

Hope Communities, Inc. and Subsidiaries

Accountants' Reports and Consolidated Financial Statements

June 30, 2008

Hope Communities, Inc. and Subsidiaries
June 30, 2008

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Independent Accountants' Report

Board of Directors
Hope Communities, Inc.
Denver, Colorado

We have audited the accompanying consolidated statement of financial position of Hope Communities, Inc. as of June 30, 2008, and the related consolidated statement of activities and cash flows for the year 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hope Communities, Inc. as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ BKD, LLP

July 27, 2009

Hope Communities, Inc. and Subsidiaries
Consolidated Statement of Financial Position
June 30, 2008

Assets

Cash	\$ 1,720,205
Restricted cash	653,975
Accounts receivable, net of allowance of \$170,616	94,772
Prepaid expenses	8,533
Properties held for sale	1,805,131
Notes receivable, trade	77,084
Investment in affiliate	306,804
Investments	148,136
Loan fees, net of accumulated amortization of \$58,500	140,526
Property and equipment, net of accumulated depreciation of \$5,711,444	<u>18,555,011</u>
Total assets	<u><u>\$ 23,510,177</u></u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 42,034
Accrued expenses	445,931
Line of credit	348,181
Advances from funding sources	2,893,910
Long-term debt	10,858,289
Refundable security deposits	<u>72,839</u>
Total liabilities	14,661,184
Minority Interest	3,095,120
Net Assets, Unrestricted	<u>5,753,873</u>
Total liabilities and net assets	<u><u>\$ 23,510,177</u></u>

Hope Communities, Inc. and Subsidiaries
Consolidated Statement of Activities
Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support			
Rental income	\$ 2,578,513	\$ -	\$ 2,578,513
Contributions	270,780	65,398	336,178
Gain (loss) on sale of affordable housing program property	(66,052)	-	(66,052)
Interest income	115,752	-	115,752
Other income	189,713	-	189,713
Net assets released from restrictions	65,398	(65,398)	-
	<u>3,154,104</u>	<u>-</u>	<u>3,154,104</u>
Total revenue, gains and other support			
Expenses			
Property rental program	3,751,193	-	3,751,193
Resident services / affordable housing program	206,707	-	206,707
	<u>3,957,900</u>	<u>-</u>	<u>3,957,900</u>
Total program services			
Management and general	868,169	-	868,169
Fundraising	286,578	-	286,578
	<u>5,112,647</u>	<u>-</u>	<u>5,112,647</u>
Total expenses			
Change in Net Assets before Capital Contributions (Distributions) and Change in Minority Interest	(1,958,543)	-	(1,958,543)
Capital contributions	316,078	-	316,078
Change in Minority Interest	648,998	-	648,998
	<u>(993,467)</u>	<u>-</u>	<u>(993,467)</u>
Change in Net Assets			
Net Assets, Beginning of Year	<u>6,747,340</u>	<u>-</u>	<u>6,747,340</u>
Net Assets, End of Year	<u>\$ 5,753,873</u>	<u>\$ -</u>	<u>\$ 5,753,873</u>

Hope Communities, Inc. and Subsidiaries
Consolidated Statement of Cash Flows
Year Ended June 30, 2008

Operating Activities

Change in net assets	\$ (993,467)
Items not requiring (providing) operating activities cash flows	
Depreciation and amortization	731,919
Unrealized loss on investments	15,166
Gain on investment in affiliate	(11,829)
Loss on sale of affordable housing	66,052
Capital contributed by minority interest into variable interest entities	(316,078)
Changes in	
Restricted cash	177,272
Accounts receivable	(1,148)
Prepaid expenses	25,980
Accounts payable and accrued expenses	(83,959)
Refundable security deposit	1,352
	<u>(388,740)</u>
Net cash used in operating activities	<u>(388,740)</u>

Investing Activities

Proceeds from sale of affordable housing	1,407,316
Construction costs paid	(616,114)
Purchase of property and equipment	(101,358)
Advances made on notes receivable	(4,502)
	<u>685,342</u>
Net cash provided by investing activities	<u>685,342</u>

