

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

**AUDITED FINANCIAL STATEMENTS
June 30, 2018 and June 30, 2017**

HELPING OVERCOME POVERTY'S EXISTENCE, INC.

Wytheville, Virginia

AUDITED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITOR'S REPORT

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

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, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years 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.

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, 2018 and 2017, and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles, generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules listed in the table of contents as supplementary information on pages 21 and 22 are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 7, 2019, 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, Brown & Company

Hicok, Brown & Company
Abingdon, Virginia
March 7, 2019

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, 2018, 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 March 7, 2019.

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.

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, Brown & Company

Hicok, Brown & Company
Abingdon, VA
March 7, 2019

Helping Overcome Poverty's Existence, Inc.
 Wytheville, Virginia
 Statement of Financial Position
 For the Year Ended June 30, 2018 and 2017

Exhibit A

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Cash and equivalents	\$ 14,973	\$ 45,312
Investments	162,413	6,423
Prepaid expenses	17,607	15,292
Grants/accounts receivable	18,256	41,322
Inventory	778,528	793,773
Loan escrow deposits	19,489	19,142
Mortgages receivable	140,803	157,063
Deferred notes receivable	46,356	55,617
Property and equipment - net	<u>2,536,654</u>	<u>1,472,460</u>
 Total Assets	 <u>\$ 3,735,079</u>	 <u>\$ 2,606,404</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 <u>LIABILITIES</u>		
Accounts payable	\$ 56,780	\$ 30,756
Accrued expenses	5,839	7,886
Security deposits and escrows	15,480	11,190
Accrued leave	9,214	20,727
Line of credit	94,812	101,105
Notes payable	2,461,976	1,704,604
Total Liabilities	<u>2,644,101</u>	<u>1,876,268</u>
 <u>NET ASSETS</u>		
Unrestricted	170,604	91,281
Temporarily restricted	296,874	233,855
Permanently restricted	623,500	405,000
Total Net Assets	<u>1,090,978</u>	<u>730,136</u>
 Total Liabilities and Net Assets	 <u>\$ 3,735,079</u>	 <u>\$ 2,606,404</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, 2018

Exhibit B
 Page 1 of 2

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Restated Total</u>
Revenue, support and other changes				
Home Sales	\$ -	\$ -	\$ -	\$ -
Less Cost of homes sold	-	-	-	-
Net Home sales	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Grant revenue	11,853	527,403	-	539,256
Forgiveness of debt	-	-	-	-
Contributions	155,092	443,013	218,500	816,605
Rent	113,889	-	-	113,889
Miscellaneous	13,849	-	-	13,849
Investment income	332	-	-	332
Event income	14,970	5,001	-	19,971
Net assets released from restrictions				
Restrictions satisfied by payments	<u>912,398</u>	<u>(912,398)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>1,222,383</u>	<u>63,019</u>	<u>218,500</u>	<u>1,503,902</u>
EXPENSES				
Program services	1,058,188	-	-	1,058,188
Management and general	70,972	-	-	70,972
Fundraising	<u>13,900</u>	<u>-</u>	<u>-</u>	<u>13,900</u>
Total Expenses	<u>1,143,060</u>	<u>-</u>	<u>-</u>	<u>1,143,060</u>
Change in net assets	79,323	63,019	218,500	360,842
Net assets, beginning of year	<u>91,281</u>	<u>233,855</u>	<u>405,000</u>	<u>730,136</u>
Net assets, end of year	<u>\$ 170,604</u>	<u>\$ 296,874</u>	<u>\$ 623,500</u>	<u>\$ 1,090,978</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 Ending June 30, 2017

Exhibit B
Page 2 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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Grant revenue	646,926	140,797	-	787,723
Forgiveness of debt	-	-	-	-
Contributions	11,450	122,648	-	134,098
Rent	90,750	-	-	90,750
Miscellaneous	890	9,251	-	10,141
Event income	18,603	4,659	-	23,262
Net assets released from restrictions				
Restrictions satisfied by payments	<u>381,218</u>	<u>(261,218)</u>	<u>(120,000)</u>	<u>-</u>
Total Revenue	<u>1,149,837</u>	<u>16,137</u>	<u>(120,000)</u>	<u>1,045,974</u>
EXPENSES				
Program services	998,008	-	-	998,008
Management and general	81,675	-	-	81,675
Fundraising	<u>18,914</u>	<u>-</u>	<u>-</u>	<u>18,914</u>
Total Expenses	<u>1,098,597</u>	<u>-</u>	<u>-</u>	<u>1,098,597</u>
Change in net assets - before extraordinary event	51,240	16,137	(120,000)	(52,623)
Extraordinary event	-	-	-	-
Prior period Adjustment	2,500	-	-	2,500
Net assets, beginning of year	<u>37,541</u>	<u>217,718</u>	<u>525,000</u>	<u>780,259</u>
Net assets, end of year	<u>\$ 91,281</u>	<u>\$ 233,855</u>	<u>\$ 405,000</u>	<u>\$ 730,136</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, 2018

