STAR OF HOPE MISSION

FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORT

DECEMBER 31, 2019

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Star of Hope Mission

We have audited the accompanying financial statements of Star of Hope Mission (the Mission) (a Texas non-profit corporation), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 risk 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 financial position of the Mission as of December 31, 2019, and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2020, on our consideration of the Mission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 the Mission's internal control over financial reporting and compliance.

Harper & Pearson Company, P.C.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
June 11, 2020

ASSETS	
Cash and cash equivalents	$ 2,970,363
Receivables	1,945,472
United Way receivables	805,760
Pledges receivable, net	2,999,800
Short-term investment securities	7,525,693
Prepaid expenses and other assets	529,544
Land, buildings and equipment, net	65,688,121
Long-term investment securities	1,079,671
Beneficial interest in Trees of Hope	313,390
TOTAL ASSETS	$ 83,857,814
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts payable and accrued liabilities	$ 2,357,436
Deferred rent	57,615
Notes payable and line of credit	9,187,334
TOTAL LIABILITIES	11,602,385
NET ASSETS	
Without donor restrictions	62,402,874
With donor restrictions	9,852,555
TOTAL NET ASSETS	72,255,429
TOTAL LIABILITIES AND NET ASSETS	$ 83,857,814

See accompanying notes.

STAR OF HOPE MISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenues:			
Contributions and other grants	$ 15,217,818	$ 3,020,420	$ 18,238,238
Special events, net	1,447,166	99,000	1,546,166
In-kind contributions	2,720,432	-	2,720,432
Fees and grants from government agencies	-	1,795,077	1,795,077
Client fees	60,181	-	60,181
Investment return, net	1,618,059	-	1,618,059
Net change in beneficial interest in Trees of Hope	(22,699)	-	(22,699)
Miscellaneous	286,430	-	286,430
Net assets released from restrictions	5,896,055	(5,896,055)	-
Total public support and revenues	27,223,442	(981,558)	26,241,884
Expenses:			
Program Services			
Men's Development Center	5,104,151	-	5,104,151
Women and Family Development Center	13,167,065	-	13,167,065
Extended Services	2,696,042	-	2,696,042
Total program services	20,967,258	-	20,967,258
Management and general	2,933,302	-	2,933,302
Fundraising	4,160,954	-	4,160,954
Total expenses	28,061,514	-	28,061,514
Change in net assets	(838,072)	(981,558)	(1,819,630)
Net Assets, beginning of year	63,240,946	10,834,113	74,075,059
Net Assets, end of year	$ 62,402,874	$ 9,852,555	$ 72,255,429

See accompanying notes.

STAR OF HOPE MISSION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services						
	Men's Development Center	**Women and Family Development Center**	**Extended Services**	**Total Program Services**	**Management and General**	**Fundraising**	**Total**
Salaries	$ 2,271,401	$ 5,434,031	$ 1,027,935	$ 8,733,367	$ 1,610,472	$ 1,099,768	$ 11,443,607
Benefits	323,024	892,387	128,807	1,344,218	222,635	173,821	1,740,674
Payroll taxes	175,664	431,207	79,333	686,204	110,771	85,326	882,301
Workers compensation	15,950	34,018	4,383	54,351	2,763	1,853	58,967
Total salaries and related expenses	2,786,039	6,791,643	1,240,458	10,818,140	1,946,641	1,360,768	14,125,549
Temporary help services	67,483	379,229	455	447,167	42,271	44,117	533,555
Professional fees and contract services	89,252	481,457	16,702	587,411	251,562	395,584	1,234,557
Supplies	282,606	459,543	59,248	801,397	5,759	2,064	809,220
Telephone	43,614	146,839	27,836	218,289	35,449	16,178	269,916
Postage and handling	757	1,439	-	2,196	9,929	171,895	184,020
Occupancy	466,600	798,536	61,998	1,327,134	203,699	8,233	1,539,066
Equipment rent, maintenance and purchase	75,502	265,913	12,053	353,468	82,747	258,853	695,068
Printing and publications	3,723	5,561	503	9,787	45,475	556,935	612,197
Travel and transportation	27,145	64,166	19,351	110,662	10,364	2,326	123,352
Assistance to individuals and ministries	39,991	61,813	630,048	731,852	-	-	731,852
Donor acquisition	-	-	-	-	-	892,186	892,186
Interest expense	-	293,926	-	293,926	133,008	-	426,934
Miscellaneous expense	32,279	79,000	30,730	142,009	162,526	336,127	640,662
Total operating expenses	3,914,991	9,829,065	2,099,382	15,843,438	2,929,430	4,045,266	22,818,134
In-kind donations expense	909,938	1,110,026	591,397	2,611,361	699	114,525	2,726,585
Depreciation expense	279,222	2,227,974	5,263	2,512,459	3,173	1,163	2,516,795
Total expenses by function	5,104,151	13,167,065	2,696,042	20,967,258	2,933,302	4,160,954	28,061,514
Plus expenses netted against revenue on the statement of activities							
Cost of direct benefits to donors	-	-	-	-	-	507,219	507,219
Total expenses	$ 5,104,151	$ 13,167,065	$ 2,696,042	$ 20,967,258	$ 2,933,302	$ 4,668,173	$ 28,568,733

