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January 31, 2014

Board of Directors
Hope House, Inc.
1115 Garden St.
Fort Wayne, IN 46802-4124

We have reviewed the audit report prepared by Leonard J. Andorfer & Co., LLP, Independent Public Accountants, for the period July 1, 2011 to June 30, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Hope House, Inc., as of June 30, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

HOPE HOUSE, INC.
FORT WAYNE, INDIANA
Financial Statements
as of June 30, 2012 and 2011

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LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants

Park Lake Medical Building
2410 Lake Avenue - P. O. Box 5486 - Fort Wayne, Indiana 46895-5486
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hope House, Inc.
Fort Wayne, Indiana

We have audited the accompanying statements of financial position of Hope House, Inc. (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these 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 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Hope House, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



LEONARD J. ANDORFER & CO., LLP
Certified Public Accountants

October 4, 2012

HOPE HOUSE, INC.

Statements of Financial Position

ASSETS	June 30 2012	June 30 2011
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 166,569	\$ 122,241
Grants receivable	36,441	21,321
Prepaid expenses	<u>2,914</u>	<u>2,630</u>
Total Current Assets	205,924	146,192
INVESTMENTS		
Certificates of deposit	36,049	35,849
Beneficial Interest - Community Foundation of Greater Fort Wayne, Inc.	<u>17,611</u>	<u>17,980</u>
Total Investments	53,660	53,829
PROPERTY AND EQUIPMENT		
Property and equipment	299,012	299,012
Less: accumulated depreciation	(<u>149,112</u>)	(<u>137,817</u>)
Total Property and Equipment (Net)	<u>149,900</u>	<u>161,195</u>
TOTAL ASSETS	<u><u>\$ 409,484</u></u>	<u><u>\$ 361,216</u></u>

(Continued)

The Notes to Financial Statements
are an integral part of the statements.

HOPE HOUSE, INC.

Statements of Financial Position (Continued)

LIABILITIES AND NET ASSETS	June 30 2012	June 30 2011
CURRENT LIABILITIES		
Resident deposits and expenses	\$ 450	\$ 450
Accounts payable	9,960	6,016
Accrued payroll	<u>6,782</u>	<u>5,310</u>
Total Current Liabilities and Total Liabilities	17,192	11,776
NET ASSETS		
Unrestricted	319,909	317,034
Temporarily restricted	58,452	18,475
Permanently restricted	<u>13,931</u>	<u>13,931</u>
Total Net Assets	<u>392,292</u>	<u>349,440</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 409,484</u>	<u>\$ 361,216</u>

The Notes to Financial Statements
are an integral part of the statements.

HOPE HOUSE, INC.

Statement of Activities For the Year Ended June 30, 2012 (With Comparative Totals for the Year Ended June 30, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30 2012 Total	June 30 2011 Total
REVENUE, GAINS AND OTHER SUPPORT					
Support					
Federal Grant - Housing and Urban Development	\$ 134,932	\$	\$	\$ 134,932	\$ 134,906
Emergency Shelter Grants	49,514			49,514	47,778
State and local grants	42,989			42,989	20,521
Drug and Alcohol Consortium - scholarship	11,400			11,400	14,648
Foundations	30,070	71,250		101,320	60,800
United Way	20,000			20,000	20,000
Fund raising events					
Proceeds	25,877	300		26,177	13,692
Less: cost of direct benefit to donors	(6,840)			(6,840)	(1,688)
Contributions	31,932			31,932	16,424
Miscellaneous	6,822			6,822	731
Revenue					
Rental and supportive housing revenue					
Client fees	51,783			51,783	56,733
Reimbursement from state	13,632			13,632	18,638
Interest income - certificates of deposit	441			441	835
Net investment income (loss)	(369)			(369)	3,496
Net assets released from restrictions					
Restrictions satisfied by payments	31,573	(31,573)		-	-
Total Revenue, Gains, Other Support and Net Assets Released from Restrictions	443,756	39,977	-	483,733	407,514
EXPENSES					
Program services	396,604			396,604	382,467
Management and general	31,447			31,447	30,377
Fund raising	12,830			12,830	13,767
Total Expenses	440,881	-	-	440,881	426,611
CHANGE IN NET ASSETS	2,875	39,977	-	42,852	(19,097)
NET ASSETS - BEGINNING OF YEAR	317,034	18,475	13,931	349,440	368,537
NET ASSETS - END OF YEAR	\$ 319,909	\$ 58,452	\$ 13,931	\$ 392,292	\$ 349,440

The Notes to Financial Statements
are an integral part of the Statements.