Exhibit C
 Page 1 of 2

	Program Services	Management and General	Fundraising	Total
Specific assistance	\$ 508,283	\$ -	\$ -	\$ 508,283
Salaries and wages	241,007	23,457	4,922	269,386
Employee benefits	57,654	6,301	1,311	65,266
Payroll taxes	22,218	2,100	324	24,642
Depreciation	46,784	266	16	47,066
Interest expense	48,244	5,582	-	53,826
Office expense	5,100	2,527	982	8,609
Postage and printing	1,499	938	985	3,422
Professional fees	34,211	15,509	100	49,820
Telephone and internet	13,313	6,219	492	20,024
Travel	11,523	239	1	11,763
Staff development	224	49	-	273
Rent and lease expense	10,767	-	-	10,767
Utilities	12,089	3,661	222	15,972
Maintenance	18,606	1,334	77	20,017
Development expense	2,974	113	4,266	7,353
Membership dues	2,050	138	-	2,188
Insurance	15,829	2,308	197	18,334
Licenses and taxes	5,280	-	-	5,280
Subscriptions	533	231	5	769
Total expenses	<u>\$ 1,058,188</u>	<u>\$ 70,972</u>	<u>\$ 13,900</u>	<u>\$ 1,143,060</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, 2017

Exhibit C
Page 2 of 2

	Program Services	Management and General	Fundraising	Total
Specific assistance	\$ 432,503	\$ -	\$ -	\$ 432,503
Grants to other organizations	18,728	-	-	18,728
Salaries and wages	240,147	33,702	6,066	279,915
Employee benefits	66,167	8,478	1,405	76,050
Payroll taxes	21,879	2,667	399	24,945
Depreciation	39,898	4,301	-	44,199
Interest expense	45,675	3,128	-	48,803
Office expense	8,324	1,237	470	10,031
Postage and printing	3,460	1,898	1,629	6,987
Professional fees	3,149	11,630	-	14,779
Telephone and internet	15,555	6,977	590	23,122
Travel	8,752	1,449	52	10,253
Staff development	443	-	-	443
Utilities	10,726	2,453	252	13,431
Rent expense and leases	9,733	-	-	9,733
Maintenance	43,769	1,040	63	44,872
Development expenses	8,742	-	-	8,742
Membership dues	395	137	-	532
Insurance	9,380	2,401	202	11,983
Licenses and taxes	4,345	41	100	4,486
Subscriptions	1,104	136	3	1,243
Advertising	5,134	-	7,683	12,817
Total expenses	<u>\$ 998,008</u>	<u>\$ 81,675</u>	<u>\$ 18,914</u>	<u>\$ 1,098,597</u>

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

Helping Overcome Poverty's Existence, Inc.
Wytheville, Virginia
Statement of Cash Flows
For the Years Ended June 30, 2018 and 2017

Exhibit D

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 360,842	\$ (52,623)
Adjustments to reconcile net cash from operating activities:		
Depreciation	47,066	44,199
Deferred notes receivable	9,261	9,260
Loss on abandoned assets	-	7,225
(Increase) decrease in:		
Prepaid expenses	(2,315)	(4,508)
Grants receivable	23,066	27,047
Notes receivable	-	-
Inventory	15,245	(36,757)
Loan escrow deposits	(347)	5,838
Mortgage receivable	16,260	10,332
Increase (decrease) in:		
Accounts payable	26,026	22,467
Accrued expenses	(2,047)	(293)
Accrued leave	(11,513)	(5,612)
Security deposits	4,290	5,222
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>485,834</u>	<u>31,797</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(1,111,260)</u>	<u>(26,600)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(1,111,260)</u>	<u>(26,600)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	815,470	-
Principal payments on long-term debt	(58,100)	(23,498)
Net borrowings (payments) on lines of credit	<u>(6,293)</u>	<u>(13,345)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>751,077</u>	<u>(36,843)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	125,651	(31,646)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>51,735</u>	<u>83,381</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 177,386</u>	<u>\$ 51,735</u>
Interest paid during the year	<u>\$ 71,174</u>	<u>\$ 48,803</u>

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

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
Wytheville, Virginia
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and June 30, 2017

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, 2018 and 2017, 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, 2018 and 2017, 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 and a cost of at least \$5,000 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

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended June 30, 2018 and June 30, 2017

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

fair value. Such donations 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 \$778,528 and \$793,773 as of June 30, 2018 and 2017, respectively.