See accompanying notes.

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ (1,819,630)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized gain on marketable securities	(1,349,138)
Depreciation	2,516,795
Amorization of debt issuance costs	38,752
Net change in beneficial interest in Trees of Hope	2,699
(Increase) decrease in operating assets:	
Receivables	192,191
United Way receivable	42,412
Pledges receivable, net	1,811,286
Prepaid expenses and other assets	52,140
Increase (decrease) in operating liabilities:	
Accounts payable and accrued liabilities	19,320
Deferred rent	(22,960)
Total adjustments	3,303,497
Net cash provided by operating activities	1,483,867
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale or maturity of investment securities	3,770,528
Purchase of investment securities	(2,067,786)
Purchase of land, buildings and equipment	(478,973)
Net cash provided by investing activities	1,223,769
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments on vehicle notes payable	(11,455)
Draws on vehicle notes payable	155,165
Payments on construction loan account	(1,705,343)
Draws on line of credit	5,600,000
Payments on line of credit	(5,000,000)
Draws on the insurance note	275,550
Payments on the insurance note	(275,550)
Net cash used by financing activities	(961,633)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,746,003
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	1,224,360
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 2,970,363
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 342,393

See accompanying notes.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Star of Hope Mission (the Mission) is a Christ-centered community dedicated to meeting the needs of homeless men, women and their children. Positive life changes are encouraged through structured programs which focus on spiritual growth, education, employment, life management and recovery from substance abuse. Residents are provided with individual counseling services, referrals and other assistance designed to obtain permanent housing and make lasting life changes. During the year, the Mission operated two facilities:

The Men's Development Center - a 328 bed facility which provides emergency shelter and life-recovery services to men at various stages of self-sufficiency.

The Women and Family Development Center - a 600 bed facility which provides emergency shelter and life-recovery services to single women and single-parent families at various stages of self-sufficiency, which began operations in August 2017. It is also occupied by other nonprofit organizations that provide permanent supportive housing, job readiness training and after school programs for children. The Mission will continue development of the campus in future years as demand for additional services materializes.

Additionally, the Mission's Extended Services program ministers to those on the brink of homelessness, the street homeless, and those who have exited homelessness by providing rent assistance, distribution of food and clothing, and operation of two supportive housing programs.

Concentration of Credit and Market Risk - Financial instruments which subject the Mission to concentrations of credit risk consist principally of cash and cash equivalents, receivables and marketable securities. The Mission places its cash and cash equivalents with a financial institution it believes to be creditworthy. At December 31, 2019, deposits with financial institutions exceed the amount of federal deposit insurance provided on such deposits by approximately $2,720,000. These deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, the Mission periodically evaluates the stability of the financial institution.

