

Operation Hope, Inc.

Financial Report

December 31, 2010 and 2009

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Independent Auditors' Report

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

We have audited the accompanying consolidated statements of financial position and consolidated cash flows of Operation Hope, Inc. (a California nonprofit organization) as of and for the years ended December 31, 2010 and 2009, and the related consolidated statements of activities and functional expenses for the year ended December 31, 2010. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The prior year summarized comparative information has been derived from the Organization's December 31, 2009 consolidated financial statements and, in our report dated August 23, 2010, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and changes in cash flows of Operation Hope, Inc. as of and for the years ended December 31, 2010 and 2009 and the changes in its net assets for the year then ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2011 on our consideration of Operation Hope, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Hutchinson and Bloodgood LLP

September 15, 2011

Operation Hope, Inc.
(A Nonprofit Organization)
Consolidated Statements of Financial Position
December 31, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	\$ 1,550,650	\$ 3,150,203
Grants receivable	463,420	451,292
Promises to give, net	7,268,292	1,288,526
Prepaid expenses and other assets	701,334	719,600
Property, leasehold improvements and equipment, net	<u>1,224,885</u>	<u>1,255,098</u>
Total assets	<u>\$11,208,581</u>	<u>\$ 6,864,719</u>
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 481,500	\$ 259,407
Accrued payroll and other compensation	368,335	297,687
Line of credit	600,000	--
Obligations under capital leases	<u>33,590</u>	<u>81,573</u>
Total liabilities	<u>1,483,425</u>	<u>638,667</u>
 Commitments (Note 10)		
Net assets		
Unrestricted	1,374,556	2,995,852
Temporarily restricted	<u>8,350,600</u>	<u>3,230,200</u>
Total net assets	<u>9,725,156</u>	<u>6,226,052</u>
Total liabilities and net assets	<u>\$ 11,208,581</u>	<u>\$ 6,864,719</u>

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

Operation Hope, Inc.
(A Nonprofit Organization)
Consolidated Statement of Activities
Year Ended December 31, 2010
(With Summarized Totals for the Year Ended December 31, 2009)

	Unrestricted	Temporarily Restricted	Total 2010	Total 2009
Revenue and support				
Contributions, grants, and sponsorships	\$ 4,041,035	\$ 10,512,397	\$14,553,432	\$12,711,334
Contributed goods and services	3,042,124	--	3,042,124	2,586,027
Donated assets	--	9,294	9,294	--
Other revenue	128,058	--	128,058	140,287
Net assets released from restrictions	<u>5,401,291</u>	<u>(5,401,291)</u>	<u>--</u>	<u>--</u>
Total revenue and support	<u>12,612,508</u>	<u>5,120,400</u>	<u>17,732,908</u>	<u>15,437,648</u>
Expenses				
Program services	<u>9,897,902</u>	<u>--</u>	<u>9,897,902</u>	<u>9,741,622</u>
Supporting services:				
General and administration	3,040,548	--	3,040,548	3,039,315
Fundraising	<u>1,295,354</u>	<u>--</u>	<u>1,295,354</u>	<u>1,174,283</u>
Total supporting services	<u>4,335,902</u>	<u>--</u>	<u>4,335,902</u>	<u>4,213,598</u>
Total expenses	<u>14,233,804</u>	<u>--</u>	<u>14,233,804</u>	<u>13,955,220</u>
Change in net assets	(1,621,296)	5,120,400	3,499,104	1,482,428
Net assets at the beginning of the year	<u>2,995,852</u>	<u>3,230,200</u>	<u>6,226,052</u>	<u>4,743,624</u>
Net assets at the end of the year	<u>\$ 1,374,556</u>	<u>\$ 8,350,600</u>	<u>\$ 9,725,156</u>	<u>\$ 6,226,052</u>

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

Operation Hope, Inc.
(A Nonprofit Organization)

Consolidated Statement of Functional Expenses

Year Ended December 31, 2010

(With Summarized Totals for the Year Ended December 31, 2009)

