

OPERATION HOPE, INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017
With Independent Auditor's Report Thereon

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Operation Hope, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Operation Hope, Inc. (a California nonprofit organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Operation Hope, Inc. as of December 31, 2017, 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 Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2020, on our consideration of Operation Hope, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Operation Hope, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Operation Hope, Inc.'s internal control over financial reporting and compliance.



Morrow, Georgia
February 11, 2020

OPERATION HOPE, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

Current assets	
Cash and cash equivalents	\$ 2,588,303
Investments	21,825
Grants receivable	263,921
Promises to give	3,655,045
Prepaid expenses	48,338
Donated facility use	<u>110,780</u>
Total current assets	6,688,212
Promises to give – long-term	4,484,872
Property and equipment, net	244,908
Deposits	8,396
Donated facility use – long-term	<u>99,484</u>
Total assets	<u>\$ 11,525,872</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable and accrued expenses	\$ 838,177
Accrued payroll and other compensation	1,075,114
Due to related parties	<u>10,000</u>
Total current liabilities	<u>1,923,291</u>
Long-term debt	<u>3,458,133</u>
Total liabilities	<u>5,381,424</u>
Net (deficit) assets	
Unrestricted	(6,417,374)
Temporarily restricted	<u>12,561,822</u>
Total net (deficit) assets	<u>6,144,448</u>
Total liabilities and net assets	<u>\$ 11,525,872</u>

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

OPERATION HOPE, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support			
Contributions, grants, and sponsorship	\$ 7,144,829	\$ 9,237,029	\$ 16,381,858
Contributed goods and services	1,549,247	-	1,549,247
Other	<u>25,849</u>	<u>-</u>	<u>25,849</u>
Revenue and support	8,719,925	9,237,029	17,956,954
Net assets released from restrictions	<u>7,239,035</u>	<u>(7,239,035)</u>	<u>-</u>
Total revenue and support	<u>15,958,960</u>	<u>1,997,994</u>	<u>17,956,954</u>
Expenses			
Program services	<u>15,302,167</u>	<u>-</u>	<u>15,302,167</u>
Supporting services			
General and administration	4,244,294	-	4,244,294
Fundraising	<u>607,568</u>	<u>-</u>	<u>607,568</u>
Total supporting services	<u>4,851,862</u>	<u>-</u>	<u>4,851,862</u>
Total expenses	<u>20,154,029</u>	<u>-</u>	<u>20,154,029</u>
Change in net assets	(4,195,069)	1,997,994	(2,197,075)
Net (deficit) assets at beginning of year	<u>(2,222,305)</u>	<u>10,563,828</u>	<u>8,341,523</u>
Net (deficit) assets at end of year	<u>\$ (6,417,374)</u>	<u>\$ 12,561,822</u>	<u>\$ 6,144,448</u>

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

OPERATION HOPE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Program activities</u>	<u>Management and general</u>	<u>Fundraising</u>	<u>Totals</u>
Personnel expenses	\$ 8,902,131	\$ 1,087,461	\$ 291,403	\$ 10,280,995
Client assistance	1,290,749	-	-	1,290,749
Contract and professional fees	524,881	303,159	20,855	848,895
Travel and entertainment	499,144	62,519	198,853	760,516
Conferences	737,321	-	-	737,321
Occupancy	326,068	255,579	28,134	609,781
Office	484,845	61,564	45,324	591,733
Telecommunications	344,900	89,825	13,928	448,653
Advertising and promotions	233,640	87,148	-	320,788
Insurance	<u>177,658</u>	<u>16,234</u>	<u>7,119</u>	<u>201,011</u>
Total expenses before bad debt, in-kind, depreciation, and interest	13,521,337	1,963,489	605,616	16,090,442
Bad debt	-	1,939,704	-	1,939,704
In-kind	1,593,786	193,114	-	1,786,900
Depreciation	187,044	3,347	1,952	192,343
Interest expense	<u>-</u>	<u>144,640</u>	<u>-</u>	<u>144,640</u>
Total expenses	<u>\$ 15,302,167</u>	<u>\$ 4,244,294</u>	<u>\$ 607,568</u>	<u>\$ 20,154,029</u>

