

Date: December 16, 2021
 To: Build Hope, Inc Board of Directors
 From: Marlene Garza, Treasurer 
SUBJECT: 2020 Audited Financial Statements

This memo briefly summarizes the key 2020 financial outcomes for Build HOPE, Inc. (BHI) as reported in the 2020 Basic Financial Statements and Independent Auditor's Reports.

AUDITOR OPINION

The financial activity of KPI was audited by Berman Hopkins Wright & LaHam, CPAs & Associates (Berman Hopkins) according to *Government Auditing Standards* issued by the Comptroller of the United States. Berman Hopkins was given access to all BHI financial records without restriction. Based on this review, Berman Hopkins has opined that BHI's financial statements are fairly presented in all material respects and has not identified any findings for concern. This opinion was issued June 29, 2021.

2020 REVENUE AND EXPENSES

Revenue: In 2020, BHI played a critical role in COVID-19 emergency response. Donations for meals, a vehicle for the delivery of those meals, and rent support for senior residents, totaling \$463,000, provided HACLA public housing residents with essential services during the global crisis.

	<u>2020</u>	<u>2019</u>
Scholarships	\$ 10,000	\$ 20,000
Tenant supportive services		
Public housing events	6,500	14,000
Public housing senior rent donation	89,322	-
Meals to public housing tenants	346,614	-
Worksource center van purchase	27,500	-
Other	640	4,607
Total Donations	<u>\$ 480,576</u>	<u>\$ 38,607</u>

In addition to these donations, other revenue included donations for Scholarships and Resident Events as well as Operating Support from LA LOMOD of \$167,000. **Total revenue in 2020 was \$663,772** as compared to \$130,000 in 2019.

Expenses: In 2020, BHI expended \$592,000 on various activities as compared to \$138,000 in 2019. Of this, \$32,000 was expended on administrative costs, such as the website, auditing/taxes, and insurance.

The majority of expenses, \$560,000, was dedicated to Resident Services, including:

	<u>2020</u>	<u>2019</u>
Broadband services	63,082	40,082
Resident stipend	450	600
Supportive services	456,342	16,994
Telecomm services and maintenance	19,874	36,120
Youth scholarship awards	20,000	26,480
Total Tenant Services	<u>\$ 559,748</u>	<u>\$ 120,276</u>

2020 NET POSITION

As a result of this activity, BHI's Net Position at 2020 year-end was \$126,000.

BUILD HOPE, INC.
**(A Component Unit of the Housing Authority of the
City of Los Angeles)**

Basic Financial Statements and
Independent Auditor's Reports

For the Years Ended
December 31, 2020 and 2019



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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Housing Authority of the City of Los Angeles
Los Angeles, California

We have audited the accompanying financial statements of Build Hope, Inc. ("Build Hope"), a component unit of the Housing Authority of the City of Los Angeles (the "Housing Authority"), as of and for the year ended December 31, 2020, and the related notes to the basic financial statements, which collectively comprise the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of Build Hope, as of December 31, 2020, and the respective changes in financial position and fund balance for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Build Hope (formerly known as Kids Progress, Inc.), as of and for the year ended December 31, 2019, were audited by other auditors whose report dated November 5, 2020, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2021 on our consideration of Build Hope's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Build Hope's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Build Hope's internal control over financial reporting and compliance.

June 29, 2021
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP

BUILD HOPE, INC.**(A Component Unit of the Housing Authority of the City of Los Angeles)**

Statements of Net Position and Governmental Fund Balance Sheets

December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Assets		
Cash - Unrestricted	\$ 31,465	\$ 19,642
Cash - Restricted	109,570	49,398
Accounts receivable	-	4,250
Prepaid expenses	4,400	3,319
Total assets	<u>\$ 145,435</u>	<u>\$ 76,609</u>
Liabilities		
Accounts payable	\$ 11,217	\$ 21,980
Accrued liabilities	8,563	1,015
Total liabilities	<u>19,780</u>	<u>22,995</u>
Fund balance/Net position		
Restricted for:		
Scholarship	10,000	20,000
Digital literacy	10,700	10,700
Workforce development	2,628	2,628
San Fernando Gardens	9,748	6,965
Jordan Downs	1,500	4,131
William Mead	4,578	4,578
Other	63,130	4,106
Unrestricted/Unassigned	<u>23,371</u>	<u>506</u>
Total fund balance/net position	<u>125,655</u>	<u>53,614</u>
Total liabilities and fund balance/net position	<u>\$ 145,435</u>	<u>\$ 76,609</u>

See Accompanying Notes to Basic Financial Statements.

