FOCUS: HOPE AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 and 2017

Contents

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Focus: HOPE
Detroit, Michigan

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Focus: HOPE and Subsidiaries (Focus: HOPE), a nonprofit organization, which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Auditor's Responsibility (Continued)

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

Emphasis of Matter

As discussed in Note 20 of the financial statements, Focus: HOPE has identified cash flow issues. Management's evaluation of the condition and management's plan to mitigate the matter is also discussed in Note 20. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Focus: HOPE as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2019 on our consideration of Focus: HOPE's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 in considering Focus: HOPE's internal control over financial reporting and compliance.

Alan C. Young & Asso.

Detroit, Michigan
January 31, 2019

FOCUS: HOPE AND SUBSIDIARIES

Consolidated Statements of Financial Position
September 30, 2018 and 2017

ASSETS	2018	2017
Current Assets		
Cash	$ 1,295,739	$ 253,632
Restricted Cash	1,816,600	1,266,894
Investments	1,015,709	1,253,215
Accounts Receivable, Net	1,542,979	934,778
Pledges Receivable, Net	591,650	786,667
Prepaid Expenses	18,144	24,087
Other Current Assets (Escrow)	33,462	34,458
Total Current Assets	6,314,283	4,553,731
Long-Term Pledge Receivables, Net	284,523	622,276
Construction in Progress	915,987	35,000
Property and Equipment, Net	5,331,672	6,269,012
Total Assets	$ 12,846,465	$ 11,480,019

LIABILITIES AND NET ASSETS	2018	2017
Current Liabilities		
Accounts Payable	$ 2,262,178	$ 1,351,428
Accrued Liabilities	838,061	957,245
Grantee Advance	243,490	-
Deferred Revenue	469,640	415,000
Line of Credit	557,500	947,500
Current Portion of Long-Term Debt	165,535	50,844
Total Current Liabilities	4,536,404	3,722,017
Long-Term Debt, Less Current Portion	2,992,594	3,158,129
Total Liabilities	7,528,998	6,880,146
Net Assets		
Unrestricted	635,955	(1,424,948)
Temporarily Restricted	4,681,512	6,024,821
Total Net Assets	5,317,467	4,599,873
Total Liabilities and Net Assets	$ 12,846,465	$ 11,480,019

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

FOCUS: HOPE AND SUBSIDIARIES

Consolidated Statements of Activities
Years Ended September 30, 2018 and 2017

	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenues								
Federal Funds	$ 6,868,381	$ -	$ -	$ 6,868,381	$ 6,161,555	$ -	$ -	6,161,555
USDA Commodities	10,368,103	-	-	10,368,103	8,643,011	-	-	8,643,011
State and Local Funds	1,430,633	-	-	1,430,633	421,175	-	-	421,175
Foundation, Trust and Corporate Contributions	3,128,242	1,138,165	-	4,266,407	4,579,020	1,012,102	-	5,591,122
Other Contributions	1,799,305	-	-	1,799,305	1,312,851	-	-	1,312,851
Contributed Goods and Services	432,279	-	-	432,279	575,613	-	-	575,613
Tuition Revenue	284,510	-	-	284,510	380,363	-	-	380,363
Focus Hope Companies Revenue	4,099,817	-	-	4,099,817	5,944,573	-	-	5,944,573
Other Revenue	1,508,845	-	-	1,508,845	1,944,884	-	-	1,944,884
Net Assets Released from Restrictions	2,481,474	(2,481,474)	-	-	2,499,184	(2,499,184)	-	-
Total Public Support and Revenues	32,401,589	(1,343,309)	-	31,058,280	32,462,229	(1,487,082)		30,975,147
Expenses								
Personnel								
Lease Employees	3,512,448	-	-	3,512,448	5,685,640	-	-	5,685,640
Program (Food, Education, Other)	5,867,686	-	-	5,867,686	7,035,860	-	-	7,035,860
General	3,206,966	-	-	3,206,966	2,988,686	-	-	2,988,686
Equipment and Supplies	830,924	-	-	830,924	1,013,428	-	-	1,013,428
USDA and Other Commodities Expense	10,368,103	-	-	10,368,103	8,643,011	-	-	8,643,011
Services	3,141,444	-	-	3,141,444	2,838,923	-	-	2,838,923
Facilities	1,233,061	-	-	1,233,061	1,370,604	-	-	1,370,604
Other Operating Expenses	303,403	-	-	303,403	472,551	-	-	472,551
Tuition Assistance and Scholarship	-	-	-	-	18,102	-	-	18,102
Depreciation	1,522,266	-	-	1,522,266	1,511,731	-	-	1,511,731
Interest and other charges	354,385	-	-	354,385	270,418	-	-	270,418
Total Expenses	30,340,686	-	-	30,340,686	31,848,954			31,848,954
Change in Net Assets	2,060,903	(1,343,309)	-	717,594	613,275	(1,487,082)	-	(873,807)
Net Assets at Beginning of Year	(1,424,948)	6,024,821	-	4,599,873	(2,038,223)	7,511,903	-	5,473,680
Net Assets at End of Year	$ 635,955	$ 4,681,512	$ -	$ 5,317,467	$ (1,424,948)	$ 6,024,821	$ -	$ 4,599,873