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

OPERATION HOPE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (2,197,075)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Depreciation	192,343
Unrealized gain	(6,804)
Decrease in operating assets	
Grants receivable	158,975
Promises to give	1,061,099
Prepaid expenses	202,152
Donated facility usage	187,224
Deposits	56,516
Increase in operating liabilities	
Accounts payable and accrued expenses	55,361
Accrued payroll and other compensation	181,879
Due from related parties	<u>10,000</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(98,330)</u>
NET CASH FLOWS USED IN INVESTING ACTIVITIES	
Purchase of investments	<u>(169)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(169)</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	
Proceeds from lines of credit	2,300,000
Repayments of lines of credit	<u>(823,494)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>1,476,506</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,378,007
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>1,210,296</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 2,588,303</u>
Supplemental disclosure	
Cash paid for interest	<u>\$ 135,817</u>

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

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. ORGANIZATION

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

Hope Advisors LLC, a wholly-owned subsidiary of Operation Hope, Inc., was formed in 2007 to provide consulting services to organizations regarding joint ventures. Hope Advisors, LLC had no operations during the year ended December 31, 2017, and held no assets nor had any liabilities as of December 31, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of consolidation

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

Basis of accounting

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

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

Unrestricted net assets – net assets not subject to donor imposed restrictions.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of HOPE and/or the passage of time.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash and cash equivalents

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

Grants receivables

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. 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 and equipment

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

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

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

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 year ended December 31, 2017, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Goods and Services

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

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

During the year ended December 31, 2017, 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 \$1,549,247 for the year ended December 31, 2017, respectively. Total in-kind expenses for the year ended December 31, 2017 was \$1,786,900.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred. Total advertising and promotion costs amounted to \$441,167 for the year ended December 31, 2017. Of this amount, \$120,379 of advertising and promotion costs 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.

Income taxes

HOPE is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "IRC") whereby only unrelated business income, as defined by Section 512(a)(1) of the IRC is subject to federal income tax. HOPE has no unrelated business income in 2017 and no provision for income taxes has been made.

HOPE's application of ASC 740 regarding uncertain tax positions had no effect on its financial position as management believes HOPE has no material unrecognized income tax benefits, including any potential risk of loss of its not-for-profit status. HOPE would account for any potential interest or penalties related to possible future liabilities for unrecognized income tax benefits as income tax expense. HOPE is no longer subject to examination by federal, state or local tax authorities for periods before 2016.

Estimates in the financial statements

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

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent events

HOPE has evaluated subsequent events through February 11, 2020, the date which the financial statements were available to be issued.

3. RESTATEMENT OF FINANCIAL STATEMENTS

The 2017 beginning balances for unrestricted and temporarily restricted net assets have been restated for the correction of a material misstatement for the year ended December 31, 2017. Temporarily restricted net assets which should have been released, were not. The correction resulted in the following changes to previously reported balances. Beginning temporarily restricted net assets decreased by \$2,399,491 to \$10,563,828; and unrestricted net deficit increased by \$2,399,491 to \$(2,222,305).

4. DONATED FACILITY USE

HOPE receives donated office space from one of its partners. There are two years remaining on the commitment. HOPE pays \$1 annually for the space. The balance on the lease as of December 31, 2017 was \$210,264.

5. PROMISES TO GIVE

Promises to give at December 31:

Within one year	\$ 3,655,045
Within two to five years	<u>4,674,550</u>
Total promises to give	8,329,595
Less discount to reflect contributions receivable at present value	<u>(189,678)</u>
	<u>\$ 8,139,917</u>

The effective interest rate used to discount the promises to give was 2.5%.

