HOPE Hospitality and Warming Center, Inc.

Financial Report

December 31, 2020

Contents

Zerbo Consulting Group

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Independent Auditor's Report

To the Board of Directors of
HOPE Hospitality and Warming Center, Inc.

Opinion

We have audited the accompanying financial statements of HOPE Hospitality and Warming Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HOPE Hospitality and Warming Center, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of HOPE Hospitality and Warming Center, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HOPE Hospitality and Warming Center, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 HOPE Hospitality and Warming Center, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HOPE Hospitality and Warming Center, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Zerbo Consulting Group, P.C.

June 25, 2021

Statement of Financial Position

As of December 31, 2020

Assets		
Current Assets		
Cash	$	126,530
Accounts Receivable - Pledged		179,649
Total Current Assets		306,179
Property and Equipment - Net (Note 2)		427,563
Other Assets		
Equipment Deposit		16,889
Closing Costs		2,538
Less Accumulated Amortization		(1,606)
Other Assets - Net		17,821
Total Assets	**$**	**751,563**
Liabilities and Net Assets		
Current Liabilities		
Accrued Liabilities	$	23,571
Total Current Liabilities		23,571
Note Payable - (Note 3)		103,629
Total Liabilities		127,200
Net Assets		
Without Donor Restrictions		599,363
With Donor Restrictions		25,000
Total Net Assets		624,363
Total Liabilities and Net Assets	**$**	**751,563**

See notes to financial statements.

Statement of Activities and Changes In Net Assets

Year Ended December 31, 2020

Revenue and Other Support	Without Donor Restrictions	With Donor Restrictions	Total
Grant revenue	$ 1,033,880	$ -	$ 1,033,880
Direct public support	180,382	-	180,382
Direct public support - in kind (Note 4)	654,837	-	654,837
Interest and dividend income	107	-	107
Other income	155,000	-	155,000
Gain on disposal of equipment	294	-	294
Net assets released from restrictions	50,000	(50,000)	-
Total Revenue and Other Support	2,074,500	(50,000)	2,024,500
Operating Expenses			
Program activities	1,613,625	-	1,613,625
Management and general	257,320	-	257,320
Total Expenses	1,870,945	-	1,870,945
Change in Net Assets	203,555	(50,000)	153,555
Net Assets - Beginning of year	395,808	75,000	470,808
Net Assets - End of year	**$ 599,363**	**$ 25,000**	**$ 624,363**

See notes to financial statements.

Statement of Functional Expenses

Year Ended December 31, 2020

	Program Activities	Management and General	Total
Salaries and benefits	$ 717,579	$ 84,807	$ 802,386
Building operations and utilities	62,945	11,525	74,470
Advertising and promotion	-	390	390
Depreciation and amortization	8,312	2,078	10,390
Professional fees	-	11,402	11,402
Office	3,452	19,746	23,198
Insurance	-	27,736	27,736
Auto	-	6,984	6,984
Other	184,745	-	184,745
Guest meals	433,119	1,402	434,521
Temporary housing	203,473	-	203,473
Direct assistance	-	91,250	91,250
Total Expenses	**$ 1,613,625**	**$ 257,320**	**$ 1,870,945**

Statement of Cash Flows

	Year Ended December 31, 2020
Cash flows from Operating Activities:	
Change in net assets	$ 153,555
Adjustments to reconcile change in net assets to net cash from operating activities:	
Amortization	514
Depreciation	9,876
Realized gain on disposition of equipment	(294)
Changes in operating assets and liabilities that provided (used) cash:	
Accounts receivable	(73,658)
Donated investments	22,266
Equipment deposit	(16,889)
Accrued liabilities	(9,841)
Net cash provided by operating activities	85,529
Cash flows from Investing Activities:	
Purchase of property and equipment	(14,563)
Proceeds from sale of equipment	294
Net cash flows used in investing activities	(14,269)
Cash flows from Financing Activities:	
Decrease in mortgage payable	(20,788)
Net cash used in financing activities	(20,788)
Net increase in cash and cash equivalents	50,472
Cash and cash equivalents - Beginning of year	76,058
Cash and cash equivalents - End of year	**$ 126,530**

See notes to financial statements.

Note 1 – Nature of Activities and Significant Accounting Policies

Organization

HOPE Hospitality and Warming Center, Inc. ("HOPE") is tax exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as an organization that is not a private foundation.

HOPE welcomes homeless adults in need of safe shelter and support services without judgment.

HOPE envisions a community where all have the opportunity to move from homelessness to safe housing, gain access to resources, and develop the skills to enhance their quality of life.

Nature of Activities

HOPE operates two shelters which serve adults experiencing homelessness.

The HOPE Adult Shelter is a low barrier (no sobriety, ID or background check requirement) emergency shelter where guests are mostly self-referred. HOPE is the only low barrier shelter in Oakland County. In addition to safe shelter, HOPE provides meals, showers, vital document assistance, as well as onsite access to services such as healthcare, mental health and substance use treatment and housing. The goal of the shelter is to resolve housing issues for individuals who are chronically homeless, veterans, those fleeing domestic violence and experiencing poverty.

The HOPE Recuperative Care Center is a specialty 24/7/365 medical shelter for those experiencing homelessness who are discharged from an inpatient hospital setting. In addition to connection with the same services offered by the adult shelter, an RN supervises the care of each guest. HOPE Recuperative is the first medical shelter in Michigan and only one of two in the state.