The Mission's investments in marketable and nonmarketable securities subject the Mission to various levels of risk associated with economic, operating, and political events beyond management's control. Consequently, management's judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Mission' investments. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially impact the amounts reflected in the accompanying financial statements.

Use of Estimates - Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States (GAAP). Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Mission considers all unrestricted, highly liquid investments with a maturity of three months or less to be cash equivalents.

Donations in Transit - Contributions postmarked by December 31 and received in January are included in receivables as donations in transit and contributions revenue in the current year.

Pledges Receivables - Generally, no collateral or other security is required to support receivables. An allowance for doubtful accounts is established and accounts written off as needed based upon factors surrounding the credit risk of specific contributors. At December 31, 2019, pledges from ten donors represented 83% of pledges.

Investment Securities - All marketable securities are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income or loss (including realized and change in unrealized gains and losses on marketable securities, interest, and dividends) is included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

It is the policy of the Mission to promptly sell all donated securities.

Land, Buildings and Equipment - Purchased land, buildings and equipment are recorded at cost. Donated land, buildings and equipment are recorded at fair value at the date of donation. Buildings and equipment are depreciated using the straight-line method based on the estimated useful lives of the assets, generally as follows:

Buildings and improvements	5-40 years
Equipment, furniture, computers and software	5-12 years
Vehicles	5-6 years

Adoption of New Accounting Standard - The Mission has adopted Accounting Standards Update (ASU) NO. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)* as management believes the standard improves the usefulness and understandability of the Mission's financial reporting. The change did not impact the reported contributions or net assets of the Mission.

Financial Statement Presentation - Information regarding the financial position and activities of the Mission is reported in two categories as follows:

Net Assets Without Donor Restrictions - represent expendable funds available for operations which are not otherwise limited by donor restrictions.

Net Assets With Donor Restrictions - consist of (i) contributed funds subject to donor or grantor imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent, and (ii) contributed funds subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity for the purpose of generating investment income to fund current operations.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Expenses - The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, amortization, and occupancy which are allocated on a square footage basis, as well as salaries and related benefits which are allocated on the basis of the number of direct program staff combined with estimates of time and effort for certain executive and support staff. Joint costs of activities that include a fundraising appeal are allocated based on management's estimate of the content ratio of the promotional materials.

Contributions - Contributions are recognized when the donor makes a promise to give to the Mission that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from donor restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate which was 2% at December 31, 2019. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as revenue until such time as the conditions are substantially met.

A portion of the Mission's revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Mission has incurred expenditures in compliance with specific contract or grant provisions.

Consequently, at December 31, 2019, contributions approximating $1,288,000, have not been recognized in the accompanying statement of activities because the condition(s) on which they depend have not been met.

The Mission reports gifts of property and equipment as revenue without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions.

If the only restriction on the unconditional promise to give is the construction or purchase of specified long-lived assets and absent explicit donor stipulations about how long those long-lived assets must be maintained, the Mission reports expirations of donor restrictions as the donated or acquired long-lived assets are placed in service.

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gifts in Kind - Donations are recorded as in-kind contributions at the estimated fair value of the gift. Food is recorded at the time of receipt, based on pre-established standards. Donations of clothing are not recorded until distributed to clients or other relief organizations. At the time of distribution, both the contribution value and related program expense are computed using standards set by management and which approximate the fair value for second-hand clothing.

Donated Services - Donated services are reported as in-kind contributions at fair value if the service would typically need to be purchased by the Mission if they had not been provided by contribution, required specialized skills and were provided by individuals with those skills. For the year ended December 31, 2019, the Mission recorded $394,427 of donated professional services. In addition, many individuals also volunteer their time and perform a variety of tasks that assist the Mission with specific client assistance programs, general maintenance and other projects. The Mission received more than 25,000 (unaudited) volunteer hours during 2019, which are not reflected as revenues or expenses in the financial statements.

Income Taxes - The Mission is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Mission is subject to taxes on unrelated business income. Unrelated business income tax expensed in 2019, if any, is included in miscellaneous expense in the statement of functional expenses.

