

THE HOPE PROGRAM
(A Not-for-Profit Corporation)

Financial Statements

June 30, 2004
(With Comparative Totals for June 30, 2003)



Marks Paneth
& Shron^{LLP}
*Certified Public Accountants
and Consultants*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The HOPE Program
One Smith Street
Brooklyn, New York 11201

We have audited the accompanying statements of financial position of The HOPE Program, a Not-for-Profit Corporation ("Corporation"), as of June 30, 2004, and the related statements of activities, functional expenses by natural classification and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's June 30, 2003 financial statements and in our report dated October 9, 2003, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The HOPE Program as of June 30, 2004, and the 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.

Marks Paneth & Shron LLP

October 29, 2004

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THE HOPE PROGRAM
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Statements of Financial Position

June 30, 2004
(With Comparative Totals for June 30, 2003)

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and cash equivalents - Note 1		
General operating cash	\$ 1,085,964	\$ 737,359
Designated reserve fund - Note 8	500,000	500,000
	<hr/>	<hr/>
Total Cash and Cash equivalents	1,585,964	1,237,359
Investments and restricted cash - Note 1 and 4	346,817	260,036
Contributions receivable - Note 7	269,925	327,043
Property, equipment and leasehold improvements, net - Note 1 and 2	424,542	492,791
Prepaid expenses and other assets - Note 11	61,381	59,022
	<hr/>	<hr/>
Total Assets	<u>\$ 2,688,629</u>	<u>\$ 2,376,251</u>
 LIABILITIES		
Accounts and accrued expenses payable	\$ 92,208	\$ 27,401
Accrued Rent - Note 1	89,420	59,674
Advance payable - Note 12	45,122	45,122
	<hr/>	<hr/>
Total Liabilities	226,750	132,197
 NET ASSETS		
Unrestricted:		
General operating	1,548,312	1,335,229
Designated Reserve Fund - Note 8	500,000	500,000
	<hr/>	<hr/>
Total Unrestricted	2,048,312	1,835,229
Restricted:		
Temporarily restricted - Note 5	202,717	197,975
Permanently restricted - Note 6	210,850	210,850
	<hr/>	<hr/>
Total Restricted	413,567	408,825
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Total Net Assets	2,461,879	2,244,054
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Total Liabilities and Net Assets	<u>\$ 2,688,629</u>	<u>\$ 2,376,251</u>

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

THE HOPE PROGRAM
(A Not-for-Profit Organization)

Statements of Activities

Year Ended June 30, 2004
(With Comparative Totals for June 30, 2003)

	2004			2003		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total	Total
REVENUES, INVESTMENT INCOME AND OTHER SUPPORT						
Foundation & corporate contributions - Note 5 and 7	\$ 350,674	\$ 751,500	\$ -	\$ 1,102,174	\$ 1,134,750	
Individual contributions	225,603	-	-	225,603	154,338	
Government grants - Note 7 and 10	132,203	21,277	-	153,480	355,364	
Other not-for-profit organizations	-	-	-	-	10,000	
Investment income - Note 4	60,028	-	-	60,028	18,515	
Special events	290,534	-	-	290,534	-	
Net assets released from restrictions:						
Satisfaction of program restrictions	768,035	(768,035)	-	-	-	
Total Revenues, Investment Income and Other Support	1,827,077	4,742	-	1,831,819	1,672,967	
EXPENSES						
Program services	1,260,781	-	-	1,260,781	1,092,549	
Management and general	130,694	-	-	130,694	119,638	
Fund raising	222,519	-	-	222,519	108,276	
Total Expenses	1,613,994	-	-	1,613,994	1,320,463	
Change in Net Assets	213,083	4,742	-	217,825	352,504	
Net Assets at Beginning of Year	1,835,229	197,975	210,850	2,244,054	1,891,550	
Net Assets at End of Year - Notes 5 and 6	\$ 2,048,312	\$ 202,717	\$ 210,850	\$ 2,461,879	\$ 2,244,054	

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

THE HOPE PROGRAM
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Statements of Functional Expenses by Natural Classification
Year Ended June 30, 2004
(With Comparative Totals for June 30, 2003)

	Supporting Services				Total	Total
	Program Services	Management and General	Fund Raising		June 30, 2004	June 30, 2003
Salaries	\$ 628,652	\$ 81,530	\$ 82,997	\$	793,179	\$ 636,073
Payroll taxes and related benefits	100,324	12,785	12,785		125,894	121,378
Professional fees	15,817	2,173	2,000		19,990	33,880
Consultant fees	15,291	444	389		16,124	56,280
Rent - Notes 1 & 3	154,416	8,472	6,777		169,665	152,169
Insurance	21,602	5,000	2,000		28,602	23,723
Student travel / Meals	87,687	-	-		87,687	55,475
Cleaning, maintenance & equipment rental	4,736	642	466		5,844	9,325
Printing & Postage	10,363	1,889	7,866		20,118	14,801
Utilities	9,162	538	442		10,142	12,857
Telephone	8,414	1,107	841		10,361	11,204
Food expense - Note 10	53,483	-	-		53,483	35,385
Gala expense	25,000	-	96,620		121,620	-
Program expenses	30,657	-	-		30,657	30,391
Office expense	15,714	3,000	1,500		20,214	24,168
Miscellaneous	14,758	1,500	1,200		17,458	20,475
Depreciation and amortization	64,705	11,614	6,636		82,955	82,879
Total Expenses	<u>\$ 1,260,781</u>	<u>\$ 130,694</u>	<u>\$ 222,519</u>	<u>\$</u>	<u>1,613,994</u>	<u>\$ 1,320,463</u>

