

Operation Hope, Inc.

Consolidated Financial Report

Years Ended December 31, 2016 and 2015

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HUTCHINSON and

BLOODGOOD LLP

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

550 N. Brand Blvd., 14th Floor
Glendale, CA 91203
t 818.637.5000 f 818.240.0949
www.hblp.com

INDEPENDENT AUDITOR'S 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, 2016 and the related consolidated statements of activities, functional expenses and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 audit 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 Organization'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 Organization'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 the Organization's December 31, 2015 consolidated financial statements and our report dated December 14, 2016 expressed an unmodified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented on pages 4 and 5 for the year ended December 31, 2015, 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 the Organization as of December 31, 2016 and the changes in its net assets and its cash flows for the year 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 October 30, 2017 on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Hutchinson and Bloodgood LLP

November 2, 2017

OPERATION HOPE, INC.
(A Nonprofit Organization)

Consolidated Statements of Financial Position
December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 1,153,892	\$ 2,771,211
Grants receivable	422,896	351,655
Promises to give	9,172,200	6,313,214
Prepaid expenses and other assets	734,087	818,172
Property and equipment, net	<u>437,252</u>	<u>987,824</u>
Total assets	<u>\$ 11,920,327</u>	<u>\$ 11,242,076</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 705,948	\$ 846,731
Accrued payroll and other compensation	891,672	678,152
Line of credit	<u>1,981,202</u>	<u>1,900,087</u>
Total liabilities	<u>3,578,822</u>	<u>3,424,970</u>
Commitments and contingencies (Notes 9 and 11)		
Net assets (deficit)		
Unrestricted	(4,621,814)	(2,304,475)
Temporarily restricted	<u>12,963,319</u>	<u>10,121,581</u>
Total net assets	<u>8,341,505</u>	<u>7,817,106</u>
Total liabilities and net assets	<u>\$ 11,920,327</u>	<u>\$ 11,242,076</u>

OPERATION HOPE, INC.
(A Nonprofit Organization)

Consolidated Statement of Activities

Year Ended December 31, 2016

(With Summarized Totals for the Year Ended December 31, 2015)

	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
REVENUE AND SUPPORT				
Contributions, grants, and sponsorships	\$ 5,488,784	\$ 9,867,398	\$ 15,356,182	\$ 13,982,635
Contributed goods and services	2,043,387	--	2,043,387	2,479,076
Donated assets	--	--	--	--
Other	(1,365)	--	(1,365)	80,015
Net assets released from restrictions	<u>7,025,660</u>	<u>(7,025,660)</u>	<u>--</u>	<u>--</u>
Total revenue and support	<u>14,556,466</u>	<u>2,841,738</u>	<u>17,398,204</u>	<u>16,541,726</u>
EXPENSES				
Program services	<u>14,057,812</u>	<u>--</u>	<u>14,057,812</u>	<u>13,312,986</u>
Supporting services:				
General and administration	2,056,580	--	2,056,580	2,162,323
Fundraising	<u>759,413</u>	<u>--</u>	<u>759,413</u>	<u>1,159,883</u>
Total supporting services	<u>2,815,993</u>	<u>--</u>	<u>2,815,993</u>	<u>3,322,206</u>
Total expenses	<u>16,873,805</u>	<u>--</u>	<u>16,873,805</u>	<u>16,635,192</u>
Change in net assets	(2,317,339)	2,841,738	524,399	(93,466)
Net assets (deficit) at the beginning of the year	<u>(2,304,475)</u>	<u>10,121,581</u>	<u>7,817,106</u>	<u>7,910,572</u>
Net assets (deficit) at the end of the year	<u>\$ (4,621,814)</u>	<u>\$ 12,963,319</u>	<u>\$ 8,341,505</u>	<u>\$ 7,817,106</u>

OPERATION HOPE, INC.
(A Nonprofit Organization)

Consolidated Statement of Functional Expenses

Year Ended December 31, 2016

(With Summarized Comparative Totals for the Year Ended December 31, 2015)