BUILD HOPE, INC.**(A Component Unit of the Housing Authority of the City of Los Angeles)**Statements of Activities and Governmental Fund Statements of
Revenues, Expenditures and Changes in Fund Balance
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues		
Program revenues - operating contributions:		
Donations	\$ 480,576	\$ 38,607
Other government grants	15,000	-
Other income	295	239
Total program revenues	<u>495,871</u>	<u>38,846</u>
General revenues:		
Transfers from the Housing Authority	<u>167,901</u>	<u>91,221</u>
Total revenues	<u>663,772</u>	<u>130,067</u>
Expenditures/expenses		
Administrative and general expenses	31,983	17,649
Tenant services	<u>559,748</u>	<u>120,276</u>
Total expenditures/expenses	<u>591,731</u>	<u>137,925</u>
Excess/(deficiency) of revenues over expenditures/expenses	<u>72,041</u>	<u>(7,858)</u>
Change in fund balance/net position	72,041	(7,858)
Fund balance/net position, beginning of year	<u>53,614</u>	<u>61,472</u>
Fund balance/net position, end of year	<u>\$ 125,655</u>	<u>\$ 53,614</u>

See Accompanying Notes to Basic Financial Statements.

BUILD HOPE, INC.

(A Component Unit of the Housing Authority of the City of Los Angeles)

Notes to Basic Financial Statements

For the Years Ended December 31, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Build Hope, Inc. have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the organization are described below.

(a) Organization

Build Hope, Inc. was founded on October 17, 2002 as a California non-profit public benefit corporation to improve the quality of life of low income families, children and seniors by providing increased educational, artistic, cultural and technical opportunities and other benefits to low income families, children and seniors in public housing programs provided by the Housing Authority of the City of Los Angeles (Housing Authority). On May 28, 2020 the Board of Commissioners approved the name change, the amended and restated Article of Incorporation, and the fifth restated and amended Bylaws. The certificate of Restated Articles of Incorporation was filed, and the Secretary of State approved the name change to Build Hope, Inc. on September 17, 2020. Build Hope, Inc. is a component unit of the Housing Authority since the Housing Authority appoints a voting majority of the governing body, and the Housing Authority's Board of Commissioners must approve all amendments to the Articles of Build Hope, Inc. In addition, there is a financial benefit or burden relationship, and the Housing Authority has operational responsibility for the organization.

The accompanying financial statements present only the net position/fund balance and changes in net position/fund balance of Build Hope, Inc. These financial statements are not intended to present the financial position and the changes in financial position or cash flows of the Housing Authority.

(b) Measurement Focus and Basis of Accounting

Government-wide Financial Statements

Government-wide financial statements consist of the statement of net position and the statement of activities. These statements are presented on an economic resources measurement focus. All economic resources and obligations of the reporting government are reported in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of Build Hope, Inc. are included on the statements of net position. The statements of activities present a comparison of the direct expenses and program revenues for Build Hope, Inc.'s governmental activities.

BUILD HOPE, INC.

(A Component Unit of the Housing Authority of the City of Los Angeles)

Notes to Basic Financial Statements (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Measurement Focus and Basis of Accounting (Continued)

Government-wide Financial Statements (Continued)

Program revenues include private donations. General revenues are all revenues that do not qualify as program revenues and include revenues provided by the Housing Authority. Net position represents the resources that Build Hope, Inc. has available for use in providing services.

Fund Financial Statements

The fund financial statements consist of the balance sheet and the statement of revenues, expenditures and changes in fund balance of Build Hope, Inc.'s general fund. These statements are presented on a current financial resources measurement focus. Generally, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance for the governmental fund generally presents increases (revenues) and decreases (expenditures) in net current assets. All operations of Build Hope, Inc. are accounted for in the general fund.

The fund financial statements have been prepared on the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are considered available if they are received within 60 days after year-end. Revenues susceptible to accrual include grant revenues and revenues provided by the Housing Authority. Expenditures are recognized in the accounting period in which the fund liability is incurred.

The government-wide and fund financial statements are presented in a single statement as there are no reconciling items between the modified accrual basis of accounting and accrual basis of accounting.

(c) Cash

Cash maintained in the checking account is classified as cash. Restricted cash is specified by donors for a specific purpose. Unrestricted cash is for general operating use.

(d) Components of Fund Balance/Net Position

Fund balance/net position comprises the various net earnings from operating income, nonoperating revenues and expenditures/expenses.

BUILD HOPE, INC.

(A Component Unit of the Housing Authority of the City of Los Angeles)

Notes to Basic Financial Statements (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Components of Fund Balance/Net Position (Continued)

Fund Balance is classified in the following components:

Restricted Fund Balance – Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only by changing the conditions of the account.

Net position is classified in the following components:

Restricted – This component of net position consists of constraints imposed by donors, grantors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of resources of Build Hope, Inc. that can be used for any purpose.

Unassigned Fund Balance – Includes amounts that are not assigned to other funds and do not meet the criteria for being classified as restricted in the General Fund.