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

THE HOPE PROGRAM
(A Not-for-Profit Organization)

Statements of Cash Flows

Year Ended June 30, 2004
(With Comparative Totals for June 30, 2003)

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 217,825	\$ 352,504
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	82,955	82,879
Net realized and unrealized (loss)/gain on investments	(41,267)	(1,823)
Increase (decrease) in cash flows due to changes in operating assets and liabilities		
Contributions receivable	57,118	(51,736)
Prepaid expenses and other assets	(2,359)	10,142
Accounts and accrued expenses payable	64,807	(17,692)
Accrued rent	29,746	8,336
Net Cash Provided by Operating Activities	<u>408,825</u>	<u>382,610</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and leasehold improvements	(12,727)	(95,507)
Investments and restricted cash	<u>(47,493)</u>	<u>(11,005)</u>
Net Cash Used by Financing Activities	<u>(60,220)</u>	<u>(106,512)</u>
Net Increase in Cash and Cash Equivalents	348,605	276,098
Cash and Cash Equivalents at Beginning of Year	<u>1,237,359</u>	<u>961,261</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,585,964</u></u>	<u><u>\$ 1,237,359</u></u>

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

**THE HOPE PROGRAM
(A Not-for-Profit Corporation)**

Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The HOPE Program, a Not-for-Profit Corporation ("Corporation"), was incorporated pursuant to the laws of the State of New York on March 6, 1985. The purpose of the Corporation is to empower individuals living in poverty to achieve self sufficiency and to inform practices and policy by sharing its research and solutions. The Corporation serves individuals who live in the five boroughs of New York City.

Principles of Accounting and Basis of Presentation

The Corporation prepares its financial statements using the accrual basis of accounting. The Corporation adheres to accounting principles generally accepted in the United States of America which include some specialized requirements set forth in publications of the Financial Accounting Standards Board and the American Institute of Certified Public Accountants.

Net Assets

The Corporation maintains its accounts in accordance with the following net asset groups:

Unrestricted Net Assets:

General Operating – represents unrestricted resources available for support of the Corporation's operations over which the Board of Directors has discretionary control.

Designated Reserve Fund – includes funds that have been designated by the Board. These funds are to be used at the sole discretion of the Board for the benefit of the Corporation in emergency situations.

Temporarily Restricted Net Assets:

The Corporation reports gifts of cash and other assets as unrestricted support unless they are received with donor stipulations that limit the use of the donated assets; such assets are considered temporarily restricted. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets:

The Corporation's permanently restricted net assets consist of gifts received with the donor's stipulation that the contribution must remain intact in perpetuity. Under the terms of such gifts, the principal is to be maintained intact and invested by management while the income received therefrom may be transferred to unrestricted net assets.

**THE HOPE PROGRAM
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Notes to Financial Statements

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (continued)**

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2003, from which the summarized information was derived. Certain prior year items in the financial statements have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Corporation considers money market funds and all unrestricted highly liquid debt instruments with an initial maturity of three months or less to be cash equivalents, except for money market funds held for long-term purposes.

Investments

The Corporation reports its investments at fair value. The fair values are determined by using market quotations.

Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash held in financial institutions. At times such funds may exceed the amount of insurance provided on them.

Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements are recorded at cost less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are depreciated using a straight-line method over the term of the lease.

Rents

The Corporation leases real property under a lease expiring October 31, 2011. The difference between rental payments actually due under the lease and rent expense calculated on the straight-line basis is reflected in the accompanying financial statements as accrued rent. For the year ended June 30, 2004, the adjustment to record accrued rent totaled approximately \$30,000 which resulted in an increase in rent expense in the same amount. The total accrued rent from the commencement of the lease through June 30, 2004 is approximately \$90,000. The annual rent expense (base rent excluding escalation charges) on a straight-line basis will be approximately \$162,000 per year in future years.

THE HOPE PROGRAM
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Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

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

Functional Allocation of Expenses

The costs of providing The HOPE Program services and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Income Tax Status

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements.

NOTE 2: PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

As of June 30, property, equipment and leasehold improvements, net of accumulated depreciation, consisted of the following:

	<u>2004</u>	<u>2003</u>
Property and equipment	\$ 226,014	\$ 220,962
Leasehold improvements	<u>429,966</u>	<u>422,291</u>
	655,980	643,253
Less: Accumulated depreciation	<u>231,438</u>	<u>150,462</u>
	<u>\$ 424,542</u>	<u>\$ 492,791</u>

Depreciation expense for the year ended June 30, 2004 and 2003 was approximately \$81,000, and 81,000, respectively.

