

FOCUS: HOPE AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2016 and 2015

FOCUS: HOPE AND SUBSIDIARIES

Contents

	<u>Page No.</u>
Independent Auditor's Report.....	1
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements.....	6



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

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, 2016 and 2015, 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.

**Independent Auditor's Report
(Continued)**

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.

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, 2016 and 2015, 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, 2017 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 & Assoc.

Detroit, Michigan
January 31, 2017

FOCUS: HOPE AND SUBSIDIARIES

Consolidated Statements of Financial Position September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash	\$ 799,015	\$ 534,686
Investments	1,429,768	1,606,045
Accounts Receivable, Net	1,424,170	1,476,202
Pledges Receivable, Net	674,335	989,557
Prepaid Expenses	32,032	43,344
Other Current Assets (Escrow)	47,440	47,746
Total Current Assets	<u>4,406,760</u>	<u>4,697,580</u>
Long-Term Pledge Receivables, Net	1,813,001	726,681
Property and Equipment, Net	<u>7,299,807</u>	<u>6,160,588</u>
Total Assets	<u>\$ 13,519,568</u>	<u>\$ 11,584,849</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 1,848,271	\$ 1,745,045
Accrued Liabilities	1,317,558	907,928
Deferred Revenue	426,587	468,149
Line of Credit	1,000,000	500,000
Current Portion of Long-Term Debt	<u>244,498</u>	<u>146,528</u>
Total Current Liabilities	4,836,914	3,767,650
Long-Term Debt, Less Current Portion	<u>3,208,974</u>	<u>3,353,472</u>
Total Liabilities	8,045,888	7,121,122
Net Assets:		
Unrestricted	(2,038,223)	(3,417,566)
Temporarily Restricted	<u>7,511,903</u>	<u>7,881,293</u>
Total Net Assets	<u>5,473,680</u>	<u>4,463,727</u>
Total Liabilities and Net Assets	<u>\$ 13,519,568</u>	<u>\$ 11,584,849</u>

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

FOCUS: HOPE AND SUBSIDIARIES

Consolidated Statements of Activities Years Ended September 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenues								
Federal Funds	\$ 5,590,947	\$ -	\$ -	\$ 5,590,947	\$ 5,983,178	\$ -	\$ -	\$ 5,983,178
Federal Funds - USDA Commodities	9,329,359	-	-	9,329,359	10,689,262	-	-	10,689,262
State and Local Funds	299,264	-	-	299,264	1,435,985	-	-	1,435,985
Foundation, Trust and Corporate Contributions	3,375,180	2,516,135	-	5,891,315	1,731,694	3,127,283	-	4,858,977
Other Contributions	1,741,675	-	-	1,741,675	746,798	278,915	-	1,025,713
Contributed Goods and Services	3,313,528	-	-	3,313,528	235,623	-	-	235,623
Tuition Revenue	645,224	-	-	645,224	582,853	-	-	582,853
Focus Hope Companies Revenue	7,189,666	-	-	7,189,666	3,247,546	-	-	3,247,546
Other Revenue	1,673,948	-	-	1,673,948	1,573,483	-	-	1,573,483
Net Assets Released from Restrictions	2,885,525	(2,885,525)	-	-	3,483,345	(3,483,345)	-	-
Total Public Support and Revenues	36,044,316	(369,390)	-	35,674,926	29,709,767	(77,147)	-	29,632,620
Expenses								
Personnel								
Lease Employees	6,727,891	-	-	6,727,891	639,153	-	-	639,153
Program (Food, Education, Other)	7,427,436	-	-	7,427,436	10,787,853	-	-	10,787,853
General	3,413,781	-	-	3,413,781	3,620,402	-	-	3,620,402
Equipment and Supplies	1,164,137	-	-	1,164,137	1,364,750	-	-	1,364,750
USDA Commodities Expense	9,329,359	-	-	9,329,359	10,689,262	-	-	10,689,262
Services	2,804,501	-	-	2,804,501	2,053,923	-	-	2,053,923
Facilities	1,249,003	-	-	1,249,003	1,704,583	-	-	1,704,583
Other Operating Expenses	354,766	-	-	354,766	464,103	-	-	464,103
Tuition Assistance and Scholarship	525,539	-	-	525,539	442,884	-	-	442,884
Depreciation	1,252,802	-	-	1,252,802	1,211,543	-	-	1,211,543
Interest and other charges	415,758	-	-	415,758	220,831	-	-	220,831
Total Expenses	34,664,973	-	-	34,664,973	33,199,287	-	-	33,199,287
Change in Net Assets	1,379,343	(369,390)	-	1,009,953	(3,489,520)	(77,147)	-	(3,566,667)
Net Assets at Beginning of Year	(3,417,566)	7,881,293	-	4,463,727	71,954	7,958,440	-	8,030,394
Net Assets at End of Year	\$ (2,038,223)	\$ 7,511,903	\$ -	\$ 5,473,680	\$ (3,417,566)	\$ 7,881,293	\$ -	\$ 4,463,727