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

Computers and software	\$ 1,119,407
Leasehold improvements	808,898
Furniture and fixtures	<u>42,584</u>
	1,970,889
Less accumulated depreciation	<u>(1,725,981)</u>
	<u>\$ 244,908</u>

Depreciation expense for the year ended December 31, 2017, amounted to \$192,343.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

7. DEBT

HOPE had a line of credit agreement with a bank. The agreement provided for maximum borrowings up to \$2,500,000. The line carried a variable interest rate at the bank's reference rate plus 1% (4.25% at December 31, 2017). Interest was payable on a monthly basis. The line of credit matured on June 4, 2019. The outstanding balance was \$2,458,135 as of December 31, 2017, respectively. Interest expense on the line of credit was \$118,515 for the year ended December 31, 2017. All borrowings under the agreement were collateralized by all the property and assets of HOPE.

On December 9, 2016, HOPE entered into a revolving line of credit agreement with a bank. The agreement provided for maximum borrowings up to \$1,000,000. The line of credit carried a variable interest rate at the bank's reference rate (4.25% at December 31, 2017). Interest was payable on a monthly basis. The revolving line of credit matured on June 4, 2019. The outstanding balance was \$999,998 at December 31, 2017. Interest expense on the line of credit was \$26,125 for the year ended December 31, 2017. The borrowings under the agreement were unsecured.

Subsequent to December 31, 2017, HOPE entered into a revolving line of credit agreement with a bank that was increased to \$1,250,000 on December 18, 2018. This line of credit matured on June 4, 2019.

On June 4, 2019, all lines of credit were consolidated into a 7-year term loan at an annual interest rate of 5%. A monthly payment of \$84,803 is due through the maturity date of June 1, 2026.

Aggregate maturities of the loan are as follows:

<u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 362,579	\$ 146,241
2020	752,868	264,773
2021	791,386	226,255
2022	831,875	185,766
2023	874,436	143,206
Thereafter	<u>2,386,856</u>	<u>157,249</u>
Total	<u>\$ 6,000,000</u>	<u>\$ 1,123,490</u>

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

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets represent resources currently available for use, but are subject to restrictions, either for a specific purpose or the passage of time. Purpose restrictions include educational services and financial literacy. Temporarily restricted net assets were \$12,561,822 at December 31, 2017.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

9. CONCENTRATION OF CREDIT RISK

Concentration of Cash Balances

HOPE maintains its funds with a financial institution that insures cash balances up to \$250,000 as of December 31, 2017, through the Federal Deposit Insurance Corporation. HOPE maintains cash balances that may exceed insured limits as of December 31, 2017. The cash balance exceeding the insured limits at December 31, 2017 was \$2,087,956. 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, 2017 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 year ended December 31, 2017 HOPE received \$8,105,750 from three donors, which represented approximately 45% of total revenue and support. Promises to give included \$4,907,000 from these donors at December 31, 2017.

10. COMMITMENTS

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 rental payments for all operating leases are as follows:

Year	Amount
2018	\$ 104,317
2019	107,445
2020	110,678
2021	113,979
2022	<u>29,202</u>
	<u>\$ 465,621</u>

Rent expense for the year ended December 31, 2017, amounted to \$606,477.

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 makes matching contributions of 50%

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

11. EMPLOYEE BENEFIT PLAN (Continued)

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 \$59,004 to the Plan during the year ended December 31, 2017.

12. CONTINGENCIES

Federal Grants

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

Litigation

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

13. FAIR VALUE MEASUREMENT

HOPE has adopted the provisions of Accounting Standards Codifications 820 ("ASC 820"), Fair Value Measurements, for financial assets and liabilities. Under ASC 820, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest priority to lowest priority, are described as follows:

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

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

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

HOPE's investments are measured at fair value on a recurring basis in accordance with ASC 820 as of December 31, 2017, and are deemed as Level 1.

