

Operation Hope, Inc.

Financial Report

December 31, 2009 and 2008

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Independent Auditors' Report

To the Board of Directors of
Operation Hope, Inc.
Los Angeles, California

We have audited the accompanying consolidated statements of financial position and consolidated cash flows of Operation Hope, Inc. (a California nonprofit organization) as of and for the years ended December 31, 2009 and 2008, and the related consolidated statements of activities and functional expenses for the year ended December 31, 2009. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The prior year summarized comparative information has been derived from the Organization's December 31, 2008 consolidated financial statements and, in our report dated July 31, 2009, we expressed an unqualified opinion on those consolidated financial statements.

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 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and changes in cash flows of Operation Hope, Inc. as of and for the years ended December 31, 2009 and 2008 and the changes in its net assets for the year then ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2010 on our consideration of Operation Hope, Inc.'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* and should be considered in assessing the results of our audit.

Hutchinson and Bloodgood LLP

August 23, 2010

Operation Hope, Inc.
(A Nonprofit Organization)
Consolidated Statements of Financial Position
December 31, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 3,150,203	\$ 275,898
Grants receivable	451,292	165,457
Promises to give, net	1,288,526	2,893,096
Prepaid expenses and other assets	719,600	1,053,485
Property, leasehold improvements and equipment, net	<u>1,255,098</u>	<u>1,758,765</u>
Total assets	<u>\$ 6,864,719</u>	<u>\$ 6,146,701</u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 259,407	\$ 448,467
Accrued payroll and other compensation	297,687	258,509
Line of credit	--	500,000
Obligations under capital leases	81,573	125,513
Deferred revenue	<u>--</u>	<u>70,588</u>
Total liabilities	<u>638,667</u>	<u>1,403,077</u>
 Commitments (Note 10)		
Net assets		
Unrestricted	2,995,852	(1,018,638)
Temporarily restricted	<u>3,230,200</u>	<u>5,762,262</u>
Total net assets	<u>6,226,052</u>	<u>4,743,624</u>
Total liabilities and net assets	<u>\$ 6,864,719</u>	<u>\$ 6,146,701</u>

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

Operation Hope, Inc.
(A Nonprofit Organization)
Consolidated Statement of Activities
Year Ended December 31, 2009
(With Summarized Totals for the Year Ended December 31, 2008)

	Unrestricted	Temporarily Restricted	Total 2009	Total 2008
Revenue and support				
Contributions, grants, and sponsorships	\$ 9,761,392	\$ 2,949,942	\$12,711,334	\$ 5,432,848
Contributed goods and services	2,586,027	--	2,586,027	3,050,752
Other revenue	140,287	--	140,287	168,313
Net assets released from restrictions	<u>5,482,004</u>	<u>(5,482,004)</u>	<u>--</u>	<u>--</u>
Total revenue and support	<u>17,969,710</u>	<u>(2,532,062)</u>	<u>15,437,648</u>	<u>8,651,913</u>
Expenses				
Program services	<u>9,741,622</u>	<u>--</u>	<u>9,741,622</u>	<u>8,555,733</u>
Supporting services:				
General and administration	3,039,315	--	3,039,315	2,930,371
Fundraising	<u>1,174,283</u>	<u>--</u>	<u>1,174,283</u>	<u>1,161,264</u>
Total supporting services	<u>4,213,598</u>	<u>--</u>	<u>4,213,598</u>	<u>4,091,635</u>
Total expenses	<u>13,955,220</u>	<u>--</u>	<u>13,955,220</u>	<u>12,647,368</u>
Change in net assets	4,014,490	(2,532,062)	1,482,428	(3,995,455)
Net assets at the beginning of the year	<u>(1,018,638)</u>	<u>5,762,262</u>	<u>4,743,624</u>	<u>8,739,079</u>
Net assets at the end of the year	<u>\$ 2,995,852</u>	<u>\$ 3,230,200</u>	<u>\$ 6,226,052</u>	<u>\$ 4,743,624</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