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

FOCUS: HOPE AND SUBSIDIARIES

Consolidated Statements of Cash Flows Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,009,953	\$ (3,566,667)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	1,252,802	1,211,543
Gain on Disposal of Fixed Assets	(194,570)	(900)
Provision for Doubtful Accounts	21,732	85,355
Unrealized (Gain)/loss on Investments	(21,657)	210,131
Receipt of Donated Property	(2,886,834)	(85,000)
Loss on Disposal of Assets	752,385	-
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(740,798)	1,639,049
Other Current Assets (Escrow)	306	22,271
Accounts Payable	103,226	248,460
Accrued Liabilities	409,630	144,519
Deferred Revenue	(41,562)	4,152
Prepaid Expenses	11,312	(19,088)
Net Cash Used in Operating Activities	<u>(324,075)</u>	<u>(106,175)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Disposal of Fixed Assets	194,570	900
Change in Investments	197,934	(6,501)
Purchases of Property, Plant and Equipment	(257,572)	(979,258)
Net Cash Provided by/(Used in) Investing Activities	<u>134,932</u>	<u>(984,859)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments and Maturities of Debt	(46,528)	(3,470,066)
Proceeds from Debt	-	3,500,000
Proceeds from Line of Credit	500,000	500,000
Net Cash Provided by Financing Activities	<u>453,472</u>	<u>529,934</u>
Net (Decrease)/Increase in Cash	264,329	(561,100)
Cash at Beginning of Year	<u>534,686</u>	<u>1,095,786</u>
Cash at End of Year	<u>\$ 799,015</u>	<u>\$ 534,686</u>
Supplemental Disclosure		
Interest Paid	<u>\$ 319,886</u>	<u>\$ 270,557</u>

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

FOCUS: HOPE AND SUBSIDIARIES

**Notes to Consolidated Financial Statements
September 30, 2016 and 2015**

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, nutritionally at-risk mothers, babies, preschool children, and senior citizens. Each month, it distributes food to approximately 41,000 senior citizens through its four food centers. 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 offers education and workforce development programs with a holistic approach to prepare students in the fields of manufacturing, information technology and engineering and more.

Ready Set Go

Ready Set Go (formerly Fast Track) is a work readiness and academic skills enhancement program comprising 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 they want to pursue are enrolled in this program. The coursework stresses academics, time management, teamwork ethics, and conflict resolution.

Earn and Learn

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.

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

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 include Office & Customer Service Support, Technical Support Specialist, Network Administration, and Systems Administration.

Center for Advanced Technologies (CAT)

The Center for Advanced Technologies offers underrepresented students the opportunity to earn a college degree in engineering and obtain hands-on work experience either through internships or by participating in innovative research and development projects at Focus: HOPE. Classes are taught by faculty from partner universities, either at Focus: HOPE or on their campuses. Currently, students earn an associate degree from Lawrence Technological University and then can pursue any engineering discipline at Wayne State University, University of Detroit Mercy, University of Michigan or other partners. The program stresses the importance of obtaining work experience while enrolled in college, giving students an edge as they graduate and seek employment.