HOPE HOUSE, INC.

Statement of Activities For the Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	June 30 2011 Total
REVENUE, GAINS AND OTHER SUPPORT				
Support				
Federal Grant - Housing and Urban Development	\$ 134,906	\$	\$	\$ 134,906
Emergency Shelter Grants	47,778			47,778
State grants	20,521			20,521
Drug and Alcohol Consortium - scholarship	14,648			14,648
Foundations	44,375	16,425		60,800
United Way	20,000			20,000
Fund raising events				
Proceeds	11,642	2,050		13,692
Less: cost of direct benefit to donors	(1,688)			(1,688)
Contributions	16,424			16,424
Miscellaneous	731			731
Revenue				
Rental and supportive housing revenue				
Client fees	56,733			56,733
Reimbursement from state	18,638			18,638
Interest income - certificates of deposit	835			835
Net investment income	3,496			3,496
Net assets released from restrictions				
Restrictions satisfied by payments	21,175	(21,175)		-
Total Revenue, Gains, Other Support and Net Assets Released from Restrictions	410,214	(2,700)	-	407,514
EXPENSES				
Program services	382,467			382,467
Management and general	30,377			30,377
Fund raising	13,767			13,767
Total Expenses	426,611	-	-	426,611
CHANGE IN NET ASSETS	(16,397)	(2,700)	-	(19,097)
NET ASSETS - BEGINNING OF YEAR	333,431	21,175	13,931	368,537
NET ASSETS - END OF YEAR	\$ 317,034	\$ 18,475	\$ 13,931	\$ 349,440

The Notes to Financial Statements
are an integral part of the Statements.

HOPE HOUSE, INC.

**Statement of Functional Expenses
For the Year Ended June 30, 2012**

(With Comparative Totals for the Year Ended June 30, 2011)

	Program Services	Management and General	Fund Raising	Total 2012 Expenses	Total 2011 Expenses
Employee Compensation					
Salaries	\$ 247,384	\$ 8,126	\$ 8,948	\$ 264,458	\$ 252,203
Payroll taxes	25,872	956	911	27,739	22,239
Employee benefits	38,327	1,259	1,386	40,972	39,185
Total Employee Compensation	311,583	10,341	11,245	333,169	313,627
Other Expenses					
Advertising		50	642	692	1,147
Contract services	1,310	7,510		8,820	21,934
Counseling	7,725			7,725	9,539
Craft and jewelry expense	5,884			5,884	3,054
Fund raising expenses		55		55	587
Groceries and household supplies	14,007		96	14,103	13,577
Insurance	5,245	1,909	125	7,279	6,523
Lab fees	3,490			3,490	3,833
Legal and professional		5,000		5,000	4,850
Miscellaneous expenses	997	854		1,851	1,023
Office expenses	3,502	1,017	242	4,761	3,848
Printing		70	181	251	572
Repairs and maintenance	3,953	1,686		5,639	3,837
Residential services	1,881			1,881	1,638
Staff training	1,111	438		1,549	702
Technology	1,736	434	299	2,469	2,089
Transportation	5,114			5,114	933
Travel	1,438	921		2,359	2,208
Utilities	16,933	562		17,495	19,591
Total Before Depreciation	385,909	30,847	12,830	429,586	415,112
Depreciation expense	10,695	600		11,295	11,499
Total Expenses	\$ 396,604	\$ 31,447	\$ 12,830	\$ 440,881	\$ 426,611

The Notes to Financial Statements
are an integral part of the statements.

HOPE HOUSE, INC.

