

**OPERATION HOPE, INC.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2019 AND 2018**  
**With Independent Auditor's Report Thereon**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Operation HOPE, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Operation HOPE, Inc. (a California nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years 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 consolidated 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 audits. We conducted our audits in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Operation HOPE, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations 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 of America. 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 May 14, 2020, on our consideration of Operation HOPE, Inc.'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 Operation HOPE, Inc.'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 Operation HOPE, Inc.'s internal control over financial reporting and compliance.



Morrow, Georgia  
May 14, 2020

OPERATION HOPE, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018

ASSETS		
	2019	2018
Current assets		
Cash and cash equivalents	\$ 2,055,812	\$ 1,698,763
Investments	-	40,424
Grants receivable	374,833	394,572
Promises to give	6,610,679	5,777,427
Prepaid expenses	54,460	87,238
Donated facility use	-	98,366
	9,095,784	8,096,790
Total current assets		
Promises to give – long-term	5,102,830	5,519,920
Property and equipment, net	1,991,880	2,061,678
Deposits	8,396	8,396
	16,198,890	15,686,784
Total assets	\$ <u>16,198,890</u>	\$ <u>15,686,784</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 356,489	\$ 1,012,457
Accrued payroll and other compensation	1,329,779	1,216,500
Due to related parties	-	20,533
Deferred revenue	-	66,544
Current portion of debt	752,868	362,579
	2,439,136	2,678,613
Total current liabilities		
Long-term debt	4,884,468	4,216,585
Total liabilities	7,323,604	6,895,198
Net (deficit) assets		
Without donor restrictions	(6,052,967)	(6,491,937)
With donor restrictions	14,928,253	15,283,523
	8,875,286	8,791,586
Total net (deficit) assets		
Total liabilities and net assets	\$ <u>16,198,890</u>	\$ <u>15,686,784</u>

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

OPERATION HOPE, INC.  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Contributions, grants, and sponsorship	\$ 7,789,882	\$ 10,829,292	\$ 18,619,174
Contributed goods and services	1,494,378	-	1,494,378
Other	<u>30,195</u>	<u>-</u>	<u>30,195</u>
Revenue and support	9,314,455	10,829,292	20,143,747
Net assets released from restrictions	<u>11,184,562</u>	<u>(11,184,562)</u>	<u>-</u>
Total revenue and support	<u>20,499,017</u>	<u>(355,270)</u>	<u>20,143,747</u>
Expenses			
Program services	<u>17,407,476</u>	<u>-</u>	<u>17,407,476</u>
Supporting services			
General and administration	2,011,851	-	2,011,851
Fundraising	<u>640,720</u>	<u>-</u>	<u>640,720</u>
Total supporting services	<u>2,652,571</u>	<u>-</u>	<u>2,652,571</u>
Total expenses	<u>20,060,047</u>	<u>-</u>	<u>20,060,047</u>
Change in net assets	438,970	(355,270)	83,700
Net (deficit) assets at beginning of year	<u>(6,491,937)</u>	<u>15,283,523</u>	<u>8,791,586</u>
Net (deficit) assets at end of year	<u>\$ (6,052,967)</u>	<u>\$ 14,928,253</u>	<u>\$ 8,875,286</u>

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

OPERATION HOPE, INC.  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Contributions, grants, and sponsorship	\$ 5,634,163	\$ 13,098,092	\$ 18,732,255
Contributed goods and services	4,906,079	-	4,906,079
Other	<u>5,020</u>	<u>-</u>	<u>5,020</u>
Revenue and support	10,545,262	13,098,092	23,643,354
Net assets released from restrictions	<u>10,376,391</u>	<u>(10,376,391)</u>	<u>-</u>
Total revenue and support	<u>20,921,653</u>	<u>2,721,701</u>	<u>23,643,354</u>
Expenses			
Program services	<u>17,900,213</u>	<u>-</u>	<u>17,900,213</u>
Supporting services			
General and administration	2,486,548	-	2,486,548
Fundraising	<u>609,455</u>	<u>-</u>	<u>609,455</u>
Total supporting services	<u>3,096,003</u>	<u>-</u>	<u>3,096,003</u>
Total expenses	<u>20,996,216</u>	<u>-</u>	<u>20,996,216</u>
Change in net assets	(74,563)	2,721,701	2,647,138
Net (deficit) assets at beginning of year	<u>(6,417,374)</u>	<u>12,561,822</u>	<u>6,144,448</u>
Net (deficit) assets at end of year	<u>\$ (6,491,937)</u>	<u>\$ 15,283,523</u>	<u>\$ 8,791,586</u>