	Supporting Service				Total Expenses	
	Program Services	Management and General	Fund Raising	Total Supporting Service	2010	2009
Advertising and printing	\$ 29,923	\$ 29,178	\$ 14,723	\$ 43,901	\$ 73,824	\$ 275,660
Communications	192,989	40,406	51,704	92,110	285,099	305,017
Computer expense	80,401	72,958	12,565	85,523	165,924	138,669
Contract labor	24,059	34,287	853	35,140	59,199	55,485
Donations	750	23,894	17,532	41,426	42,176	7,265
Equipment rental and purchase	56,706	61,250	1,772	63,022	119,728	113,588
Program and event expenses	176,346	3,725	15,627	19,352	195,698	184,683
Insurance	47,806	39,244	9,932	49,176	96,982	97,474
Mileage and parking	84,947	26,071	17,752	43,823	128,770	115,069
Office services and supplies	60,141	64,417	34,890	99,307	159,448	163,158
Other expenses	120,023	31,917	30,496	62,413	182,436	263,752
Payroll taxes	313,417	82,484	47,387	129,871	443,288	431,264
Postage	59,982	72,987	13,442	86,429	146,411	167,978
Professional fees	46,937	356,452	3,649	360,101	407,038	535,786
Public relations	17,434	76,790	30,081	106,871	124,305	110,438
Renovation	--	--	418	418	418	15,351
Rent	638,750	185,619	73,132	258,751	897,501	860,008
Repairs and maintenance	57,886	9,841	5,279	15,120	73,006	81,569
Salaries and benefits	4,472,160	1,143,148	808,991	1,952,139	6,424,299	5,858,349
Travel and entertainment	<u>358,178</u>	<u>144,498</u>	<u>105,129</u>	<u>249,627</u>	<u>607,805</u>	<u>607,226</u>
Total expenses before depreciation and amortization, in-kind, and interest	6,838,835	2,499,166	1,295,354	3,794,520	10,633,355	10,387,789
Depreciation and amortization	210,779	347,088	--	347,088	557,867	553,059
In-kind						
Advertising	533,844	113,885	--	113,885	647,729	2,087,575
Equipment usage	--	3,050	--	3,050	3,050	13,003
Professional services	2,065,928	44,974	--	44,974	2,110,902	168,117
Program service expense	17,637	--	--	--	17,637	434,679
Rent	230,879	--	--	--	230,879	260,500
Interest expense	--	<u>32,385</u>	--	<u>32,385</u>	<u>32,385</u>	<u>50,498</u>
Total expenses	<u>\$ 9,897,902</u>	<u>\$ 3,040,548</u>	<u>\$ 1,295,354</u>	<u>\$ 4,335,902</u>	<u>\$ 14,233,804</u>	<u>\$ 13,955,220</u>

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

Operation Hope, Inc.
(A Nonprofit Organization)
Consolidated Statements of Cash Flows
Years Ended December 31, 2010

	2010	2009
Cash Flows From Operating Activities		
Change in net assets	\$ 3,499,104	\$ 1,482,428
Adjustment to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	557,867	553,059
Increase (decrease) in provision for uncollectible promises to give	92,079	(48,882)
Increase (decrease) in discount on unconditional promises to give	53,517	(66,094)
Donated assets	(9,294)	--
Decrease (increase) in:		
Grants receivable	(12,128)	(285,835)
Promises to give, net	(6,125,362)	1,719,546
Prepaid expenses and other assets	18,266	333,885
Increase (decrease) in:		
Accounts payable and accrued liabilities	222,093	(189,060)
Accrued payroll and other compensation	70,648	39,178
Deferred revenue	--	(70,588)
Net cash provided by (used in) operating activities	<u>(1,633,210)</u>	<u>3,467,637</u>
Cash Flows Used In Investing Activities		
Purchases of property and equipment	<u>(518,360)</u>	<u>(49,392)</u>
Cash Flows From Financing Activities		
Net borrowings (repayments) on line of credit	600,000	(500,000)
Payments on obligations under capital leases	<u>(47,983)</u>	<u>(43,940)</u>
Net cash provided by (used in) financing activities	<u>552,017</u>	<u>(543,940)</u>
Net increase (decrease) in cash and cash equivalents	(1,599,553)	2,874,305
Cash and Cash Equivalents at Beginning of Year	<u>3,150,203</u>	<u>275,898</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,550,650</u>	<u>\$ 3,150,203</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 32,385</u>	<u>\$ 50,498</u>

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

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 1. Nature of Activities

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

Hope Advisors LLC, a wholly-owned subsidiary of Operation Hope, Inc. was formed in 2007 to provide consulting services to organizations regarding joint ventures. Hope Advisors LLC had no operations during the years ended December 31, 2010 and 2009, and held no assets nor had any liabilities as of December 31, 2010 and 2009.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

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

Basis of Accounting

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

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 2. Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

HOPE is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, HOPE is required to present a statement of cash flows. The statements of activities and functional expenses include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with HOPE's consolidated financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements, and the reported amounts of changes in revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets

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

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

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

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or removed by actions of HOPE pursuant to those stipulations. The donated resources must be maintained permanently while permitting HOPE to use or expend part of all of the income derived from the donated assets. At December 31, 2010 and 2009, HOPE had no permanently restricted net assets.

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

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

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

Expiration of Donor-Imposed Restrictions

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

Cash and Cash Equivalents

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

Grants Receivable

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

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 2. Summary of Significant Accounting Policies (Continued)

Promises to Give

Unconditional promises to give involve fair value measurement only upon initial recognition. Unconditional promises to give, recorded in 2007 and prior years which are expected to be received in future years, are recorded at the present value of their estimated future cash flows using discount rates approximating the rate of return on U.S. government securities with similar maturities.

Unconditional promises to give, recorded in 2008 through 2010 which are expected to be received in future years, are recorded at the present value of their estimated future cash flows using discount rates equal to the borrowing rates from a local banking institution which would be extended to any other similar nonprofit organizations. HOPE provides for an allowance for doubtful receivables based on donor reputation and past giving history.