14. RELATED PARTY TRANSACTIONS

HOPE acted as a fiscal agent for Bryant Group Motorsports Academy ("BGMA") collecting donations of \$40,533 in 2017. HOPE remitted \$30,000 to BGMA in 2017. The Founder, Chairman & CEO of HOPE founded BGMA. HOPE had a due to balance of \$10,000 to BGMA for a contribution that was sent to HOPE on behalf of BGMA. These funds were sent to BGMA in the subsequent period.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

14. RELATED PARTY TRANSACTIONS

HOPE received \$25,000 in membership from The Promise Homes Company (“TPHC”) in 2017. As a member, TPHC provided their residents with access to HOPE’s financial coaching services. The Founder, Chairman and CEO of Operations for HOPE served in a similar capacity with TPHC, which is an owner of single-family residential properties for working class and middle-class communities. He along with two other employees of HOPE are also employees of THPC and receive compensation from TPHC. There is also an individual that serves on both boards.

The Founder, Chairman & CEO of HOPE is an author, and HOPE will use his books as part of their program. HOPE purchased books from the publishing company at a discounted rate equal to the author’s rate. The amount spent in 2017 was \$31,868 for 1,250 books.

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

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

SINGLE AUDIT SECTION

OPERATION HOPE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Federal Grantor / Program Title</u>	<u>Grant ID No.</u>	<u>CFDA Number</u>	<u>Passed through to Subrecipients</u>	<u>Revenue/ Expenditures</u>
Economic Development Cluster -				
U.S. Department of Commerce				
<i>Direct Federal</i>				
Economic Adjustment Assistance	07-79-07147	11.307	\$ -	\$ 219,240
Economic Adjustment Assistance	04-79-06995	11.307	-	271,886
Economic Adjustment Assistance	01-79-14563	11.307	-	248,444
Economic Adjustment Assistance	04-69-07160	11.307	-	158,659
Total U.S. Department of Commerce			-	898,229
Total Economic Development Cluster			-	898,229
Other Programs -				
Appalachian Regional Commission				
<i>Direct Federal</i>				
Appalachian Regional Development	AL-18080-C1-16	23.001	-	59,740
Appalachian Regional Development	AL-18080-15	23.001	-	30,171
Total Appalachian Regional Commission			-	89,910
U.S. Department of Justice				
<i>Direct Federal</i>				
Juvenile Mentoring Program	2014-JU-FX-0032	16.726	-	251,896
Total U.S. Department of Justice			-	251,896

The accompanying notes are an integral part of this schedule.

OPERATION HOPE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Federal Grantor / Program Title</u>	<u>Grant ID No.</u>	<u>CFDA Number</u>	<u>Passed through to Subrecipients</u>	<u>Revenue/ Expenditures</u>
Other Programs (Continued) -				
U.S. Department of Housing and Urban Development				
<i>Direct Federal</i>				
Housing Counseling Assistance Program	HC160931001	14.169	-	102,256
Housing Counseling Assistance Program	HC170931001	14.169	-	124,450
Total U.S. Department of Housing and Urban Development			-	226,706
Delta Regional Authority				
<i>Direct Federal</i>				
Delta Area Economic Development	RW0346	90.201	-	249,999
Total Delta Regional Authority			-	249,999
Total Other Programs			-	818,512
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 1,716,741

The accompanying notes are an integral part of this schedule.

OPERATION HOPE, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2017

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Operation Hope, Inc. under programs of the federal government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Note 3 - Indirect Costs

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

Note 4 - Subrecipients

No federal grant awards were passed through to subrecipients during the year ended December 31, 2017.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Operation Hope, Inc. (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 11, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Operation Hope, Inc.'s Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Morrow, Georgia
February 11, 2020

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

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

Report on Compliance for Each Major Federal Program

We have audited Operation Hope, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Organization's major federal programs for the year ended December 31, 2017. Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Morrow, Georgia
February 11, 2020

OPERATION HOPE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

Financial Statements

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

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

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

 X

OPERATION HOPE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
11.307	Economic Adjustment Assistance

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

\$750,000

Yes

No

Auditee qualified as low-risk auditee?