The Mission believes that all significant tax positions utilized by the Mission will more likely than not be sustained upon examination. As of December 31, 2019, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2016 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as management and general expense in the statement of activities.

Subsequent Events - The Mission has evaluated subsequent events through June 11, 2020, the date the financial statements were available to be issued.

As a result of the COVID-19 pandemic occurring after December 31, 2019, economic uncertainties have arisen relating to future contributions. In addition, the impact on business operations world-wide has caused the fair values of investment securities to decline. The duration and extent of the economic impact on the Mission is unpredictable.

The Mission was approved for and received a loan of $2,495,800 from the Small Business Administration under the federal government's Paycheck Protection Program (PPP) response to the pandemic. In accordance with provisions of the PPP, the loan may be fully or partially forgiven based on compliance with terms of the PPP. In management's opinion, the loan will be fully forgiven based on current requirements.

No other subsequent events occurred or require adjustment or additional disclosure to the financial statements.

NOTE B LIQUIDITY AND AVAILABILITY

The Mission manages its liquidity by (i) developing a board approved annual budget that is cash neutral or reflects a surplus, (ii) monitoring liquidity with monthly cash flow projections, and (iii) when necessary, utilizing a $7,500,000 bank revolving credit line, as disclosed in Note G, to assist with unanticipated liquidity needs. In addition, as discussed in Note I, the Mission's Board of Trustees has established a policy that 4% of the net asset value of the endowment funds, computed at the beginning of the year, shall be transferred to operations annually. This amount is included in the table of financial assets below. The endowment fund assets are pledged as collateral to secure the bank line of credit.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are comprised of the following at December 31, 2019:

Cash and cash equivalents	$ 588,646
Receivables	1,945,472
United Way receivables	805,760
Pledges receivable, net	1,168,462
4% Endowment distribution	424,798
Other assets	69,563
	$ 5,002,701

NOTE C RECEIVABLES

Receivables consist of the following at December 31, 2019:

Government grants	$ 210,997
Donations in transit	959,098
Insurance cash reserve	770,000
Miscellaneous	5,377
	$ 1,945,472

Insurance cash reserve represents cash held by the third party administrator of the Mission’s self-insured medical insurance program.

NOTE D PLEDGES RECEIVABLE

Pledges receivable consist of the following at December 31, 2019:

Receivables due in less than one year	$ 1,582,406
Receivables due in one to five years	1,490,000
Receivables due after five years	200,000
Less allowance for uncollectible pledges	(155,728)
Less discount on long-term pledges receivable at 2%	(116,878)
Total pledges receivable, net	$ 2,999,800

NOTE E LAND, BUILDINGS AND EQUIPMENT

At December 31, 2019, the cost and accumulated depreciation of land, buildings and equipment were as follows:

Land	$ 8,568,760
Land improvements	7,024,540
Buildings and improvements	54,181,307
Equipment and furniture	2,867,378
Vehicles	568,123
Computers and software	3,001,466
Construction in progress	4,193
	76,215,767
Less accumulated depreciation	(10,527,646)
	$ 65,688,121

NOTE F RETIREMENT PLAN

The Mission has established a defined contribution retirement plan commonly referred to as a 401(k) plan. Employees may choose to defer a portion of their compensation and the investments are selected by the employees. The Mission, at its discretion, may choose to make contributions to the plan. The Mission's contribution is vested on a graduated scale over six years. At the end of six years of service, the employee is fully vested. For the year ended December 31, 2019, the Mission's contributions to the plan were approximately $390,000.

NOTE G NOTES PAYABLE AND LINE OF CREDIT

On April 12, 2016, the Mission entered into a Construction Loan Agreement to finance construction of improvements at the Women and Family Development Center. The loan agreement, as amended on September 1, 2017 and September 27, 2018, consists of two loans: (i) a $4,000,000 advancing term loan (Fixed Loan), and (ii) a $6,000,000 advancing term loan (Floating Loan), as discussed further below. The Mission could request advances through December 31, 2018, and advances were made pro rata between the Fixed Loan and Floating Loan. The loans are secured by a first lien deed of trust on the Women and Family Development Center property and improvements totaling approximately $59,000,000. The Mission is under restrictive covenants limiting additional borrowings.

