# Operation Hope, Inc.

Consolidated Financial Report

December 31, 2013 and 2012

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**INDEPENDENT AUDITORS' REPORT**

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

**Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Operation Hope, Inc. (a California nonprofit organization) (the Organization), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated 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 on Government Audit Standards issued by the Comptroller of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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.

**Report on Summarized Comparative Information**

We have previously audited Operation Hope, Inc. December 31, 2012 financial statements and our report dated November 11, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented on pages 4 and 5 for the year ended December 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Operation Hope, Inc. as of December 31, 2013 and 2012, 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014 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* in considering Operation HOPE, Inc's internal control over financial reporting and compliance.

Hutchinson and Bloodgood LLP

June 30, 2014

**OPERATION HOPE, INC.**
**(A Nonprofit Organization)**

Consolidated Statements of Financial Position
December 31, 2013 and 2012

| | **2013** | 2012 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | **$ 441,696** | $ 698,060 |
| Grants receivable | **849,957** | 558,971 |
| Promises to give | **4,338,754** | 4,933,944 |
| Prepaid expenses and other assets | **1,013,409** | 630,082 |
| Property, leasehold improvements and equipment, net | **2,440,294** | 2,107,829 |
| Total assets | **$ 9,084,110** | $ 8,928,886 |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | **$ 525,830** | $ 760,243 |
| Accrued payroll and other compensation | **361,176** | 338,531 |
| Line of credit | **582,900** | 859,954 |
| Total liabilities | **1,469,906** | 1,958,728 |
| Commitments and contingencies (Notes 10 and 12) | | |
| Net assets | | |
| Unrestricted | **(3,238,908)** | (3,120,382) |
| Temporarily restricted | **10,853,112** | 10,090,540 |
| Total net assets | **7,614,204** | 6,970,158 |
| Total liabilities and net assets | **$ 9,084,110** | $ 8,928,886 |

**OPERATION HOPE, INC.**
**(A Nonprofit Organization)**

Consolidated Statement of Activities
Year Ended December 31, 2013
(With Summarized Totals for the Year Ended December 31, 2012)

| | Unrestricted | Temporarily Restricted | **Total 2013** | Total 2012 |
|---|---|---|---|---|
| **REVENUE AND SUPPORT** | | | | |
| Contributions, grants, and sponsorships | $ 4,977,969 | $ 6,057,127 | **$ 11,035,096** | $ 7,000,314 |
| Contributed goods and services | 2,368,831 | 638,168 | **3,006,999** | 3,824,176 |
| Donated assets | -- | 1,043,719 | **1,043,719** | -- |
| Other revenue | 70,636 | -- | **70,636** | 34,888 |
| Net assets released from restrictions | 6,976,442 | (6,976,442) | **--** | -- |
| Total revenue and support | 14,393,878 | 762,572 | **15,156,450** | 10,859,378 |
| **EXPENSES** | | | | |
| Program services | 11,393,369 | -- | **11,393,369** | 8,605,686 |
| Supporting services: | | | | |
| General and administration | 2,152,166 | -- | **2,152,166** | 2,451,587 |
| Fundraising | 966,869 | -- | **966,869** | 1,537,699 |
| Total supporting services | 3,119,035 | -- | **3,119,035** | 3,989,286 |
| Total expenses | 14,512,404 | -- | **14,512,404** | 12,594,972 |
| Change in net assets | (118,526) | 762,572 | **644,046** | (1,735,594) |
| Net assets at the beginning of the year (as restated) | (3,120,382) | 10,090,540 | **6,970,158** | 8,705,752 |
| Net assets at the end of the year | $ (3,238,908) | $ 10,853,112 | **$ 7,614,204** | $ 6,970,158 |

**OPERATION HOPE, INC.**
**(A Nonprofit Organization)**

Consolidated Statement of Functional Expenses
Year Ended December 31, 2013
(With Summarized Comparative Totals for the Year Ended December 31, 2012)