X

Section II – Financial Statement Findings

Finding: 2017-001 Timely Submission of Single Audit Report

SIGNIFICANT DEFICIENCY

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

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

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

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

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

**Views of
responsible officials
and corrective
actions:**

Operation Hope, Inc. agrees with this finding. Please refer to the corrective action plan on page S-11.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.



**Operation Hope, Inc.
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017**

Finding: 2016-001 Timely Submission of Single Audit Report

Condition:	Under the Uniform Guidance, single audits are due nine months after the end of the organization's fiscal year.
Criteria:	Controls should be established to ensure that Operation Hope, Inc. can complete the required audit and reporting in a reasonable time to allow for timely filing.
Cause:	Inadequate controls to ensure compliance with annual federal awards reporting requirements resulted in delayed submission of single audit reports for the year ended December 31, 2016.
Effect:	Delayed submission of single audit report for the year ended December 31, 2016.
Recommendation:	Operation Hope, Inc. needs to improve internal controls to ensure timely resolution of accounting issues and timely completion of financial statements.
Current Status:	The organization hired a full time CFO with non-profit experience in November 2018 to ensure timely resolution of accounting issues and timely completion of financial statements. The accounting function was relocated to Atlanta in the first quarter of 2019 to improve communication.

Finding: 2015-001 Timely Submission of Single Audit Report

Condition:	Under the Uniform Guidance, single audits are due nine months after the end of the organization's fiscal year.
Criteria:	Controls should be established to ensure that Operation Hope, Inc. can complete the required audit and reporting in a reasonable time to allow for timely filing.
Cause:	Inadequate controls to ensure compliance with annual federal awards reporting requirements resulted in delayed submission of single audit reports for the year ended December 31, 2015.
Effect:	Delayed submission of single audit report for the year ended December 31, 2015.
Recommendation:	Operation Hope, Inc. needs to improve internal controls to ensure timely resolution of accounting issues and timely completion of financial statements.
Current Status:	The organization hired a full time CFO with non-profit experience in November 2018 to ensure timely resolution of accounting issues and timely completion of financial statements. The accounting function was relocated to Atlanta in the first quarter of 2019 to improve communication.



**Operation Hope, Inc.
Corrective Action Plan
Year Ended December 31, 2017**

Section II – Federal Statement Findings

Finding: 2017-001 Timely Submission of Single Audit Report

Correction action: Operation Hope, Inc. has reorganized its management team including the finance and accounting functions. The accounting department was relocated the accounting department from Los Angeles to Atlanta to improve communications with Executive Management. In addition, HOPE has hired a certified public accountant with extensive non-profit accounting experience to assist in preparing for the audit and in collecting outstanding supporting documentation. We fully expect to complete in the allotted time period.

Proposed completion date: Completed.

Finding: 2016-001 Timely Submission of Single Audit Report

Correction action: Operation Hope, Inc. has reorganized its management team including the finance and accounting functions. The accounting department was relocated the accounting department from Los Angeles to Atlanta to improve communications with Executive Management. In addition, HOPE has hired a certified public accountant with extensive non-profit accounting experience to assist in preparing for the audit and in collecting outstanding supporting documentation. We fully expect to complete in the allotted time period.

Proposed completion date: Completed.

Finding: 2015-001 Timely Submission of Single Audit Report

Correction action: Operation Hope, Inc. has reorganized its management team including the finance and accounting functions. The accounting department was relocated the accounting department from Los Angeles to Atlanta to improve communications with Executive Management. In addition, HOPE has hired a certified public accountant with extensive non-profit accounting experience to assist in preparing for the audit and in collecting outstanding supporting documentation. We fully expect to complete in the allotted time period.

Proposed completion date: Completed.

Operation Hope, Inc.
Contact Person: Brian Betts, CFO
February 11, 2020