(e) Policy Regarding Use of Restricted and Unrestricted Resources

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, Build Hope, Inc. will utilize restricted resources first, and then unrestricted resources as needed.

(f) Donations

Donations, including unconditional promises to give, are recorded as made. All donations are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when contributions are substantially met. Unconditional promises to give are reported at the present value of their net realizable value applicable to the years in which the promises are to be received.

BUILD HOPE, INC.**(A Component Unit of the Housing Authority of the City of Los Angeles)**

Notes to Basic Financial Statements (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(f) Donations (Continued)**

The following donations were received from various donors for the years ended December 31, 2020 and 2019 as listed below:

	<u>2020</u>	<u>2019</u>
Purpose		
Scholarships	\$ 10,000	\$ 20,000
Tenant supportive services		
Public housing events	6,500	14,000
Public housing senior rent donation	89,322	-
Meals to public housing tenants	346,614	-
Worksource center van purchase	27,500	-
Other	640	4,607
Total Donations	<u>\$ 480,576</u>	<u>\$ 38,607</u>

(g) Transfers from the Housing Authority

The amount reported as general revenues represents transfers from the Housing Authority to Build Hope, Inc. to support the operation of the entity. The total transfers from the Housing Authority for the years ended December 31, 2020 and 2019 were \$167,901 and \$91,221, respectively.

(h) Administrative and General Expenses

Administrative and general expenses include audit fees, office supplies, general liability insurance and miscellaneous administrative expenses. The total administrative and general expenses incurred for the years ended December 31, 2020 and 2019 were \$31,983 and \$17,649, respectively.

	<u>2020</u>	<u>2019</u>
Auditing	\$ 11,432	\$ 11,432
Insurance	6,056	4,449
Office expenses	1,971	1,358
Other administrative	12,524	410
Total	<u>\$ 31,983</u>	<u>\$ 17,649</u>

BUILD HOPE, INC.**(A Component Unit of the Housing Authority of the City of Los Angeles)**

Notes to Basic Financial Statements (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(i) Tenant Services Expenses**

Tenant Services represents costs incurred for services directly related to meeting resident needs and supporting a service-enriched environment. The total tenant services expenses incurred for the years ended December 31, 2020 and 2019 were \$559,748 and \$120,276, respectively.

	<u>2020</u>	<u>2019</u>
Broadband services	63,082	40,082
Resident stipend	450	600
Supportive services	456,342	16,994
Telecomm services and maintenance	19,874	36,120
Youth scholarship awards	20,000	26,480
Total Tenant Services	<u>\$ 559,748</u>	<u>\$ 120,276</u>

(j) Income Taxes

Build Hope, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under Section 23701d of the California Revenue and Taxation Code. Therefore, no provision is made for federal and state income taxes.

(k) Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NOTE 2 - CASH

Cash as of December 31, 2020 and 2019 is classified in the accompanying statements of net position/balance sheets as follows:

	<u>2020</u>	<u>2019</u>
Cash - Unrestricted	\$ 31,465	\$ 19,642
Cash - Restricted	109,570	49,398
Total Cash	<u>\$ 141,035</u>	<u>\$ 69,040</u>

BUILD HOPE, INC.**(A Component Unit of the Housing Authority of the City of Los Angeles)**

Notes to Basic Financial Statements (Continued)

For the Years Ended December 31, 2020 and 2019

NOTE 2 – CASH (Continued)**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Build Hope, Inc. follows the parameters established by the Housing Authority's Investment Policy. In addition, Build Hope, Inc. maintains its cash accounts with other Housing Authority's accounts at high credit quality financial institutions. The California Government Code and the Housing Authority's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Build Hope, Inc.'s deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of December 31, 2020 and 2019, Build Hope, Inc. was not exposed to custodial credit risk.

NOTE 3 – COMMITMENT AND CONTINGENCIES

Build Hope, like most other businesses, have had its operational activities impacted by the COVID-19 pandemic to conform with current guidelines. As of the date of this report, the overall impact and duration is uncertain. The Housing Authority has not included any contingencies in Build Hope's financial statements specific to this issue.

NOTE 4 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 29, 2021, the date that the combined financial statements were available to be issued and noted no additional significant items to be disclosed.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Housing Authority of the City of Los Angeles
Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Build Hope, Inc. ("Build Hope"), a component unit of the Housing Authority of the City of Los Angeles (the "Housing Authority"), as of and for the year ended December 31, 2020, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Build Hope's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Build Hope's internal control. Accordingly, we do not express an opinion on the effectiveness of Build Hope's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Build Hope's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Build Hope's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Build Hope's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

June 29, 2021
Melbourne, Florida

Berman Hopkins Wright & LaHam
CPAs and Associates, LLP