Other Education Programs

- The Year Round Youth (YRY) program through the Detroit Employment Solutions Corporation (DESC) offers the unique opportunity to eliminate employment barriers and gain valuable skills for men and women ages 19-24 living in Detroit.
- AweSTEM Summer Camp offers courses to youth in order to expose them to science, technology, engineering, mathematics (STEM) topics through exciting, hands-on activities that encourage creativity and experimentation. Courses include: Mobile App Design, Graphic Design & Publication and Exploration in STEM.
- In partnership with Detroit Area Pre-College Engineering Program (DAPCEP), Focus: HOPE offers hands-on and project based courses designed to heighten students' interest in the science, technology, engineering, mathematics (STEM) fields. Courses include Graphic Design & Publication and CSI: Forensic Science-Critical Thinkers in Motion.

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

1) ORGANIZATION (Continued)

Education and Training Programs (Continued)

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 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.

American Apprenticeship Program

During FY 2016, Focus: HOPE was awarded a five year \$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 Ready Set Go training, if necessary, to ensure that the students are ready to qualify for the apprenticeship program.

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

The Center for Children offers quality child care in an education environment for infants and children up to age five. It offers Early Head Start/Head Start (Birth to Five) along with the Great Start Readiness Program and other early childhood preschool education programs. The center serves the children of colleagues, students and area residents.

Freedom Schools

During the summer 2016 Focus: HOPE partnered with Children Defense Fund to promote the development of strong, literate and empowered young people in Detroit's HOPE Village in the age group of kindergarten to second grade by offering full-day summer program that included focus on STEAM, parent involvement, civil engagement and social action, and leadership development.

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.

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

1) ORGANIZATION (Continued)

The HOPE Village Initiative (HVI) (Continued)

Community and Economic Development

The Community & Economic Development initiative established in 1998 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 development & Job pipeline 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 programs that bring together youth from the city and suburbs.

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.

Other Programs

In addition to the specific programs described above, Focus: HOPE offers volunteer opportunities that engaged approximately 23,649 volunteers in 2016 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.

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

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

1) **ORGANIZATION (Continued)**

Other Programs (Continued)

Focus: HOPE Revitalization (Continued)

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 low-interest home mortgages and automobile loans.

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.

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.

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

2) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounting Principles and Reporting Entity (Continued)

- **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. The deposits of the Organization in bank accounts (excluding outstanding checks and deposits in transit) total \$933,110 and \$864,049 of which \$515,445 and \$682,834 is insured through federal depository insurance. The total uninsured deposits were \$417,675 and \$181,215 in fiscal years 2016 and 2015, respectively.

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 utilizes market-based data and valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Additionally, the Organization applies assumptions that market participants would use in pricing an asset or liability, including assumptions about risk.

Accounting standards establish a framework for measuring fair value, which includes a hierarchy based on the quality of inputs used to measure fair value, and provides specific disclosure requirements based on the hierarchy. The standards also require the categorization of financial assets and liabilities, based on the inputs to valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The various levels of fair value hierarchy are described as follows:

- **Level 1** – Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Organization has the ability to access.
- **Level 2** – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability.
- **Level 3** – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Accounting Standards require the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement falls is categorized.

Investments

Investments consist primarily of money market funds, stated at cost, which approximates market value, and equity securities and mutual funds, which are stated at fair value based upon quoted market prices. Interest and dividends received during the year are reinvested. The total interest and dividend income was \$27,084 and \$64,629 in fiscal years 2016 and 2015 respectively. The net unrealized gain (loss) on investments was \$21,657 and \$(210,131) in fiscal years 2016 and 2015, respectively.

The following table summarizes Focus: HOPE's investments based on inputs used to determine their values at September 30, 2016 and 2015, respectively.

