

Operation HOPE, Inc.

Consolidated Financial Report

December 31, 2012 and 2011

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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, 2012 and 2011, 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, 2011 financial statements and our report dated September 24, 2012 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, 2011, 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, 2012 and 2011, 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 November 11, 2013 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

November 11, 2013

Operation HOPE, Inc.
(A Nonprofit Organization)

Consolidated Statements of Financial Position
 December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 698,060	\$ 1,002,541
Grants receivable	558,971	330,027
Promises to give	4,933,944	6,312,925
Prepaid expenses and other assets	630,082	808,886
Property, leasehold improvements and equipment, net	<u>2,107,829</u>	<u>2,053,075</u>
Total assets	<u>\$ 8,928,886</u>	<u>\$ 10,507,454</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 760,243	\$ 347,493
Accrued payroll and other compensation	338,531	349,906
Line of credit	859,954	950,000
Obligations under capital leases	--	4,303
Deferred revenue	<u>--</u>	<u>150,000</u>
Total liabilities	<u>1,958,728</u>	<u>1,801,702</u>
Commitments (Note 10)		
Net assets (deficit)		
Unrestricted	1,442,868	(132,049)
Temporarily restricted	<u>5,527,290</u>	<u>8,837,801</u>
Total net assets	<u>6,970,158</u>	<u>8,705,752</u>
Total liabilities and net assets	<u>\$ 8,928,886</u>	<u>\$ 10,507,454</u>

Operation HOPE, Inc.
(A Nonprofit Organization)

Consolidated Statement of Activities
Year Ended December 31, 2012

(With Summarized Totals for the Year Ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Total 2012	Total 2011
REVENUE AND SUPPORT				
Contributions, grants, and sponsorships	\$ 4,272,867	\$ 2,727,447	\$ 7,000,314	\$ 7,982,625
Contributed goods and services	1,941,376	1,882,800	3,824,176	2,972,960
Donated assets	--	--	--	1,000,527
Other revenue	34,888	--	34,888	113,561
Net assets released from restrictions	<u>7,920,758</u>	<u>(7,920,758)</u>	<u>--</u>	<u>--</u>
Total revenue and support	<u>14,169,889</u>	<u>(3,310,511)</u>	<u>10,859,378</u>	<u>12,069,673</u>
EXPENSES				
Program services	<u>8,605,686</u>	<u>--</u>	<u>8,605,686</u>	<u>8,712,198</u>
Supporting services:				
General and administration	2,451,587	--	2,451,587	2,888,475
Fundraising	<u>1,537,699</u>	<u>--</u>	<u>1,537,699</u>	<u>1,488,404</u>
Total supporting services	<u>3,989,286</u>	<u>--</u>	<u>3,989,286</u>	<u>4,376,879</u>
Total expenses	<u>12,594,972</u>	<u>--</u>	<u>12,594,972</u>	<u>13,089,077</u>
Change in net assets	1,574,917	(3,310,511)	(1,735,594)	(1,019,404)
Net assets (deficit) at the beginning of the year	<u>(132,049)</u>	<u>8,837,801</u>	<u>8,705,752</u>	<u>9,725,156</u>
Net assets at the end of the year	<u>\$ 1,442,868</u>	<u>\$ 5,527,290</u>	<u>\$ 6,970,158</u>	<u>\$ 8,705,752</u>

Operation HOPE, Inc.
(A Nonprofit Organization)

Consolidated Statement of Functional Expenses

Year Ended December 31, 2012

(With Summarized Comparative Totals for the Year Ended December 31, 2011)