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

FOCUS: HOPE AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017

CASH FLOWS FROM OPERATING ACTIVITIES	**2018**	**2017**
Change in Net Assets	$ 717,594	$ (873,807)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	1,522,266	1,511,731
Gain on Disposal of Fixed Assets	(52,297)	(180,603)
Provision for Doubtful Accounts	44	194,715
Unrealized (Gain)/loss on Investments	8,806	(120,346)
Receipt of Donated Property	-	(218,955)
Changes in Operating Assets and Liabilities:		
Capital Assets-in-transit	(880,987)	-
Accounts Receivable	(608,245)	294,677
Other Current Assets (Escrow)	996	12,982
Pledge Receivables	532,770	1,078,393
Accounts Payable	910,750	(496,843)
Accrued Liabilities	(119,184)	(360,313)
Deferred Revenue	54,640	(11,587)
Grantee Advance	243,490	-
Prepaid Expenses	5,943	7,945
Net Cash Provided by Operating Activities	2,336,586	837,989
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Disposal of Fixed Assets	128,387	180,603
Change in Investments	228,700	296,899
Purchases of Property, Plant and Equipment	(661,016)	(296,981)
Net Cash Provided by (Used In) Investing Activities	(303,929)	180,521
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments and Maturities of Debt	(50,844)	(244,499)
Proceeds/Payments on Line of Credit	(390,000)	(52,500)
Net Cash Used in Financing Activities	(440,844)	(296,999)
Net Increase in Cash and Restricted Cash	1,591,813	721,511
Cash and Restricted Cash at Beginning of Year	1,520,526	799,015
Cash and Restricted Cash at End of Year	$ 3,112,339	$ 1,520,526
Supplemental Disclosure		
Interest Paid	$ 323,446	$ 270,418

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

1) ORGANIZATION

The consolidated financial statements included are those of Focus: HOPE (the Organization), its wholly-owned subsidiaries (Focus: HOPE Companies, Inc., Focus: HOPE Foundation, Generation of Promise and Focus: HOPE Revitalization), and the Housing and Transportation Assistance Trust. All significant intercompany accounts and transactions have been eliminated in consolidation.

Focus: HOPE is a non-profit civil and human rights organization. Founded in 1968, its mission is to promote intelligent and practical action to overcome racism, poverty and injustice in metropolitan Detroit. The organization focuses on three main areas: a food program, education and training programs, and a comprehensive community development program called The HOPE Village Initiative.

Food Program

The Focus: HOPE Food Program is one of the nation's largest Commodity Supplemental Food Programs for low income senior citizens. Each month, it distributes food to approximately 44,000 senior citizens with a minimal number of women & children through its three distribution centers and one central warehouse. The program assists residents of Wayne, Oakland, Macomb and Washtenaw counties and is administered through the U.S. Department of Agriculture.

Education and Training Programs

Focus: HOPE has three work readiness programs, two workforce development programs, one college degree program and one job coaching workplace training program.

<u>Fast Track</u>

Fast Track is a work readiness and academic skills enhancement program comprised of three essential components: Jump Start, Academics and Work Readiness that helps students significantly improve their math, reading and communication skills. Students who have a high school diploma or GED but have tested below the appropriate grade level for the job training program and interested in pursuing a technical career are enrolled in this program. The coursework stresses academics, time management, teamwork ethics, and conflict resolution.

<u>Earn and Learn</u>

The Earn and Learn program targets male residents between the ages of 18 and 24 from Detroit, Highland Park and Hamtramck. Females over 24 are eligible to apply if they are chronically unemployed or returning citizens. Students take four weeks of job readiness training in Customer Service, First Aid and CPR certification that makes them eligible for placement in jobs. Following successful completion of the readiness program, students may receive a grant to enroll in a high demand skill program. This program helps the students build a strong resume and good work habits.

1) ORGANIZATION (Continued)

Machinist Training Institute (MTI)

The Machinist Training Institute offers an Integrated Advanced Manufacturing program consisting of manufacturing concepts needed for advanced manufacturing job skills. Students learn the manual use of lathes and mills, how to read a blueprint, shop theory, math, communications and the knowledge needed to work as a CNC machine operator or a CNC machinist. MTI is licensed by the State of Michigan.

Information Technologies Center (ITC)

The Information Technologies Center prepares students for careers in Information Technology by training them for industry certifications and emphasizing communication and professional work skills. The ITC is a Cisco Network Academy, a Microsoft IT Academy, and a CompTIA Authorized Partner Program which assures that its programs align with high IT industry standards. It is also accredited by ACCET (Accrediting Council for Continuing Education and Training). The ITC is an authorized testing center, so graduates can take industry certifications on-site. The ITC's programs includes Server Administration and Network Administration.