	2016			
	Fair Value Measurements			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	2016
Money Market Fund	\$ 65,700	\$ -	\$ -	\$ 65,700
Fixed Income Investments	207,967	-	-	207,967
Equity Investments	1,068,389	-	-	1,068,389
Other Investments in Real Estate and Tangibles	87,712	-	-	87,712
	<u>\$ 1,429,768</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,429,768</u>
	2015			
	Fair Value Measurements			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	2015
Money Market Fund	\$ 109,629	\$ -	\$ -	\$ 109,629
Fixed Income Investments	149,324	-	-	149,324
Equity Investments	1,204,110	-	-	1,204,110
Other Investments in Real Estate and Tangibles	142,982	-	-	142,982
	<u>\$ 1,606,045</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,606,045</u>

For the years ended September 30, 2016 and 2015, there were no significant transfers in and out of level 1, 2, and 3.

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Receivables consisted of the following at September 30:

	<u>2016</u>	<u>2015</u>
Trade Receivable	\$ 614,074	\$ 360,243
Pledges Receivable	2,498,376	1,732,173
Tuition Receivable	5,077,797	5,128,562
Grants Receivable	771,481	912,525
Other Receivable	110,869	198,296
	<u>9,072,597</u>	<u>8,331,799</u>
Allowance for Doubtful Accounts	<u>(5,161,091)</u>	<u>(5,139,359)</u>
Total	<u>\$ 3,911,506</u>	<u>\$ 3,192,440</u>

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.

	<u>2016</u>	<u>2015</u>
Land and Improvements	\$ 1,690,305	\$ 1,690,305
Construction in Progress	148,230	188,672
Building and Improvements	52,410,296	52,396,924
Furniture, Fixtures and Equipment	37,701,060	38,316,610
Transportation Equipment	574,139	533,697
	<u>92,524,030</u>	<u>93,126,208</u>
Less: Accumulated Depreciation and Amortization	<u>(85,224,223)</u>	<u>(86,965,620)</u>
Total	<u>\$ 7,299,807</u>	<u>\$ 6,160,588</u>

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Focus: HOPE received donated furniture, fixtures, machinery and equipment. The fair market value of these donated assets was \$2,886,834 and \$85,000 for the years ended September 30, 2016 and 2015 respectively. These donations were shown as a contribution and the assets were capitalized accordingly for the both years.

Focus HOPE made additions to property and equipment in the amount of \$257,572 and \$979,258 for the years ended September 30, 2016 and 2015 respectively. Assets with acquisition cost of \$2,293,284 and \$256,344 and accumulated depreciation of \$2,292,284 and \$256,344 were disposed of during the fiscal year 2016 and 2015, respectively. The net gain on disposal of these assets of \$194,570 and \$900 was recorded for fiscal year 2016 and 2015, respectively.

During the year, the ownership of donated machinery and equipment was transferred by Focus: HOPE back to Department of Defense. The net book values of these assets were \$752,385 and resulted in a loss due to the retirement of these assets for the year ended September 30, 2016. The total asset value retired from Focus: HOPE books was \$1,453,300.

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 3.25% 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. Absent 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.

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Pledges receivable at September 30 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Due Within One Year	\$ 703,150	\$ 1,042,217
Due in One to Five Years	1,984,700	786,383
	<u>2,687,850</u>	<u>1,828,600</u>
Discount	(189,474)	(96,427)
Pledges at Net Present Value	\$ 2,498,376	\$ 1,732,173
Reserve for Pledges	(11,040)	(15,935)
Net Pledges Receivable	<u>\$ 2,487,336</u>	<u>\$ 1,716,238</u>

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

	<u>2016</u>	<u>2015</u>
Pledges & Restricted for Program Activities	\$ 3,255,348	\$ 3,336,071
HTAT	3,604,905	3,893,572
Cunningham	500,000	500,000
Ford Motor Company	97,500	97,500
Loan Fund	54,150	54,150
Total	<u>\$ 7,511,903</u>	<u>\$ 7,881,293</u>

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. These volunteer services do not meet the criteria required to be recorded in the financial statements. Focus: HOPE has estimated the value of delivery and other volunteer services provided to be approximately \$5,902,911 and \$5,797,447 in 2016 and 2015 respectively.

Reclassification

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

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2016 and 2015, a total of \$21,732 and \$50,379 were recorded as bad debt expense.