Between the two shelters, HOPE has an annual positive housing rate of approximately 50%.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed there by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, such as those that the donor stipulates that resources be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments with maturities of three months or less when purchased are considered cash equivalents and recorded at cost, which approximates fair value.

Concentrations of Cash Balances

The Organization maintains its cash balances in a financial institution located in Southeast Michigan. The balance is insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000.

Accounts Receivable

The Organization considers accounts receivable to be fully collectible at December 31, 2020; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

Property and equipment is carried at cost or, if donated, at fair market value at the time of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of 3 to 27.5 years. The Organization's policy is to capitalize acquisitions of $1,000 or more.

Contribution Revenue

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received and are measured at fair value. Contributions that are restricted by the donor are reported as an increase in net assets without donor restriction if the restriction expires in the reporting period in which the contributions are recognized. Contributions with donor-imposed time or purpose restrictions are reported as support with donor restrictions. All other contributions are reported as support without donor restrictions.

Unconditional promises to give with payments due in future periods are assumed to have an implicit time restriction. Those restrictions are released as contributions when collected or when allocations or grants are made to recipient organizations based on those future collections. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. There were no conditional promises to give recognized as of December 31, 2020.

In-kind Revenue

The Organization recognizes and records contributions of donated non-cash assets at their fair values in the period received.

Functional Allocation of Expenses

Costs of providing the program and management services have been reported on a functional basis in the statement of functional expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Occupancy is allocated on the basis of square footage for the appropriate area of usage, Depreciation and amortization are allocated on the basis of the program or support service that uses the fixed asset. Costs have been allocated between the various programs and support services based on estimates determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Note 1 – Nature of Activities and Significant Accounting Policies (Continued)

Covid-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce.

As a result of the COVID-19 outbreak, the Organization was eligible for a Paycheck Protection Program Loan. See Note 5.

Adoption of New Accounting Pronouncement

In June 2018 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance results in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance is effective for the Organization's year-ended December 31, 2020. The new standard does not have an impact on the timing or revenue recognized based on contributions received for the year-ended December 31, 2020.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including June 25, 2021, which is the date the financial statements were available to be issued.

Note 2 - Property and Equipment

At December 31, 2020 property and equipment consists of the following:

	2020
Building	$ 288,333
Building Improvements	20,477
Land	72,138
Land Improvements - In Kind	70,592
Equipment	24,055
Total cost	475,595
Less accumulated depreciation	(48,032)
Net property and equipment	$ 427,563

Depreciation expense was $9,876 for the year ended December 31, 2020.

Note 3 – Note Payable

HOPE has a note payable to an organization in the amount of $103,629, secured by the building located at 1416 Joslyn Ave, Pontiac, MI. The terms of the note include interest at 3% per annum with payments in the amount of $1,732.75, with principle to be paid in full on December 1, 2025. With the exception of the outstanding balance of the note in total, there are no future required payments on this note.

Note 4 – In Kind Donations

The Organization recognized the following non-cash assets as in-kind revenue during the year-ended December 31, 2020:

Description	Value
Consumable supplies (various supplies including paper towels, soap, and hand sanitizer)	$ 134,463
Meals	429,124
Clothing and direct assistance	91,250
Total	$ 654,837

Note 5 - Paycheck Protection Program Loan

On April 16, 2020, the Organization was granted a loan (the "Loan") from mBank., in the aggregate amount of $155,000, pursuant to the Coronavirus Aid, Relief, and Economic Security Act's (the "CARES Act) Paycheck Protection Program (the "PPP"), which was enacted on March 27, 2020.

The Loan, which was in the form of a Note dated April 16, 2020, matures on April 16, 2022 and bears interest at a rate of 1.00% per annum, payable monthly commencing on November 16, 2020. The Note may be prepaid by the Organization at any time prior to maturity with no prepayment penalties. Funds from the Loan may only be used for payroll costs, costs used to continue group health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations incurred before February 15, 2020. The Organization used the entire Loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act over a covered period of at least 8 weeks and up to 24 weeks.

The Organization used the entire loan amount within a covered period of 24 weeks for qualifying expenses. As of December 31, 2020, the Organization expected to meet the PPP's eligibility criteria for loan forgiveness and concludes that the PPP Loan represents, in substance, a government grant that is expected to be forgiven.

Given that the conditions attached to the Loan were met by the qualifying expenses incurred and the Loan assistance was received, the Organization recognized the earnings impact on a systematic basis over the covered period as expenses related to costs for which the funds were intended to compensate.

The Loan is recognized within Other Income on the Statement of Activities and Changes in Net Assets for the year-ended December 31, 2020.

Subsequent to year-end, the Loan was forgiven by the Small Business Administration on January 22, 2021.

Note 6 – Liquidity and Availability of Financial Resources

HOPE has $306,179 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 $126,530 and pledges receivable of $179,649. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date with the exception of $25,000 to be used for Complex Care Navigators on specific cases. The pledges receivable are subject to implied time restrictions but are expected to be collected within one year. HOPE has a goal to maintain financial assets, which consist of cash and pledges receivable, on hand to meet 60 days of normal operating expenses, which are, on average approximately $310,000. HOPE has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.