Other Education Programs

- **Production Worker Training**: Part of the strategic initiative launched in FY 2018 was to engage in employer driven training programs. Focus: HOPE identifies anchor employers, then provides when necessary readiness training, support services, post placement services and technical training. There were two new employer relationships developed in FY 2018 as part of this new model. One was with Metropolitan Detroit Area Hospital Services (MDAHS) who provides linen cleaning services to area hospitals. The other was with Flex N Gate who recently built a state of the art manufacturing facility in the City of Detroit.

- **State of Michigan Appropriation:** Through the Michigan Economic Development Corporation (MEDC), the State of Michigan provided one million dollars of funding in FY 2018. This was for phase one of a two phase agreement to provide funding to sustain and expand our training programs. Phase one funding was used to procure the equipment necessary to facilitate adding new trainings in robotics, work readiness, and logistics. Phase two will take place in FY 2019 to deliver these new training programs.

Information Management and Systems Administration (IMSE)

The IMSE program, offered through a partnership with Wayne State University (WSU), allows graduates of the ITC program to pursue a bachelor's degree that combines IT and business course work. Students take a bridge course at Focus: HOPE, then enroll at WSU and work part-time in IT jobs.

1) ORGANIZATION (Continued)

Education and Training Programs (Continued)

American Apprenticeship Program

During FY 2016, Focus: HOPE was awarded a $3 million grant from the U.S. Department of Labor to provide hands-on apprenticeship programs where workers earn and learn at the same time towards a proven path to good, secure middle-class jobs. In partnership with DASI-Solutions and Jackson Area Manufacturers Association (JAMA), Focus: HOPE collectively offers well-established industrial design technical, engineering technician and quality engineer apprenticeship programs. Focus: HOPE apprenticeship training tracks includes network technology administrator, computer numerical control machinist, and prototype technician to keep up with the new high-tech jobs in the fields of manufacturing and information technology. This grant also includes Fast Track training, if necessary, to ensure that the students are ready to qualify for the apprenticeship program.

Health Care Program

Focus: HOPE offers Health Care training through its unique collaboration with Oakland University School of Nursing, the City of Detroit, Detroit Employment Solutions Corporation, St. Johns Providence Hospital, Detroit Medical Center and Henry Ford Health Systems. This program was created in response to increasing hospital demand for patient sitters and patient case associates and to create awareness amongst Detroiters of viable career pathways in the healthcare industry.

The HOPE Village Initiative (HVI)

The HOPE Village Initiative is a major endeavor envisioned as a catalyst for change in the neighborhoods immediately surrounding Focus: HOPE's campus. The community-based initiative aims to create a web of resources and support for children, their families and the community. At its center is a commitment to improve education achievement and excellence.

Early Childhood Education

Focus: HOPE's Early Learning Programs operating at the Center for Children and New Paradigm Glazer Academy, offers quality child care in an education environment for infants and children up to age five. Focus: HOPE offers Early Head Start/ Head Start (Birth to Five) along with the Great Start Readiness Program and other early childhood preschool education programs. The programs serve the children in the community who meet Head Start or Great Start Readiness Program requirements. Additionally, through a community-based doula program, it provides non-medical peer support for low income pregnant mothers.

Generation of Promise

Generation of Promise, a 501(c)(3) organization established in 1990, is an urban/suburban diversity and leadership development program for high school juniors. Effective January 1, 2010, it became a subsidiary of Focus: HOPE.

1) ORGANIZATION (Continued)

The HOPE Village Initiative (HVI) (Continued)

Community Involvement and Safety Program

The Community Involvement and Safety Program works hand in hand with government and community organizations to revitalize the surrounding neighborhood. This includes the Community Safety initiatives, Neighborhood Network Revitalization and Neighborhood Economic Revitalization programs.

Community Arts

The Community Arts Department grew out of a Ford Foundation grant to use the arts as a means of educating youth about the value of diversity. The department runs media-based youth development programs for low income youth in the HOPE Village.

Center for Working Families (CWF)

The Center for Working Families, in collaboration with existing services at Focus: HOPE, provides individuals and families access to the three core components; Workforce Development, Income Supports and Financial Literacy, with the anticipation that families will use all the services as needed over a period of time. The attraction of the CWF framework is its mix of services that supports and aligns with the goal of moving families to increase stability in income and assets.

Freedom Schools

Focus: HOPE in collaboration with the Children's Defense Fund (CDF) launched HOPE Village CDF freedom schools program in 2016. The goal of this program is to promote the development of strong, literate and empowered young people in Detroit's HOPE Village. The full-day summer program lasts six weeks, features a multicultural reading curriculum and is free to all families.