Financing Activities

Principal payments on long-term debt	(1,438,836)
Proceeds from issuance of long-term debt	668,408
Additional borrowing under line of credit	252,122
Payment on line of credit	(373,000)
Change in minority interest	(648,998)
Capital contributed by minority interest into variable interest entities	316,078
	<u>(1,224,226)</u>
Net cash used in financing activities	<u>(1,224,226)</u>

Net Decrease in Cash	(927,624)
Cash, Beginning of Year	<u>2,647,829</u>
Cash, End of Year	<u><u>\$ 1,720,205</u></u>

Supplemental Cash Flow Information

Interest paid	\$ 556,956
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Hope Communities, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 2008

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Hope Communities, Inc. and subsidiaries (Hope) was incorporated as a Colorado nonprofit corporation on August 14, 1980. The mission of Hope is to promote progress toward a diverse, healthy community that generates affordable housing, economic opportunity, personal empowerment and spiritual wholeness. Hope earns revenues predominately from rental income generated from its affordable housing properties.

Hope assists low-income family housing needs by financing the ownership of apartment buildings through limited partnerships that are directed by Hope or its wholly owned subsidiaries. Through the housing and resident programs, families and individuals have access to economic opportunities, education and empowerment. Goals are as follows:

- Families in decent affordable housing
- Access to asset-building opportunities
- Education and referral relevant to skills and jobs
- Improving children's education
- Resident connections and community contributions

Principles of Consolidation

The consolidated financial statements include the accounts of Hope and its wholly owned subsidiaries and variable interest entities. The consolidated financial statements also include certain properties owned and managed by Hope.

Wholly Owned Subsidiaries:

- Tremont, LLC
- Kittyhawk, LLC
- Hope Point, LLC
- Hope Neighborhood Center, LLC
- Hope Development, LLC
- Bethlehem Properties, Inc.*
- Clarissa Housing Corporation

* General partners in variable interest entities, listed on page 6.

Hope Communities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008

- Jericho Properties, Inc.
- Fern Hall, LLC
- Carolton Corporation *
- Elm Park Corporation
- Minute Spot, LLC*
- Westerly Creek Homes, LLC*
- Denver Revitalization Partner IV, Ltd. – Martin Luther King Apartments I & II
- Denver Revitalization Partner IV A, Ltd. – Sunnyside Apartments I & II

Variable Interest Entities

- BTW, Ltd. (.1% interest by Bethlehem Properties, Inc.)
- Kittyhawk/Canterbury Renovation LLLP (.005% interest by Westerly Creek Homes, LLC)
- Denver Revitalization Partners VIII, Ltd. (1% interest by Carolton Corporation)
- Welton Homes, LLC (.01% interest by Minute Spot, LLC)

Properties Owned and Managed by Hope

- Marion Street Apartments
- Louisiana Apartments
- New Orlando Apartments
- HUD Homes

All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

* General partners in variable interest entities, listed on page 6

Hope Communities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008

Cash Equivalents

Cash consists of bank deposits in federally insured accounts. At June 30, 2008, Hope's cash accounts exceeded federally insured limits by approximately \$1,468,000.

Restricted Cash

Certain cash balances are restricted to fund capital expenditures and/or maintenance for certain properties, debt service, operating reserves restricted by investors and security deposits paid by tenants.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is recorded as temporarily restricted and then released from restriction. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Accounts Receivable

Accounts receivable are stated at the amount billed to tenants plus any accrued and unpaid late fees. Hope provides an allowance for doubtful accounts, fundamentally on all receivables that are over 60 days old. Rents are charged as of the first of the month and are receivables until they are collected. Receivables are considered late as of the fifth of the month. Late fees are assessed differently per property with some being a flat rate and some a per diem rate.

Notes Receivable

Notes receivable are stated at their outstanding principal amount, net of allowance for uncollectible notes. Hope provides an allowance for uncollectible notes, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the borrower.