Operation Hope, Inc.
(A Nonprofit Organization)

Consolidated Statement of Functional Expenses

Year Ended December 31, 2009

(With Summarized Totals for the Year Ended December 31, 2008)

	Supporting Service				Total Expenses	
	Program Services	Management and General	Fund Raising	Total Supporting Service	2009	2008
Advertising and printing	\$ 98,355	\$ 160,025	\$ 17,280	\$ 177,305	\$ 275,660	\$ 227,809
Communications	208,970	49,221	46,826	96,047	305,017	318,898
Computer expense	68,750	59,703	10,216	69,919	138,669	119,304
Contract labor	37,738	17,747	--	17,747	55,485	118,900
Donations	--	1,328	5,937	7,265	7,265	15,025
Equipment rental and purchase	80,565	32,111	912	33,023	113,588	96,711
Program and event expenses	168,178	16,441	64	16,505	184,683	52,999
Insurance	61,799	25,496	10,179	35,675	97,474	71,030
Mileage and parking	79,762	26,714	8,593	35,307	115,069	96,467
Office services and supplies	55,326	72,570	35,262	107,832	163,158	126,314
Other expenses	202,235	27,115	34,402	61,517	263,752	187,805
Payroll taxes	305,259	87,900	38,105	126,005	431,264	395,682
Postage	59,447	90,529	18,002	108,531	167,978	123,010
Professional fees	209,217	326,569	--	326,569	535,786	561,844
Public relations	49,406	24,908	36,124	61,032	110,438	75,257
Renovation	--	--	15,351	15,351	15,351	--
Rent	665,110	173,390	21,508	194,898	860,008	865,081
Repairs and maintenance	59,665	21,265	639	21,904	81,569	67,415
Salaries and benefits	4,039,448	1,228,702	590,199	1,818,901	5,858,349	5,428,075
Travel and entertainment	<u>307,317</u>	<u>48,555</u>	<u>251,354</u>	<u>299,909</u>	<u>607,226</u>	<u>583,699</u>
Total expenses before depreciation and amortization, in-kind, and interest	6,756,547	2,490,289	1,140,953	3,631,242	10,387,789	9,531,325
Depreciation and amortization	199,997	353,062	--	353,062	553,059	538,958
In-kind						
Advertising	2,084,555	3,020	--	3,020	2,087,575	1,657,678
Equipment usage	5,344	7,659	--	7,659	13,003	28,592
Professional services	--	134,787	33,330	168,117	168,117	194,709
Program service expense	434,679	--	--	--	434,679	399,114
Rent	260,500	--	--	--	260,500	235,670
Interest expense	<u>--</u>	<u>50,498</u>	<u>--</u>	<u>50,498</u>	<u>50,498</u>	<u>61,322</u>
Total expenses	<u>\$ 9,741,622</u>	<u>\$ 3,039,315</u>	<u>\$ 1,174,283</u>	<u>\$ 4,213,598</u>	<u>\$ 13,955,220</u>	<u>\$ 12,647,368</u>

The Notes to Consolidated Financial Statements are an integral part of this statement.

Operation Hope, Inc.
(A Nonprofit Organization)
Consolidated Statements of Cash Flows
Years Ended December 31, 2009
(With Summarized Totals for the Year Ended December 31, 2008)

	2009	2008
Cash Flows From Operating Activities		
Change in net assets	\$ 1,482,428	\$ (3,995,455)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	553,059	538,958
Decrease in provision for uncollectible promises to give	(48,882)	(43,453)
Decrease in discount on unconditional promises to give	(66,094)	(137,520)
Decrease (increase) in:		
Grants receivable	(285,835)	199,541
Promises to give, net	1,719,546	3,142,272
Prepaid expenses and other assets	333,885	(596,004)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(189,060)	99,023
Accrued payroll and other compensation	39,178	(133,349)
Deferred revenue	<u>(70,588)</u>	<u>70,588</u>
Net cash provided by (used in) operating activities	<u>3,467,637</u>	<u>(855,399)</u>
Cash Flows Used In Investing Activities		
Purchases of property and equipment	<u>(49,392)</u>	<u>(92,567)</u>
Cash Flows From Financing Activities		
Net repayments on line of credit	(500,000)	(25,724)
Repayments of notes payable	--	(20,000)
Payments on obligations under capital leases	<u>(43,940)</u>	<u>(34,250)</u>
Net cash used in financing activities	<u>(543,940)</u>	<u>(79,974)</u>
Net increase (decrease) in cash and cash equivalents	2,874,305	(1,027,940)
Cash and Cash Equivalents at Beginning of Year	<u>275,898</u>	<u>1,303,838</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,150,203</u>	<u>\$ 275,898</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 50,498</u>	<u>\$ 61,322</u>

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

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 1. Nature of Activities

Operation Hope, Inc. is a nonprofit public benefit organization founded immediately following the civil unrest of April 29, 1992 in Los Angeles. Operation Hope, Inc. is committed to the revitalization of under-served communities through the provision of economic empowerment, financial literacy, conversion programs and services. Operation Hope, Inc. accomplishes its mission of converting community residents into community stakeholders through programs on economic education, financial literacy, credit counseling, budget creation, case management, small business technical assistance, homeownership counseling and emergency financial counseling services. Operation Hope, Inc. is headquartered at Wilshire Boulevard and Hope Street in the financial district of Downtown Los Angeles, California. Operation Hope, Inc. has regional operations in California, Illinois, New York, Washington D.C., Virginia, Maryland, Michigan, Pennsylvania, Massachusetts, Oregon, Georgia, Texas, Colorado, Mississippi, Louisiana, and a foreign operation in South Africa. Among the programs offered by Operation Hope, Inc. are: Economic Education, Financial Literacy, Credit Counseling, Budget Counseling, Case Management, Business Technical Assistance, Homeownership and Small Business Loans, and Emergency Financial Counseling Services.

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, 2009 and 2008, and held no assets nor had any liabilities as of December 31, 2009 and 2008.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Basis of Accounting

HOPE's consolidated financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America.

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 2. Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

HOPE is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, HOPE is required to present a statement of cash flows. The statements of activities and functional expenses include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with HOPE's consolidated financial statements for the year ended December 31, 2008, from which the summarized information was derived.

Use of Estimates

The preparation of consolidated 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 disclosures of contingent liabilities at the date of the financial statements, and the reported amounts of changes in revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets

The assets, liabilities and net assets of HOPE are reported within net asset categories as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions and that may be expendable for any purposes in performing the primary objectives of HOPE.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that expire either by passage of time and/or can be fulfilled or removed by actions of HOPE pursuant to those stipulations. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated financial statements as net assets released from restrictions. Temporarily restricted contributions received and spent in the same year have been recorded as unrestricted support.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or removed by actions of HOPE pursuant to those stipulations. The donated resources must be maintained permanently while permitting HOPE to use or expend part of all of the income derived from the donated assets. At December 31, 2009 and 2008, HOPE had no permanently restricted net assets.

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

HOPE recognizes unconditional promises to give, contributions, grants and sponsorships as revenue in the period received and are reported as increases in the appropriate category of net assets. Cash payments from multi-year unconditional promises to give are scheduled in even payments over the life of the promises which are expected to cover HOPE's actual expenses on a year-to-year basis. Contributions where donor restrictions are met within the same fiscal year as the gifts are received are included in unrestricted net assets. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

Contributions of assets other than cash and cash equivalents are recorded at their estimated fair value at the date of donation. HOPE implies time restrictions on contributed long-lived assets that expire over the assets' expected useful lives. Contributions to be received in future periods are discounted at an appropriate discount rate.

Expiration of Donor-Imposed Restrictions

The expiration of a donor-imposed restriction on a contribution is recognized in the period in which the restriction substantially expires. At that time, the related resources are reclassified to unrestricted net assets. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. HOPE records the contribution as unrestricted support when the donor-imposed restrictions are met in the same period as received. HOPE also releases the restrictions on contributions of cash or other assets received for the acquisitions of long-lived assets when the long lived assets are placed into service.

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.

Grants Receivable

HOPE receives numerous grants from federal agencies that are not considered contributions under accounting principles generally accepted in the United States of America. HOPE recognizes income from these grants as revenue and support only to the extent that expenditures incurred qualify for reimbursements under the terms and conditions of the grant agreements.

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 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, recorded in 2007 and prior years 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.

Unconditional promises to give, recorded in 2009 and 2008 which are expected to be received in future years, are recorded at the present value of their estimated future cash flows using discount rates equal to the borrowing rates from a local banking institution which would be extended to any other similar nonprofit organizations. HOPE provides for an allowance for doubtful receivables based on donor reputation and past giving history.

Property, Leasehold Improvements 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 is 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 asset are capitalized. Expenditures for maintenance and repairs are charged against operations. When property and equipment 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.

Accounting for Impairment of Long-Lived Assets

HOPE reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds fair value of the asset. During the years ended December 31, 2009 and 2008, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2009 and 2008, HOPE received contributed goods that included the use of property and advertising. HOPE also received contributed legal services. Total in-kind contributed goods and services received and included in the accompanying consolidated statement of activities amounted to \$2,586,027 and \$3,050,752 for the years ended December 31, 2009 and 2008, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expenses amounted to \$2,094,997 and \$1,664,203, including \$2,087,575 and \$1,657,678 of in-kind advertising received from a donor, for the years ended December 31, 2009 and 2008, respectively.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of activities and detailed in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimate of time spent on various programs and services.

Income Taxes

HOPE is a nonprofit organization, exempt from income taxes under Internal Revenue Code Section 501(c)(3) and corresponding California provisions. HOPE is not considered a private foundation.

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 2. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-01, (formerly Statement No. 168), Topic 105 - "Generally Accepted Accounting Principles - FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles." The Codification is the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification does not change current GAAP, but is intended to simplify user access to all authoritative GAAP by providing all the authoritative literature related to a particular topic in one place. All existing accounting standard documents are superseded and all other accounting literature not included in the Codification is considered non-authoritative. The Codification is effective for interim or annual reporting periods ending after September 15, 2009. HOPE has made the appropriate changes to GAAP references in the financial statements.

In May 2009, the FASB issued Accounting Standards Codification (ASC) No. 855 (formerly Statement No. 165), "Subsequent Events." ASC No. 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC No. 855 is effective for interim or annual periods ending after June 15, 2009. Management has adopted the provisions of ASC No. 855 and this change is reflected in Note 14 under the heading "Subsequent Events."

Note 3. Promises to Give

Promises to give at December 31, 2009 and 2008 were expected to be received as follows:

	2009	2008
Within one year	\$ 1,236,770	\$ 2,106,316
Within two to five years	<u>225,000</u>	<u>1,075,000</u>
	1,461,770	3,181,316
Less discount to reflect contributions receivable at present value	(99,521)	(165,615)
Less allowance for uncollectible pledges	<u>(73,723)</u>	<u>(122,605)</u>
	<u>\$ 1,288,526</u>	<u>\$ 2,893,096</u>

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 3. Promises to Give (Continued)

Promises to give at December 31, 2009 and 2008 included donations from the following organizations whose representatives also serve as members of HOPE's Board of Directors:

	2009	2008
US Bank	\$ --	\$ 100,000
E*Trade	625,000	1,750,000
Bank of the West	300,000	300,000
The First American Corporation	168,750	168,750
H & R Block	--	50,000
ING Foundation	--	350,000
	<u>\$ 1,093,750</u>	<u>\$ 2,718,750</u>

Note 4. Prepaid Expenses and Other Assets

At December 31 prepaid expenses and other assets are comprised of the following:

	2009	2008
Prepaid insurance and other expenses	\$ 74,133	\$ 85,513
Travel advances to employees	8,518	8,500
Employee loan receivable	50,000	--
Prepaid rent and program services contributions receivable	535,327	913,178
Deposit	<u>51,622</u>	<u>46,294</u>
	<u>\$ 719,600</u>	<u>\$ 1,053,485</u>

During 2008, HOPE received an in-kind contribution from Bank of the West for the use of a building for the HOPE program in that community through 2013. HOPE recorded this in-kind contribution as prepaid rent and amortizes it annually. The amount of amortized in-kind rent expenses are \$133,195 and \$129,674 for 2009 and 2008, respectively.

On December 14, 2009, HOPE loaned \$50,000 to its Chief Executive Officer. This loan is a short term loan that carries an annual interest rate of 6% (0.5% per month) and was due on January 15, 2010. This loan was repaid on its due date.

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 5. Property and Equipment

Property and equipment consisted of the following at December 31:

	2009	2008
Leasehold improvements	\$ 1,380,671	\$ 1,360,220
Furniture and fixtures	64,365	64,365
Computer equipment	<u>1,761,739</u>	<u>1,732,798</u>
	3,206,775	3,157,383
Less accumulated depreciation and amortization	<u>(1,951,677)</u>	<u>(1,398,618)</u>
	<u>\$ 1,255,098</u>	<u>\$ 1,758,765</u>

Depreciation and amortization expense for the years ended December 31, 2009 and 2008 amounted to \$553,059 and \$538,958, respectively.

Note 6. Line of Credit

HOPE has a revolving line of credit agreement (the Agreement) with a bank. The Agreement provides for maximum borrowings up to \$1,100,000. The line bears a variable interest rate at the bank's reference rate (3.25% at December 31, 2009) plus 2% with interest rate floor at 6.00%. Interest is payable on a monthly basis. There was no outstanding balance on this line of credit as of December 31, 2009. The outstanding balance as of December 31, 2008 was \$500,000. Interest expense on the line of credit was \$39,835 and \$45,888 for the years ended December 31, 2009 and 2008, respectively. All borrowings under the Agreement are collateralized by all the property and assets of HOPE and the assignment of the life insurance policy on the life of HOPE's Chief Executive Officer. The line of credit expires on March 5, 2011.

The Agreement contains various covenants, conditions and restrictions including, but not limited to, maintenance of debt service coverage ratio. A certain covenant has not been met and the bank has waived such noncompliance.

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 7. Capital Lease

HOPE has leased certain furniture and equipment under agreements that are classified as capital leases. The costs of the furniture and equipment under the capital leases are included in the consolidated statements of financial position as property, leasehold improvements and equipment was \$202,581 and \$201,230 at December 31, 2009 and 2008, respectively. Accumulated amortization of the leased furniture and equipment at December 31, 2009 and 2008 was \$64,875 and \$43,218. Amortization of assets under the capital lease is included in depreciation and amortization expense in the accompanying consolidated financial statements.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2009 are as follows:

Years Ending December 31,

2010	\$ 50,853
2011	36,353
2012	<u>3,272</u>
Total minimum lease payments	90,478
Less amount representing interest	<u>(8,905)</u>
Present value of net minimum lease payments	81,573
Less current maturities of capital lease obligations	<u>(50,853)</u>
Long-term capital lease obligations	<u>\$ 30,720</u>

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 8. Temporarily Restricted Net Assets

The following represents temporarily restricted net assets at December 31 that were restricted for the purposes indicated as follows:

	2009	2008
Educational services	\$ 1,013,270	\$ 1,659,451
Hope coalition	610,990	690,806
Call center	726,698	862,330
Hope centers	--	1,218,811
South Africa	80,753	46,689
Passage of time	793,489	1,162,640
Office of Vice Chairman	--	97,367
Other purposes	<u>5,000</u>	<u>24,168</u>
	<u>\$ 3,230,200</u>	<u>\$ 5,762,262</u>

