

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

Financial Statements

June 30, 2005
(With Comparative Totals for June 30, 2004)



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, 2005, 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, 2004 financial statements and in our report dated October 29, 2004, 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, 2005, 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 31, 2005

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THE HOPE PROGRAM
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Statements of Financial Position

June 30, 2005
(With Comparative Totals for June 30, 2004)

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and cash equivalents - Note 1		
General operating cash	\$ 1,037,152	\$ 1,085,964
Designated reserve fund - Note 8	500,000	500,000
	<u>1,537,152</u>	<u>1,585,964</u>
Total Cash and Cash equivalents		
	1,537,152	1,585,964
Investments - Note 1 and 4	343,033	346,817
Contributions receivable - Note 7	159,622	269,925
Property, equipment and leasehold improvements, net - Note 1 and 2	434,793	424,542
Prepaid expenses and other assets - Note 11	48,636	61,381
	<u>48,636</u>	<u>61,381</u>
Total Assets	<u>\$ 2,523,236</u>	<u>\$ 2,688,629</u>
LIABILITIES		
Accounts and accrued expenses payable	\$ 27,568	\$ 92,208
Accrued Rent - Note 1	93,694	89,420
Advance payable - Note 12	26,993	45,122
	<u>148,255</u>	<u>226,750</u>
Total Liabilities		
	148,255	226,750
NET ASSETS		
Unrestricted:		
General operating	1,654,008	1,548,312
Designated Reserve Fund - Note 8	500,000	500,000
	<u>2,154,008</u>	<u>2,048,312</u>
Total Unrestricted		
	2,154,008	2,048,312
Restricted:		
Temporarily restricted - Note 5	5,242	202,717
Permanently restricted - Note 6	215,731	210,850
	<u>220,973</u>	<u>413,567</u>
Total Restricted		
	220,973	413,567
Total Net Assets	<u>2,374,981</u>	<u>2,461,879</u>
Total Liabilities and Net Assets	<u>\$ 2,523,236</u>	<u>\$ 2,688,629</u>

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

THE HOPE PROGRAM
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Statements of Activities

Year Ended June 30, 2005
(With Comparative Totals for June 30, 2004)

	2005			2004		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total	Total
REVENUES, INVESTMENT INCOME AND OTHER SUPPORT						
Foundation & corporate contributions - Note 5 and 7	\$ 546,070	\$ 570,000	\$ -	\$ 1,116,070	\$ 1,102,174	
Individual contributions	209,979	-	4,881	214,860	225,603	
Government grants - Note 7 and 10	94,557	31,717	-	126,274	138,680	
Other not-for-profit organizations	15,000	-	-	15,000	-	
Investment income - Note 4	47,703	-	-	47,703	60,028	
Special events	22,524	15,000	-	37,524	290,534	
Net assets released from restrictions:						
Satisfaction of program restrictions	814,192	(814,192)	-	-	-	
Total Revenues, Investment Income and Other Support	1,750,025	(197,475)	4,881	1,557,431	1,817,019	
EXPENSES						
Program services	1,344,085	-	-	1,344,085	1,245,981	
Management and general	151,330	-	-	151,330	130,694	
Fund raising	148,914	-	-	148,914	222,519	
Total Expenses	1,644,329	-	-	1,644,329	1,599,194	
Change in Net Assets	105,696	(197,475)	4,881	(86,898)	217,825	
Net Assets at Beginning of Year	2,048,312	202,717	210,850	2,461,879	2,244,054	
Net Assets at End of Year - Notes 5 and 6	\$ 2,154,008	\$ 5,242	\$ 215,731	\$ 2,374,981	\$ 2,461,879	

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, 2005
(With Comparative Totals for June 30, 2004)

	Supporting Services				Total	Total
	Program Services	Management and General	Fund Raising		June 30, 2005	June 30, 2004
Salaries	\$ 718,088	\$ 93,377	\$ 95,098	\$	906,563	\$ 793,179
Payroll taxes and related benefits	120,290	15,479	15,811		151,580	125,895
Professional fees	17,432	2,243	2,191		21,866	19,990
Consultant fees	13,517	1,956	625		16,098	16,124
Rent - Notes 1 & 3	158,029	11,402	7,983		177,414	169,664
Insurance	23,918	3,120	3,048		30,086	28,602
Student travel / Meals	82,959	-	-		82,959	82,468
Maintenance & Security	7,442	1,449	943		9,834	7,477
Printing & postage	7,450	1,121	8,848		17,419	20,118
Utilities	10,274	723	503		11,500	10,142
Telephone	9,413	1,228	1,200		11,841	10,362
Food expense - Note 10	40,472	94	-		40,566	38,683
Gala expense	-	-	-		-	121,620
Program expenses	40,275	502	350		41,127	40,470
Office expense	23,441	5,390	4,732		33,563	24,530
Miscellaneous	6,571	1,667	966		9,204	6,915
Depreciation and amortization	64,514	11,579	6,616		82,709	82,955
Total Expenses	<u>\$ 1,344,085</u>	<u>\$ 151,330</u>	<u>\$ 148,914</u>	<u>\$</u>	<u>1,644,329</u>	<u>\$ 1,599,194</u>