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

OPERATION HOPE, INC.  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Program activities</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Totals</u>
Personnel expenses	\$ 11,222,007	\$ 861,951	\$ 443,034	\$ 12,526,992
Client assistance	1,866,947	-	-	1,866,947
Contract and professional fees	797,855	342,629	37,854	1,178,338
Conferences	780,175	-	-	780,175
Travel and entertainment	335,641	22,839	109,710	468,190
Office	365,700	61,991	31,645	459,336
Telecommunications	220,225	31,423	13,970	265,618
Occupancy	59,143	142,104	-	201,247
Insurance	117,121	22,502	3,129	142,752
Advertising and promotions	111,935	15,519	-	127,454
Total expenses before bad debt, in-kind depreciation, and interest	<u>15,876,749</u>	<u>1,500,958</u>	<u>639,342</u>	<u>18,017,049</u>
In-kind	1,444,548	134,385	-	1,578,933
Interest expense	-	288,003	-	288,003
Depreciation	86,179	1,614	1,378	89,171
Bad debt	-	77,371	-	77,371
Other	-	9,520	-	9,520
Total expenses	<u>\$ 17,407,476</u>	<u>\$ 2,011,851</u>	<u>\$ 640,720</u>	<u>\$ 20,060,047</u>

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

OPERATION HOPE, INC.  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Program activities</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Totals</u>
Personnel expenses	\$ 10,047,373	\$ 867,406	\$ 425,628	\$ 11,340,407
Client assistance	1,778,972	-	-	1,778,972
Contract and professional fees	519,539	399,666	16,037	935,242
Conferences	848,381	-	-	848,381
Travel and entertainment	264,592	42,061	122,061	428,714
Office	444,217	67,715	24,497	536,429
Telecommunications	316,081	73,226	12,377	401,684
Occupancy	51,068	130,528	-	181,596
Insurance	104,037	10,843	7,540	122,420
Advertising and promotions	<u>82,692</u>	<u>43,389</u>	<u>-</u>	<u>126,081</u>
Total expenses before bad debt, in-kind, depreciation, and interest	14,456,952	1,634,834	608,140	16,699,926
In-kind	3,262,627	491,924	-	3,754,551
Interest expense	-	202,205	-	202,205
Depreciation	180,634	1,281	1,315	183,230
Other	<u>-</u>	<u>156,304</u>	<u>-</u>	<u>156,304</u>
Total expenses	<u>\$ 17,900,213</u>	<u>\$ 2,486,548</u>	<u>\$ 609,455</u>	<u>\$ 20,996,216</u>

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



OPERATION HOPE, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 83,700	\$ 2,647,138
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	89,171	183,230
Unrealized (gain) loss	(11,211)	2,198
Contribution of software	-	(1,250,000)
Contribution of stock	-	(19,185)
Decrease (Increase) in operating assets		
Grants receivable	19,739	(130,651)
Promises to give	(416,162)	(3,157,430)
Prepaid expenses	32,778	(38,900)
Donated facility usage	98,366	111,898
(Decrease) Increase in operating liabilities		
Accounts payable and accrued expenses	(655,968)	174,280
Accrued payroll and other compensation	113,279	141,386
Due from related parties	(20,533)	10,533
Deferred revenue	<u>(66,544)</u>	<u>66,544</u>
NET CASH USED IN OPERATING ACTIVITIES	(733,385)	(1,258,959)
NET CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(19,373)	(750,000)
Proceeds from investments	51,635	-
Purchase of investments	<u>-</u>	<u>(1,612)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	32,262	(751,612)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt	1,420,836	2,730,267
Repayments of debt	<u>(362,664)</u>	<u>(1,609,236)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,058,172</u>	<u>1,121,031</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	357,049	(889,540)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEARS	<u>1,698,763</u>	<u>2,588,303</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEARS	\$ <u><u>2,055,812</u></u>	\$ <u><u>1,698,763</u></u>
Supplemental disclosure		
Cash paid for interest	\$ <u><u>279,780</u></u>	\$ <u><u>182,260</u></u>

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

OPERATION HOPE, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

**1. ORGANIZATION**

Operation HOPE, Inc. (the “Organization”), headquartered in Atlanta, Georgia, is a nonprofit public benefit organization working to disrupt poverty and empower inclusion for low and moderate-income individuals throughout the U.S. The Organization was founded immediately following the civil unrest of April 29, 1992 in Los Angeles. Programs focus on financial literacy, credit counseling, small business technical assistance, home ownership and emergency financial counseling services for both youth and adults. The Organization’s support comes primarily from individual donors’ contributions, corporate and foundation gifts, and sponsorships for various program events.

Hope Advisors LLC, a wholly-owned subsidiary of Operation HOPE, Inc., was formed in 2007 to provide consulting services to organizations regarding joint ventures. Hope Advisors, LLC had no operations during the years ended December 31, 2019 and 2018, and held no assets nor had any liabilities as of December 31, 2019 and 2018.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

**Principles of consolidation**

The financial statements consolidate the accounts of Operation HOPE, Inc. and Hope Advisors LLC (hereafter, collectively referred to as HOPE). Any interorganizational accounts and transactions have been eliminated in the consolidation.

**Basis of accounting**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

HOPE classifies its net assets and revenues and expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of HOPE and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the organization. These net assets may be used at the discretion of HOPE’s management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Those restrictions will be met by actions of HOPE or by the passage of time.

OPERATION HOPE, INC.  
NOTES TO FINANCIAL STATEMENTS – Continued

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions received are recorded as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions in the consolidated statement of activities as net assets released from restrictions.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets or decreases of liabilities, depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

**Cash and cash equivalents**

HOPE considers cash on deposit, temporary investment, and all highly liquid financial instruments with original maturities of three months or less to be cash equivalents.

**Investments**

Investments in equity and debt securities are reported at fair value with realized and unrealized gains and losses included in the consolidated statement of activities.

**Property and equipment**

Property, leasehold improvements, and equipment are carried at cost if purchased, or if donated, at fair value on the date of donation. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$2,500 and the useful life is greater than one year. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	5 to 10 years (or lease term if shorter)
Furniture and fixtures	7 years
Computer and office equipment	3 to 5 years

Renewals and betterments that materially extend the life of an assets are capitalized. Expenditures for maintenance and repairs are charged against operations. When property is sold, retired, or otherwise disposed of, the cost and the related accumulated depreciation and amortization are eliminated from the accounts and any resulting gains or loss is included in current operations.

**Federal grants and grants receivable**

Federal grants are considered conditional contributions. The principle condition attached to these awards is that HOPE must incur costs in accordance with the Office of Management and Budget's uniform guidance before costs can be reimbursed. Total amounts promised under these grants for which conditions have not yet been fulfilled are approximately \$374,833 and \$394,572 at December 31, 2019 and 2018, respectively. HOPE exercises judgment regarding what constitutes a reimbursable cost per compliance with federal regulations.

OPERATION HOPE, INC.  
NOTES TO FINANCIAL STATEMENTS – Continued

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Promises to give**

Unconditional promises to give involve fair value measurement only upon initial recognition. Unconditional promises to give, which are expected to be received in future years, are recorded at the present value of their estimated future cash flows using discount rates approximating the rate of return on U.S. government securities with similar maturities. Amortization of the discount is included in contribution revenue. HOPE provides for an allowance for doubtful receivables based on donor reputation and past giving history.

**Deferred revenue**

Grant revenue paid to HOPE in advance is recorded as deferred revenue. Such revenue will be recognized in the period expenditures are incurred.

**Contributed goods and services**

The value of significant donated goods and services and free use of long-lived assets and facilities is reflected as contributions in the accompanying consolidated financial statements at the estimated fair value of such goods and services at the date of contribution.

Contributed services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

During the years ended December 31, 2019 and 2018, HOPE received contributed goods that included the use of property for program and fundraising. HOPE also received contributed legal and other professional services. Total in-kind contributed goods and services received and included in the accompanying consolidated statements of activities amounted to \$1,494,378 and \$4,906,079 for the years ended December 31, 2019 and 2018, respectively. Total in-kind expenses for the years ended December 31, 2019 and 2018 totaled \$1,578,933 and \$3,754,551, respectively.

**Advertising and promotion Costs**

Advertising and promotion costs are expensed as incurred. Total advertising and promotion costs amounted to \$127,454 and \$126,081 for the years ended December 31, 2019 and 2018, respectively.

**Functional allocation of expenses**

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of HOPE. Those expenses including salaries and wages, payroll taxes, office expenses, accounting fees, postage, insurance, and depreciation, which are allocated on the basis of estimates of time and effort.

**Income taxes**

HOPE is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC") whereby only unrelated business income, as defined by Section 512(a)(1) of the IRC is subject to federal income tax. HOPE had no unrelated business income and no provision for income taxes had been made as of December 31, 2019 and 2018.

OPERATION HOPE, INC.  
NOTES TO FINANCIAL STATEMENTS – Continued

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

HOPE's application of ASC 740 regarding uncertain tax positions had no effect on its financial position as management believes HOPE has no material unrecognized income tax benefits, including any potential risk of loss of its not-for-profit status. HOPE would account for any potential interest or penalties related to possible future liabilities for unrecognized income tax benefits as income tax expense. HOPE is no longer subject to examination by federal, state or local tax authorities for periods before 2017.

**Estimates in the financial statements**

Management of HOPE makes estimates and assumptions related to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the consolidated financial statements in conformity with GAAP. Actual results could differ from these estimates.

**Revenue recognition**

On January 1, 2019, HOPE adopted Accounting Standards Update (ASU) 2014-09, the new revenue recognition accounting standard issued by the Financial Accounting Standards Board (FASB) and codified in Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers. The revenue recognition standard in ASC 606 outlines a single comprehensive model for recognizing revenue as performance obligations, defined in a contract with a customer as goods or services transferred to the customer in exchange for consideration, as satisfied. The standard also requires expanded disclosures regarding HOPE's revenue recognition policies and significant judgment employed in the determination of revenue.

The standard's core principal is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration in which the entity expects to be entitled in exchange for those goods or services.

The majority of HOPE's contracts do not contain variable consideration or warranties and contract modifications are generally minimal. Based on HOPE's evaluation process and review of its contracts with customers, the timing and amount of revenue recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption.

On January 1, 2019 HOPE adopted ASU 2018-08 Not-for-Profit Entities (Topic 958-605) clarifying the accounting guidance for contributions received and contributions made to assist entities in distinguishing between contributions (non-reciprocal) and exchange (reciprocal) transactions and to determine whether a contribution is conditional. The adoption did not have a material impact on the consolidated financial statements.

**Subsequent events**

HOPE has evaluated subsequent events through May 14, 2020, the date which the consolidated financial statements were available to be issued.

OPERATION HOPE, INC.  
NOTES TO FINANCIAL STATEMENTS – Continued

**3. AVAILABILITY AND LIQUIDITY**

The following represents HOPE’s financial assets at December 31, 2019, reduced by amounts not available for expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

Financial assets:	
Cash	\$ 2,055,812
Investments	-
Grants and promises to give receivable	<u>6,985,512</u>
Financial assets, at year-end	<u>9,041,324</u>
Less amounts unavailable to be used within one year:	
Net assets with time restrictions	<u>(5,280,000)</u>
Financial assets available to meet general expenditures over the next year	<u>\$ 3,761,324</u>

HOPE’s goal is generally to maintain financial assets to meet 6 months of operating expenses. As part of its liquidity plan, HOPE keeps a portion of cash reserves in a savings account.

**4. DONATED FACILITY USE**

HOPE received donated office space from one of its partners. HOPE paid \$1 annually for the space. This commitment ended during 2019. The balance on the lease as of December 31, 2019 and 2018 was \$0 and \$98,366, respectively.