	Program Services	Supporting Services			Total Expenses	
		Management and General	Fund Raising	Total Supporting Services	2016	2015
Printing	\$ 107,315	\$ 5,222	\$ 6,434	\$ 11,656	\$ 118,971	\$ 89,243
Communications	344,588	38,371	24,465	62,836	407,424	366,155
Computer expense	116,083	39,808	7,895	47,703	163,786	205,735
Contract labor	34,455	21,452	5,347	26,799	61,254	31,413
Donations	6,053	323	6,104	6,427	12,480	57,082
Equipment rental and purchase	67,358	22,889	7,886	30,775	98,133	127,969
Program and event expenses	517,215	1,292	3,698	4,990	522,205	268,967
Insurance	138,478	33,099	1,914	35,013	173,491	232,165
Mileage and parking	90,691	13,043	15,623	28,666	119,357	110,267
Office services and supplies	100,412	18,123	20,464	38,587	138,999	163,903
Other expenses	132,507	39,350	32,738	72,088	204,595	211,911
Payroll taxes	528,323	72,594	24,599	97,193	625,516	606,531
Postage	47,885	13,778	12,489	26,267	74,152	77,413
Professional fees	728,349	193,333	5,037	198,370	926,719	584,593
Public relations	46,055	120,844	3,663	124,507	170,562	59,421
Renovation	--	--	--	--	--	--
Rent	393,703	72,336	41,540	113,876	507,579	720,362
Repairs and maintenance	15,461	7,042	4,467	11,509	26,970	14,656
Salaries and benefits	7,619,075	1,109,897	424,746	1,534,643	9,153,718	8,789,499
Travel and entertainment	304,551	14,393	103,390	117,783	422,334	467,774
Total expenses before depreciation and amortization, in-kind, and interest	11,338,557	1,837,189	752,499	2,589,688	13,928,245	13,185,059
Depreciation and amortization	542,406	12,871	6,914	19,785	562,191	578,660
In-kind						
Advertising	125,069	--	--	--	125,069	542,763
Professional services	756,612	65,391	--	65,391	822,003	1,175,793
Program service expense	651,423	--	--	--	651,423	661,224
Rent	643,745	46,588	--	46,588	690,333	429,659
Interest expense	--	94,541	--	94,541	94,541	62,034
Total expenses	\$ 14,057,812	\$ 2,056,580	\$ 759,413	\$ 2,815,993	\$ 16,873,805	\$ 16,635,192

OPERATION HOPE, INC.
(A Nonprofit Organization)

Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 524,399	\$ (93,466)
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	562,191	578,660
Provision for uncollectible promises to give	1,011	33,398
Discount on unconditional promises to give	(7,463)	(36,563)
Decrease (increase) in:		
Grants receivable	(71,241)	146,265
Promises to give	(2,852,534)	(142,691)
Prepaid expenses and other assets	84,085	157,212
Increase (decrease) in:		
Accounts payable and accrued liabilities	(140,783)	(189,049)
Accrued payroll and other compensation	<u>213,520</u>	<u>267,928</u>
Net cash provided by (used in) operating activities	<u>(1,686,815)</u>	<u>721,694</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(11,619)</u>	<u>(32,690)</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Net borrowings on line of credit	<u>81,115</u>	<u>1,100,087</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,617,319)</u>	1,789,091
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,771,211</u>	<u>982,120</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,153,892</u>	<u>\$ 2,771,211</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 94,541</u>	<u>\$ 62,034</u>

OPERATION HOPE, INC.
(A Nonprofit Organization)

Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 1. NATURE OF ACTIVITIES

Operation Hope, Inc. (the Organization) is a nonprofit public benefit organization, founded immediately following the civil unrest of April 29, 1992 in Los Angeles. The Organization is committed to the revitalization of under-served communities through the provision of economic empowerment, financial literacy, conversion programs and services. The Organization 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. The Organization is headquartered at Wilshire Boulevard and Hope Street in the financial district of Downtown Los Angeles, California. The Organization 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 the Organization 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, 2016 and 2015, and held no assets nor had any liabilities as of December 31, 2016 and 2015.

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. 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, 2015, from which the summarized information was derived.

OPERATION HOPE, INC.
(A Nonprofit Organization)

Notes to Consolidated Financial Statements
December 31, 2016 and 2015

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 consolidated 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, 2016 and 2015, 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, 2016 and 2015

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 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.
(A Nonprofit Organization)

Notes to Consolidated Financial Statements
December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 statements of activities amounted to \$2,043,387 and \$2,479,076 for the years ended December 31, 2016 and 2015, respectively.

Advertising Costs: Advertising costs are expensed as incurred. Total advertising expenses amounted to \$125,069 and \$542,763 for the years ended December 31, 2016 and 2015, 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.

OPERATION HOPE, INC.
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Notes to Consolidated Financial Statements
December 31, 2016 and 2015

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 America 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, 2016. HOPE believes that there are no years that remain open and are subject to examination by jurisdiction prior to 2013 and 2012 for federal and state, respectively.

Recent Accounting Pronouncement: In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This ASU improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. The Organization is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

OPERATION HOPE, INC.
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Notes to Consolidated Financial Statements
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NOTE 3. PROMISES TO GIVE

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

	2016	2015
Within one year	\$ 6,153,078	\$ 5,120,794
Within two to five years	<u>3,160,250</u>	<u>1,340,000</u>
	9,313,328	6,460,794
Less discount to reflect contributions receivable at present value	(71,524)	(78,987)
Less allowance for uncollectible pledges	<u>(69,604)</u>	<u>(68,593)</u>
	<u>\$ 9,172,200</u>	<u>\$ 6,313,214</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:

	2016	2015
First Horizon National Corporation	\$ 250,000	\$ --
US Bancorp	50,000	100,000
Bank of the West	--	100,000
Popular Community Bank	--	250,000
SunTrust Bank, Central	700,000	--
Coca-Cola	--	50,000
JJCJ Foundation	--	100,000
Mutual of Omaha Bank	<u>62,500</u>	<u>250,000</u>
	<u>\$ 1,062,500</u>	<u>\$ 850,000</u>