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Notes to Financial Statements

NOTE 3: RENT

The Corporation entered into a lease agreement at One Smith Street, Brooklyn, NY. The lease term is from December 21, 2001 to October 31, 2011. The Corporation leased additional space at the aforementioned location through an amendment to the existing lease. The lease term of the amendment is from June 29, 2004 to October 31, 2011. Pursuant to the terms of the lease and amendment, the Corporation's minimum obligations for future rental payments for the years ended June 30, are as follows:

2005	\$ 149,603
2006	154,091
2007	167,734
2008	177,276
2009	182,594
Thereafter	<u>446,991</u>
	<u>\$ 1,278,289</u>

NOTE 4: INVESTMENTS

As of June 30, the fair value of investments is as follows:

	<u>2004</u>	<u>2003</u>
Cash and investments restricted for permanent endowment (Merrill Lynch CMA Money Fund and ML Banking Advantage)	\$ 90,492	\$ 62,347
Marketable Equity Securities	20,864	-
Mutual Funds	<u>235,461</u>	<u>197,689</u>
	<u>\$ 346,817</u>	<u>\$ 260,036</u>
Investment income is comprised of the following:		
Interest income	\$ 14,927	\$ 13,130
Dividend income	3,834	3,562
Realized and Unrealized gain	<u>41,267</u>	<u>1,823</u>
	<u>\$ 60,028</u>	<u>\$ 18,515</u>

NOTE 5: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted Net Assets consist of cash contributions restricted by donors for specific program services.

THE HOPE PROGRAM
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Notes to Financial Statements

NOTE 6: PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted Net Assets consist of \$210,850 for a permanent endowment: \$200,000 from The Clark Foundation and \$10,850 from miscellaneous donors. The investment income from this endowment is unrestricted

NOTE 7: CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2004 and 2003, in the amounts of \$269,925 and \$327,043, respectively, were reported as income in their respective fiscal years, in accordance with generally accepted accounting principles, although they were collected in the following fiscal years. These amounts are reported in the Statements of Activities as follows:

	<u>2004</u>	<u>2003</u>
Foundation & corporate contributions	\$ 215,000	\$ 235,000
Gala fundraiser	54,925	-
Government grants	<u>-</u>	<u>92,043</u>
	<u>\$ 269,925</u>	<u>\$ 327,043</u>

NOTE 8: DESIGNATED RESERVE FUND

The HOPE Program's Board of Directors established a \$500,000 Designated Reserve Fund, solely for use in emergency situations, with the approval of the Board.

NOTE 9: SAVINGS INCENTIVE MATCH PLAN

The Corporation has a savings incentive match plan ("SIMPLE") for its employees. Participation in the savings part of the plan is voluntary. Employees are automatically eligible to participate after completing three months of full time service, provided there is a reasonable expectation they will receive at least \$5,000 in compensation for the calendar year. The Corporation will contribute a matching contribution to each eligible employee's SIMPLE IRA equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation. The Employer, at its discretion, may reduce the 3% limit for the calendar year if (1) The limit is not reduced below 1% (2) The limit is not reduced for more than 2 calendar years during the 5 year period ending with the calendar year the reduction is effective; and (3) Each employee is notified of the reduced limit within a reasonable period of time before the employee's 60 day election period for the calendar year.

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Notes to Financial Statements

NOTE 10: IN-KIND SUPPORT

Government grants includes in-kind contributions received by The HOPE Program during fiscal years 2004 and 2003 of \$14,800, for each year. The support is in the form of a line of credit to purchase nutritious foods from approved vendors. The amounts reflected in the accompanying financial statements as Government grants are offset by like amounts included in program services as food expense.

NOTE 11: PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets are comprised of the following:

	<u>2004</u>	<u>2003</u>
Security deposits	\$ 23,375	\$ 34,313
Deferred leasing expense – net	19,265	17,648
Prepaid insurance	8,346	7,061
Other receivable	<u>10,395</u>	<u>-</u>
	<u>\$ 61,381</u>	<u>\$ 59,022</u>

Deferred leasing expense represents legal fees relating to lease negotiations and preparation, and are amortized using the straight-line method, over the term of the lease. The deferred leasing expenses shown above are net of accumulated amortization of \$3,958 and \$1,979 for the year ended June 30, 2004 and 2003, respectively.

NOTE 12: ADVANCE PAYABLE

The Department of Social Services of the Human Resources Administration on behalf of the City of New York (the "Department") advanced The HOPE Program \$45,122 pursuant to an agreement entered into on December 4, 2001. Under the contract The HOPE Program shall repay the full amount of the advance to the Department, prior to the termination of the contract, in a time, manner, and form acceptable to the Department. The advance has no specified due date and must be held in an interest bearing account. Accrued interest may be paid to the Department or may be applied as a credit, at the direction of the Department. The contract terminates September 2006.