Hope Communities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008

Investment in Affiliate

Hope's investment in affiliate represents a 10% membership interest in Jonadab, LLC. Hope's interest is stated at amortized cost plus equity in the affiliate's undistributed net income since acquisition.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated over the estimated useful life of each asset. Annual depreciation is primarily computed using straight-line basis.

Loan Fees

Fees paid in connection with obtaining financing are capitalized and amortized over the life of the loan.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by Hope has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Hope in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Minority Interest

Minority interest represents non-controlling interests in Hope's variable interest entities by other investors.

Hope Communities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008

Income Taxes

Hope is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Hope is subject to federal income tax on any unrelated business taxable income. Hope's variable interest entities are not directly subject to income taxes under the provisions of the Internal Revenue Code and applicable state laws. Therefore, taxable income or loss is reported to the individual members/partners for inclusion in their respective tax returns and no provision for federal and state income taxes has been included in the accompanying financial statements.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on time, usage and other methods.

Note 2: Restricted Cash

As of June 30, 2008, restricted cash consisted of cash restricted for the following purposes:

Capital expenditures and maintenance	\$ 292,055
Debt service	141,846
Operating reserves restricted by investors	135,279
Security deposits paid by tenants	<u>84,795</u>
	<u><u>\$ 653,975</u></u>

Note 3: Properties Held for Sale

As part of the home ownership program, Hope Development LLC acquires land and constructs or rehabilitates certain properties for resale to first-time homebuyers with low or moderate incomes. Agreements between Hope and 1st Bank of Denver and the City and County of Denver provide financing for the acquisition and construction costs related to the program. Financing is typically secured by the specific property. At the time of resale, purchasers are required to obtain their own financing.

Hope Communities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008

Properties held for sale at June 30, 2008, consists of the following:

Single-family homes	\$ 1,561,000
Vacant land	234,000
Other	<u>10,131</u>
	<u>\$ 1,805,131</u>

Note 4: Property and Equipment

Property and equipment at June 30, 2008, consists of the following:

Land	\$ 1,709,590
Buildings and building improvements	21,044,776
Furniture, fixtures and equipment	1,482,796
Vehicles	<u>29,293</u>
	24,266,455
Less accumulated depreciation	<u>5,711,444</u>
	<u>\$ 18,555,011</u>

Note 5: Line of Credit

Hope has two revolving lines of credit. Hope Communities, Inc. has a \$625,000 revolving line of credit expiring in July 2009. At June 30, 2008, there was \$282,431 borrowed against this line. The line is collateralized by the deed on Elm Park Townhomes. Interest is payable monthly at prime rate plus 1% (6% at June 30, 2008). Hope Development, LLC has a \$75,000 revolving line of credit, which expired in 2009. At June 30, 2008, there was \$65,750 borrowed against this line. The line is unsecured. Interest is payable monthly at the prime rate (5% at June 30, 2008). This line of credit was subsequently paid during February 2009.

Note 6: Advances from Funding Sources

Hope has various interest-free loan agreements, which are payable in annual installments equal to 50% of surplus cash flow. In addition, certain notes are to be deferred and forgiven upon maturity provided certain obligations are met.

Hope Communities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008

Advances from funding sources at June 30, 2008, consist of the following:

Note payable to the City and County of Denver (CCOD) by Hope Communities, Inc. for Marion Street Apartments; payable in annual installments equal to 50% of Marion Street Apartments' cash flow; outstanding principal due May 1, 2027; secured by a deed of trust.	\$ 333,700
Note payable to the CCOD by Hope Communities, Inc. for Marion Street Apartments; deferred and forgiven on May 1, 2027, provided repayment obligations of other notes payable to CCOD by Hope Communities for Marion Street Apartments are met; secured by a deed of trust.	6,000
Note payable to the CCOD by Denver Revitalization Partner IV A, Ltd. (DRP IV A); payable in annual installments equal to 50% of the funds contained in the surplus cash fund of DRP IV A; outstanding principal due when the note payable to the Colorado Housing and Finance Authority is refinanced or paid in full (Note 7, item G); secured by a deed of trust.	66,755
Note payable to the CCOD by Minute Spot, LLC; payable in annual installments equal to 50% of Minute Spot's available annual surplus cash; outstanding principal due June 1, 2027; secured by a deed of trust.	906,450
Note payable to the CCOD by Elm Park Corporation; payable in annual installments equal to 50% of Elm Park's cash flow; outstanding principal due April 1, 2025; secured by a deed of trust.	86,805
Note payable to the CCOD by KittyHawk, LLC; payable in annual installments equal to 50% of KittyHawk's net cash flow; outstanding principal due September 2, 2029; secured by a deed of trust.	345,000

Hope Communities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
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Note payable to the CCOD by KittyHawk, LLC; deferred and forgiven on September, 2 2029, provided that the use of four rental units have remained rental housing affordable to low-income residents living with AIDS and provided that KittyHawk is in compliance with the terms of the note discussed above; secured by a deed of trust.	240,000
Note payable to the CCOD by Denver Revitalization Partners VIII, Ltd. (DRP VIII); payable in annual installments equal to 50% of DRP VIII's cash flow including interest of 1%; outstanding principal and interest due March 1, 2019; secured by a deed of trust.	419,200
Note payable to the CCOD by Hope Development, LLC; deferred and forgiven on July 1, 2026, provided that Hope Development LLC complies with the project objectives to use the funds to acquire and redevelop property for use as affordable for-sale housing.	490,000
	\$ 2,893,910

Note 7: Long-term Debt

Colorado Housing and Finance Authority (CHFA) (A)	\$ 2,866,718
CHFA (B)	1,323,134
1st Bank of Denver (C)	1,374,292
1st Bank of Denver (D)	1,075,800
City and County of Denver (CCOD) (E)	105,932
CHFA (F)	131,641
CHFA (G)	570,536
CCOD (H)	896,558
US Bank (I)	703,218
US Bank (J)	662,255
CCOD (K)	295,000
CCOD (L)	275,000
Key Bank (M)	485,788
CCOD (N)	92,417
	\$ 10,858,289

Hope Communities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008

- (A) Note payable by Kittyhawk/Canterbury Renovation LLLP; due August 1, 2026; payable \$17,473 monthly, including interest at 6.75%; secured by deed of trust.
- (B) Note payable by Welton Homes, LLC; due February 1, 2024; payable \$9,748 monthly, including interest at 6.150%; secured by deed of trust.
- (C) Note payable by Elm Park Corporation; due March 1, 2014; payable \$9,751 monthly (\$8,977 beginning April 1, 2009) including interest at 6.00%; secured by deed of trust.
- (D) Note payable by Hope Development, LLC; due February 1, 2008; monthly interest only payments at prime rate (5% at June 30, 2008) plus 0.25%, with unpaid principal and interest due at maturity; secured by deed of trust.

On July 2, 2008 this loan was refinanced through Vectra Bank, interest-only monthly payments beginning on August 2, 2008, at prime rate (5.00% at July 2, 2008). All outstanding principal and unpaid accrued interest is due January 2, 2010 (Note 11).

- (E) Note payable by Hope Communities, Inc. for Marion Street Apartments; due May 1, 2027; payable \$646 including interest at 3.00%; secured by deed of trust.
- (F) Note payable by Hope Communities for Marion Street Apartments; due December 1, 2026; payable \$1,080 monthly, including interest at 7.60%; secured by deed of trust.
- (G) Note payable by Denver Revitalization Partner IV A, Ltd.; due December 1, 2018; payable \$6,562 monthly, including interest at 7.50%; secured by deed of trust.
- (H) Note payable by Minute Spot, LLC; due January 1, 2016; no payments through August 1, 2008, principal only from September 1, 2008 through December 1, 2011, \$4,515 monthly beginning January 1, 2012, including interest at 3.00% with remaining principal due upon maturity; secured by deed of trust.
- (I) Note payable by Minute Spot, LLC; due January 1, 2026; payable \$33,889 semiannually including interest at 6.53%; secured by deed of trust.
- (J) Note payable by BTW, Ltd.; due September 21, 2025; payable \$6,028 monthly including interest at 8.51%; secured by deed of trust.
- (K) Note payable by Hope Development, LLC; due July 1, 2007; payable in full at date of maturity including interest at 3.00%; unsecured.