**5. PROMISES TO GIVE**

Promises to give at December 31:

	<u>2019</u>	<u>2018</u>
Within one year	\$ 6,610,679	\$ 5,777,427
Within two to five years	<u>5,230,000</u>	<u>5,730,500</u>
Less discount to reflect contributions receivable at present value	<u>(127,170)</u>	<u>(210,580)</u>
	<u>\$ 11,713,509</u>	<u>\$ 11,297,347</u>

The effective interest rates used to discount the promises to give was 2.5% and 3.5% for years ended December 31, 2019 and 2018, respectively.

OPERATION HOPE, INC.  
NOTES TO FINANCIAL STATEMENTS – Continued

**6. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	2019	2018
Computers and software	\$ 3,138,780	\$ 1,119,407
Leasehold improvements	783,236	808,898
Furniture and fixtures	42,584	42,584
Software in development	-	2,000,000
	3,964,600	3,970,889
Less accumulated depreciation	(1,972,720)	(1,909,211)
	\$ 1,991,880	\$ 2,061,678

Depreciation expense for the years ended December 31, 2019 and 2018, amounted to \$89,171 and \$183,230, respectively.

**7. DEBT**

HOPE had a line of credit agreement with a bank. The agreement provided for maximum borrowings up to \$2,500,000. The line of credit matured on June 4, 2019. The outstanding balance was \$1,954,386 as of December 31, 2018. All borrowings under the agreement were collateralized by all the property and assets of HOPE.

On December 9, 2016, HOPE entered into a revolving line of credit agreement with a bank. The agreement provided for maximum borrowings up to \$1,500,000. The revolving line of credit matured on June 4, 2019. The outstanding balance was \$1,499,842 as of December 31, 2018. The borrowings under the agreement were unsecured.

On July 6, 2018, HOPE entered into a revolving line of credit agreement with a bank. The agreement provided for maximum borrowings up to \$1,250,000. The revolving line of credit matured on June 4, 2019. The outstanding balance was \$1,124,936 as of December 31, 2018. The borrowings under the agreement were unsecured. This line of credit was personally guaranteed by the Founder, Chairman, and CEO.

All lines of credit matured on June 4, 2019 and were consolidated into a 7-year term loan at an annual interest rate of 5%. A monthly payment of \$84,803 is due through the maturity date of June 1, 2026. At the time of the consolidation, the Founder, Chairman, and CEO was released as guarantor on the line of credit. The outstanding loan balance was \$5,637,336 at December 31, 2019.

Total interest expense was \$288,003 and 202,205 for the years ended December 31, 2019 and 2018.

OPERATION HOPE, INC.  
NOTES TO FINANCIAL STATEMENTS – Continued

**7. DEBT (Continued)**

Aggregate maturities of the loan are as follows:

<u>December 31,</u>	<u>Principal</u>
2020	\$ 752,868
2021	791,386
2022	831,875
2023	874,436
2024	919,173
Thereafter	<u>1,467,598</u>
Total	<u>\$ 5,637,336</u>

In a letter dated January 31, 2020, the administrative agent of the loan informed HOPE of its reservation of rights in response to HOPE's default under the loan agreement for failure to provide lenders with evidence of HOPE's financial condition as required by the loan agreement. As of the date of the letter, there was no demand for payment or any attempt to collect any such obligation.

**8. CONCENTRATION OF CREDIT RISK**

**Concentration of Cash Balances**

HOPE maintains its funds with a financial institution that insures cash balances up to \$250,000 as of December 31, 2019 and 2018, through the Federal Deposit Insurance Corporation. HOPE maintains cash balances that may exceed insured limits as of December 31, 2019 and 2018. HOPE performs on-going evaluations of the financial institution to limit its concentration of credit risk exposure. HOPE has not experienced any losses in such accounts and management believes HOPE is not exposed to any significant credit risk related to cash.

**Concentration of Grants Receivable**

The financial instruments which potentially subject HOPE to credit risk are primarily grants receivables. The primary grants receivable balance outstanding at December 31, 2019 and 2018 consists of government contracts receivable due from other nonprofit, state and federal granting agencies. Concentration of credit risks with respect to these receivables is limited, as the majority of HOPE's receivable consist of earned fees from contract programs granted by governmental agencies.