	Program Services	Supporting Service			Total Expenses	
		Management and General	Fund Raising	Total Support Service	2012	2011
Printing	\$ 142,745	\$ 3,631	\$ 8,392	\$ 12,023	\$ 154,768	\$ 157,620
Communications	187,008	52,694	58,619	111,313	298,321	279,897
Computer expense	47,719	79,572	19,687	99,259	146,978	134,823
Contract labor	5,000	2,107	30,500	32,607	37,607	74,860
Donations	(639)	(100)	17,972	17,872	17,233	38,945
Equipment rental and purchase	68,570	56,006	12,156	68,162	136,732	128,170
Program and event expenses	440,217	--	2,299	2,299	442,516	210,390
Insurance	69,486	53,018	10,439	63,457	132,943	150,533
Mileage and parking	65,020	21,982	16,992	38,974	103,994	120,304
Office services and supplies	73,579	38,797	16,495	55,292	128,871	124,578
Other expenses	107,196	19,452	24,851	44,303	151,499	179,936
Payroll taxes	275,793	75,808	64,469	140,277	416,070	421,053
Postage	61,934	8,709	21,393	30,102	92,036	108,738
Professional fees	54,726	218,782	9,786	228,568	283,294	305,233
Public relations	4,493	9,612	(6,589)	3,023	7,516	100,235
Renovation	--	--	--	--	--	--
Rent	614,545	84,992	44,388	129,380	743,925	753,056
Repairs and maintenance	31,252	5,392	10,653	16,045	47,297	59,780
Salaries and benefits	4,131,973	1,072,288	818,292	1,890,580	6,022,553	6,156,149
Travel and entertainment	<u>60,938</u>	<u>2,301</u>	<u>214,677</u>	<u>216,978</u>	<u>277,916</u>	<u>423,511</u>
Total expenses before depreciation and amortization, in-kind, and interest	6,441,555	1,805,043	1,395,471	3,200,514	9,642,069	9,927,811
Depreciation and amortization	269,026	435,289	6,236	441,525	710,551	352,055
In-kind						
Advertising	756,504	--	75,050	75,050	831,554	722,486
Equipment usage	33,904	--	10,650	10,650	44,554	--
Professional services	634,686	72,602	12,000	84,602	719,288	1,478,653
Program service expense	275,655	--	38,292	38,292	313,947	87,331
Rent	194,356	97,492	--	97,492	291,848	458,439
Interest expense	<u>--</u>	<u>41,161</u>	<u>--</u>	<u>41,161</u>	<u>41,161</u>	<u>62,302</u>
Total expenses	<u>\$ 8,605,686</u>	<u>\$ 2,451,587</u>	<u>\$ 1,537,699</u>	<u>\$ 3,989,286</u>	<u>\$ 12,594,972</u>	<u>\$ 13,089,077</u>

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

Operation HOPE, Inc.
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Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,735,594)	\$ (1,019,404)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	710,551	352,055
Increase in provision for uncollectible promises to give	82,703	12,204
Decrease in discount on unconditional promises to give	(5,327)	(65,327)
Donated assets	--	(1,000,527)
Decrease (increase) in:		
Grants receivable	(228,944)	133,393
Promises to give	1,301,605	1,008,490
Prepaid expenses and other assets	178,804	(107,552)
Increase (decrease) in:		
Accounts payable and accrued liabilities	412,750	(134,007)
Accrued payroll and other compensation	(11,375)	(18,429)
Deferred revenue	(150,000)	150,000
Net cash provided by (used in) operating activities	<u>555,173</u>	<u>(689,104)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(765,305)</u>	<u>(179,718)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on line of credit	(90,046)	350,000
Payments on obligations under capital leases	<u>(4,303)</u>	<u>(29,287)</u>
Net cash provided by (used in) financing activities	<u>(94,349)</u>	<u>320,713</u>
Net decrease in cash and cash equivalents	(304,481)	(548,109)
Cash and Cash Equivalents, beginning of year	<u>1,002,541</u>	<u>1,550,650</u>
Cash and Cash Equivalents, end of year	<u>\$ 698,060</u>	<u>\$ 1,002,541</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 41,161</u>	<u>\$ 62,302</u>

Operation HOPE, Inc.
(A Nonprofit Organization)

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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, 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, 2012 and 2011, and held no assets nor had any liabilities as of December 31, 2012 and 2011.

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, 2011, from which the summarized information was derived.

Operation HOPE, Inc.
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Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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, 2012 and 2011, 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.

Operation HOPE, Inc.
(A Nonprofit Organization)

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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 2012 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

Operation HOPE, Inc.
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Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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, 2012 and 2011, 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, 2012 and 2011, 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 \$3,824,176 and \$2,972,960 for the years ended December 31, 2012 and 2011, respectively.

Advertising Costs: Advertising costs are expensed as incurred. Total advertising expenses amounted to \$831,554 and \$722,486 for the years ended December 31, 2012 and 2011, 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.

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Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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, 2012. There are no years that remain open and are subject to examination by jurisdiction prior to 2009 and 2008 for federal and state, respectively.

