



TALLER SAN JOSE HOPE BUILDERS

Consolidated Financial Statements
and Independent Auditors' Report

June 30, 2020 and 2019

TABLE OF CONTENTS

Independent Auditors' Report	2-3
Consolidated Financial Statements for the Years Ended June 30, 2020 and 2019	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5-6
Consolidated Statements of Functional Expenses	7-8
Consolidated Statements of Cash Flows	9
Notes to the Consolidated Financial Statements	10-22
Supplemental Schedules	
Schedule I - Consolidating Statement of Financial Position - June 30, 2020	24
Schedule II - Consolidating Statement of Financial Position - June 30, 2019	25
Schedule III - Consolidating Statement of Activities - Year Ended June 30, 2020	26
Schedule IV - Consolidating Statement of Activities - Year Ended June 30, 2019	27



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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of the Board of Directors of:
Taller San Jose Hope Builders
Santa Ana, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Taller San Jose Hope Builders (a California nonprofit organization, the Organization) and its subsidiary, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses, 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.

Auditors' 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. 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 auditors' 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.

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 financial position of Taller San Jose Hope Builders and its subsidiary as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information included in the accompanying Schedules I through IV is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ramsey Jimenez International CPAs

Irvine, California
September 29, 2020

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS						
Cash and cash equivalents	\$ 979,681	\$ 734,750	\$ 1,714,431	\$ 185,094	\$ 742,586	\$ 927,680
Accounts receivable	20,925	-	20,925	19,171	-	19,171
Contributions and grants receivable, net	120,586	1,997,698	2,118,284	127,505	1,353,777	1,481,282
Unbilled labor in progress	13,208	-	13,208	17,850	-	17,850
Inventory	17,269	-	17,269	24,124	-	24,124
Property held for resale	8,000	-	8,000	8,000	-	8,000
Investments	1,333,887	-	1,333,887	258,693	-	258,693
Property and equipment, net	1,070,294	-	1,070,294	1,151,906	-	1,151,906
Other assets	23,957	-	23,957	24,505	-	24,505
Total assets	\$ 3,587,807	\$ 2,732,448	\$ 6,320,255	\$ 1,816,848	\$ 2,096,363	\$ 3,913,211
LIABILITIES AND NET ASSETS						
LIABILITIES						
Accounts payable and accrued expenses	\$ 306,642	\$ -	\$ 306,642	\$ 179,900	\$ -	\$ 179,900
Customer deposits	21,232	-	21,232	17,520	-	17,520
Line of credit	542,000	-	542,000	310,504	-	310,504
Payroll Protection Program loan	409,227	-	409,227	-	-	-
Installment contract payable	9,979	-	9,979	14,305	-	14,305
Obligation under capital lease	35,602	-	35,602	49,757	-	49,757
Total liabilities	1,324,682	-	1,324,682	571,986	-	571,986
NET ASSETS						
Without donor restrictions	2,263,125	-	2,263,125	1,244,862	-	1,244,862
With donor restrictions	-	2,732,448	2,732,448	-	2,096,363	2,096,363
Total net assets	2,263,125	2,732,448	4,995,573	1,244,862	2,096,363	3,341,225
Total liabilities and net assets	\$ 3,587,807	\$ 2,732,448	\$ 6,320,255	\$ 1,816,848	\$ 2,096,363	\$ 3,913,211

See accompanying notes to the consolidated financial statements.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities			
Revenues and other support			
Grants and contributions	\$ 678,877	\$ 1,599,724	\$ 2,278,601
Sustainability grant	-	2,000,000	2,000,000
Program service fees	407,306	-	407,306
Special events	444,530	175,633	620,163
Costs of direct benefits to donors	(78,226)	-	(78,226)
In kind contributions	110,671	-	110,671
Interest and dividends	12,848	-	12,848
Space rental	8,000	-	8,000
Net assets released from restrictions	3,139,272	(3,139,272)	-
Gain on disposition of property and equipment	685	-	685
Total revenues and other support	<u>4,723,963</u>	<u>636,085</u>	<u>5,360,048</u>
Expenses			
Program activities			
Admissions and support	771,341	-	771,341
Skills training	1,082,988	-	1,082,988
Placement	357,589	-	357,589
Jobs Works	544,170	-	544,170
Management and general	567,260	-	567,260
Development and fundraising	450,789	-	450,789
Total expenses	<u>3,774,137</u>	<u>-</u>	<u>3,774,137</u>
Change in net assets from operations	<u>949,826</u>	<u>636,085</u>	<u>1,585,911</u>
Nonoperating activities			
Investment return, net	68,437	-	68,437
Change in net assets	<u>1,018,263</u>	<u>636,085</u>	<u>1,654,348</u>
Net assets, beginning of year	<u>1,244,862</u>	<u>2,096,363</u>	<u>3,341,225</u>
Net assets, end of year	<u>\$ 2,263,125</u>	<u>\$ 2,732,448</u>	<u>\$ 4,995,573</u>

See accompanying notes to the consolidated financial statements.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating activities			
Revenues and other support			
Grants and contributions	\$ 646,527	\$ 2,223,647	\$ 2,870,174
Program service fees	401,658	-	401,658
Special events	614,898	149,334	764,232
Costs of direct benefits to donors	(73,420)	-	(73,420)
In kind contributions	141,026	-	141,026
Interest and dividends	3,851	-	3,851
Net assets released from restrictions	2,412,827	(2,412,827)	-
Gain on disposition of property and equipment	6,048	-	6,048
Total revenues and other support	<u>4,153,415</u>	<u>(39,846)</u>	<u>4,113,569</u>
Expenses			
Program activities			
Admissions and support	673,790	-	673,790
Skills training	1,108,868	-	1,108,868
Placement	255,972	-	255,972
Jobs Works	419,521	-	419,521
Management and general	424,455	-	424,455
Development and fundraising	633,186	-	633,186
Total expenses	<u>3,515,792</u>	<u>-</u>	<u>3,515,792</u>
Change in net assets from operations	<u>637,623</u>	<u>(39,846)</u>	<u>597,777</u>
Nonoperating activities			
Investment return, net	5,119	-	5,119
Change in net assets	<u>642,742</u>	<u>(39,846)</u>	<u>602,896</u>
Net assets, beginning of year	<u>602,120</u>	<u>2,136,209</u>	<u>2,738,329</u>
Net assets, end of year	<u>\$ 1,244,862</u>	<u>\$ 2,096,363</u>	<u>\$ 3,341,225</u>