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.

3) FINANCING ARRANGEMENTS

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

	<u>2016</u>	<u>2015</u>
Term Note - IFF	\$ 3,353,472	\$ 3,500,000
Other Payables	100,000	-
	<u>3,453,472</u>	<u>3,500,000</u>
Less: Current Portion	<u>(244,498)</u>	<u>(146,528)</u>
Total Long-Term Portion	<u><u>\$ 3,208,974</u></u>	<u><u>\$ 3,353,472</u></u>

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 \$2,066,897 as of September 30, 2016 has a fixed interest rate of 6.25% with principal and interest due and payable on October 1, 2016 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 \$712,458 as of September 30, 2016 has an interest rate of 5% with principal and interest due and payable on October 1, 2016 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.

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

3) FINANCING ARRANGEMENTS (Continued)

The third part of the loan with a balance of \$574,117 as of September 30, 2016 has an interest rate of 5% with principal and interest due and payable on October 1, 2016 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.

In December 2016 Focus: HOPE entered into an agreement with University of Detroit-Mercy for all outstanding payables owed (\$100,000) to be paid in monthly installments of \$10,000 and to be paid in full by October 30, 2017. Accordingly, the amounts due in fiscal year 2017 are reported as long-term liabilities in the accompanying statement of financial position and the current portion is shown under current portion of long term debt.

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

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2017	\$ 244,498
2018	172,909
2019	171,780
2020	181,140
2021	834,452
2022 and Onwards	1,848,693
Total	\$ 3,453,472

4) LINE OF CREDIT

As per the requirement of the term loan with IFF, Focus: HOPE entered into 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 February 21, 2017. 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, 2016 is \$1,000,000 and September 30, 2015 is \$500,000.

5) 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 AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

5) INCOME TAXES (Continued)

Focus: HOPE Companies, Inc. file their federal income tax return on Form 1120. As of September 30, 2016, FHC had \$2,653,486 of net operating losses available to offset future taxable income. The Company did not have any tax liability during the year ended September 30, 2016.

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.

6) 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 2016 or 2015.

7) RELATED PARTY TRANSACTIONS

The Housing and Transportation Assistance Trust (the Trust) purchased administrative services from Focus: HOPE amounting to approximately \$90,000 in fiscal years 2016 and 2015.

In prior years, the Trust has loaned Focus: HOPE funds for operations. The total balance outstanding, including unpaid interest, as of September 30, 2016 and 2015 was \$2,165,100 and \$2,291,523. The total interest charged by the Trust towards the outstanding loan, at a rate of prime plus 1% per annum, was \$97,063 and \$98,892 in 2016 and 2015 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.

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

8) 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 2016 and 2015. The total value of these services was \$222,702 and \$62,474 for the years ended September 30, 2016 and 2015 respectively.

9) FUND RAISING

The total cost for fund raising activities for the organization was approximately \$1,385,594 and \$1,017,589 for the years ended September 30, 2016 and 2015, respectively.

10) RESEARCH AND DEVELOPMENT

Focus: HOPE has contracted with the U.S. Army Tank and Automotive Command (TACOM) for providing labor, materials, and research and development. The agreement is on a cost plus reimbursement basis. Focus: HOPE generated revenue of \$42,663 and \$60,335 through its research and development on its contract with TACOM in fiscal years 2016 and 2015 respectively. The total direct costs incurred towards the research and development was \$25,650 and \$22,669 in fiscal years 2016 and 2015 respectively.

11) 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.

12) USDA 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, 2016 and 2015 was \$9,329,359 and \$10,689,262 respectively.

13) DEFERRED REVENUE

Focus: HOPE entered into a "billboard lease" agreement (for 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 \$423,000 and \$432,000 for the years ended September 30, 2016 and 2015 respectively, which is included in the total deferred revenue of \$426,587 at September 30, 2016.

FOCUS: HOPE AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)
September 30, 2016 and 2015

14) SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 31, 2017 the date that the accompanying consolidated financial statements were available to be issued. No subsequent event was noted that required adjustment or disclosure in the financial statements.