Other Programs

In addition to the specific programs described above, Focus: HOPE offers volunteer opportunities that engaged approximately 10,000 volunteers in 2018 working in various departments, packing food boxes, community clean-ups and other activities.

Special events such as Eleanor's WALK FOR HOPE in October and Holiday Music Festival in December bring thousands of people together to affirm their commitment to civil and human rights.

Focus: HOPE Companies, Inc.

Focus: HOPE Companies, Inc. (FHC) is a Michigan for-profit corporation providing employee leasing services to Android.

1) ORGANIZATION (Continued)

Other Programs (Continued)

Focus: HOPE Foundation

Established in 1998 as a Michigan non-profit corporation, the Focus: HOPE Foundation raises and administers funds from private donors exclusively for the purpose of overcoming racism, poverty and injustice by supporting and carrying out the charitable, educational and scientific purposes of Focus: HOPE.

Focus: HOPE Revitalization

Focus: Hope Revitalization was established in 2002 as a Michigan non-profit Corporation through its Community and Economic Development department, Focus: HOPE Revitalization works hand-in-hand with government and community organizations to revitalize the surrounding neighborhood. It addresses neighborhood quality of life issues by rehabilitating housing, developing new housing, tearing down abandoned housing, revitalizing parks and public spaces, facilitating commercial revitalization and working to stop illegal dumping in the area.

Housing and Transportation Assistance Trust

The Housing and Transportation Assistance Trust (HTAT or the Trust) was formed by Focus: HOPE (selected by the Court as Trustor), in accordance with a 1983 consent judgment that settled a 1972 race discrimination lawsuit against a third party.

The Trust was formed to provide prospective relief to current and future African American employees of the defendant in the lawsuit by assisting these eligible beneficiaries in traveling to and residing near the defendant's facilities outside the city limits of Detroit and Hamtramck. The Trust provides assistance through subsidies on home mortgages/purchases and automobile loans/leases.

The Trust expires December 31, 2020. Any remaining assets will be donated to a nonprofit organization as discussed in the trust agreement.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Preparation of Financial Statements

The consolidated financial statements have been prepared in accordance with the accounting principles set forth in the AICPA Audit and Accounting Guide for Not-for-Profit Organizations. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Principles and Reporting Entity

In accordance with accounting standards applicable to Not-for-profit Organizations, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets: temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

These net asset classifications are described as follows:

- **Unrestricted Net Assets** - not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes or locations by action of the Board of Trustees.
- **Temporarily Restricted Net Assets** - subject to donor-imposed stipulations that may be fulfilled by actions of the Organization to meet the stipulations or become unrestricted at the date specified by the donor.
- **Permanently Restricted Net Assets** - subject to donor-imposed stipulations that they be retained and invested permanently by the Organization.

Cash

Cash includes cash on hand, and money market accounts at three financial institutions in 2018 and 2017, respectively. Restricted cash comprises mainly of restricted cash contributions and certain deferred revenue cash received, which was used subsequent to the year end.

Revenue Recognition

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends, or the 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.

Unconditional promises to give are reported as temporarily restricted support and are recognized at the estimated net present value of the future cash flows, net of allowances. An effective interest rate of 4.25% is used to discount the promises to give. When payment of an unconditional promise to give is received it is reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In absence explicit donor stipulations about how those long-lived assets must be maintained, Focus: HOPE reports expirations of donor restrictions when the donated or acquired long-lived assets are placed into service.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Food Program receives in-kind services that are donated during the year. The Food Program services include volunteer clerical support, delivery of food to program participants and the transportation of program participants to and from the food distribution centers using private vehicles. Center for Children Early Head Start program receives in kind services including parent participation in the classroom, community involvement for child care services, and enrollment efforts for the program. Focus: HOPE has estimated the value of delivery and other volunteer services provided to be approximately $816,718 and $759,090 in 2018 and 2017 respectively.

Allowance for Uncollectible Accounts

Tuition revenue and provisions for uncollectible accounts are recognized ratably over each of the academic terms in a fiscal year. Provisions for losses on student accounts and loans receivable are determined on the basis of loss experience and assessment of prospective risk and are included in the cost of program services in the consolidated financial statements. Pledges are reviewed annually for their collectability and past collection history. In fiscal years 2018 and 2017, a total of $44 and $194,715 were recorded as bad debt expense.

Deferred Revenue

Deferred revenue represents revenues collected but not earned as of September 30. This is primarily composed of revenue for billboard lease and certain grant revenue.

Concentrations of Risk and Significant Sources of Revenue

Contributions from individuals, foundations, corporations, businesses, research and development, and Federal grants currently account for the significant sources of public support and revenue.

Property and Equipment

Property and equipment are defined by Focus: HOPE as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Property and equipment are stated at cost, if purchased or at estimated fair market value at the date received, if donated. Cost of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the respective assets.