NOTE 4. PREPAID EXPENSES AND OTHER ASSETS

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

	2016	2015
Prepaid insurance and other expenses	\$ 269,033	\$ 201,821
Travel advances to employees	5,500	5,500
Rent contributions receivable	397,488	551,631
Deposit	<u>62,066</u>	<u>59,220</u>
	<u>\$ 734,087</u>	<u>\$ 818,172</u>

OPERATION HOPE, INC.
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Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 4. PREPAID EXPENSES AND OTHER ASSETS (Continued)

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 \$154,143 and \$151,488 for 2016 and 2015, respectively.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2016	2015
Leasehold improvements	\$ 998,188	\$ 1,843,399
Furniture and fixtures	42,584	42,584
Computer equipment	<u>1,119,406</u>	<u>1,119,406</u>
	2,160,178	3,005,389
Less accumulated depreciation and amortization	<u>(1,722,926)</u>	<u>(2,017,565)</u>
	<u>\$ 437,252</u>	<u>\$ 987,824</u>

Depreciation and amortization expense for the years ended December 31, 2016 and 2015 amounted to \$562,191 and \$578,660, respectively.

NOTE 6. LINE OF CREDIT

On July 10, 2015, HOPE entered into a new term credit facility and revolving line of credit agreement with a bank. The Agreement provides for maximum borrowings up to \$2,500,000. The line carries a variable interest rate at the bank's reference rate (3.75% at December 31, 2016) plus 1%. Interest is payable on a monthly basis. The Agreement calls for a 48 month term for the term credit facility and 12 month term on the revolving line of credit. The outstanding balance was \$1,981,202 and \$1,900,087 as of December 31, 2016 and 2015, respectively. Interest expense on the line of credit was \$94,541 and \$62,034 for the years ended December 31, 2016 and 2015, respectively. All borrowings under the Agreement are collateralized by all the property and assets of HOPE.

NOTE 7. TEMPORARILY RESTRICTED NET ASSETS

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

	2016	2015
Educational services and financial literacy	\$ 11,542,974	\$ 8,232,462
Passage of time	<u>1,420,345</u>	<u>1,889,119</u>
	<u>\$ 12,963,319</u>	<u>\$ 10,121,581</u>

OPERATION HOPE, INC.
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Notes to Consolidated Financial Statements
December 31, 2016 and 2015

NOTE 8. 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, 2016 through the Federal Deposit Insurance Corporation. HOPE maintains cash that may exceed insured limits as of December 31, 2016. 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, 2016 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, 2016 and 2015, HOPE received \$5,143,815 from two donors and \$4,489,850 from four donors, respectively, which represented approximately 30% and 27%, respectively, of total revenue and support. Promises to give included \$2,690,000 and \$810,900 from these donors at December 31, 2016 and 2015, respectively.

NOTE 9. COMMITMENTS

Operating Leases: HOPE has entered into noncancelable operating lease agreements through March 2022. The leases entered into require HOPE to pay its pro rata share of operating expenses, insurance and property taxes. It also requires the annual rent to be adjusted according to the change in the Consumer Price Index. Future minimum lease payments, by year and in the aggregate, required under noncancelable operation leases consist of the following:

Years Ending December 31,	
2017	\$ 342,199
2018	150,274
2019	107,445
2020	110,678
2021	113,979
Thereafter	<u>29,202</u>
	<u>\$ 853,777</u>

Rent expense for the years ended December 31, 2016 and 2015 amounted to \$507,579 and \$720,362, respectively.

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NOTE 10. EMPLOYEE BENEFIT PLAN

HOPE has a 401k plan (the Plan) which covers substantially all employees except for those who are members of a collective bargaining unit and non-resident aliens. Eligible employees must have completed 90 days of service. Employees may elect to make salary deferrals subject to the annual contribution limitation set by Internal Revenue Code. HOPE makes matching contributions of 50% up to the first 6% of employees' salary deferrals. HOPE may also make additional discretionary contributions to the Plan on an annual basis. HOPE made contributions in the amounts of \$59,517 and \$55,220 to the Plan during the years ended December 31, 2016 and 2015, respectively.

NOTE 11. 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 12. 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.

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 12. FAIR VALUE MEASUREMENT (Continued)

	<u>Fair Value Measurements Using</u>			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, 2016				
Promises to give, net	<u>\$ --</u>	<u>\$ 9,172,200</u>	<u>\$ --</u>	<u>\$ 9,172,200</u>
At December 31, 2015				
Promises to give, net	<u>\$ --</u>	<u>\$ 6,313,214</u>	<u>\$ --</u>	<u>\$ 6,313,214</u>

NOTE 13. SUBSEQUENT EVENTS

Management has evaluated its December 31, 2016 consolidated financial statements for subsequent events through November 2, 2017, 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.