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

THE HOPE PROGRAM
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Statements of Cash Flows

Year Ended June 30, 2005
(With Comparative Totals for June 30, 2004)

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (86,898)	\$ 217,825
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	82,709	82,955
Net realized and unrealized gain on investments	(21,757)	(41,267)
Increase (decrease) in cash flows due to changes in operating assets and liabilities		
Contributions receivable	110,303	57,118
Prepaid expenses and other assets	12,745	(2,359)
Accounts and accrued expenses payable	(64,640)	64,807
Accrued rent	4,274	29,746
Net Cash Provided by Operating Activities	<u>36,736</u>	<u>408,825</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advance payable	<u>(18,129)</u>	<u>-</u>
Net Cash Used by Financing Activities	<u>(18,129)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and leasehold improvements	(89,759)	(12,727)
Investments - net	<u>22,340</u>	<u>(47,493)</u>
Net Cash Used by Investing Activities	<u>(67,419)</u>	<u>(60,220)</u>
Net Increase (decrease) in Cash and Cash Equivalents	(48,812)	348,605
Cash and Cash Equivalents at Beginning of Year	<u>1,585,964</u>	<u>1,237,359</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 1,537,152</u></u>	<u><u>\$ 1,585,964</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 purposes of the Corporation are (1) to empower individuals living in poverty to achieve self sufficiency and (2) to inform practices and policy by sharing its research and solutions. The Corporation provides direct services primarily to 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.

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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, 2004, 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. The total accrued rent from the commencement of the lease through June 30, 2005 is approximately \$94,000. The annual rent expense (base rent excluding escalation charges) on a straight-line basis will be approximately \$162,000 per year in future years excluding escalation charges.

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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>2005</u>	<u>2004</u>
Property and equipment	\$ 229,514	\$ 226,014
Leasehold improvements	<u>508,498</u>	<u>429,966</u>
	738,012	655,980
Less: Accumulated depreciation	<u>303,219</u>	<u>231,438</u>
	<u>\$ 434,793</u>	<u>\$ 424,542</u>

Depreciation expense for the year ended June 30, 2005 and 2004 was approximately \$80,000, 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:

2006	\$ 154,091
2007	167,734
2008	177,276
2009	182,594
2010	188,073
Thereafter	<u>258,918</u>
	<u>\$ 1,128,686</u>

NOTE 4: INVESTMENTS AND INVESTMENT INCOME

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

	<u>2005</u>	<u>2004</u>
Money Market Funds	\$ 14,444	\$ 90,492
Government Securities	49,622	-
Marketable Equity Securities	26,829	20,864
Mutual Funds	<u>252,138</u>	<u>235,461</u>
	<u>\$ 343,033</u>	<u>\$ 346,817</u>

Investment income is comprised of the following:

Interest and dividend income	\$ 25,946	\$ 18,761
Realized and Unrealized gain	<u>21,757</u>	<u>41,267</u>
	<u>\$ 47,703</u>	<u>\$ 60,028</u>

Interest and dividend income includes interest earned on cash and cash equivalent balances.

NOTE 5: TEMPORARILY RESTRICTED NET ASSETS

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

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Notes to Financial Statements

NOTE 6: PERMANENTLY RESTRICTED NET ASSETS

Permanently Restricted Net Assets consist of \$215,731 for a permanent endowment. The investment income from this endowment is unrestricted

NOTE 7: CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2005 and 2004, in the amounts of \$159,622 and \$269,925, respectively, were reported as income in their respective fiscal years, in accordance with generally accepted accounting principles in the United States of America, although they were collected in the following fiscal years. These amounts are reported in the Statements of Activities as follows:

	<u>2005</u>	<u>2004</u>
Foundation & corporate contributions	\$ 100,000	\$ 215,000
Individual contributions	25,000	-
Gala fundraiser	-	54,925
Government grants	<u>34,622</u>	<u>-</u>
	<u>\$ 159,622</u>	<u>\$ 269,925</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 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 2005 and 2004 of \$14,800 for each year. The support is in the form of a line of credit to acquire 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>2005</u>	<u>2004</u>
Security deposits	\$ 23,375	\$ 23,375
Deferred leasing expense – net	16,733	19,265
Prepaid insurance	8,528	8,346
Other receivable	<u>-</u>	<u>10,395</u>
	<u>\$ 48,636</u>	<u>\$ 61,381</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 \$6,490 and \$3,958 for the year ended June 30, 2005 and 2004, 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.

During the year ended June 30, 2005, the Human Resources Administration elected to recoup \$18,129 of the Advance Payable from payments to be made to The HOPE Program under the contract. This reduced the Advance Payable to \$26,993 as of June 30, 2005.