Accrued Compensated Absences

The amount of leave earned but not taken by full-time regular employees is recorded as a liability on the balance sheet. The amount reflects, as of September 30, all unused vacation balances.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification

Certain prior year numbers have been reclassified to conform to the current year presentation.

Investments

Investments in Money market funds, ETF's and mutual funds with readily determinable market values are recorded at fair value. Unrealized and realized gains and losses on these investments are reported in the consolidated statement of revenues and expenses. Securities are generally held in custodial investment accounts administered by certain financial institutions. See Note 4 for further details.

3) CASH AND RESTRICTED CASH

The deposits of the Organization in bank accounts (excluding outstanding checks and deposits in transit) total $3,320,058 and $1,790,512 of which $500,000 and $517,125 is insured through federal depository insurance. The total uninsured deposits were $2,820,058 and $1,273,387 in fiscal years 2018 and 2017, respectively. The Organization also had restricted cash balances of $1,816,600 and $1,266,894 for years ended September 30, 2018 and 2017, respectively.

4) FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements in the preparation of its financial statements, which utilize various inputs, including those that can be readily observable, corroborated, or are generally unobservable. The Organization's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The management determines the Organization's valuation policies utilizing information provided by the investment advisers.

Purchases and sales are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation or depreciation includes gains and losses on investments bought and sold as well as held during the year.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets

4) FAIR VALUE MEASUREMENTS (Continued)

Level 2: **(Continued)**

- Inputs other than quoted prices that are observable for the assets or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Investments

Investments consist primarily of money market funds, mutual funds, and exchange traded funds.

Following is the description of the valuation methodologies used for assets measured at fair value:

Cash and Money Market Funds: The fair value of the Organization's Investments in Money Market Funds is based on cost prices of the shares held by the Organization at the year end.

Mutual funds: Mutual funds are valued using Net Asset Value (NAV) provide by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of the shares outstanding.

Exchange Traded Funds: These funds own underlying assets and divided ownership of those assets into shares and stated on fair value based on a quoted market price.

The following table summarizes Focus: HOPE's investments based on inputs used to determine their values at September 30, 2018 and 2017, respectively.

	2018			
	Fair Value Measurements			
	Investments (at Fair Value)	(Level 1)	(Level 2)	(Level 3)
Money Market Fund	$ 37,267	$ 37,267	$ -	$ -
Exchange Traded Fund	530,065	530,065	-	-
	567,332	$ 567,332	$ -	$ -
Mutual Funds (a)	448,377			
	$ 1,015,709			

4) FAIR VALUE MEASUREMENTS (Continued)

	2017			
	Fair Value Measurements			
	Investments (at Fair Value)	(Level 1)	(Level 2)	(Level 3)
Money Market Fund	$ 75,837	$ 75,837	$ -	$ -
Exchange Traded Fund	587,596	587,596	-	-
	663,433	$ 663,433	$ -	$ -
Mutual Funds (a)	589,782			
	$ 1,253,215			

(a) Certain investments measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy but are presented to permit reconciliation to the investment line item to statement.

For the years ended September 30, 2018 and 2017, there were no significant transfers in and out of level 1, 2, and 3.

5) GRANTEE ADVANCE

During the year ended September 30, 2018, the Organization received $243,490 from Starfish Family Services as advance funding for the Detroit Early Head Start and Detroit Birth to Five grants based on their approved budget and enrollment adjustments. This advance is provided for the operational requirements of the grant and is to be adjusted at the end of the grant year in 2019. As per the requirements of the grantee, this amount is shown separately in the accompanying Consolidated Statement of Financial Position.

6) RECEIVABLES

Receivables consisted of the following at September 30:

	2018	2017
Trade Receivable	$ 408,761	$ 214,707
Tuition Receivable	816,372	817,240
Grants Receivable	1,180,312	762,644
	2,405,445	1,794,591
Allowance for Doubtful Accounts	(862,466)	(859,813)
Total	$ 1,542,979	$ 934,778

6) RECEIVABLES (Continued)

Pledges Receivable at September 30 are summarized as follows:

	2018	2017
Due Within One Year	$ 591,650	$ 788,317
Due in One to Five Years	301,000	671,000
	892,650	1,459,317
Discount	(16,477)	(47,765)
Pledges at Net Present Value	$ 876,173	$ 1,411,552
Reserve for Pledges	-	(2,609)
Net Pledges Receivable	$ 876,173	$ 1,408,943

7) PROPERTY AND EQUIPMENT

Property and equipment comprised of the following:

	2018	2017
Land and Improvements	$ 1,690,305	$ 1,690,305
Building and Improvements	52,877,543	52,674,494
Furniture, Fixtures and Equipment	7,210,922	6,918,230
Transportation Equipment	599,426	599,426
	62,378,196	61,882,455
Less: Accumulated Depreciation and Amortization	(57,046,524)	(55,613,443)
Total	$ 5,331,672	$ 6,269,012

Focus: HOPE receives donated computer hardware, software, furniture, fixtures, machinery and equipment. The fair market value of these donated assets was $218,955 for the year ended September 30, 2017, however, no such donations were received during the year ended September 30, 2018. These donations were shown as contribution and the assets were capitalized accordingly for the fiscal year 2017.