NOTE 3. PROMISES TO GIVE

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

	2012	2011
Within one year	\$ 3,311,008	\$ 3,708,104
Within two to five years	<u>1,966,029</u>	<u>2,870,538</u>
	5,277,037	6,578,642
Less discount to reflect contributions receivable at present value	(82,384)	(87,711)
Less allowance for uncollectible pledges	<u>(260,709)</u>	<u>(178,006)</u>
	<u>\$ 4,933,944</u>	<u>\$ 6,312,925</u>

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:

	2012	2011
Ares Management	\$ 100,000	\$ --
Popular Community Bank	255,000	--
US Bancorp - U.S. Bank	310,000	780,000
E*Trade	--	2,000,000
Bank of the West	800,000	906,800
Union Bank	225,000	300,000
Core Logic	--	225,000
LPL Financial	<u>400,000</u>	<u>600,000</u>
	<u>\$ 2,090,000</u>	<u>\$ 4,811,800</u>

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NOTE 4. PREPAID EXPENSES AND OTHER ASSETS

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

	2012	2011
Prepaid insurance and other expenses	\$ 82,125	\$ 82,900
Travel advances to employees	5,500	5,500
Prepaid rent and program services contributions receivable	469,940	661,852
Deposit	<u>72,517</u>	<u>58,634</u>
	<u>\$ 630,082</u>	<u>\$ 808,886</u>

HOPE received in-kind contributions for the use of buildings for HOPE programs through 2014. HOPE has recorded these in-kind contributions as prepaid rent and amortizes annually over the life of the rent. The amount of amortized in-kind rent expenses are \$231,912 and \$172,034 for 2012 and 2011, respectively.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2012	2011
Leasehold improvements	\$ 2,150,472	\$ 1,489,190
Furniture and fixtures	106,948	106,947
Computer equipment	<u>3,422,565</u>	<u>3,318,537</u>
	5,679,985	4,914,674
Less accumulated depreciation and amortization	<u>(3,572,156)</u>	<u>(2,861,599)</u>
	<u>\$ 2,107,829</u>	<u>\$ 2,053,075</u>

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 amounted to \$710,551 and \$352,055, respectively.

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Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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, 2012) plus 1% with interest rate floor at 4.25%. Interest was payable on a monthly basis. The outstanding balance was \$859,954 and \$950,000 as of December 31, 2012 and 2011, respectively. Interest expense on the line of credit was \$41,161 and \$57,996 for the years ended December 31, 2012 and 2011, 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 January 31, 2014.

The Agreement contains various covenants, conditions and restrictions including, but not limited to, maintenance of debt service coverage ratio. A certain covenant had not been met and the bank has waived such noncompliance as of December 31, 2012.

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, 2012 and 2011. Accumulated amortization of the leased furniture and equipment at December 31, 2012 and 2011 was \$129,845 and \$110,007, 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:

	2012	2011
Educational services and financial library	\$ 2,117,655	\$ 6,726,674
HOPE coalition	428,699	447,570
Passage of time	<u>2,980,936</u>	<u>1,663,557</u>
	<u>\$ 5,527,290</u>	<u>\$ 8,837,801</u>

Operation HOPE, Inc.
(A Nonprofit Organization)

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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, 2012 through the Federal Deposit Insurance Corporation. There was no uninsured cash balance for the year ended December 31, 2012. 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, 2012 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, 2012 and 2011, HOPE received \$3,551,906 and \$4,348,700, respectively, from four donors, which represented approximately 36% and 33%, respectively, of total revenue and support. Promises to give included \$310,000 and \$2,906,800 from these donors at December 31, 2012 and 2011, respectively.

NOTE 10. COMMITMENTS

Operating Leases: At December 31, 2012, HOPE has leased under various noncancelable operating leases certain office equipment and 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. Future minimum lease payments, by year and in the aggregate, required under noncancelable operation leases consist of the following:

Years Ending December 31,	
2013	\$ 709,156
2014	675,156
2015	663,292
2016	551,940
2017	<u>297,914</u>
	<u>\$ 2,897,458</u>

Rent expense for the years ended December 31, 2012 and 2011 amounted to \$743,925 and \$753,056, respectively.

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Notes to Consolidated Financial Statements
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NOTE 10. COMMITMENTS (Continued)

Sublease Income: HOPE subleased portions of two of its office spaces under noncancelable operating leases which expired September 30, 2011. The total rental income for the years ended December 31, 2012 and 2011 amounted to \$-- and \$1,001,000, 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 \$51,135 and \$37,181 to the Plan during the years ended December 31, 2012 and 2011, 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.

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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			Total
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
At December 31, 2012				
Promises to give, net	<u>\$ --</u>	<u>\$ 4,933,944</u>	<u>\$ --</u>	<u>\$ 4,933,944</u>
At December 31, 2011				
Promises to give, net	<u>\$ --</u>	<u>\$ 6,312,925</u>	<u>\$ --</u>	<u>\$ 6,312,925</u>

NOTE 14. SUBSEQUENT EVENTS

Management has evaluated its December 31, 2012 consolidated financial statements for subsequent events through November 11, 2013, the date of issuance of the consolidated financial statements. HOPE is not aware of any subsequent events that would require recognition or disclosure in the consolidated financial statements.