NOTE D – Investments

Investments are comprised of the following:

	<u>2018</u>	<u>2017</u>
Edward Jones Money Market Account, recorded at the fair market value	\$ 155,325	\$ 6,423
Ambry Genetics Konica Minolta, recorded at the fair market value	7,088	-
	<u>\$ 162,413</u>	<u>\$ 6,423</u>

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended June 30, 2018 and June 30, 2017

NOTE E – Property and Equipment

Major classes of property and equipment consisted of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 495,820	\$ 308,825
Buildings and improvements	2,179,172	1,418,798
Equipment	96,163	83,226
Construction in process	177,554	26,600
	<u>2,948,709</u>	<u>1,837,449</u>
Less: Accumulated Depreciation	(412,055)	(364,989)
	<u>\$ 2,536,654</u>	<u>\$ 1,472,460</u>

NOTE F: Notes Payable

Notes Payable consists of the following:

	<u>2018</u>	<u>2017</u>
Federation of Appalachian Housing Enterprises, Inc., \$258,000 note issued October 2014, bearing interest at 5.25%, interest payable monthly, due October 17, 2019, secured by deed of trust against real property in Wythe County, VA.	\$ 214,156	\$ 214,156
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.	-	40,352
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.	392,954	403,308
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.	76,478	79,404
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.	18,415	22,884

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended June 30, 2018 and June 30, 2017

NOTE F: Notes Payable (Continued)

Notes Payable consists of the following (continued):

	<u>2018</u>	<u>2017</u>
Federation of Appalachian Housing Enterprises, Inc., bearing interest at 5.25%, interest only payments due beginning September 1, 2016, with final payment due April 1, 2019, secured by a deed of trust on property in Wytheville, VA.	\$ 154,000	\$ 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,	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.	267,000	265,500
Commonwealth of Virginia, Department of Housing and Community Development, Amended HOME Loan, issued March 2013, bearing deferred interest at 1.0% per anum, deferred principle and interest due December 31, 2028, secured by deed of trust on property in Hillsville, VA.	500,000	500,000
Virginia Housing Development Authority, \$175,700 deferred loan issued May 2018, bearing interest at 0.00%, due June 2038, secured by property located in Galax, Virginia.	175,700	-
Virginia Housing Development Authority, \$43,600 note issued July 2017, bearing interest at 0.00%, due within 36 months of issuance or upon obtaining permanent financing. This loan was converted to permanent financing in December 2018.	43,600	-
Federation of Appalachian Housing Enterprises, Inc., \$530,000 note issued June 2017, increased to \$615,467 in April 2018, bearing interest at 5.75%, due monthly up to a period of twelve months, extended to November 2018 in October 2018. This loan was converted to permanent financing in December 2018.	<u>594,673</u>	<u>-</u>
	<u>\$ 1,759,973</u>	<u>\$ 949,500</u>

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, Virginia
 NOTES TO FINANCIAL STATEMENTS
 For the Years Ended June 30, 2018 and June 30, 2017

NOTE F: Notes Payable (Continued)

Principle Maturities of long-term debt are as follows:

Year Ended June 30,	Amount	Years Ended June 30,	Amount
2019	\$ 1,467,663	2024-2028	\$ 585,260
2020	19,341	2029-2033	99,961
2021	45,193	2034-2038	106,229
2022	17,788	2039-2043	103,174
2023	15,511	2044-2048	1,856
		Total	<u>\$ 2,461,976</u>

As of the date of issuance of these financial statements, the Housing Assistance Council SHOP loan in the amount of \$267,000 was in default.

NOTE G: Lines of Credit

The Organization maintains a bank line of credit which provides for borrowings not to exceed \$124,600. Under the terms of the agreement, interest is payable monthly at 5%; the line is secured by real estate. As of June 30, 2018 and June 30, 2017 the Organization had borrowed \$94,812 and \$101,105 against the line of credit. The line of credit expires October 7, 2019.

The Organization also maintains a \$75,000 line of credit with the Federation of Appalachian Housing Enterprises, Inc., bearing interest at 5.25%. Under terms of the agreement interest only payments are required. 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, 2018 and June 30, 2017 the Organization has a zero balance on 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, 2018, 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.