Statement of Functional Expenses For the Year Ended June 30, 2011

	Program Services	Management and General	Fund Raising	Total 2011 Expenses
Employee Compensation				
Salaries	\$ 236,340	\$ 7,925	\$ 7,938	\$ 252,203
Payroll taxes	20,840	699	700	22,239
Employee benefits	36,721	1,231	1,233	39,185
Total Employee Compensation	293,901	9,855	9,871	313,627
Other Expenses				
Advertising			1,147	1,147
Contract services	10,058	10,205	1,671	21,934
Counseling	9,539			9,539
Craft and jewelry expense	3,054			3,054
Fund raising expenses			587	587
Groceries and household supplies	13,577			13,577
Insurance	5,475	1,048		6,523
Lab fees	3,833			3,833
Legal and professional		4,850		4,850
Miscellaneous expenses	894	129		1,023
Office expenses	3,079	577	192	3,848
Printing	57	515		572
Repairs and maintenance	3,837			3,837
Residential services	1,638			1,638
Staff training	702			702
Technology	1,432	358	299	2,089
Transportation	933			933
Travel	552	1,656		2,208
Utilities	19,207	384		19,591
Total Before Depreciation	371,768	29,577	13,767	415,112
Depreciation expense	10,699	800		11,499
Total Expenses	\$ 382,467	\$ 30,377	\$ 13,767	\$ 426,611

The Notes to Financial Statements
are an integral part of the statements.

HOPE HOUSE, INC.

Statements of Cash Flows

	For the Years Ended	
	June 30, 2012	June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 42,852	(\$ 19,097)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	11,295	11,499
Unrealized (gain) loss on investments	939	(2,835)
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	-	283
Decrease (increase) in grants receivable	(15,120)	21,229
Decrease (increase) in prepaid expenses	(284)	(348)
Increase (decrease) in resident deposits and expenses	-	(38)
Increase (decrease) in accounts payable	3,944	(4,796)
Increase (decrease) in accrued expenses	1,472	1,306
Net Cash Provided by Operating Activities	45,098	7,203
CASH FLOWS FROM INVESTING ACTIVITIES		
Property acquisitions	-	(4,211)
Increase in investments	(770)	(1,086)
Net Cash Used for Investing Activities	(770)	(5,297)
CASH FLOWS FROM FINANCING ACTIVITIES		
None	-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	44,328	1,906
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	122,241	120,335
CASH AND CASH EQUIVALENTS- END OF YEAR	\$ 166,569	\$ 122,241

The Notes to Financial Statements
are an integral part of the statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - Nature of Activities

The mission of Hope House, Inc. is to provide homeless, chemically dependent women of Allen County, Indiana with opportunities to pursue recovery and self-sufficiency in a healthy, supportive living environment.

NOTE 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Certificates of Deposit - At June 30, 2012 and 2011, investments contain certificates of deposit held for investment that are not debt securities. These certificates of deposit are held at local financial institutions and have original maturities ranging from 12 to 24 months. Certificates of deposit are recorded at cost plus accrued interest, which approximates fair value.

Investments - The organization's investments are reported at fair value. Fair value is the price that would be received when selling an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 6 for discussion of fair value measurements.

Purchases and sales are recorded on a trade-date basis. Interest income is recorded when received and dividends are recorded on the ex-dividend date.

Net realized and unrealized gains or losses are determined by comparison of asset cost, using the specific identification method, to net proceeds received at the time of sale and changes in the difference between market values and cost, respectively.

Hope House, Inc.'s investment portfolio is managed by professional investment managers in compliance with the investment policy established by the Community Foundation of Greater Fort Wayne, Inc. Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect account balances.

Property and Equipment - Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. 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 temporarily restricted net assets to unrestricted net assets at that time. Property and equipment is depreciated using the straight-line method over the following periods:

Property and equipment	5 - 40 years
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation - Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Hope House, Inc. and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Hope House, Inc. and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net unrestricted assets if the restriction expires or is met in the reported period in which the support is recognized.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Hope House, Inc. Generally, the donors of these assets permit Hope House, Inc. to use all or part of the income earned on any related investments for general or specific purposes. The Board of Hope House, Inc. elected to direct endowment funds to the Community Foundation of Greater Fort Wayne (See Note 5).

Contributions and Contributions Receivable - Contributions including gifts, grants, bequest, pledges, and other unconditional promises to give are recorded as revenue in the period received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Uncollectible Accounts Receivable - Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

Donated Materials and Services - Donated services are recognized as contributions in accordance with FASB ASC 958-605-05 if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the organization. During the year ended June 30, 2012 and 2011 there were no contributed materials and services meeting the requirements for recognition in the financial statements.

Compensated Absences - The organization's employee base is made up of full-time and part-time employees. No liability for compensated absences has been recorded in the financial statements. Any liability that may exist is deemed immaterial.

Functional Expenses - Hope House, Inc. allocates its expenses on a functional basis among its programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expenditure classification. Other expenses that are common to multiple functions are allocated by various statistical bases.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - Summary of Significant Accounting Policies (Continued)

Advertising Costs - Advertising and promotional program costs are charged to expense during the period in which they are incurred.