Focus: HOPE made additions to property and equipment in the amount of $661,016 and $515,936 for the years ended September 30, 2018 and 2017 respectively. Assets with acquisition cost of $165,275 and $31,121,633 and accumulated depreciation of $89,185 and $31,121,633 was disposed of during the fiscal year 2018 and 2017, respectively. The net gain on disposal of these assets of $52,297 and $180,603 was recorded for fiscal year 2018 and 2017, respectively. The total depreciation for the years ended September 30, 2018 and 2017 was $1,522,266 and $1,511,731, respectively.

7) PROPERTY AND EQUIPMENT (Continued)

Construction in Progress

During the fiscal year 2018 and 2017, total assets purchased but not put to use were $915,987 and $35,000 respectively. These assets were not depreciated during these years.

8) TEMPORARY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at September 30:

	2018	2017
Pledges & Restricted for Program Activities	$ 1,784,708	$ 2,664,192
HTAT	2,896,804	3,263,129
Ford Motor Company	-	97,500
Total	$ 4,681,512	$ 6,024,821

The following table summarizes the release from restrictions during the year ended September 30:

	2018	2017
Pledges & Restricted for Program Activities	$ 2,017,649	$ 2,157,408
HTAT	366,325	341,776
Ford Motor Company	97,500	-
Total	$ 2,481,474	$ 2,499,184

9) CONTRIBUTED SERVICE INCOME

Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Focus: HOPE received consulting and management services as contributed service income in fiscal year 2018 and 2017. The total value of these services was $282,440 and $255,176 for the years ended September 30, 2018 and 2017, respectively.

10) DEFERRED REVENUE

Focus: HOPE entered into a “billboard lease” agreement (for its property located at 15531 Idaho, Detroit, MI) with Landmark Infrastructure Holding Company, LLC, for a lease period of 50 years for an initial lump sum payment of $450,000 during the year 2013-14. The lease agreement is set to expire on Nov 4, 2063. The entire amount was received in fiscal year 2014, leading to a deferred revenue balance of $405,000 and $414,000 for the years ended September 30, 2018 and 2017, respectively. The deferred revenue amount also includes $56,541 received from Starfish Family Services for its non-federal portion which is included in the total deferred revenue of $469,640 at September 30, 2018.

11) FINANCING ARRANGEMENTS

The Organization's long-term debt consisted of the following at September 30:

	2018	2017
Term Note - IFF	$ 3,158,129	$ 3,198,973
Other Payables	-	10,000
	3,158,129	3,208,973
Less: Current Portion	(165,535)	(50,844)
Total Long-Term Portion	$ 2,992,594	$ 3,158,129

In the fiscal year 2015 Focus: HOPE entered into a new loan agreement with IFF, an Illinois nonprofit company for a total amount of $3,500,000. The loan is collateralized with certain real estate properties owned by the Organization. This loan has a three-part arrangement.

The first part of the loan with a balance of $2,028,520 as of September 30, 2018 has a fixed interest rate of 6.25% with principal and interest due and payable on October 1, 2015 and every month thereafter, in equal consecutive installments of $13,872 over a 300-month period, with a maturity date of September 1, 2040.

The second part of the loan with a balance of $648,154 as of September 30, 2018 has an interest rate of 5% with principal and interest due and payable on October 1, 2015 and every month thereafter, in equal installments of $8,206 over a 60-month period, through August 31, 2020. From September 1, 2020 through maturity of the note on August 31, 2025, the note will bear interest at a fixed rate to be calculated on September 1, 2020. This rate will be the greater of 5% or the sum of the yield to maturity of U.S. Treasury obligations with a maturity equal to the note's maturity date plus 2.00%. Upon determination of the recalculated interest rate, an amortization schedule will be prepared indicating the appropriate principal and interest payments through the remainder of the term of the loan.

The third part of the loan with a balance of $522,299 as of September 30, 2018 has an interest rate of 5% with principal and interest due and payable on October 1, 2015 and every month thereafter, in equal consecutive installments of $6,612 over a 60-month period through August 31, 2020. From September 1, 2020 through maturity of the note on August 31, 2025, the note will bear interest at a fixed rate to be calculated on September 1, 2020. This rate will be the greater of 5% or the sum of the yield to maturity of U.S. Treasury obligations with a maturity equal to the note's maturity date plus 2.00%. Upon determination of the recalculated interest rate, an amortization schedule will be prepared indicating the appropriate principal and interest payments through the remainder of the term of the loan.

11) FINANCING ARRANGEMENTS (Continued)

As of September 25, 2017, part two and three of the loan had a modification to have monthly interest-only payments from October 1, 2017 through September 1, 2018. Scheduled principal and interest will resume thereafter. The modification does not alter the total amount due or interest rate calculation.

Focus: HOPE Principal maturities of long-term debt are as follows:

Year ended September 30,	Amount
2019	$ 165,535
2020	174,577
2021	184,117
2022	194,185
2023	204,810
2024-2040	2,234,905
Total	$ 3,158,129

12) LINE OF CREDIT

As per the requirement of the term loan with IFF, Focus: HOPE entered into a Committed Line of Credit Note with PNC bank for $1,000,000 with an interest rate calculated at 2% over the LIBOR rate with an expiration date of November 1, 2018. Accrued interest is due and payable on the 1st day of each month. Any outstanding balance including accrued interest is due payable in full on the expiration date. The balance of line of credit as of September 30, 2018 and 2017 was $557,500 and $947,500 respectively.

13) INCOME TAXES

Focus: HOPE and Focus: HOPE Foundation are exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and are classified as public charities under IRC Sections 509(a)(1) and 170(b)(1)(A)(vi). As such, contributions to Focus: HOPE and Focus: HOPE Foundation qualify as charitable deductions under IRC Section 170.

Focus: HOPE Companies, Inc. file their federal income tax return on Form 1120. As of September 30, 2018, FHC had $4,427,548 of net operating losses available to offset future taxable income. The Company did not have any tax liability during the year ended September 30, 2018.

13) INCOME TAXES (Continued)

The Accounting Standard on accounting for uncertainty in Income Taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management determined that the effects, if any, of this standard did not have a material impact on the consolidated financial statements.

14) PENSION PLAN

In August 2002 the Board approved a defined contribution pension plan. Under the provisions of the plan, employees may defer a portion of their compensation until retirement. Deductions are made from employee compensation during each pay period. In addition, Focus: HOPE has the option to provide a 50% match for each employee deferral up to 1.5% of compensation. Focus: HOPE also has the option to provide a match of 1% for all employees with no match required. Contributions are deposited in participant directed investment accounts. Focus: HOPE did not provide any match in fiscal years 2018 or 2017.

15) RELATED PARTY TRANSACTIONS

The Housing and Transportation Assistance Trust (the Trust) purchased administrative services from Focus: HOPE amounting to approximately $100,000 and $90,000 in fiscal years 2018 and 2017, respectively.

In prior years, the Trust has loaned Focus: HOPE funds for operations. The total balance outstanding, including unpaid interest, as of September 30, 2018 and 2017 was $1,873,841 and $2,019,773, respectively. The total interest charged by the Trust towards the outstanding loan, was $111,714 and $104,195 in 2018 and 2017, respectively. During the year, the Trust secured a mortgage against the outstanding balance which matures in full on December 31, 2018.

As a related party, the corresponding liability on Focus: HOPE’s accounts and the receivable on the HTAT’s accounts are offset during the preparation of consolidated financial statements.

16) FUND RAISING

The total cost for fund raising activities for the organization was approximately $631,355 and $1,244,195 for the years ended September 30, 2018 and 2017, respectively.

17) RESEARCH AND DEVELOPMENT

During the year ended September 30, 2017, Focus: HOPE had contracts with the U.S. Army Tank and Automotive Command (TACOM) for providing labor, materials, and research and development. The agreement was on a cost-plus reimbursement basis. Focus: HOPE generated revenue of $112,663 with total direct cost of $46,464 incurred on this research and development in fiscal year 2017. These contracts ended in 2017, and consequently, no such revenue or its related cost was recorded for the year ended September 30, 2018.

18) CONTINGENCIES

The expenditures for each program are subject to audit by the granting agency. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time although Focus: HOPE expects such amounts, if any, to be immaterial.

19) USDA AND OTHER COMMODITIES

Federal commodities represent the value of commodities received from the USDA for distribution in Focus: HOPE's food distribution program. The estimated value of USDA CSFP commodities received and distributed during the fiscal years ended September 30, 2018 and 2017 was $10,218,264 and $8,643,011 respectively. For the fiscal year 2018, the Organization also received other in-kind commodities in the amount of $149,839.

20) MANAGEMENT PLAN

A new management team joined Focus: HOPE in September 2018 and focused on moving the organization forward through the execution of the strategic plan. Steps were made to create metrics to measure the organization's progress towards the objectives outlined in that plan. Those metrics are measured monthly and shared with the Board of Directors to keep everyone apprised of the progress being made.

The program directors are now given greater accessibility to their current financial status with regards to money being spent, variance to budget and grant funds remaining through monthly meetings with a member of the finance team. This strengthened line of communication allows the program managers to react quickly when issues arise. What we have also seen over the last few months is improved financial performance in all program areas of the organization and financial responsibility is a shared effort.

20) MANAGEMENT PLAN (Continued)

As a large part of the strategic plan revolved around the right-sizing of the organization's operational footprint, a purchase agreement was signed to sell off approximately 241,000 sq/ft of real estate shrinking the Focus: HOPE footprint to just 4 buildings, an administrative operations building, a training center, a food distribution center and a child care center. This transaction will allow for efficient operations while giving the organization a much-needed boost in cash.

In January 2019 a new Chief Development Officer was named and has started to develop a plan for fundraising efforts around a new capital campaign for infrastructure and for the company's move to the C.A.T. building (1400 Oakman).

In addition to the actions and changes noted above, other changes include:

- The 2nd phase of the $2,000,000 grant from the State of Michigan which provides readiness, equipment, and training for robotics, automation, logistics and warehousing has begun its first training cohort in the robotics program with students well on their way to a new career. The workforce development team has also added hospitality training with the plan for students at the end of the training to be hired by MGM Grand Detroit.
- Subsequent to year end, the Organization has received contributions of over $1,500,000 through January 31, 2019.
- Subsequent to year end, the Resource Center building at 1355 Oakman was sold to reduce debt by $522,000.

21) NEW ACCOUNTING PRONOUNCEMENTS

Financial reporting for not-for-profit (NFP) entities is about to experience a sea change under three new accounting standards. Issued by FASB after more than a decade of deliberation, two will be effective for most NFP's in 2019 – Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), and ASU 2016-02 Leases (Topic 842). The third, ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, is effective for 2018.

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), in May 2014. The objectives of this ASU are to improve upon revenue recognition requirements by providing a single comprehensive model to determine the measurement of revenue and timing of recognition. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This ASU also requires expanded qualitative and quantitative disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

21) NEW ACCOUNTING PRONOUNCEMENTS (Continued)

The FASB issued ASU 2016-02, Leases (Topic 842), in February 2016. ASU 2016-02 requires the recognition by lessees of assets and liabilities that arise from all lease transactions, except for leases with a lease term of 12 months or less. The lessee accounting model under ASU 2016-02 retains two types of leases: finance leases, which are to be accounted for in substantially the same manner as the existing accounting for capital leases, and operating leases, which are to be accounted for (both in the statements of activities and the statements of cash flows) in a manner consistent with existing accounting for operating leases. ASU 2016-02 also requires expanded qualitative and quantitative disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases.

The FASB issued ASU 2016-14, Presentation of Financial Statements of Not For-Profit Entities, in August 2016. ASU 2016-14 modifies the requirements related to financial statement presentation for non-profit organizations. The major provisions of ASU 2016-14 are as follows:

- Information about net assets and changes in net assets will be reported for two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.
- Reporting of expenses by both function and nature in one location will be required for all non-profit organizations.
- Either the direct method or the indirect method for presenting operating cash flows may continue to be used, but the requirement for those entities using the direct method to prepare a reconciliation with the indirect method will be eliminated.
- Quantitative information that communicates the availability of the organization's financial assets as of the statement of financial position date to meet cash needs for general expenditures within one year will be required to be presented on the face of the financial statements or in the notes to the financial statements.
- Qualitative information on how the organization manages its liquid available resources and liquidity risks will be required to be disclosed in the notes to the financial statements.
- Reporting of the "underwater" amounts of donor-restricted endowment funds in net assets with donor restrictions and enhanced disclosures about "underwater" endowments will be required.
- Other enhanced disclosures regarding board designations and appropriations, the nature of net assets with donor restrictions, and functional expense allocation methods will also be required.

22) FUNCTIONAL EXPENSES

The Organization's expenses have been allocated between program and management and general expenses based on direct identification when possible, and allocation if a single expenditure benefits more than one program or function. Expenditures that require an allocation are allocated on either a personnel-cost or square-footage basis, whichever is more reasonable for the expenditure. A summary of the Organization's functional allocation of expenses is as follows for the year ended September 30:

	2018	2017
Program Expenses	$ 23,787,581	$ 25,731,850
Management & General Administration	6,553,105	6,117,104
Total	$ 30,340,686	$ 31,848,954

23) SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 31, 2019, the date that the accompanying consolidated financial statements were available to be issued. The following subsequent events were noted that required adjustment or disclosure in the financial statements.

- The Organization sold one of its properties for a total consideration of $1,100,000 and fully repaid the third part of the loan with IFF in the amount of $522,299.
- Related to Line of Credit, PNC bank waived $500,000 and the Organization repaid $57,500 with zero remaining outstanding balance to it.
- The Promissory Note payable to Housing and Transportation Assistance Trust (the Trust) in the original principal amount of $2,217,676 matured on December 31, 2018 and is now fully due. The Organization received a Notice of Default from the Trust in connection with this note in January 2019. It is the intention of the Organization to fully pay off this note from the proceeds of sale of building anticipated to be closed in the first half of 2019.