previously reported net assets of \$20,373. The June 30, 2015 financial statements have been restated to reflect the above corrections.

SUPPLEMENTARY INFORMATION

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, VA
 STATUS OF FUNDS
 For the Year Ended June 30, 2016

Schedule A

	Catalog of Federal Domestic Assistance	Unencumbered Funds on Hand July 1, 2015	Total Funds Received During Period	Funds Requested by June 30, 2016 but not Received by June 30, 2016	Total of Funds Available During Period	Total Costs to Contract Period	Unencumbered Funds on Hand June 30, 2016
DHCD Federal Funds							
Emergency Solutions Grant Program	14.231	\$ -	\$ 27,907	\$ -	\$ 27,907	\$ 27,907	\$ -
Other Federal Funds							
DHS Emergency Food and Shelter National Board Program	97.024	-	7,618	-	7,618	7,618	-
HUD Continuum of Care (Permanent Supportive Housing)	14.267	-	26,621	22,561	49,182	49,182	-
HUD Continuum of Care (Rapid Re-Housing)	14.267	-	53,491	-	53,491	53,491	-
HUD Housing Counseling (VHDA Pass-Thru)	14.169	-	19,557	9,312	28,869	28,869	-
Total Other Federal Funds		-	107,287	31,873	139,160	139,160	-
DHCD General Funds							
Homeless Services Grant		-	144,594	-	144,594	144,594	-
Veteran Rapid Re-Housing Grants		-	17,000	-	17,000	17,000	-
Prevention Grants		-	133,057	-	133,057	133,057	-
Total DHCD General Funds		-	294,651	-	294,651	294,651	-
Other							
VHDA REACH Housing Counseling	NA	-	9,000	3,000	12,000	12,000	-
VHDA REACH Capacity Building	NA	-	9,075	2,930	12,005	12,005	-
Total Other		-	18,075	5,930	24,005	24,005	-
TOTAL		\$ -	\$ 447,920	\$ 37,803	\$ 485,723	\$ 485,723	\$ -

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, VA
 COSTS BY PROGRAM ACTIVITY
 For the Year Ended June 30, 2016

Schedule B

	Specific Assistance	Salaries & Benefits	Occupancy	Other	Subtotal	Cost of Goods Sold	Total
Crisis/Housing Assistance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Housing Counseling	-	-	-	-	-	-	-
Homeownership	-	-	-	-	-	-	-
Community Services	-	-	-	-	-	-	-
Fundraising	-	-	-	-	-	-	-
General & Administrative	-	-	-	-	-	-	-
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -