

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

Financial Statements

**June 30, 2006
(With Comparative Totals for June 30, 2005)**



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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of The HOPE Program, a Not-for-Profit Corporation ("Corporation"), as of June 30, 2006, and the related statements of activities, functional expenses by natural classification and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Corporation's June 30, 2005 financial statements and in our report dated October 31, 2005, we expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The HOPE Program as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Marks Paneth & Shron LLP

August 31, 2006

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THE HOPE PROGRAM
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Statement of Financial Position

June 30, 2006
(With Comparative Totals for June 30, 2005)

	2006	2005
ASSETS		
Cash and cash equivalents - Note 1		
General operating cash	\$ 948,812	\$ 1,037,152
Designated reserve fund - Note 8	500,000	500,000
Total Cash and Cash equivalents	1,448,812	1,537,152
Investments - Note 1 and 4	388,094	343,033
Contributions receivable - Note 7	136,475	159,622
Property, equipment and leasehold improvements, net - Note 1 and 2	370,278	434,793
Prepaid expenses and other assets - Note 11	42,354	48,636
Total Assets	\$ 2,386,013	\$ 2,523,236
LIABILITIES		
Accounts and accrued expenses payable	\$ 21,269	\$ 27,568
Accrued Rent - Note 1	113,624	93,694
Advances payable - Note 12	30,783	26,993
Total Liabilities	165,676	148,255
NET ASSETS		
Unrestricted:		
General operating	1,459,414	1,654,008
Designated Reserve Fund - Note 8	500,000	500,000
Total Unrestricted	1,959,414	2,154,008
Restricted:		
Temporarily restricted - Note 5	41,192	5,242
Permanently restricted - Note 6	219,731	215,731
Total Restricted	260,923	220,973
Total Net Assets	2,220,337	2,374,981
Total Liabilities and Net Assets	\$ 2,386,013	\$ 2,523,236

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

THE HOPE PROGRAM
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Statement of Activities

Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	<u>2006</u>			<u>2005</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUES, INVESTMENT INCOME AND OTHER SUPPORT					
Foundation & corporate contributions - Note 5 and 6	\$ 386,860	\$ 735,000	\$ -	\$ 1,121,860	\$ 1,116,070
Individual contributions	229,307	-	4,000	233,307	214,860
Government grants - Note 7 and 10	4,512	172,584	-	177,096	126,274
Other not-for-profit organizations	8,318	-	-	8,318	15,000
Investment income - Note 4	70,544	-	-	70,544	47,703
Special events	-	-	-	-	37,524
Net assets released from restrictions:					
Satisfaction of program restrictions	871,634	(871,634)	-	-	-
 Total Revenues, Investment Income and Other Support	<u>1,571,175</u>	<u>35,950</u>	<u>4,000</u>	<u>1,611,125</u>	<u>1,557,431</u>
EXPENSES					
Program services	1,471,476	-	-	1,471,476	1,344,085
Management and general	153,167	-	-	153,167	151,330
Fundraising	141,126	-	-	141,126	148,914
 Total Expenses	<u>1,765,769</u>	<u>-</u>	<u>-</u>	<u>1,765,769</u>	<u>1,644,329</u>
Change in Net Assets	(194,594)	35,950	4,000	(154,644)	(86,898)
Net Assets at Beginning of Year	<u>2,154,008</u>	<u>5,242</u>	<u>215,731</u>	<u>2,374,981</u>	<u>2,461,879</u>
Net Assets at End of Year - Notes 5 and 6	<u>\$ 1,959,414</u>	<u>\$ 41,192</u>	<u>\$ 219,731</u>	<u>\$ 2,220,337</u>	<u>\$ 2,374,981</u>

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

THE HOPE PROGRAM
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Statement of Functional Expenses by Natural Classification
Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	<u>Supporting Services</u>			<u>Total</u> <u>June 30, 2006</u>	<u>Total</u> <u>June 30, 2005</u>
	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and</u> <u>General</u>	<u>Fundraising</u>		
Salaries	\$ 798,808	\$ 100,025	\$ 94,986	\$ 993,819	\$ 906,563
Payroll taxes and related benefits	133,701	15,416	14,783	163,900	151,580
Professional fees	19,655	1,852	1,793	23,300	21,866
Consultant fees	8,060	7,289	2,429	17,778	16,098
Rent - Notes 1 & 3	160,838	11,360	7,910	180,108	177,414
Insurance	22,920	2,689	2,496	28,105	30,086
Student travel / Meals	74,827	-	-	74,827	82,959
Maintenance & Security	11,137	1,124	1,091	13,352	9,834
Printing & postage	6,049	1,281	7,420	14,750	17,419
Utilities	34,526	2,418	1,681	38,625	11,500
Telephone	8,103	832	806	9,741	11,841
Food expense - Note 10	34,585	-	-	34,585	40,566
Program expenses	56,763	674	152	57,589	41,127
Office expense	25,681	5,474	2,336	33,491	33,563
Miscellaneous	944	74	180	1,198	9,204
Depreciation and amortization	74,879	2,659	3,063	80,601	82,709
Total Expenses	<u>\$ 1,471,476</u>	<u>\$ 153,167</u>	<u>\$ 141,126</u>	<u>\$ 1,765,769</u>	<u>\$ 1,644,329</u>

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

THE HOPE PROGRAM
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Statement of Cash Flows

Year Ended June 30, 2006
(With Comparative Totals for June 30, 2005)

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (154,644)	\$ (86,898)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	80,601	82,709
Net realized and unrealized gain on investments	(25,689)	(21,757)
Increase (decrease) in cash flows due to changes in operating assets and liabilities:		
Contributions receivable	23,147	110,303
Prepaid expenses and other assets	6,282	12,745
Accounts and accrued expenses payable	(6,299)	(64,640)
Accrued rent	19,930	4,274
	<u>(56,672)</u>	<u>36,736</u>
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances payable	<u>3,790</u>	<u>(18,129)</u>
	<u>3,790</u>	<u>(18,129)</u>
Net Cash Provided (Used) by Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and leasehold improvements	(13,553)	(89,759)
Investments - net	<u>(21,905)</u>	<u>22,340</u>
	<u>(35,458)</u>	<u>(67,419)</u>
Net Cash Used by Investing Activities		
Net Decrease in Cash and Cash Equivalents	(88,340)	(48,812)
Cash and Cash Equivalents at Beginning of Year	<u>1,537,152</u>	<u>1,585,964</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,448,812</u>	<u>\$ 1,537,152</u>

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

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

Notes to Financial Statements

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The HOPE Program, a Not-for-Profit Corporation ("Corporation"), was incorporated pursuant to the laws of the State of New York on March 6, 1985. The purposes of the Corporation are (1) to empower individuals living in poverty to achieve self sufficiency and (2) to inform practices and policy by sharing its research and solutions. The Corporation provides direct services primarily to individuals who live in the five boroughs of New York City.

Principles of Accounting and Basis of Presentation

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

Net Assets

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

Unrestricted Net Assets:

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

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

Temporarily Restricted Net Assets:

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

Permanently Restricted Net Assets:

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

THE HOPE PROGRAM
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Notes to Financial Statements

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

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

Cash and Cash Equivalents

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

Investments

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

Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash held in financial institutions. At times such funds may exceed the amount of insurance provided on them. Management believes the risk of credit loss is not significant.

Property, Equipment and Leasehold Improvements

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

Rents

The Corporation leases real property under a lease expiring October 31, 2011. The difference between rental payments actually due under the lease and rent expense calculated on the straight-line basis is reflected in the accompanying financial statements as accrued rent. The total accrued rent from the commencement of the lease through June 30, 2006 is approximately \$114,000. The annual rent expense (base rent excluding escalation charges) on a straight-line basis will be approximately \$162,000 per year in future years excluding escalation charges. In addition, the lease includes a Tax Escalation clause requiring the payment of 20% of the increase in the building's real estate taxes in excess of taxes in the base year (July 1, 2001 – June 30, 2002).

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Notes to Financial Statements

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

Use of Estimates

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

Functional Allocation of Expenses

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

Income Tax Status

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

NOTE 2: PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

	<u>2006</u>	<u>2005</u>
Property and equipment	\$ 180,161	\$ 229,514
Leasehold improvements	<u>508,498</u>	<u>508,498</u>
	688,659	738,012
Less: Accumulated depreciation	<u>318,381</u>	<u>303,219</u>
	<u>\$ 370,278</u>	<u>\$ 434,793</u>

Depreciation expense for the year ended June 30, 2006 and 2005 was approximately \$78,000, and 80,000, respectively.

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Notes to Financial Statements

NOTE 3: RENT

The Corporation entered into a lease agreement at One Smith Street, Brooklyn, NY. The lease term is from December 21, 2001 to October 31, 2011. The Corporation leased additional space at the aforementioned location through an amendment to the existing lease. The lease term of the amendment is from June 29, 2004 to October 31, 2011. Pursuant to the terms of the lease and amendment, the Corporation's minimum obligations for future rental payments (excluding future real estate tax escalations as mentioned in Note 1) for the years ended June 30, are as follows:

2007	\$ 167,734
2008	177,276
2009	182,594
2010	188,073
2011	193,714
Thereafter	<u>65,204</u>
	<u>\$ 974,595</u>

NOTE 4: INVESTMENTS AND INVESTMENT INCOME

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

	<u>2006</u>	<u>2005</u>
Money Market Funds	\$ 30,756	\$ 14,444
Government Securities	49,366	49,622
Marketable Equity Securities	30,580	26,829
Mutual Funds	<u>277,392</u>	<u>252,138</u>
	<u>\$ 388,094</u>	<u>\$ 343,033</u>

Investment income is comprised of the following:

Interest and dividend income	\$ 44,855	\$ 25,946
Realized and unrealized gain	<u>25,689</u>	<u>21,757</u>
	<u>\$ 70,544</u>	<u>\$ 47,703</u>

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

NOTE 5: TEMPORARILY RESTRICTED NET ASSETS

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

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Notes to Financial Statements

NOTE 6: PERMANENTLY RESTRICTED NET ASSETS

Permanently Restricted Net Assets consist of \$219,731 for a permanent endowment. The investment income from this endowment is unrestricted.

NOTE 7: CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2006 and 2005, in the amounts of \$136,475 and \$159,622, respectively, were reported as income in their respective fiscal years, in accordance with generally accepted accounting principles in the United States of America, although they were collected in the following fiscal year. These amounts are reported in the Statement of Financial Position and Statement of Activities as follows:

	2006	2005
Foundation & corporate contributions	\$ 80,000	\$ 100,000
Individual contributions	25,000	25,000
Government grants	31,475	34,622
	\$ 136,475	\$ 159,622

NOTE 8: DESIGNATED RESERVE FUND

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

NOTE 9: SAVINGS INCENTIVE MATCH PLAN

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

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Notes to Financial Statements

NOTE 10: IN-KIND SUPPORT

Government grants includes in-kind contributions received by The HOPE Program during fiscal years 2006 and 2005 of approximately \$14,700 and \$14,800 respectively. The support is in the form of a line of credit to acquire foods from approved vendors. The amounts reflected in the accompanying financial statements as Government grants are offset by like amounts included in program services as food expense.

NOTE 11: PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets are comprised of the following:

	<u>2006</u>	<u>2005</u>
Security deposits	\$ 23,375	\$ 23,375
Deferred leasing expense – net	14,201	16,733
Prepaid insurance	<u>4,778</u>	<u>8,528</u>
	<u>\$ 42,354</u>	<u>\$ 48,636</u>

Deferred leasing expense represents legal fees relating to lease negotiations and preparation, and are amortized using the straight-line method, over the term of the lease. The deferred leasing expenses shown above are net of accumulated amortization of \$9,022 and \$6,490 for the year ended June 30, 2006 and 2005, respectively.

NOTE 12: ADVANCES PAYABLE

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

During the year ended June 30, 2006, the Human Resources Administration elected to recoup \$24,180 of the Advance Payable from payments to be made to The HOPE Program under the contract. This reduced the Advance Payable to \$2,813 as of June 30, 2006.

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Notes to Financial Statements

NOTE 12: **ADVANCES PAYABLE (continued)**

During 2006, The HOPE Program entered into an agreement as a subcontractor to Fort Greene Strategic Neighborhood Action Partnership, Inc. (Fort Greene SNAP) in the NYCWorks program, a program of the New York City Council administered by the United Way of New York City. The subcontract runs from January 9, 2006 through April 30, 2007. HOPE received an advance of \$27,970 under this agreement, which will be applied to future reimbursements pursuant to the subcontract agreement.

NOTE 13: **RELATED PARTY TRANSACTIONS**

The HOPE Program uses curriculum developed by Winthrop Adkins of the Institute for Life Coping Skills (the Institute) at Columbia University. Dr. Adkins, a member of the Board of Directors of The HOPE program, is the president of the Institute. The HOPE Program purchased curriculum materials from the Institute at a cost of \$2,339 for the year ending June 30, 2006.

The HOPE Program has an agreement with South Brooklyn Legal Services (SBLS) to provide legal services to The HOPE Program staff and clients. John Gray, a member of the Board of Directors of The HOPE Program, is Project Director at SBLS. The HOPE Program paid SBLS \$13,750 and \$5,000 for the years ending June 30, 2006 and 2005, respectively.