**Major Donors**

For the years ended December 31, 2019 and 2018, HOPE received \$7,535,576 and \$8,352,110, respectively, from three donors, which represented approximately 37% and 35%, respectively, of total revenue and support. Promises to give included \$9,718,334 and \$9,231,660 from these donors at December 31, 2019 and 2018, respectively.

**9. COMMITMENTS**

HOPE has entered noncancelable operating lease agreements through August 2024. The leases entered require HOPE to pay its pro rata share of operating expenses, insurance, and property taxes. It also requires the annual rent to be adjusted according to the change in the Consumer Price Index.



OPERATION HOPE, INC.  
NOTES TO FINANCIAL STATEMENTS – Continued

**9. COMMITMENTS (Continued)**

Future minimum payments for all operating leases are as follows:

Year	Amount
2020	\$ 132,372
2021	126,175
2022	39,283
2023	9,965
2024	<u>6,643</u>
	<u>\$ 314,438</u>

Rent expense for the years ended December 31, 2019 and 2018, amounted to \$201,247 and \$181,596, respectively.

**10. EMPLOYEE BENEFIT PLAN**

HOPE has a 401k plan (the “Plan”) which covers substantially all employees except for those who are members of a collective bargaining unit and non-resident aliens. Eligible employees must have completed 90 days of service. Employees may elect to make salary deferrals subject to the annual contribution limitation set by Internal Revenue Code. HOPE makes matching contributions of 50% up to the first 6% of employees' salary deferrals. HOPE may also make additional discretionary contributions to the Plan on an annual basis. HOPE made contributions in the amounts of \$139,843 and \$72,523 to the Plan during the years ended December 31, 2019 and 2018, respectively.

**11. CONTINGENCIES**

**Federal Grants**

Certain federal grants which HOPE administers and for which it receives reimbursements are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although HOPE expects such amounts, if any, would not have a significant impact of the financial position of HOPE.

**Litigation**

In the normal course of business, HOPE may periodically be involved in litigation. Management believes that the resolution of these matters will not have a material effect on HOPE's financial position or results of operations.

**12. FAIR VALUE MEASUREMENT**

HOPE has adopted the provisions of Accounting Standards Codifications 820 (“ASC 820”), Fair Value Measurements, for financial assets and liabilities. Under ASC 820, fair value is based on 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. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest priority to lowest priority, are described as follows:

OPERATION HOPE, INC.  
NOTES TO FINANCIAL STATEMENTS – Continued

**12. FAIR VALUE MEASUREMENT (Continued)**

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Unobservable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Inputs are unobservable inputs for the asset that are supported by little or no market activity and that are significant to the fair value of the underlying asset.

HOPE's investments are measured at fair value on a recurring basis in accordance with ASC 820 as of December 31, 2019 and 2018, and are deemed as Level 1.

**13. RELATED PARTY TRANSACTIONS**

HOPE acted as a fiscal agent for Bryant Group Motorsports Academy ("BGMA") collecting donations of \$0 and \$30,000 in 2019 and 2018, respectively. HOPE remitted \$20,533 and \$30,000 to BGMA in 2019 and 2018, respectively. The Founder, Chairman & CEO of HOPE founded BGMA. HOPE had a due to balance of \$0 and \$20,533 to BGMA for contributions that were sent to HOPE on behalf of BGMA for the years ended December 31, 2019 and 2018, respectively.

HOPE received \$25,000 in membership from The Promise Homes Company ("TPHC") in both 2019 and 2018. As a member, TPHC provided their residents with access to HOPE's financial coaching services. HOPE received \$4,000 in 2019 as a sponsor of HOPE Global Forums and received access to the three-day conference for their staff. HOPE received \$12,000 in 2019 for rent and office expenses associated with two workspaces provided for TPHC. The Founder, Chairman and CEO of Operations for HOPE served in a similar capacity with TPHC, which is an owner of single-family residential properties for working class and middle-class communities. He along with two other employees of HOPE are also employees of TPHC and received compensation from TPHC. There is also an individual that serves on both boards.