See accompanying notes to the consolidated financial statements.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services				Supportive Services			Total	
	Admissions and Support	Skills Training	Placement	Jobs Work	Programs Total	Management and General	Development and Fundraising		Supportive Services Total
Compensation and related expenses	\$ 590,627	\$ 465,933	\$ 297,934	\$ 474,816	\$ 1,829,310	\$ 371,620	\$ 329,567	\$ 701,187	\$ 2,530,497
Student support	31,151	173,663	1,533	395	206,742	-	-	-	206,742
Program supplies and related expenses	7,832	116,483	4,128	2,794	131,237	-	-	-	131,237
Supplies, printing and office	2,749	6,185	1,083	2,144	12,161	9,543	10,298	19,841	32,002
Occupancy	52,244	177,703	21,738	11,150	262,835	12,289	24,792	37,081	299,916
Depreciation	12,081	59,302	4,551	11,034	86,968	5,801	4,158	9,959	96,927
Professional fees	37,071	9,902	6,771	13,743	67,487	15,710	43,105	58,815	126,302
Insurance	11,999	18,704	5,012	11,787	47,502	7,499	15,140	22,639	70,141
Information technology, telephone and internet	19,528	51,049	11,370	10,025	91,972	17,840	6,733	24,573	116,545
Interest	-	-	-	832	832	-	11,842	11,842	12,674
Special events	-	-	-	-	-	59,728	-	59,728	59,728
Marketing, meetings and conferences	6,059	4,064	3,469	2,107	15,699	65,314	4,889	70,203	85,902
Other	-	-	-	3,343	3,343	1,916	265	2,181	5,524
	<u>\$ 771,341</u>	<u>\$ 1,082,988</u>	<u>\$ 357,589</u>	<u>\$ 544,170</u>	<u>\$ 2,756,088</u>	<u>\$ 567,260</u>	<u>\$ 450,789</u>	<u>\$ 1,018,049</u>	<u>\$ 3,774,137</u>

See accompanying notes to the consolidated financial statements.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services				Supportive Services			Total	
	Admissions and Support	Skills Training	Placement	Jobs Work	Programs Total	Management and General	Development and Fundraising		Supportive Services Total
Compensation and related expenses	\$ 556,266	\$ 461,976	\$ 215,086	\$ 363,034	\$ 1,596,362	\$ 322,274	\$ 393,245	\$ 715,519	\$ 2,311,881
Student support	21,617	194,732	3,595	-	219,944	-	-	-	219,944
Program supplies and related expenses	7,260	113,723	7,159	5,835	133,977	-	-	-	133,977
Supplies, printing and office	3,534	11,835	836	1,475	17,680	9,853	8,819	18,672	36,352
Occupancy	40,701	179,962	9,229	12,218	242,110	23,242	28,421	51,663	293,773
Depreciation	10,559	69,514	2,097	9,980	92,150	4,135	9,271	13,406	105,556
Professional fees	1,939	2,908	3,939	2,908	11,694	21,818	-	21,818	33,512
Insurance	10,717	20,468	4,231	13,472	48,888	15,733	9,536	25,269	74,157
Information technology, telephone and internet	16,468	48,545	6,587	6,546	78,146	5,968	25,995	31,963	110,109
Interest	466	1,243	7	1,461	3,177	9,665	589	10,254	13,431
Special events	-	-	-	-	-	-	85,140	85,140	85,140
Marketing, meetings and conferences	4,263	3,962	3,206	1,983	13,414	10,475	69,851	80,326	93,740
Other	-	-	-	609	609	1,292	2,319	3,611	4,220
	<u>\$ 673,790</u>	<u>\$ 1,108,868</u>	<u>\$ 255,972</u>	<u>\$ 419,521</u>	<u>\$ 2,458,151</u>	<u>\$ 424,455</u>	<u>\$ 633,186</u>	<u>\$ 1,057,641</u>	<u>\$ 3,515,792</u>

See accompanying notes to the consolidated financial statements.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,654,348	\$ 602,896
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	96,927	105,556
Loss on disposition of property and equipment	2,963	2,767
Unrealized gain on investments	(62,588)	(10,018)
Impairment provision	-	7,799
Accrued interest on lines of credit	(10,504)	9,556
Change in operating assets and liabilities:		
Accounts receivable	(1,754)	56,774
Contributions and grants receivable	(637,002)	(77,168)
Unbilled labor in progress	4,642	(17,850)
Inventory	6,855	(16,395)
Other assets	548	(480)
Accounts payable and accrued expenses	126,741	(5,888)
Customer deposits	3,712	17,520
	1,184,888	675,069
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(18,278)	(93,970)
Purchase of investments for designated gifts	(1,000,000)	(30,000)
Reinvested dividends	(12,605)	(3,468)
	(1,030,883)	(127,438)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Payroll Protection Program loan	409,227	-
Principal repayments of installment contract payable	(4,326)	(4,072)
Repayments of capital lease obligation	(14,155)	(12,919)
Borrowings on line of credit	242,000	-
	632,746	(16,991)
NET INCREASE IN CASH AND CASH EQUIVALENTS	786,751	530,640
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	927,680	397,040
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,714,431	\$ 927,680
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 21,236	\$ 3,875
Cash paid during the year for income taxes	\$ -	\$ -

See accompanying notes to the consolidated financial statements.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE A - DESCRIPTION OF THE ORGANIZATION

Taller San Jose Hope Builders (Hope Builders or the Organization) opened in 1995 to ensure youth (18-28 years of age) have the skills needed to thrive economically. The Organization offers innovative workforce training programs at training centers in Santa Ana and Anaheim, California. Disconnected youth and young adults in Orange County who have not completed their secondary education and who do not have sufficient job skills to earn a living wage are provided the opportunity to develop specific marketable job skills, stabilize their lives, and advance their educational status empowering them to move on to productive adulthood. The Organization was incorporated in August 2005. The sole member of the Organization is the Sisters of St. Joseph of Orange (SSJO). As such, SSJO fully controls the Organization.