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

Income Taxes - Hope House, Inc. is a nonprofit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and qualifies for the 50% charitable contribution limitation.

The organization has adopted FASB ASC 710-10-25, and determined no material unrecognized tax benefits or liabilities exist as of June 30, 2012. The adoption of FASB ASC 740-10-25 did not impact the organization's financial position or results of operations. If applicable, the organization will recognize interest and penalties related to underpayment of income taxes as income tax expense. As of June 30, 2012, the organization had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The organization does not anticipate any significant changes to unrecognized income tax benefits over the next year. The organization is generally no longer subject to examination by Federal and State agencies for tax years before June 30, 2009.

Reclassification - Certain June 30, 2011 amounts as previously reported have been reclassified to conform to the June 30, 2012 presentation. The reclassifications have no effect on net income for the year ending June 30, 2011.

NOTE 3 - Concentration of Credit Risk

The organization maintains cash balances at two financial institutions. Deposits at these institutions are insured by the Federal Deposit Insurance Corporation. Insured limits were permanently increased from \$100,000 to \$250,000 on July 21, 2010. No uninsured cash balances existed at June 30, 2012 and 2011.

NOTE 4 - Grants Receivable

Hope House, Inc. incurs expenses and then submits requests for reimbursement by third-party grantors. The reimbursement requests are reviewed by the grantor, taking into consideration the purpose of the expenditures, the amount of the original grant and the provisions set forth. Grants receivable under these terms amounted to \$11,441 and \$9,771 as of June 30, 2012 and 2011, respectively.

Grants receivable for the years ended June 30, 2012 and 2011 also include additional amounts of \$25,000 and \$11,550, respectively, from local foundations which are listed as temporarily restricted net assets in Note 8.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - Beneficial Interest - Community Foundation of Greater Fort Wayne, Inc.

Funds held at the Community Foundation of Greater Fort Wayne, Inc. (Foundation) as of June 30, 2012 and 2011 were \$17,611 and 17,980, respectively.

The investments held at the Foundation are the result of agreements whereby the organization has transferred assets, without variance power, to the Foundation and has specified itself as the beneficiary of those assets. The organization may draw up to a certain percentage of the value of the assets each year, but may only obtain a return of the full value of the assets upon consent of the Foundation.

Additionally, the Community Foundation of Greater Fort Wayne holds investment assets with a value of \$6,967 and \$6,159 at June 30, 2012 and 2011, respectively, for the benefit of the organization for which they have retained variance power. These assets are not recorded as assets of the organization.

Net investment income consisted of the following:

	June 30 2012	June 30 2011
Interest income and realized gains	\$ 711	\$ 803
Unrealized gains (losses)	(939)	2,835
Investment management fees	(141)	(142)
Net Investment Income (Loss)	(\$ 369)	\$ 3,496

NOTE 6 - Fair Value of Financial Instruments

FASB ASC 820-10-50-1 (prior authoritative literature SFAS No. 157, "Fair Value Measurements" as amended), requires certain disclosures regarding the fair value of financial instruments. Financial instruments held by Hope House, Inc. impacted by this pronouncement include the investments held at market value.

FASB ASC 820-10-50-1 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of input described below:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - Fair Value of Financial Instruments (Continued)

Fair value of financial instruments as of June 30, 2012 is as follows:

	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Community Foundation of Greater Fort Wayne	<u>\$</u>	<u>\$</u>	<u>\$ 17,611</u>

Fair value of financial instruments as of June 30, 2011 is as follows:

	Quoted market prices for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Community Foundation of Greater Fort Wayne	<u>\$</u>	<u>\$</u>	<u>\$ 17,980</u>

The table below presents a reconciliation and statement of activities classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ending June 30, 2012 and 2011:

	June 30, 2012 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	June 30, 2011 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Beginning Balance - July 1	\$ 17,980	\$ 14,484
Total gains or losses (realized/unrealized) included in earnings:		
Interest and dividend income on securities	562	610
Unrealized gains (losses)	(939)	2,835
Realized gains on sale of securities	149	193
Investment fees	(141)	(142)
Ending Balance - June 30	<u>\$ 17,611</u>	<u>\$ 17,980</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - Line of Credit

The organization has entered into an agreement with 1st Source Bank for a \$31,000 line of credit. The note is secured by a \$10,000 certificate of deposit and the money management account, bears interest at the bank's prime interest rate plus 1.75%, currently 5%, and expires November 7, 2012. Interest is due monthly on any outstanding balance. As of June 30, 2012 and 2011, there were no outstanding balances.