Monthly interest payments are required for the duration of the loans, based on the following:

Fixed Loan - The interest rate on outstanding borrowings is fixed at 3.25% for the duration of the loan.

Floating Loan - The interest rate on outstanding borrowings will be floating at 30-day LIBOR + 175 basis points (indicative rate of 3.53% at December 31, 2019).

In addition to monthly interest payments, a final installment in the amount of all outstanding principal, plus accrued and unpaid interest, shall be due and payable on April 12, 2021.

All capital campaign proceeds will be used to reduce the principal balance of the loans.

The Mission has a $7,500,000 revolving line of credit (LOC) provided through the Mission's bank. This credit line is secured by certain investment accounts (see Note I). At December 31, 2019, the LOC had an outstanding balance of $1,500,000. The credit line becomes due in full for all outstanding borrowings in November 2020. Prepayment of the amount outstanding is allowed. Interest is charged at the 1-month LIBOR rate plus 175 basis points (3.53% for December 2019) and is due monthly.

Notes payable and line of credit consist of the following at December 31, 2019:

Vehicle notes payable due monthly through October 2024	$ 143,710
Line of credit maturing in November 2020	1,500,000
Fixed loan maturing in April 2021	3,877,913
Floating loan maturing in April 2021	3,709,850
	9,231,473
Less unamortized debt issuance costs	(44,139)
	$ 9,187,334

NOTE H NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at December 31, 2019:

Subject to expenditure for specific purpose:	
United Way receivable	$ 805,760
Client programs	6,054,606
Land, buildings, and equipment and related debt service	1,843,189
	8,703,555
Subject to passage of time:	
For periods after December 31	99,000
Subject to the Mission's spending policy and appropriation:	
Perpetual endowment fund	1,050,000
	$ 9,852,555

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows at December 31, 2019:

Satisfaction of program restrictions	$ 5,554,736
Satisfaction of equipment acquisition restrictions	120,314
Expiration of time restrictions	221,005
	$ 5,896,055

NOTE I ENDOWMENT FUNDS

The Mission's Board of Trustees has established an endowment fund to provide funding for long-term needs, where the funds contributed by donors are not spent immediately, but are invested to provide a stream of earnings which can then be used or reinvested for later needs. Donations to the endowment are considered made without donor restrictions, unless restricted by the donor to be included as part of the permanent endowment. The Mission has also established a Finance and Endowment Committee to administer the ongoing activities of the endowment and to ensure that proper records and controls are maintained to comply with donors' specific conditions.

NOTE I ENDOWMENT FUNDS (CONTINUED)

The Mission's Board of Trustees has established a policy that at least 4% of the net asset value of this fund, computed at the beginning of the year, shall be transferred to operations annually. Expending any amount in excess of 4% of the net asset value of the endowment or expending any portion of the initial contributions (both donor contributions and Mission transfers) to the endowment requires Finance and Endowment Committee recommendation and the vote of 75% of the entire Board of Trustees. Additionally, the assets of the endowment fund are collateral used to secure the Mission's revolving credit facility (see Note G) and except for the 4% annual draw are not available for expenditure.

The endowment funds are invested in accordance with an investment policy. The primary objectives, as stated in the policy, are preservation of capital and to achieve returns in excess of the rate of inflation to preserve purchasing power of the funds, while controlling risk.

The Mission also has a perpetual endowment fund. The Mission 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 absent explicit donor stipulations to the contrary. As a result, the Mission classifies the original value of the gifts donated to the perpetual endowment as net assets with donor restrictions. The net appreciation or depreciation to the endowment fund investment accounts is classified as board designated net assets.