Hope Builders Construction Company (HBCC), a separate but related entity, was incorporated under the laws of the State of California on May 24, 2006. It was originally incorporated as a profit-making corporation, but on December 26, 2012, it reorganized as a nonprofit public benefit corporation. As part of the reorganization, it became a membership organization, and Taller San Jose Hope Builders is the only member. HBCC received tax-exempt status under federal law as a subordinate organization as defined in Section 501(c)(3) of the Internal Revenue Code.

From 2006-2018, HBCC operated as a licensed general contracting venture which provided employment opportunities for graduates of the Organization in an effort to further refine their skills and enhance their ability for a productive future. In March 2018, HBCC closed its general contracting services and launched a new business line called Jobs Work.

There are four major components to the Hope Builders model:

Skills Training: Academies in Business Administration, Construction, Healthcare and Information Technology model real-world experiences, pay trainees a weekly \$75 stipend and require them to demonstrate that they are responsible and respectful by showing up every day, on time, drug free, dressed professionally and with a good attitude. Hope Builders' training is conducted over 16-20 weeks and is delivered in a "boot camp" style to support completion and allow youth to transition in a short period of time to the workplace and higher wages. Career technical training, basic literacy enrichment, financial assistance for childcare and transportation and 32 hours of both life skills and job readiness training are embedded into the curriculum.

Admissions and Support: Hope Builders knows that skills training or employment placement alone do not meet the needs of disconnected youth. Rather, programming must include a mix of life skills and supportive services designed to build workforce readiness which enables youth to retain employment. Applicants must demonstrate their readiness to make life changes as part of the admissions process. At enrollment, each trainee is matched with a Support Specialist, who works directly with youth to address barriers that may prevent them from successfully completing the program and/or retaining employment. The goal of these services is to help youth achieve life stability through increased social and self-awareness, self-management and healthy behaviors.

Placement: Hope Builders' Career and Education Services and Employment Services teams works with youth who have completed a training program to ensure they secure a quality job and retain it for a minimum of six months. This is accomplished through regular outreach and engagement of youth, paid internship opportunities, as well as job placement. Staff works with youth for up to 24 months after training completion and supports employed youth in continuing to find opportunities for growth/advancement through promotions and job changes. Additionally, the Career and Education Services team helps youth access on-ramps to post-secondary education, apprenticeship career technical certification programs.

Jobs Work via HBCC: In partnership with employers, interns are placed at employer job sites as a continuation of their training. Employers pay a fee to HBCC based on placements. Jobs Work helps program participants to strengthen work experience with the goal of securing permanent employment in a quality job.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Contributions are recognized as revenues in the period received. Net assets, revenues, gains and losses are classified based on existence of donor-imposed restrictions as prescribed for not-for-profit organizations by the Financial Accounting Standards Board (FASB). Accordingly, the net assets of the Organization are classified and reported as follows:

Net assets without donor restrictions: Net assets consist of resources that generally result from revenue generated from providing services, collecting interest on investments, and receiving contributions without donor restriction, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Net assets with donor restrictions: Net assets consist of gifts of cash and other assets that were received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities and changes as net assets released from restrictions.

Other net assets that are restricted by donors who stipulate that resources are to be maintained permanently but permit the Organization to expend all of the income (or other economic benefits) derived from the donated assets. Hope Builders has elected to transfer funds with permanent restrictions to the Orange Catholic Foundation. See Note Q.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Measure of operations - The consolidated statements of activities report all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Hope Builders' ongoing workforce training programs and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Principles of Consolidation - The consolidated financial statements include the accounts of the Taller San Jose Hope Builders and its subsidiary, Hope Builders Construction Company together, the Organization. All material inter-organization transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents, except for those amounts that are held in the Sustainability Fund which is invested for long term purposes. Cash and highly liquid financial instruments restricted to building projects, endowments that are perpetual in nature, or other long-term purposes are excluded from this definition.

Concentration of Credit Risk - Under the Dodd-Frank Wall Street Reform and Consumer Protection Act, deposits of up to \$250,000 at FDIC-insured financial institutions are covered by FDIC insurance. At times, deposits may be in excess of the FDIC insurance limits; however, management does not believe the Organization is exposed to any significant related credit risks.

For the year ended June 30, 2020, the Organization received a special contribution from one contributor, a related party, for the Sustainability Fund which accounted for 41% of revenues and represented 47% of contributions and grants receivable as of June 30, 2020. See Note P.

Accounts Receivable - Accounts receivable are recorded when contract provisions are met, and the supporting organization is obligated to remit payments to the Organization. Management performs periodic credit evaluations of its receivable balances and records an allowance for doubtful accounts when it is probable that all or a portion of the receivable will not be collected. Management believes that all accounts receivable as of June 30, 2020 and 2019 were fully collectible; therefore, no allowance for doubtful accounts has been recorded.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

Grants Receivable - Grants receivable are recorded when an obligation from a granting agency is committed in writing and when qualifying expenditures are made in connection with grants that provide for reimbursement of such expenditures. Management believes that all grants receivable as of June 30, 2020 and 2019 were fully collectible; therefore, no allowance for doubtful grants has been recorded.

Promises to Give - Unconditional promises to give are reported at fair value at the date the promise is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management believes that all promises to give as of June 30, 2020 and 2019 were fully collectible; therefore, no allowance for doubtful promises to give has been recorded.

Unbilled Labor in Progress - Unbilled labor in progress relates to work in progress for HBCC and represents revenues recognized in excess of amounts billed.

Property Held for Resale - Property held for resale is recorded at cost, if purchased, or fair value on the date of receipt, if donated, and is reduced to its estimated fair value.

Inventory - Inventory is stated at the lower of cost and net realizable value, determined using the first-in, first-out method.

Property and Equipment - Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as support without donor restriction, unless the donor has restricted the donated asset to a specific purpose or stipulated how long the assets must be used. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

The Organization has elected to capitalize all property with a value of \$1,000 or more and with a useful life expectancy of at least 3 years. Expenditures for repairs and maintenance are expensed as incurred. Purchased property and equipment are stated at cost. Property and equipment are depreciated using the straight-line method over their estimated useful lives. Assets under capital lease arrangements are recorded at the present value of the minimum lease payments and are amortized on the straight-line method over the shorter of the useful life or the lease term.

Investments - Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the consolidated statements of financial position and changes in fair value are reported as investment return in the statements of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the consolidated statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Support and Revenue - Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. All donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Donated Goods and Services - Donated goods and services (in-kind contributions) are recorded at their estimated market values at the date of receipt. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the years ending June 30, 2020 and 2019, donated goods and services received by the Organization meeting the above criteria were valued at \$110,671 and \$141,026, respectively, which were primarily related to donated professional services, auction items for the annual Light Up a Life special event, and instructors and tutors for the Organization's programs.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Expenses are recorded in departments indicative of the Organization's programs and organization structure. To the greatest extent possible, expenses are allocated to the lowest level department. The method of allocation for these expenses is direct cost. For salaries and other expenses where the expense may benefit more than one department, except occupancy, costs will be allocated based on the time and effort spent. For occupancy and depreciation, costs that benefit more than one department will be allocated based on a modified square footage basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Compensation and related expenses	Time and effort
Student support	Direct cost
Program supplies, and related expense	Direct cost
Supplies, printing and office	Direct cost
Occupancy	Square footage
Depreciation	Direct cost and square footage
Professional fees	Direct cost
Insurance	Direct cost and square footage
Information technology, telephone, and internet	Time and effort
Interest	Direct cost
Special events	Direct cost
Marketing, meetings and conferences	Direct cost
Other	Direct cost

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

Impairment of Long Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the expected future cash flow from the use of the asset and its eventual disposition is less than the carrying amount of the asset, an impairment loss is recognized and measured using the fair value of the related asset. During the year ended June 30, 2019, the Organization recognized an impairment loss on investment property as described in Note G.

Income Tax Status - The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and similar provisions of the State of California Revenue and Taxation Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose, if any, is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

HBCC received tax-exempt status under federal law as a subordinate organization defined in Section 501(c)(3) of the Internal Revenue Code, and similar status under provisions of the State of California Revenue and Taxation Code.

U.S. federal tax returns for the tax years 2016 through 2019 and state tax returns for the tax years 2015 through 2019 remain open to examination.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The FASB, Accounting Standards Codification (ASC) 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return that is not certain to be realized. The Organization believes that it has appropriate support for income tax positions taken, therefore, management has not identified any uncertain income tax positions.

Recent Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which is effective for non-public entities for annual reporting periods beginning after December 15, 2019, as amended. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance, as amended, is effective for annual reporting periods beginning after December 31, 2019. The Organization intends to adopt this guidance at the beginning of 2021 and is currently evaluating the potential impact this standard will have on their consolidated financial statements accordingly.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Classification will be based on criteria that are largely similar to those applied in current lease accounting pronouncements today, but without explicit bright lines. Lessor accounting is similar to the current model, but updated to align with certain changes to the lessee model and the new revenue recognition standard. This ASU is effective for non-public entities for fiscal years beginning after December 15, 2021, as amended, including interim periods within fiscal years beginning after December 15, 2022. The Organization is currently evaluating the potential impact this standard will have on their consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-14; *Not-for-Profit Entities* (Topic 958), which addresses the complexity and understandability of net asset classification and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The FASB's Not-for-Profit Advisory Committee (NAC) and other stakeholders indicated that existing standards for financial statements of NFPs are sound, but could be improved to provide more useful information to donors, grantors, creditors, and other users of financial statements. The Organization has adopted this ASU in fiscal 2019 and has adjusted the presentation of these consolidated financial statements accordingly.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* (Topic 230). ASU 2016-15 provides guidance for eight specific cash flow issues: (i) debt prepayment or debt extinguishment costs, (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (iii) contingent consideration payments made after a business combination, (iv) proceeds from the settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (vi) distributions received from equity method investees, (vii) beneficial interest in securitization transactions, and (viii) separately identifiable cash flows and application of predominance principle, thereby reducing the current and potential future diversity in practice. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interest periods within fiscal years beginning after December 15, 2019. The Company adopted this guidance at the beginning of 2020 and has adjusted the presentation of these consolidated financial statements accordingly.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash* (Topic 230), to clarify the presentation of restricted cash in the statement of cash flows. This ASU addresses diversity in practice due to lack of guidance on how to classify and present changes in restricted cash or restricted cash equivalents in the statement of cash flows. The amendments require that a statement of cash flows explain the change during the period in restricted cash or restricted cash equivalents, in addition to changes in cash and cash equivalents. That is, restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning of the period and end of period total amounts shown in the accompanying statements of cash flows.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consequently, transfer between cash and restricted cash will not be presented as a separate item in the operating, investing, or financing sections of the cash flow statements. This ASU is effective for non-public entities for fiscal years beginning after December 15, 2018. The Organization adopted this standard during the year ended June 30, 2020 and the adoption was not material to the Organization's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). ASU 2018-08 clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958 or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. The Organization intends to adopt this guidance at the beginning of 2021 and is currently evaluating the potential impact this standard will have on their consolidated financial statements and related disclosures.

In September 2020, the FASB Issued ASU No. 2020-07, *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). It is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for not-for-profit organizations. It is effective for reporting periods beginning after June 15, 2021. The Organization intends to adopt this guidance at the beginning of 2022 and is currently evaluating the potential impact this standard will have on their consolidated financial statements accordingly.

Management does not believe any other recently issued but not yet effective accounting pronouncement, if adopted, would have a material effect on the Organization's present or future consolidated financial statements.