NOTE 8 - Restrictions on Assets

Temporarily restricted net asset are available for the following purposes:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>
The St. Joseph Community Health Foundation - Fostering Recovery	\$ 6,425	\$ 11,250	\$ 12,664	\$ 5,011
Foellinger Foundation				
Operational Support		20,000		20,000
Strengthening Organizations		10,000	1,000	9,000
Beads of Hope		15,000	5,859	9,141
English Bonter Mitchell				
Operational Support		5,000		5,000
Bowker Family Foundation				
Operational Support		5,000		5,000
Flora Dale Krouse Foundation				
Operational Support		5,000		5,000
Community Foundation of Greater Fort Wayne - Operational Support	10,000		10,000	-
Golf Outing Sponsorship		300		300
30th Anniversary Event	2,050		2,050	-
	<u>\$ 18,475</u>	<u>\$ 71,550</u>	<u>\$ 31,573</u>	<u>\$ 58,452</u>

NOTE 9 - Endowment

The organization's endowment consists of one fund established for providing revenue from earnings. Its endowment includes donor restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with permanently restricted funds, including designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor permanently restricted funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the organization classifies as permanently restricted net assets (a) the original value of gifts, (b) the original value of subsequent gifts, and (c) accumulations made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted fund that is not classified in permanently restricted net assets is classified as designated net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - Endowment (Continued)

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Endowment net asset composition by type of fund as of June 30, 2012, is as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted funds	\$ 3,680	\$ 13,931	\$ 17,611

Endowment net asset composition by type of fund as of June 30, 2011, is as follows:

	Unrestricted	Permanently Restricted	Total
Donor-restricted funds	\$ 4,049	\$ 13,931	\$ 17,980

Changes in endowment net assets for the year ended June 30, 2012, are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ 4,049	\$ 13,931	\$ 17,980
Investment return:			
Dividends, interest and realized investment gains		711	711
Unrealized losses		(939)	(939)
Total investment return		228	228
Appropriation of endowment assets for expenditures		(141)	(141)
Transfers	(369)	369	-
Endowment net assets - end of year	\$ 3,680	\$ 13,931	\$ 17,611

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - Endowment (Continued)

Changes in endowment net assets for the year ended June 30, 2011, are as follows:

	Unrestricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ 553	\$ 13,931	\$ 14,484
Investment return:			
Dividends, interest and realized investment losses		803	803
Unrealized gains		2,835	2,835
Total investment return		3,638	3,638
Appropriation of endowment assets for expenditures		(142)	(142)
Transfer	3,496	(3,496)	-
Endowment net assets - end of year	\$ 4,049	\$ 13,931	\$ 17,980

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor permanently restricted funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable investment performance due to unfavorable market conditions for the investments supporting the permanently restricted and designated net assets.

Return Objectives and Risk Parameters - The organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as designated funds. The organization expects its endowment fund, over time, to provide an average rate of return of approximately 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Spending Policy - The organization has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior four quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the organization considered the long-term expected return on its endowment. Accordingly, over the long term, the organization expects the current spending policy to allow its endowment to grow at an average of 3% annually. This is consistent with the organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 10 – Sponsorships – Federal Grant

Hope House, Inc. sponsors Genesis Outreach, Inc. for various grant collaborations for the provision of transitional residential client services. Income from the Housing and Urban Development Grant (HUD) includes funds specifically allocated as follows:

	<u>2012</u>	<u>2011</u>
Total HUD Grant Received	\$ 198,580	\$ 198,554
Less: allocated to Genesis Outreach, Inc.	<u>63,648</u>	<u>63,648</u>
Income retained by Hope House, Inc.	<u>\$ 134,932</u>	<u>\$ 134,906</u>

Accounts payable for the years ended June 30, 2012 and 2011 include amounts of \$5,304 and \$5,306, respectively, due to Genesis Outreach, Inc.

NOTE 11 - Subsequent Events

In preparing these financial statements, the organization has evaluated events and transactions for potential recognition or disclosure through October 4, 2012, the date the financial statements were available to be issued.