HOPE provided \$0 and \$10,000 in 2019 and 2018, respectively, to Global Dignity to support the mission of uniting everyone with the belief that we all deserve to live a life of dignity. The Founder, Chairman, and CEO of HOPE is a co-founder of Global Dignity.

HOPE received \$2,500 from Bryant Group Companies in the form of a donation in 2019. Bryant Group Companies is 100% owned by John Hope Bryant.

HOPE's board members include representatives from the banks where the lines of credit are held.

Many of HOPE's board members are representatives from the banks where HOPE's programs are offered. As part of the program, HOPE has office space at these bank locations. In addition, the banks make annual donations to HOPE for these programs.

OPERATION HOPE, INC.  
NOTES TO FINANCIAL STATEMENTS – Continued

**14. NET ASSETS**

Net assets with donor restrictions were as follows for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to the passage of time	\$ 10,605,000	\$ 10,525,660
Subject to expenditures for specific purpose:		
Adult and youth programs	4,294,086	3,877,647
Disaster programs	29,167	418,630
Facility use	-	98,367
Operational support	-	363,219
Sub-total purpose	<u>4,323,253</u>	<u>4,757,863</u>
Total net assets with donor restrictions	<u>\$ 14,928,253</u>	<u>\$ 15,283,523</u>

Net assets with donor restrictions released from restrictions were as follows for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to the passage of time	\$ 4,152,702	\$ 1,836,578
Satisfaction of purpose restrictions:		
Adult and youth programs	5,929,411	7,382,111
Disaster programs	719,218	743,910
Facility use	98,367	111,899
Operational support	<u>284,864</u>	<u>301,893</u>
Sub-total purpose	<u>7,031,860</u>	<u>8,539,813</u>
Total net assets released from restrictions	<u>\$ 11,184,562</u>	<u>\$ 10,376,391</u>

**15. SUBSEQUENT EVENT**

On April 20, 2020, the Company received loan proceeds in the amount of \$2,031,707 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight-week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1 percent, with a deferral of payments for the first six months. The Company intends to use the proceeds for purposes consistent with the PPP. While the Company currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, no assurances can be provided.

OPERATION HOPE, INC.  
NOTES TO FINANCIAL STATEMENTS – Continued

**15. SUBSEQUENT EVENT (Continued)**

As of the issuance date of these financial statements, the coronavirus pandemic is having serious economic implications throughout the world. The long-term economic consequences remain unknown. An estimate of the financial statement effect of this pandemic on HOPE cannot be made at this time.

**SINGLE AUDIT SECTION**

OPERATION HOPE, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Federal Grantor / Program Title</u>	<u>Grant ID No.</u>	<u>CFDA Number</u>	<u>Passed through to Subrecipients</u>	<u>Revenue/ Expenditures</u>
Economic Development Cluster -				
<b>U.S. Department of Commerce</b>				
<i>Direct Federal</i>				
Investments for Public Works and Economic Development Facilities	04-79-07227	11.300	\$ -	\$ 410,300
Economic Adjustment Assistance	04-69-07160	11.307	-	50,781
Economic Adjustment Assistance	01-79-14859	11.307	-	141,644
Total Economic Adjustment Assistance			-	192,424
<b>Total U.S. Department of Commerce</b>			-	602,724
Total Economic Development Cluster			-	602,724
Other Programs -				
<b>Appalachian Regional Commission</b>				
<i>Direct Federal</i>				
Appalachian Regional Development	AL-18080-C1-16	23.001	-	3,157
<b>Total Appalachian Regional Commission</b>			-	3,157
<b>U.S. Department of Homeland Security, FEMA</b>				
<i>Direct Federal</i>				
Disaster Assistance Projects	FEMA-DR-4339	97.088	-	255,084
<b>Total U.S. Department of Homeland Security, FEMA</b>			-	255,084

OPERATION HOPE, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED DECEMBER 31, 2019