As of June 30, 2008, Hope and the City are negotiating the terms of this note as it has been in default since December 31, 2007.

- (L) Note payable by Fern Hall, LLC; due May 1, 2010; payable \$1,159 monthly beginning June 1, 2008, including interest at 3.00%; secured by deed of trust.
- (M) Note payable by Hope Neighborhood Center, LLC; due March 1, 2012; payable \$3,166 monthly including interest at 3.18%; secured by deed of trust.

Hope Communities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008

(N) Note payable by Elm Park Corporation; due March 1, 2020; payable \$777 monthly including interest at 3.00%; secured by deed of trust.

Aggregate annual maturities of long-term debt at June 30, 2008:

2009	\$ 1,575,197
2010	486,159
2011	213,525
2012	601,740
2013	211,529
Thereafter	<u>7,770,139</u>
	<u><u>\$ 10,858,289</u></u>

Note 8: Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

STRIVE	\$ 30,000
Strategic planning and portfolio analysis	20,000
Other	<u>15,398</u>
	<u><u>\$ 65,398</u></u>

Note 9: Related-party Transactions

Certain members of Hope's board of directors are also employees of professional firms that Hope conducts business with. Hope has cash deposits at a financial institution of which a board member is also an employee. At June 30, 2008, total cash deposits were approximately \$1,250,000. Subsequent to year end, Hope also entered into a line of credit agreement with the financial institution for \$1,460,000 (Note 11). In addition, members of the board are also employees of Hope's insurance carrier and legal representation firms. Total fees paid to these organizations approximated \$133,000 for the year ended June 30, 2008.

Note 10: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Hope Communities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008

Low-income Housing Tax Credits

Low-income housing tax credits stem from Hope's variable interest entities. The low-income housing credits are contingent upon the ability to maintain compliance with applicable sections of Section 42. Failure to maintain compliance with occupant eligibility and/or unit gross rent or to correct non-compliance within a specified time period could result in recapture of previously taken tax credits plus interest. In addition, such potential non-compliance may require an adjustment to the contributed capital by the Investor Member.

General Litigation

Hope is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

Current Economic Conditions

The current economic environment presents not-for-profit organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in contributions, governmental support, grant revenue, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to Hope.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values, allowances for accounts and notes receivable that could negatively impact Hope's ability to meet debt covenants or maintain sufficient liquidity.

Note 11: Subsequent Events

Cottages of Westerly Creek, LLC

On November 13, 2008, Hope entered into an operating agreement with The Cottages of Westerly Creek, LLC (the Cottages) in which Hope is the sole member. The Cottages was formed on November 13, 2008, upon the filing of its articles of incorporation with the secretary of state of the state of Colorado pursuant to the provisions of the Colorado Limited Liability Act. The purpose of The Cottages is to acquire, own, operate, improve, sell, exchange and otherwise dispose of the properties known as the Cottages at Westerly Creek. During the fourth quarter of calendar year 2008, the Cottages acquired eight properties known as the Cottages of Westerly Creek for \$392,150. These properties were subsequently sold during January 2009 for \$420,800 with a net gain on sale of \$28,650.

Hope Communities, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
June 30, 2008

Changes in Financing

On July 2, 2008, Hope entered into a loan agreement with a financial institution for \$1,460,000 with an interest rate of 5%. All outstanding principal and unpaid accrued interest is due in one payment on January 2, 2010. The loan proceeds were used to refinance an outstanding note payable by Hope Development LLC (Note 6).