| | | Supporting Services | | | Total Expenses | |
|---|---|---|---|---|---|---|
| | Program Services | Management and General | Fund Raising | Total Supporting Services | **2013** | 2012 |
| Printing | $ 91,207 | $ 5,541 | $ 3,390 | $ 8,931 | **$ 100,138** | $ 154,768 |
| Communications | 192,161 | 20,938 | 30,380 | 51,318 | **243,479** | 298,321 |
| Computer expense | 70,696 | 65,674 | 5,755 | 71,429 | **142,125** | 146,978 |
| Contract labor | 24,866 | 16,241 | 527 | 16,768 | **41,634** | 37,607 |
| Donations | 3,443 | -- | 10,714 | 10,714 | **14,157** | 17,233 |
| Equipment rental and purchase | 104,657 | 26,621 | 11,800 | 38,421 | **143,078** | 136,732 |
| Program and event expenses | 355,614 | 24 | 7,929 | 7,953 | **363,567** | 442,516 |
| Insurance | 126,184 | 40,892 | 6,431 | 47,323 | **173,507** | 132,943 |
| Mileage and parking | 72,950 | 13,576 | 12,399 | 25,975 | **98,925** | 103,994 |
| Office services and supplies | 70,978 | 40,221 | 16,779 | 57,000 | **127,978** | 128,871 |
| Other expenses | 154,258 | 26,989 | 10,275 | 37,264 | **191,522** | 151,499 |
| Payroll taxes | 421,511 | 50,473 | 33,323 | 83,796 | **505,307** | 416,070 |
| Postage | 89,465 | 11,574 | 20,029 | 31,603 | **121,068** | 92,036 |
| Professional fees | 156,502 | 140,331 | 32,907 | 173,238 | **329,740** | 283,294 |
| Public relations | 20,031 | 8,035 | 510 | 8,545 | **28,576** | 7,516 |
| Renovation | -- | -- | -- | -- | **--** | -- |
| Rent | 852,001 | 131,983 | 49,293 | 181,276 | **1,033,277** | 743,925 |
| Repairs and maintenance | 33,217 | 4,387 | 332 | 4,719 | **37,936** | 47,297 |
| Salaries and benefits | 5,514,094 | 713,978 | 553,595 | 1,267,573 | **6,781,667** | 6,022,553 |
| Travel and entertainment | 234,655 | 3,615 | 111,805 | 115,420 | **350,075** | 277,916 |
| Total expenses before depreciation and amortization, in-kind, and interest | 8,588,490 | 1,321,093 | 918,173 | 2,239,266 | **10,827,756** | 9,642,069 |
| Depreciation and amortization | 702,671 | 22,685 | 6,236 | 28,921 | **731,592** | 710,551 |
| In-kind | | | | | | |
| Advertising | 165,200 | 525,883 | 8,000 | 533,883 | **699,083** | 831,554 |
| Equipment usage | 13,236 | 65,000 | 9,460 | 74,460 | **87,696** | 44,554 |
| Professional services | 1,215,633 | 116,643 | -- | 116,643 | **1,332,276** | 719,288 |
| Program service expense | 436,722 | -- | 25,000 | 25,000 | **461,722** | 313,947 |
| Rent | 271,417 | 77,722 | -- | 77,722 | **349,139** | 291,848 |
| Interest expense | -- | 23,140 | -- | 23,140 | **23,140** | 41,161 |
| Total expenses | $ 11,393,369 | $ 2,152,166 | $ 966,869 | $ 3,119,035 | **$ 14,512,404** | $ 12,594,972 |

*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, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | **$ 644,046** | $ (1,735,594) |
| Adjustment to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | **731,592** | 710,551 |
| Increase (decrease) in provision for uncollectible promises to give | **(152,739)** | 82,703 |
| Increase (decrease) in discount on unconditional promises to give | **44,752** | (5,327) |
| Donated assets | **(1,043,719)** | -- |
| Decrease (increase) in: | | |
| Grants receivable | **(290,986)** | (228,944) |
| Promises to give | **703,177** | 1,301,605 |
| Prepaid expenses and other assets | **(383,327)** | 178,804 |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | **(234,413)** | 412,750 |
| Accrued payroll and other compensation | **22,645** | (11,375) |
| Deferred revenue | **--** | (150,000) |
| Net cash provided by operating activities | **41,028** | 555,173 |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | |
| Purchases of property and equipment | **(20,338)** | (765,305) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net payments on line of credit | **(277,054)** | (90,046) |
| Payments on obligations under capital leases | **--** | (4,303) |
| Net cash used in financing activities | **(277,054)** | (94,349) |
| Net decrease in cash and cash equivalents | **(256,364)** | (304,481) |
| **CASH AND CASH EQUIVALENTS,** beginning of year | **698,060** | 1,002,541 |
| **CASH AND CASH EQUIVALENTS,** end of year | **$ 441,696** | $ 698,060 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Cash paid during the year for interest | **$ 23,140** | $ 41,161 |

## 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., Maryland, Michigan, Pennsylvania, Oregon, Georgia, Colorado, Florida, Louisiana, New Jersey, Alabama, Tennessee, 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 and Entrepreneur Education.

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, 2013 and 2012, and held no assets nor had any liabilities as of December 31, 2013 and 2012.