NOTE C - AVAILABLE RESOURCES AND LIQUIDITY

Hope Builders regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. Hope Builders has various sources of liquidity at its disposal, including cash and cash equivalents, investments, and a line of credit. See Note I for information about the line of credit. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Hope Builders considers all expenditures related to its ongoing activities for workforce development, as well as, the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, Hope Builders operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the consolidated statements of cash flows which identifies the sources and uses of the Organization's cash and cash equivalents.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE C - AVAILABLE RESOURCES AND LIQUIDITY (CONTINUED)

As of June 30, 2020 and 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	<u>2020</u>	<u>2019</u>
Total financial assets:		
Cash and cash equivalents	\$ 1,714,431	\$ 927,680
Receivables	2,139,209	1,518,303
Investments	<u>1,333,887</u>	<u>258,693</u>
Total financial assets	<u>5,187,527</u>	<u>2,704,676</u>
Amounts not available to be used within one year:		
Net assets with donor restrictions	2,732,448	2,096,363
Restrictions expected to be satisfied within one year	<u>(2,424,948)</u>	<u>(1,306,120)</u>
Net assets with donor restrictions expected to be available within one year	<u>307,500</u>	<u>790,243</u>
Board Designated Sustainability Fund	<u>1,333,887</u>	<u>258,693</u>
Total amounts not available to be used within one year:	<u>1,641,387</u>	<u>1,048,936</u>
Net financial assets available to meet general expenditures over the next 12 months.	<u>\$ 3,546,140</u>	<u>\$ 1,655,740</u>

Hope Builders' governing Board has a liquidity policy of maintaining three months of operating expenses available in cash and cash equivalents. Additionally, it has set a target of an additional three months of operating expenses in the Board designated Sustainability Fund and the line of credit balance at zero. The Sustainability Fund may be undesignated by Board action. Once all goals for financial assets are achieved, a budgeted portion of the Sustainability Fund may be used for operations. To achieve these targets, Hope Builders forecasts its future cash flows and monitors its liquidity on a bi-weekly basis, and monitors its reserves on a bi-monthly basis.

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization determines the fair market values of its investments based on the fair value hierarchy established in FASB ASC Topic 820, *Fair Value Measurements*. The statement requires fair value to be classified and disclosed in one of the following three categories:

Level 1 - Quoted prices in active markets for identical assets and liabilities, including equity and debt securities and derivative contracts that are traded in an active exchange market.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE D - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2020 and 2019:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2020				
Fixed income funds	\$ 533,485	\$ -	\$ 533,485	\$ -
Equity funds and common stock	800,402	-	800,402	-
	<u>\$ 1,333,887</u>	<u>\$ -</u>	<u>\$ 1,333,887</u>	<u>\$ -</u>
June 30, 2019				
Fixed income funds	\$ 103,480	\$ -	\$ 103,480	\$ -
Equity funds and common stock	155,213	-	155,213	-
	<u>\$ 258,693</u>	<u>\$ -</u>	<u>\$ 258,693</u>	<u>\$ -</u>

NOTE E - CONTRIBUTIONS AND GRANTS RECEIVABLE

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

As of June 30, 2020, contributions and grants receivable of \$2,099,884 were expected to be received within one year, and \$20,000 is expected within one to five years. There is a discount for long term pledges of \$1,600, and no allowance for doubtful accounts, as management expects they are fully collectable. As of June 30, 2019, contributions and grants receivable of \$1,103,122 were expected to be received within one year, and \$408,160 is expected within one to five years. There is a discount for long term pledges of \$30,000, and no allowance for doubtful accounts, as management expects they are fully collectable.

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2020</u>	<u>2019</u>
Land and building	\$ 1,065,584	\$ 1,065,584
Building improvements and renovations	806,498	807,622
Equipment, furniture and fixtures	561,872	566,667
Vehicles	54,064	90,399
	<u>2,488,018</u>	<u>2,530,272</u>
Less accumulated depreciation	1,417,724	1,378,364
	<u>\$ 1,070,294</u>	<u>\$ 1,151,906</u>

Depreciation expense was \$96,927 and \$105,556 for the fiscal years ended June 30, 2020 and 2019, respectively.

NOTE G - PROPERTY HELD FOR RESALE

The Organization owns one undeveloped residential property donated by a lender through a distressed property program. During the year ended June 30, 2019, management determined, based on market analysis, that the Organization should recognize an impairment loss of \$7,799 on this asset. It has a carrying value of \$8,000 as of June 30, 2020 and 2019.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 JUNE 30, 2020 AND 2019

NOTE H - INVESTMENTS

HBCC is a 50.1 % owner and one of three members of HBCV, LLC, (the LLC) which was organized in August 2014 to purchase, refurbish, and develop housing for low-income families and seniors while offering work experience and employment opportunities to young adults. One of the other members has been appointed the Manager, who controls day to day operations and financial policies of the LLC. HBCC, while it owns 50.1%, does not control any aspect of the LLC, and as a result, its has not been consolidated into these consolidated financial statements.

As of June 30, 2020 and 2019, HBCV, LLC has purchased and is operating one home as an affordable housing unit. The purchase price and rehabilitation costs were financed by the County of Orange, with a 55 year nonrecourse loan. The LLC collects the rent and subsidy on the property, pays all expenses, and distributes the proportionate share of the excess to the members according to their ownership annually, after reserving an appropriate amount for working capital. For the years ending June 30, 2020 and 2019, the income to HBCC was \$6,000 and \$3,000, respectively.

NOTE I - LINE OF CREDIT

In April 2008, the Organization secured a line of credit with St. Joseph Health System that has been renewed every five years.

The line was amended with Providence St. Joseph Health Investment Trust in April 2018 to increase the limit to \$600,000, the interest rate to 3.0% per annum, and extend the maturity date to April 2023. The line is secured by a Deed of Trust recorded on the building which houses the Organization's construction program. As of June 30, 2020 and 2019, \$542,000 and \$310,504, respectively, was outstanding under this line of credit.