The composition of and changes in endowment net assets as of December 31, 2019 are as follows:

	Without Donor Restrictions (Board Designated)	With Donor Restrictions (Required to be Retained)	Total
Endowment net assets, beginning of year	$ 8,362,108	$ 1,050,000	$ 9,412,108
Investment returns, net (including investment fees of $70,027)	1,584,316	-	1,584,316
Appropriation of endowment net assets for expenditures	(376,487)	-	(376,487)
Contributions received	10,000	-	10,000
Endowment net assets, end of year	$ 9,579,937	$ 1,050,000	$ 10,629,937

NOTE J JOINT COSTS OF ACTIVITIES THAT INCLUDE A FUNDRAISING APPEAL

The Mission conducts various activities that include requests for contributions as well as program and general and administrative components. These activities include advertising, public relations, and print communications. The costs associated with these activities include joint costs not directly attributable to any single function. During the year ended December 31, 2019, these costs were allocated among the following functional expense categories as follows:

Fund Raising	$ 2,091,217
Men's Development Center	16,681
Women and Family Development Center	33,490
Management and general	367,690
	$ 2,509,078

NOTE K FAIR VALUE MEASUREMENTS

GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

These inputs are summarized in the three broad levels listed below:

Level 1 - Unadjusted quoted prices for identical financial instruments in active markets that the Mission has the ability to access.

Level 2 - Other significant observable inputs (including quoted prices in active or inactive markets for similar financial instruments), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial instruments.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the financial instruments. The fair value of Level 3 financial instruments is determined using significant management judgment or estimation.

NOTE K FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a description of the valuation techniques used for assets measured at fair value.

Equity securities and mutual funds are actively traded securities. Valuation inputs normally include quoted bid price in active markets for identical assets.

The fair value of corporate bonds is determined using recently executed transactions, market price quotations (where observable), bond spreads or credit default swap spreads, at the money volatility and/or volatility skew obtained from independent external parties such as vendors and brokers adjusted for any basis difference between cash and derivative instruments. When position-specific external price data are not observable, fair value is determined based on either benchmarking to similar instruments or cash flow models with yield curves, bond or single-name credit default swap spreads and recovery rates as significant inputs.

Alternative investments consist of a fund of funds which include investment vehicles such as equity securities and mutual funds listed on the NASDAQ stock exchange. The fair value of the alternative investment is determined by the fund's manager based on the fair value of the underlying assets. They have no contractual investment period and are used to further diversify the investment portfolio.

There have been no changes in the techniques used during 2019. There were no significant transfers in and/or out of the fair value categories during 2019. The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Mission believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair values of financial instruments are categorized as follows as of December 31, 2019:

	Level 1	Level 2	Level 3	Total
Equity securities:				
Common stock	$ 4,898,514	$ -	$ -	$ 4,898,514
Preferred stock	521,401	-	-	521,401
Fixed income:				
Corporate bonds	-	143,538	-	143,538
Mutual funds:				
Fixed income	522,070	-	-	522,070
Equity	1,440,170	-	-	1,440,170
Alternative investments:				
Fund of funds	-	1,079,671	-	1,079,671
	$ 7,382,155	$ 1,223,209	$ -	$ 8,605,364

NOTE L RELATED PARTIES

Trees of Hope is a charitable 501(c)(3) corporation that donates the net proceeds from its fundraising activities to the Mission. Trees of Hope is controlled by a Board of Directors separate from that of the Mission; therefore consolidated financial statements are not required. Instead, the Mission records its beneficial interest in the net assets of Trees of Hope. Contributions recorded during 2019 totaled $255,000.

NOTE M COMMITMENTS AND CONTINGENCIES

The Mission leases office, warehouse and activity center space under operating leases with future commitments as follows:

2020	$ 432,696
2021	395,163
2022	391,537
2023	246,208
2024	174,734
	$ 1,640,338

Rent expense amounted to $1,062,389 for 2019.