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

HELPING OVERCOME POVERTY'S EXISTENCE, INC.

Wytheville, Virginia

NOTES TO FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and June 30, 2017

NOTE H: Forgivable Portions of Debt (Continued)

pro rata share of indebtedness for any of the eighteen lots transferred to qualified buyers. For the fiscal years ended June 30, 2018 and 2017, the Organization sold and transferred zero (0) and zero (0) lots, respectively to qualified individuals, no debt forgiveness will be recognized until the project's completion has been certified by the Housing Assistance Council. In addition, if at September 30, 2018, any lots that are not conveyed to homeowners, the loan will have to be repaid at \$15,000 per unconveyed lot. As of the date of issuance of these financial statements, this loan was in default.

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.

The Organization entered into a deferred loan agreement with the Virginia Housing Development Authority (VHDA) dated May 2018 in the amount of \$175,700 for the development of affordable housing in Galax, Virginia. This loan may be deferred and forgiven at June 2038 if the Organization complies with certain requirements.

NOTE I: Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Community Food Kitchen	\$ 26,040	62,263
HOPE Packs	28,368	28,368
HOPE Ministry Center Phase 2 Capital Campaign	101,500	101,500
Morning Chorus Farm-Property Management	76,335	-
Wythe Bland Foundation - Oct 2017 HOPE Packs Grant	38,409	17,682
Wythe Bland Foundation - Oct 2017 Bookkeeping Grant	26,222	24,042
	<u>\$ 296,874</u>	<u>\$ 233,855</u>

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
Wytheville, Virginia
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and June 30, 2017

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) 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 were deemed permanently restricted net assets. The original forfeiture clause described the property as parcel one and parcel two. On February 1, 2017, the Wythe Bland Foundation, released the forfeiture clause on parcel two of the property. The value of this release was \$120,000. This amount has been reclassified from permanently restricted to unrestricted as a result of this release.

In the 2017-18 fiscal year, the Organization received grant funding of \$218,500 from the Wythe Bland Foundation for the purpose of buying property (land and building) to expand a program. The property is owned by HOPE, Inc., however, a forfeiture clause was recorded on the deed. The forfeiture clause states that title to the property 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 property owned and operated by HOPE, Inc. or its not-for-profit successor. Based on the forfeiture clause, the grant funds were deemed permanently restricted net assets.

NOTE K: 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, 2018 and 2017, employer contributions to the plan totaled \$6,787 and \$7,288, respectively.

NOTE L: Restatement of Beginning Net Assets

During the 2016-2017 year, it was discovered that HOPE, Inc. owned a lot that was part of the Habitat for Humanity organization. Habitat for Humanity became part of HOPE, Inc. in 2014. The value assigned to the Lot and the Net Asset adjustment was \$2,500.

NOTE M: Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers. ASU 2013-03 clarified revenue recognition principles to depict the transfer of goods or services in amounts that reflect the consideration the Organization expects to receive in exchange for those goods or services. In August 2015, the FASB issued Accounting Standards Update 2015-14 that defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual periods beginning after December 15, 2018. The Organization will implement this update for its year ended June 30, 2020 financial statements; the update is not expected to have a significant impact on the Organization's financial statements.

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
Wytheville, Virginia
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and June 30, 2017

NOTE M: Recent Accounting Pronouncements (Continued)

In January 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 requires certain investments to be measured at fair value and changes the impairment assessment approach for those investments; the ASU is effective for fiscal years beginning after December 15, 2018 and is not expected to have a significant impact on the Organization's financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases, which requires recognition of lease assets and lease liabilities. The ASU is effective for years beginning after December 15, 2019 and is not expected to have a significant impact on the Organization's financial statements.

In August 2016, the FASB issued Accounting Standards Update 2016-14, Not-for-Profit Entities. The ASU requires significant changes to the financial reporting model of organizations who follow FASB not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Organization is currently evaluating the impact this standard will have on the financial statements.

In November 2016, the FASB issued Accounting Standards Update 2016-18, Statement of Cash Flows: Restricted Cash, which changes the presentation of cash, cash equivalents, and restricted cash on the statement of cash flows. The amendments in this update are effective for the Organization's year ending June 30, 2020. The Organization is currently evaluating the impact this standard will have on the financial statements.

In June 2018, the FASB issued Accounting Standards Update 2018-08, Not-for-Profit Entities, which clarifies guidance on whether a transfer of assets is a contribution or an exchange transaction. The amendments in this update are effective for the Organization's year ending June 30, 2021 and is not expected to have a significant impact on the Organization's financial statements.