NOTE J - NOTE PAYABLE

On May 1, 2020, the Organization was granted a loan (the Loan) from JPMorgan Chase Bank, N.A. in the aggregate amount of \$409,227, pursuant to the Paycheck Protection Program (Payroll Protection Program Loan) under Division A, Title I of the CARES Act, which was enacted March 27, 2020. The Payroll Protection Program Loan provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight (8) or twenty-four (24) weeks, as long as the loan proceeds are used for eligible purposes, including payroll, benefits, rent and utilities, and interest on other debt obligations incurred before February 15, 2020, and the Organization maintains its payroll levels. The amount of loan forgiveness may be reduced if the Organization terminates employees or reduces salaries during the covered period.

The Loan matures on May 1, 2022 and bears interest at a rate of 0.98% per annum, payable monthly commencing on December 1, 2020. The Loan may be prepaid by the Borrower at any time prior to maturity with no prepayment penalties.

Any unforgiven portion of the Payroll Protection Program Loan is payable over two (2) years at an interest rate of 1%, with a deferral of payments for the first six (6) months. The Organization intends to use the proceeds for purposes consistent with the Payroll Protection Program Loan parameters. While the Organization currently believes that the use of the loan proceeds will meet the conditions for forgiveness of the loan, the Organization cannot ensure that they will receive forgiveness of the loan, in whole or in part.

NOTE K - INSTALLMENT CONTRACT PAYABLE

The Organization entered into an installment contract payable in connection with the acquisition of a vehicle, payable in monthly installments of principal and interest of \$430, bearing interest at 6.69%, and due July 2022.

	2020	2019
Outstanding balance as of June 30:	\$ 9,979	\$ 14,305

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE L - CAPITAL LEASE OBLIGATION

The Organization leases certain equipment under a capital lease arrangement. The lease term runs through November 2022.

Future minimum lease payments are as follows for the years ending June 30:

	2021	\$	15,782
	2022		15,782
	2023		6,049
Total minimum lease payments			37,613
Less amount representing interest at 4.5%			(2,011)
Present value of net minimum capital lease payments		\$	35,602

As of June 30, 2020 and 2019, the gross amount of equipment and related amount of accumulated amortization recorded under the capital lease was as follows:

	2020		2019
Equipment	\$ 70,547	\$	70,547
Less Accumulated Amortization	(36,449)		(22,340)
	\$ 34,098	\$	48,207

Amortization of assets held under capital lease is included within depreciation expense.

NOTE M - RETIREMENT PLAN

The Organization offers employees the opportunity for participation in a contributory retirement plan. The Organization matched employees' contributions up to 1% of their gross compensation, and also contributed up to 8% of their gross compensation, based on years of service. The expense to the Organization under this arrangement for the fiscal year ended June 30, 2019 was \$77,603.

As of January 1, 2020, the plan changed to match contributions up to 3% of gross wages and a discretionary contribution of up to 6% of gross wages, based on years of service. It will not be known until April 2021 whether the discretionary contribution will be made, but the Organization has elected to accrue the projected expense as it believes the discretionary contribution will be made. As of June 30, 2020, \$51,127 has been accrued and funded for the full year match and employer contribution through December 31, 2019. In addition, \$32,480 has been accrued as the estimate of employer contributions for the six months ended June 30, 2020. Funded and accrued contributions for the year ended June 30, 2020 totaled to \$83,607.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE N - NET ASSETS

Net assets as of June 30, 2020 and 2019 are as follows:

	2020	2019
Net assets with donor restrictions:		
Net assets restricted by the passage of time	\$ 580,721	\$ 675,418
Net assets restricted by the passage of time and programs		
Skills training	262,667	382,606
Anaheim	426,560	594,400
Jobs Work	462,500	443,939
Sustainability Fund	1,000,000	-
	2,151,727	1,420,945
Total net assets with donor restrictions	\$ 2,732,448	\$ 2,096,363
Net assets without donor restrictions:		
Undesignated	\$ 929,238	\$ 986,169
Board designated Sustainability Fund	1,333,887	258,693
	\$ 2,263,125	\$ 1,244,862
Total net assets	\$ 4,995,573	\$ 3,341,225

NOTE O - NET ASSETS RELEASED FROM RESTRICTIONS

	2020	2019
Net assets released from restriction:		
Net assets restricted by the passage of time	\$ 553,335	\$ 1,060,848
Net assets restricted by the passage of time and programs:		
Admissions and Support services	138,132	164,927
Skills training	843,526	614,030
Anaheim	322,840	425,461
Jobs Work	281,439	117,561
Sustainability Fund	1,000,000	30,000
	2,585,937	1,351,979
Total net assets released from restrictions	\$ 3,139,272	\$ 2,412,827

NOTE P - RELATED PARTY TRANSACTIONS

The Organization has transactions with SSJO, which is related due to common control and members of Boards of Directors. The Organization does not have the right, however, to appoint Board members for those organizations. SSJO has the right to appoint Board members of Hope Builders and approval rights to certain transactions. The Organization also shares a history of founding and support with Providence St. Joseph Health (Providence). Historically, the Organization has relied upon these organizations to supplement its operations through grants and loans. During the years ended June 30, 2020 and 2019, the Organization reimbursed SSJO for certain staff and employee benefit related costs in the amount of \$4,555 and \$12,394, respectively. These costs are included as a component of compensation and related expenses and marketing, meetings, and conferences in the accompanying consolidated financial statements.

SSJO has supported the Organization since its inception and continues to do so. For the years ended June 30, 2020 and 2019, SSJO's contributions totaled \$2,203,000 and \$203,370 respectively.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE P - RELATED PARTY TRANSACTIONS (CONTINUED)

Providence and its hospitals also support the Organization. For the years ended June 30, 2020 and 2019, Providence's contributions totaled \$20,000 and \$98,397 respectively. In addition, the Organization reimbursed Providence for certain employee benefit related costs and insurance in the amount of \$246,929 and \$340,211, respectively. These costs are included as a component of compensation and related expenses and insurance in the accompanying consolidated financial statements. Providence also provides a line of credit to the Organization. See Note I.

The Organization received contributions totaling \$66,080 and \$479,294 from members of the Board of Directors during the years ended June 30, 2020 and 2019, respectively.