**Project 5117:** The mission of Project 5117 is to strengthen the economy by focusing on empowering those who earn less than $50,000 a year. It is a mission that is supported by a broad range of services, from homeownership counseling, to credit card debt management, a program that helps those with low credit scores raise their score to 700, and a comprehensive entrepreneurship-training course called HOPE Business-In-A-Box**.**

**Project 5117 stands for**:

- **5 million youth empowered** with a new level of financial literacy through unique financial dignity education programs, that have successfully been taught in 3,500 schools across the country. The program ensures basic consumer protection education for a generation, while making smart cool, so they stay in school.

- **1 million of these empowered youth** will have an opportunity to become future entrepreneurs and local job creators through HOPE Business-In-A-Box Academies, supported by a 100-year partnership with the Gallup Organization. This effort powerfully reconnects education with aspiration in the lives of our youth. By the year 2020 there will be 2,000 HOPE Business-In-A-Box Academies across the United States, in both urban and rural communities.

- **1,000 first-ever bottom-up empowerment centers, branch banks with HOPE Inside** units spread throughout America and 5,000 certified locations containing "HOPE Inside Plus" units. This plan is consistent with the long-term growth strategies of top regional and money-center banks, and appreciates the under-utilized, 100,000 unit branch banking network across America.

**NOTE 1. NATURE OF ACTIVITIES (Continued)**

**Project 5117 stands for (continued):**

- **700 Credit Score Communities will** be attained **through** the expansion of **HOPE Inside and "HOPE Inside Plus"** locations. These communities will have access to credit counseling, education on credit and money management, and debt management, offered in an individual or group setting.

With the launch of this next phase of Operation HOPE's work, which operates at the level of national scale, and measurable local impact -- community-by-community and across the country - we are now injecting into society a pragmatic and tangible plan of action, which everyone can play a meaningful role in. It is our way of answering some of the questions posed by Dr. King in the Poor People's Campaign, in both word and deed.

**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.

**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, 2012, from which the summarized information was derived.

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

**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, 2013 and 2012, HOPE had no permanently restricted net assets.

**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 revenues. 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.

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

**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.

**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.

Unconditional promises to give, recorded in 2010 through 2013 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. 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.

**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 |

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

**Property, Leasehold Improvements and Equipment (continued):** 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, 2013 and 2012, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

**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, 2013 and 2012, 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 $3,006,999 and $3,824,176 for the years ended December 31, 2013 and 2012, respectively.

**Advertising Costs:** Advertising costs are expensed as incurred. Total advertising expenses amounted to $699,083 and $831,554 for the years ended December 31, 2013 and 2012, respectively. All advertising expenses were from in-kind contributions.

**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.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Income Taxes:** HOPE is a nonprofit organization qualifying under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. As such, except for taxes pertaining to unrelated business income, HOPE is exempt from federal and state income taxes. No provision has been made for income taxes as HOPE had no unrelated business income. HOPE is not considered a private foundation. Accounting principles generally accepted in the United States of American requires HOPE's management to evaluate tax positions taken by them and recognize a tax liability if HOPE has taken uncertain tax positions that more-likely-than-not would not be sustained upon examination by applicable taxing authorities. HOPE believes that it has appropriate support for any tax provision taken and, as such, does not have any uncertain tax positions that would require recognition or disclosure at December 31, 2013. There are no years that remain open and are subject to examination by jurisdiction prior to 2010 and 2009 for federal and state, respectively.

## NOTE 3. PROMISES TO GIVE

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

| | 2013 | 2012 |
|---|---|---|
| Within one year | $ 3,523,860 | $ 3,311,008 |
| Within two to five years | 1,050,000 | 1,966,029 |
| | 4,573,860 | 5,277,037 |
| Less discount to reflect contributions receivable at present value | (127,136) | (82,384) |
| Less allowance for uncollectible pledges | (107,970) | (260,709) |
| | $ 4,338,754 | $ 4,933,944 |

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

| | 2013 | 2012 |
|---|---|---|
| Ares Management | $ -- | $ 100,000 |
| Popular Community Bank | 500 | 255,000 |
| US Bancorp - U.S. Bank | 40,000 | 310,000 |
| Bank of the West | 400,000 | 800,000 |
| Union Bank | 125,000 | 225,000 |
| LPL Financial | -- | 400,000 |
| SunTrust Bank, Central | 1,000,000 | -- |
| | $ 1,565,500 | $ 2,090,000 |

## NOTE 4. PREPAID EXPENSES AND OTHER ASSETS

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

| | 2013 | 2012 |
|---|---|---|
| Prepaid insurance and other expenses | $ 122,181 | $ 82,125 |
| Travel advances to employees | 5,500 | 5,500 |
| Rent contributions receivable | 814,721 | 469,940 |
| Deposit | 71,007 | 72,517 |
| | $ 1,013,409 | $ 630,082 |

HOPE received in-kind contributions for the use of buildings for HOPE programs through 2019. HOPE has recorded these in-kind contributions as rent contributions receivable and amortizes annually over the life of the rent. The amount of amortized in-kind rent expenses are $254,565 and $231,912 for 2013 and 2012, respectively.

## NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

| | 2013 | 2012 |
|---|---|---|
| Leasehold improvements | $ 2,160,811 | $ 2,150,472 |
| Furniture and fixtures | 106,948 | 106,948 |
| Computer equipment | 4,476,284 | 3,422,565 |
| | 6,744,043 | 5,679,985 |
| Less accumulated depreciation and amortization | (4,303,749) | (3,572,156) |
| | $ 2,440,294 | $ 2,107,829 |

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 amounted to $731,592 and $710,551, 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 $1,000,000. The line carries a variable interest rate at the bank's reference rate (3.25% at December 31, 2013) plus 1% with interest rate floor at 4.25%. Interest was payable on a monthly basis. The outstanding balance was $582,900 and $859,954 as of December 31, 2013 and 2012, respectively. Interest expense on the line of credit was $23,140 and $41,161 for the years ended December 31, 2013 and 2012, respectively. All borrowings under the Agreement were 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 April 30, 2015.

The Agreement contains various covenants, conditions and restrictions including, but not limited to, maintenance of debt service coverage ratio.

## NOTE 7. CAPITAL LEASE

HOPE leases 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 at December 31, 2013 and 2012. Accumulated amortization of the leased furniture and equipment at December 31, 2013 and 2012 was $148,774 and $129,845, respectively. Amortization of assets under the capital lease is included in depreciation and amortization expense in the accompanying consolidated financial statements.

There are no future minimum lease payments required under the capital leases.

## 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:

| | 2013 | As Restated 2012 |
|---|---|---|
| Educational services and financial literacy | $ 7,083,248 | $ 7,109,604 |
| Passage of time | 3,769,864 | 2,980,936 |
| | $ 10,853,112 | $ 10,090,540 |

## NOTE 9. CONCENTRATION OF CREDIT RISK

**Concentration of Cash Balances:** HOPE maintains its funds with a financial institution that insures non-interest bearing account cash balances of and up to $250,000 as of December 31, 2013 through the Federal Deposit Insurance Corporation. HOPE maintains cash that may exceed insured limits as of December 31, 2013. 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. Effective January 1, 2013, the bank cash balances are insured for up to $250,000 per financial institution.

**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, 2013 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, 2013 and 2012**,** HOPE received $4,477,823 and $3,551,906, respectively, from four donors, which represented approximately 30% and 36%, respectively, of total revenue and support. Promises to give included $1,375,727 and $310,000 from these donors at December 31, 2013 and 2012, respectively.

## NOTE 10. COMMITMENTS

**Operating Leases:** At December 31, 2013, HOPE has leased under various noncancelable operating leases office spaces expiring on various dates through January 2018. 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. Subsequent to December 31, 2013, HOPE terminated two of it's office space leases. Both termination agreements required termination payments, one of which is in the form of a promissory note payable in installments through August 2017. Future minimum lease payments, by year and in the aggregate, required under noncancelable operation leases consist of the following:

| Years Ending December 31, | |
|---|---|
| 2014 | $ 515,995 |
| 2015 | 275,364 |
| 2016 | 158,729 |
| 2017 | 163,503 |
| 2018 | 13,995 |
| | $ 1,127,586 |

Rent expense for the years ended December 31, 2013 and 2012 amounted to $1,033,277 and $743,925, respectively.

## 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 made contributions in the amount of $49,615 and $51,135 to the Plan during the years ended December 31, 2013 and 2012, respectively.

## 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

Fair value is determined based on assumptions that a market participant would use in pricing an asset or liability. Measurements of fair value are classified within a hierarchy based upon 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.

## NOTE 13. FAIR VALUE MEASUREMENT (Continued)

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.

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | 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, 2013 | | | | |
| Promises to give, net | $ -- | $ 4,338,754 | $ -- | $ 4,338,754 |
| At December 31, 2012 | | | | |
| Promises to give, net | $ -- | $ 4,933,944 | $ -- | $ 4,933,944 |

## NOTE 14. RESTATEMENT OF NET ASSETS

The beginning balances of unrestricted and temporarily restricted net assets have been restated. The restatement resulted from a timing difference in the release of restrictions for financial statement purposes. The cumulative effect of this restatement decreases the beginning balance of unrestricted net assets and increases the beginning balance of temporarily restricted net assets by $4,563,250. This restatement has no effect on prior or current year change in net assets.

## NOTE 15. SUBSEQUENT EVENTS

Management has evaluated its December 31, 2013 consolidated financial statements for subsequent events through June 30, 2014, the date of issuance of the consolidated financial statements. Except for the subsequent event discussed in Note 10, HOPE is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.