NOTE N: Subsequent Events

The Organization has evaluated subsequent events through March 7, 2019, the date which the financial statements were available to be issued. The following subsequent events were found:

HOPE, Inc. renewed an operating line of credit with First Bank and Trust on October 7, 2018 for \$124,600 at 5.50% interest and a maturity date of October 7, 2019. This note is secured by a deed of trust on property located at 2167 West Lee Highway, Wytheville, Virginia.

HOPE, Inc. received notice from the Housing Assistance Council that its SHOP Loan 2010 #1-1405-1111 was extended through September 30, 2018, at which point any lots not yet completed and conveyed to homebuyers will have to be repaid to Housing Assistance Council at \$15,000 per unit. On February 15, 2019, HOPE, Inc. was notified that the loan was in default and was given a

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
Wytheville, Virginia
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2018 and June 30, 2017

NOTE N: Subsequent Events (Continued)

30 day notice of action that could be taken by SHOP which includes foreclosure. HOPE, Inc. has been notified that no interest has been accrued since the default date of August 1, 2018 and no interest is currently being accrued, however, once a workout plan is in place, it may include a provision for interest. Since the receipt of the default letter, management has obtained a verbal commitment of a \$125,000 grant to be applied toward the loan and management is working with other agencies in securing additional funds/sources to re-finance the debt.

The Organization entered into a deferred loan agreement with the Virginia Housing Trust dated December 2018 in the amount of \$371,975 for the development of affordable housing in Wytheville, Virginia. The loan may be deferred and forgiven after 20 years from the date of the loan if the Organization complies with certain requirements.

The Organization entered into a deferred loan agreement with the Virginia Housing Development Authority (VHDA) dated December 2018 in the amount of \$140,700 for the development of affordable housing in Wytheville, Virginia. This loan may be deferred and forgiven at January 2049 if the Organization complies with certain requirements.

SUPPLEMENTARY INFORMATION

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, VA
 STATUS OF FUNDS
 For the Year Ended June 30, 2018

Schedule A

	Catalog of Federal Domestic Assistance	Unencumbered Funds on Hand July 1, 2017	Total Funds Received During Period	Funds Requested by June 30, 2018 but not Received by June 30, 20168	Total of Funds Available During Period	Total Costs to Contract Period	Unencumbered Funds on Hand June 30, 2018
DHCD Federal Funds							
Emergency Solutions Grant Program	14.231	\$ -	\$ 39,365	\$ -	\$ 39,365	\$ 39,365	-
Other Federal Funds							
DHS Emergency Food and Shelter National Board Program	97.024	-	8,614	-	8,614	8,614	-
HUD Continuum of Care (Permanent Supportive Housing)	14.267	-	49,588	-	49,588	49,588	-
HUD Continuum of Care (Rapid Re-Housing)	14.267	-	68,931	-	68,931	68,931	-
HUD Housing Counseling (VHDA Pass-Thru)	14.169	-	24,236	-	24,236	24,236	-
HUD Capacity Building (VHDA Pass-Thru)	14.259	-	18,578	5,131	23,709	23,709	-
Total Other Federal Funds		-	169,947	5,131	175,078	175,078	-
DHCD General Funds							
Homeless Services Grant		-	154,571	-	154,571	154,571	-
Veteran Rapid Re-Housing Grants		-	8,510	-	8,510	8,510	-
Prevention Grants		-	133,057	-	133,057	133,057	-
Total DHCD General Funds		-	296,138	-	296,138	296,138	-
Other							
VHDA REACH Housing Counseling and Education		-	7,291	10,941	18,232	18,232	-
VHDA REACH Capacity Building - Phase 3		-	5,000	-	5,000	5,000	-
VHDA REACH Capacity Building VISTA		-	443	-	443	443	-
VHDA Rural Housing/Education Assessment		-	5,000	-	5,000	5,000	-
Total Other		-	17,734	10,941	28,675	28,675	-
TOTAL		\$ -	\$ 523,184	\$ 16,072	\$ 539,256	\$ 539,256	-

HELPING OVERCOME POVERTY'S EXISTENCE, INC.
 Wytheville, VA
 STATUS OF INVENTORIES
 For the Year Ended June 30, 2018

Schedule B

Fund Source	Type of Inventory	Value on Hand 07/01/2017	Increase (Decrease) During Period	Value on Hand 6/30/2018
DHCD Funding				
None		\$ -	\$ -	\$ -
Total		\$ -	\$ -	\$ -