NOTE Q - SUSTAINABILITY FUNDS

Board Designated Sustainability Fund

The Board of Directors established an endowment fund (quasi-endowment) in 2001. It was designated by the Board of Directors to be maintained as an endowment fund subject to the Organization's investment and spending policies. In March, 2017, the Board determined the intent was actually for a sustainability fund, to support the operations of the Organization. The Fund was renamed the Sustainability Fund. It continues to be Board-designated, and requires Board approval for additions and withdrawals.

Sustainability funds are invested in marketable securities pursuant to the Organization's investment and spending objectives of preserving capital, maintaining liquidity, maximizing long-term total return, and exercising principled purchasing in accordance with the values of the Organization. The disbursement policy calls for transferring 3.5% of the value of the fund each year according to a moving average formula, once the balance exceeds the required months of working capital. The Board of Directors may elect to increase this amount through its annual budgeting process.

The composition of net assets for this fund as of June 30, 2020 and 2019 and the changes in endowment net assets for the corresponding years are as follows:

	2020	2019
Fund net assets, beginning	\$ 258,693	\$ 215,207
Unrealized gain on investments	75,194	13,486
Amounts contributed for sustainability	1,000,000	30,000
Amounts appropriated for expenditure	-	-
Fund net assets, ending	\$ 1,333,887	\$ 258,693

Permanent Endowment Fund

The Organization received contributions in 2009 (referred to as the Legacy Fund) that were permanently restricted by the donors. In 2011, the Legacy Fund was transferred to the Orange Catholic Foundation (OCF) to be held in perpetuity. The income earned from the Legacy Fund investments is available to be expended to support the various programs and ministries of the Organization once the balance reaches \$250,000. As of June 30, 2020 and 2019, the balance in the Legacy Fund was \$88,166 and \$83,595 respectively.

NOTE R - OPERATING LEASE COMMITMENTS

The Organization leases its office facility in Anaheim under a five year operating lease that expires in January 2021. Total rent expense for the years ended June 30, 2020 and 2019 was \$180,293 and \$175,044, respectively.

Future minimum rental obligations under this lease is as follows for the years ending June 30:

2021	106,988
	\$ 106,988

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE S - CONTINGENCIES

The Organization receives a significant portion of its revenues from government grants and contracts, which are subject to audit by the grant making agencies. Until such audits have been completed and final settlements determined, there exists a contingency to refund any amount received in excess of allowable costs. Management believes that no material liability will result from such audits.

The Organization is periodically involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Organization's consolidated financial position or the results of its operations.

NOTE T - SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 29, 2020 the date the consolidated financial statements were available to be issued and determined there are no material subsequent events that require recognition or disclosure in the consolidated financial statements, except as follows:

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Company is unable to determine if it will have a material impact to its operations and cash flows.

SUPPLEMENTAL SCHEDULES

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
 DETAILS OF CONSOLIDATION
 STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2020

	Taller San Jose Hope Builders	Hope Builders Construction Company	Consolidating Entries	Consolidated Totals
ASSETS				
Cash and cash equivalents	\$ 1,684,842	\$ 29,589	\$ -	\$ 1,714,431
Accounts receivable	-	20,925	-	20,925
Contributions and grants receivable, net	2,118,284	-	-	2,118,284
Unbilled labor in progress	-	13,208	-	13,208
Inventory	12,242	5,027	-	17,269
Property held for resale	8,000	-	-	8,000
Investments	1,333,887	-	-	1,333,887
Property and equipment, net	1,056,036	14,258	-	1,070,294
Due from Hope Builders Construction Company	1,297,871	-	(1,297,871)	-
Other assets	23,957	-	-	23,957
Total assets	\$ 7,535,119	\$ 83,007	\$ (1,297,871)	\$ 6,320,255
LIABILITIES				
Accounts payable and accrued expenses	\$ 297,527	\$ 9,115	\$ -	\$ 306,642
Customer deposits	2,000	19,232	-	21,232
Line of credit	542,000	-	-	542,000
Payroll Protection Program loan	409,227	-	-	409,227
Obligation under capital lease	35,602	-	-	35,602
Installment contract payable	-	9,979	-	9,979
Due to Taller San Jose Hope Builders	-	1,085,150	(1,085,150)	-
Total liabilities	1,286,356	1,123,476	(1,085,150)	1,324,682
NET ASSETS				
Without donor restrictions	3,516,315	(1,040,469)	(212,721)	2,263,125
With donor restrictions	2,732,448	-	-	2,732,448
Total net assets	6,248,763	(1,040,469)	(212,721)	4,995,573
Total liabilities and net assets	\$ 7,535,119	\$ 83,007	\$ (1,297,871)	\$ 6,320,255

See independent auditors' report.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
 DETAILS OF CONSOLIDATION
 STATEMENT OF FINANCIAL POSITION
 JUNE 30, 2019

	Taller San Jose Hope Builders	Hope Builders Construction Company	Consolidating Entries	Consolidated Totals
ASSETS				
Cash and cash equivalents	\$ 877,043	\$ 50,636	\$ -	\$ 927,680
Accounts receivable	-	19,171	-	19,171
Contributions and grants receivable, net	1,481,282	-	-	1,481,282
Unbilled labor in progress	-	17,850	-	17,850
Inventory	19,097	5,027	-	24,124
Property held for resale	8,000	-	-	8,000
Investments	258,693	-	-	258,693
Property and equipment, net	1,130,520	21,386	-	1,151,906
Due from Hope Builders Construction Company	1,388,575	-	(1,388,575)	-
Other assets	24,505	-	-	24,505
Total assets	\$ 5,187,715	\$ 114,070	\$ (1,388,575)	\$ 3,913,211
LIABILITIES				
Accounts payable and accrued expenses	\$ 171,974	\$ 7,926	\$ -	\$ 179,900
Customer deposits	-	17,520	-	17,520
Line of credit	310,504	-	-	310,504
Obligation under capital lease	49,757	-	-	49,757
Installment contract payable	-	14,305	-	14,305
Due to Taller San Jose Hope Builders	-	1,175,854	(1,175,854)	-
Total liabilities	532,235	1,215,605	(1,175,854)	571,986
NET ASSETS				
Without donor restrictions	2,559,117	(1,101,534)	(212,721)	1,244,862
With donor restrictions	2,096,363	-	-	2,096,363
Total net assets	4,655,480	(1,101,534)	(212,721)	3,341,225
Total liabilities and net assets	\$ 5,187,715	\$ 114,071	\$ (1,388,575)	\$ 3,913,211