<i>Federal Grantor / Program Title</i>	<i>Grant ID No.</i>	<i>CFDA Number</i>	<i>Passed through to Subrecipients</i>	<i>Revenue/ Expenditures</i>
Other Programs (Continued) -				
<b>U.S. Department of Housing and Urban Development</b>				
<i>Direct Federal</i>				
Housing Counseling Assistance Program	HC180431001	14.169	-	252,046
Housing Counseling Assistance Program	HC190431001	14.169	-	125,396
<b>Total U.S. Department of Housing and Urban Development</b>			-	377,443
Total Other Programs			-	635,684
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ -	\$ 1,238,407

OPERATION HOPE, INC.  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
DECEMBER 31, 2019

**Note 1 - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Operation HOPE, Inc. under programs of the federal government for the year ended December 31, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized, as applicable, by following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3 - Indirect Costs**

Operation HOPE, Inc. has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 4 - Subrecipients**

No federal grant awards were passed through to subrecipients during the year ended December 31, 2019.



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*

To the Board of Directors and Officers of  
Operation HOPE, Inc.

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 consolidated financial statements of Operation HOPE, Inc. (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related consolidated 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 May 14, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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.

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 Organization'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 the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Fred A. Kelly, LLC".

Morrow, Georgia  
May 14, 2020

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

To the Board of Directors and Officers of  
Operation HOPE, Inc.

**Report on Compliance for Each Major Federal Program**

We have audited Operation HOPE, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Organization's major federal programs for the year ended December 31, 2019. Organization's major federal programs are 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 the requirements 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 Organization'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 of America; 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 Organization'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 Organization's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Organization 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 Organization 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 Organization'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 Organization'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.

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.



Morrow, Georgia  
May 14, 2020

OPERATION HOPE, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 DECEMBER 31, 2019

**Financial Statements**

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

	<u>Yes</u>	<u>No</u>	<u>None Reported</u>
• Material weakness(es) identified?	<u>          </u>	<u>  X  </u>	
• Significant deficiencies identified that are not considered to be material weaknesses?	<u>          </u>	<u>          </u>	<u>  X  </u>
Noncompliance material to financial statements noted?	<u>          </u>	<u>  X  </u>	

**Federal Awards**

Internal control over major programs:

• Material weakness(es) identified?	<u>          </u>	<u>  X  </u>	
• Significant deficiencies identified that are not considered to be material weaknesses?	<u>          </u>	<u>          </u>	<u>  X  </u>

Type of auditor's report issued on compliance for Major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) of the Uniform Guidance?

                  X

OPERATION HOPE, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2019

**Identification of Major Programs:**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.169	Housing Counseling Assistance Program
97.088	Disaster Assistance Projects

Dollar threshold used to distinguish between  
type A and type B programs:

\$750,000

Yes

No

Auditee qualified as low-risk auditee?

X

**Section II – Financial Statement Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.



**Operation Hope, Inc.  
Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2019**

**Finding: 2018-001 Timely Submission of Single Audit Report**

**Condition:** Under the Uniform Guidance, single audits are due nine months after the end of the organization's fiscal year.

**Criteria:** Controls should be established to ensure that Operation Hope, Inc. can complete the required audit and reporting in a reasonable time to allow for timely filing.

**Cause:** Inadequate controls to ensure compliance with annual federal awards reporting requirements resulted in delayed submission of single audit reports for the year ended December 31, 2018.

**Effect:** Delayed submission of single audit report for the year ended December 31, 2018.

**Recommendation:** Operation Hope, Inc. needs to improve internal controls to ensure timely resolution of accounting issues and timely completion of financial statements.

**Current Status:** Corrective action was taken.

**Finding: 2017-001 Timely Submission of Single Audit Report**

**Condition:** Under the Uniform Guidance, single audits are due nine months after the end of the organization's fiscal year.

**Criteria:** Controls should be established to ensure that Operation Hope, Inc. can complete the required audit and reporting in a reasonable time to allow for timely filing.

**Cause:** Inadequate controls to ensure compliance with annual federal awards reporting requirements resulted in delayed submission of single audit reports for the year ended December 31, 2017.

**Effect:** Delayed submission of single audit report for the year ended December 31, 2017.

**Recommendation:** Operation Hope, Inc. needs to improve internal controls to ensure timely resolution of accounting issues and timely completion of financial statements.

**Current Status:** Corrective action was taken.