Amounts received from government and other grants require the fulfillment of certain conditions as set forth in the grant contracts. The Mission intends to fulfill the conditions of all grants, recognizing that the failure to fulfill the conditions could result in the return of the funds to the grantors. Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of the Mission. In management's opinion, disallowed claims, if any, would not have a material adverse effect on the Mission's financial position or results of operations.

In August 2011, the Mission executed a Deed of Trust covering the Men's Development Center in favor of the Federal Home Loan Bank of Dallas in exchange for funding of a grant in the amount of $500,000. The funds were used to partially rehabilitate the shelter and under the Agreement, the Mission must continue to use the facility to meet the needs of the homeless for a fifteen-year term. Repayment would be required if the Mission were to change the use or sell the property. The Mission also has certain annual reporting requirements under the agreement.

On January 27, 2017, the Mission entered into a performance based loan in the amount of $800,000 with the City for use in construction of certain residential buildings at the Women and Family Development Center. Under the terms of the agreement, the loan balance is automatically reduced by $160,000 each year (at no liability to the Mission) until it expires in five years. The Mission would be required to pay off the unpaid principal balance if it sells, transfers or assigns its interest in the facility within the five-year period.

NOTE M COMMITMENTS AND CONTINGENCIES (CONTINUED)

On January 8, 2018, the Mission executed a secondary Deed of Trust covering the single women's residential building at the Women and Family Development Center in favor of the Federal Home Loan Bank of Dallas in exchange for funding of a grant in the amount of $500,000. The funds were used to partially finance construction of the building and under the agreement, the Mission must continue to use the facility to meet the needs of the homeless for a fifteen-year term. Repayment would be required if the Mission were to change the use or sell the property. The Mission also has certain annual reporting requirements under the agreement.

SINGLE AUDIT REPORTS ON EXPENDITURES OF FEDERAL AWARD PROGRAMS

STAR OF HOPE MISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Contract or Pass-through Grantor's I.D. Number	Current Year Revenue	Current Year Expenditures
U.S. Department of Housing and Urban Development				
Office of Community Planning and Development				
Continuum of Care Program	14.267	TX0299L6E001706	$ 532,624	$ 532,624
Continuum of Care Program	14.267	TX0349L6E001704	410,421	410,421
Continuum of Care Program	14.267	TX0299L6E001807	97,977	97,977
Total U.S. Department of Housing and Urban Development			1,041,022	1,041,022
U.S. Department of Agriculture				
Department of Agriculture Food and Nutrition Service				
Passed through Texas Department of Agriculture				
Child and Adult Care Food Program	10.558	806780706	222,013	222,013
Total Expenditures of Federal Awards			$ 1,263,035	$ 1,263,035

See independent auditor's report.

NOTE A BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Star of Hope Mission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principals, and Audit Requirements for Federal Awards. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The Mission has elected to not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Significant deficiencies or material weaknesses related to the audit of the financial statements reported? ________ Yes ___X___ No

Noncompliance material to the financial statements noted? ________ Yes ___X___ No

Federal Awards

Significant deficiencies or material weaknesses related to the internal control over the major federal award programs reported? ________ Yes ___X___ No

Type of auditors' report issued on compliance for each major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? ________ Yes ___X___ No

Identification of major programs:

CFDA Number	Name of Federal Program
14.267	Continuum Of Care Program

Dollar threshold used to distinguish between Type A and type B programs: $ 750,000

Auditee qualified as low-risk auditee? ___X___ Yes ________ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

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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 Trustees
Star of Hope Mission

We have audited, in accordance with auditing standards generally accepted in the United States 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 Star of Hope Mission (the Mission), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 11, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Mission'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 the Mission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mission'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 Mission'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 the Mission's financial statements are free of 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 the Mission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harper & Pearson Company, P.C.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
June 11, 2020

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Star of Hope Mission

Report on Compliance for Each Major Federal Program

We have audited Star of Hope Mission's (the Mission) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Mission's major federal programs for the year ended December 31, 2019. The Mission's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Mission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Mission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Mission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the Mission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Mission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Mission's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Harper & Pearson Company, P.C.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
June 11, 2020