See independent auditors' report.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
 DETAILS OF CONSOLIDATION
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2020

	Taller San Jose Hope Builders			Hope Builders Construction Company	Consolidating Entries	Total
	Without Donor Restrictions	With Donor Restrictions	Subtotal	Without Donor Restrictions		
Operating activities						
Revenues and other support						
Grants and contributions	\$ 678,877	\$ 1,599,724	\$ 2,278,601	\$ -	\$ -	\$ 2,278,601
Sustainability grant	-	2,000,000	2,000,000	-	-	2,000,000
Program service fees	123,639	-	123,639	304,252	(20,585)	407,306
Special events	444,530	175,633	620,163	-	-	620,163
Costs of direct benefits to donors	(78,226)	-	(78,226)	-	-	(78,226)
In kind contributions	110,671	-	110,671	-	-	110,671
Interest and dividends	12,848	-	12,848	-	-	12,848
Space rental	8,000	-	8,000	-	-	8,000
Net assets released from restrictions	3,139,272	(3,139,272)	-	-	-	-
Gain on disposition of properties and equipment	685	-	685	-	-	685
Total revenues and other support	<u>4,440,296</u>	<u>636,085</u>	<u>5,076,381</u>	<u>304,252</u>	<u>(20,585)</u>	<u>5,360,048</u>
Expenses						
Program activities						
Admissions and support	771,341	-	771,341	-	-	771,341
Skills training	1,082,988	-	-	-	-	1,082,988
Placement	357,589	-	-	-	-	357,589
Jobs Works	318,068	-	318,068	246,687	(20,585)	544,170
Management and general	564,760	-	564,760	2,500	-	567,260
Development and fundraising	450,789	-	450,789	-	-	450,789
Total expenses	<u>3,545,535</u>	<u>-</u>	<u>3,545,535</u>	<u>249,187</u>	<u>(20,585)</u>	<u>3,774,137</u>
Change in net assets from operations	<u>894,761</u>	<u>636,085</u>	<u>1,530,846</u>	<u>55,065</u>	<u>-</u>	<u>1,585,911</u>
Nonoperating activities						
Investment return, net	62,437	-	62,437	6,000	-	68,437
Change in net assets	<u>957,198</u>	<u>636,085</u>	<u>1,593,283</u>	<u>61,065</u>	<u>-</u>	<u>1,654,348</u>
Net assets, beginning of year	<u>2,559,117</u>	<u>2,096,363</u>	<u>4,655,480</u>	<u>(1,101,534)</u>	<u>(212,721)</u>	<u>3,341,225</u>
Net assets, end of year	<u>\$ 3,516,315</u>	<u>\$ 2,732,448</u>	<u>\$ 6,248,763</u>	<u>\$ (1,040,469)</u>	<u>\$ (212,721)</u>	<u>\$ 4,995,573</u>

See independent auditors' report.

TALLER SAN JOSE HOPE BUILDERS AND SUBSIDIARY
 DETAILS OF CONSOLIDATION
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2019

	Taller San Jose Hope Builders			Hope Builders Construction Company	Consolidating Entries	Total
	Without Donor Restrictions	With Donor Restrictions	Subtotal	Without Donor Restrictions		
Operating activities						
Revenues and other support						
Grants and contributions	\$ 646,527	\$ 2,223,647	\$ 2,870,174	\$ -	\$ -	\$ 2,870,174
Program service fees	150,686	-	150,686	262,972	(12,000)	401,658
Special events	614,898	149,334	764,232	-	-	764,232
Costs of direct benefits to donors	(73,420)	-	(73,420)	-	-	(73,420)
In kind contributions	141,026	-	141,026	-	-	141,026
Interest and dividends	3,851	-	3,851	-	-	3,851
Net assets released from restrictions	2,412,827	(2,412,827)	-	-	-	-
Gain on disposition of properties and equipment	6,048	-	6,048	-	-	6,048
Total revenues and other support	<u>3,902,443</u>	<u>(39,846)</u>	<u>3,862,597</u>	<u>262,972</u>	<u>(12,000)</u>	<u>4,113,569</u>
Expenses						
Program activities						
Admissions and support	673,790	-	673,790	-	-	673,790
Skills training	1,108,868	-	-	-	-	1,108,868
Placement	255,972	-	-	-	-	255,972
Jobs Works	200,351	-	200,351	231,170	(12,000)	419,521
Management and general	424,455	-	424,455	-	-	424,455
Development and fundraising	633,186	-	633,186	-	-	633,186
Total expenses	<u>3,296,622</u>	<u>-</u>	<u>3,296,622</u>	<u>231,170</u>	<u>(12,000)</u>	<u>3,515,792</u>
Change in net assets from operations	<u>605,821</u>	<u>(39,846)</u>	<u>565,975</u>	<u>31,802</u>	<u>-</u>	<u>597,777</u>
Nonoperating activities						
Investment return, net	2,119	-	2,119	3,000	-	5,119
Change in net assets	<u>607,940</u>	<u>(39,846)</u>	<u>568,094</u>	<u>34,802</u>	<u>-</u>	<u>602,896</u>
Net assets, beginning of year	<u>1,951,177</u>	<u>2,136,209</u>	<u>4,087,386</u>	<u>(1,136,336)</u>	<u>(212,721)</u>	<u>2,738,329</u>
Net assets, end of year	<u>\$ 2,559,117</u>	<u>\$ 2,096,363</u>	<u>\$ 4,655,480</u>	<u>\$ (1,101,534)</u>	<u>\$ (212,721)</u>	<u>\$ 3,341,225</u>

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