As of December 31, net assets were released either by the passage of time or from donor restrictions by incurring expenses satisfying the restricted purpose, or by other events specified by the donor as follows:

	2009	2008
Educational services	\$ 1,871,801	\$ 1,603,865
Hope Coalition	80,016	1,005,188
Call Center	460,633	582,596
Hope Centers	2,054,597	1,706,306
South Africa	183,435	298,894
Special events	274,050	--
5MK	61,750	--
Passage of time	369,151	281,631
Office of Vice Chairman	97,367	38,676
Other purposes	<u>29,204</u>	<u>10,832</u>
	<u>\$ 5,482,004</u>	<u>\$ 5,527,988</u>

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Note 9. Concentration of Credit Risk

Concentration of Cash Balances

HOPE maintains its funds with a financial institution that insures cash balances of and up to \$250,000 as of December 31, 2009 and 2008 through the Federal Deposit Insurance Corporation. Total uninsured cash balance for the years ended December 31, 2009 and 2008 were \$3,084,858 and \$363,544, respectively. 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, 2009 consists of government contracts receivables 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

HOPE received \$7,000,000 from one donor, which represents approximately 45% of total revenue and support for the year ended December 31, 2009. Promises to give at December 31, 2008 included \$1,750,000 due from one donor. Total revenue and support provided by this donor amounted to approximately 19% of total revenue and support for the year ended December 31, 2008.

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Note 10. Commitments

Operating Leases

At December 31, 2009, HOPE has leased under various noncancelable operating leases certain office equipment and office spaces expiring on various dates through August 2016. Certain leases require HOPE to pay its prorata share of operating expenses, insurance and property taxes. Some leases also require the annual rent to be adjusted according to the change in the Consumer Price Index. HOPE also has the option to extend the term of the lease for an additional five-year period upon the expiration date of some of the leases. Future minimum lease payments, net of interest, by year and in the aggregate, required under noncancelable operation leases consist of the following:

Years Ending December 31,

2010	\$ 657,773
2011	613,705
2012	370,387
2013	229,333
2014	229,332
Thereafter	<u>402,872</u>
	<u>\$ 2,503,402</u>

Rent expense for the years ended December 31, 2009 and 2008 amounted to \$860,008 and \$865,081, respectively.

Sublease Income

HOPE subleases portions of two of its office spaces under noncancelable operating leases expiring on various dates through September 30, 2011. The total rental income for the years ended December 31, 2009 and 2008 amounted to \$78,388 and \$45,000, respectively. At December 31, 2009 the total amount of minimum rentals to be received under noncancelable leases was \$175,000 over the next two years.

Note 11. 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 may make matching contributions that equal to a percentage of employees' salary deferrals determined annually. HOPE may also make additional discretionary contributions to the Plan on an annual basis. HOPE's made contributions in the amount of \$43,443 and \$47,986 to the Plan during the years ended December 31, 2009 and 2008, respectively.

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Note 12. Contingencies

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.

Note 13. Fair Value Measurement

Effective January 1, 2008, HOPE adopted ASC No. 820, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC No. 820 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. HOPE fully adopted ASC No. 820 with respect to non-financial assets and liabilities effective January 1, 2009.

ASC No. 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Unconditional promises to give are measured using present value techniques that consider historical trends of collection, the type of donor and market rate assumptions. Unconditional promises to give are reported utilizing Level 2 inputs.

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Note 13. Fair Value Measurement (Continued)

	<u>Fair Value Measurements Using</u>			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At December 31, 2009				
Promises to give, net	\$ <u> --</u>	\$ <u>1,288,526</u>	\$ <u> --</u>	\$ <u>1,288,526</u>
At December 31, 2008				
Promises to give, net	\$ <u> --</u>	\$ <u>2,893,096</u>	\$ <u> --</u>	\$ <u>2,893,096</u>

Note 14. Subsequent Events

Management has evaluated subsequent events for recognition and disclosure through August 23, 2010, the date on which the financial statements were available to be issued.