Property, Leasehold Improvements and Equipment

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

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

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

Accounting for Impairment of Long-Lived Assets

HOPE reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds fair value of the asset. During the years ended December 31, 2010 and 2009, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 2. Summary of Significant Accounting Policies (Continued)

Contributed Goods and Services

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

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

During the years ended December 31, 2010 and 2009, 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 \$3,042,124 and \$2,586,027 for the years ended December 31, 2010 and 2009, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expenses amounted to \$647,729 and \$2,094,997, including \$647,729 and \$2,087,575 of in-kind advertising received from a certain donor, for the years ended December 31, 2010 and 2009, respectively.

Functional Allocation of Expenses

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

Income Taxes

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

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 3. Promises to Give

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

	2010	2009
Within one year	\$ 4,080,777	\$ 1,236,770
Within two to five years	<u>3,506,355</u>	<u>225,000</u>
	7,587,132	1,461,770
Less discount to reflect contributions receivable at present value	(153,038)	(99,521)
Less allowance for uncollectible pledges	<u>(165,802)</u>	<u>(73,723)</u>
	<u>\$ 7,268,292</u>	<u>\$ 1,288,526</u>

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

	2010	2009
US Bank	\$ 1,240,000	\$ --
E*Trade	1,680,000	625,000
Bank of the West	150,000	300,000
The First American Corporation	525,000	168,750
Union Bank	400,000	--
Capital One	25,000	--
Transunion	<u>30,270</u>	<u>--</u>
	<u>\$ 4,050,270</u>	<u>\$ 1,093,750</u>

Note 4. Prepaid Expenses and Other Assets

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

	2010	2009
Prepaid insurance and other expenses	\$ 80,449	\$ 74,133
Travel advances to employees	5,500	8,518
Employee loan receivable	470	50,000
Prepaid rent and program services contributions receivable	563,293	535,327
Deposit	<u>51,622</u>	<u>51,622</u>
	<u>\$ 701,334</u>	<u>\$ 719,600</u>

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 4. Prepaid Expenses and Other Assets (Continued)

During 2008, HOPE received an in-kind contribution from Bank of the West for the use of a building for the HOPE program in that community through 2013. HOPE recorded this in-kind contribution as prepaid rent and amortizes it annually. The amount of amortized in-kind rent expenses are \$172,034 and \$133,195 for 2010 and 2009, respectively.

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

Note 5. Property and Equipment

Property and equipment consisted of the following at December 31:

	2010	2009
Leasehold improvements	\$ 1,482,201	\$ 1,380,671
Furniture and fixtures	106,949	64,365
Computer equipment	<u>2,145,279</u>	<u>1,761,739</u>
	3,734,429	3,206,775
Less accumulated depreciation and amortization	<u>(2,509,544)</u>	<u>(1,951,677)</u>
	<u>\$ 1,224,885</u>	<u>\$ 1,255,098</u>

Depreciation and amortization expense for the years ended December 31, 2010 and 2009 amounted to \$557,867 and \$553,059, respectively.

Note 6. Line of Credit

HOPE has a revolving line of credit agreement (the Agreement) with a bank. The Agreement provides for maximum borrowings up to \$1,100,000. The line bears a variable interest rate at the bank's reference rate (3.25% at December 31, 2010) plus 2% with interest rate floor at 6.00%. Interest is payable on a monthly basis. The outstanding balance as of December 31, 2010 was \$600,000. There was no outstanding balance on this line of credit as of December 31, 2009. Interest expense on the line of credit was \$26,312 and \$39,835 for the years ended December 31, 2010 and 2009, respectively. All borrowings under the Agreement are collateralized by all the property and assets of HOPE and the assignment of the life insurance policy on the life of HOPE's Chief Executive Officer. The line of credit expired on September 5, 2011. HOPE is currently in negotiations with the bank to extend the agreement due date.

The Agreement contains various covenants, conditions and restrictions including, but not limited to, maintenance of debt service coverage ratio. A certain covenant has not been met and the bank has waived such noncompliance as of December 31, 2010.

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 7. Capital Lease

HOPE has leased certain furniture and equipment under agreements that are classified as capital leases. The costs of the furniture and equipment under the capital leases are included in the consolidated statements of financial position as property, leasehold improvements and equipment was \$202,581 at December 31, 2010 and 2009. Accumulated amortization of the leased furniture and equipment at December 31, 2010 and 2009 was \$87,441 and \$64,875. Amortization of assets under the capital lease is included in depreciation and amortization expense in the accompanying consolidated financial statements.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of December 31, 2010 are as follows:

Years Ending December 31,		
2011	\$	32,545
2012		<u>3,877</u>
Total minimum lease payments		36,422
Less amount representing interest		<u>(2,832)</u>
Present value of net minimum lease payments		33,590
Less current maturities of capital lease obligations		<u>(32,545)</u>
Long-term capital lease obligations	\$	<u>1,045</u>

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:

	2010	2009
Educational services	\$ 901,326	\$ 1,013,270
Hope coalition	1,341,279	610,990
Call center	1,052,985	726,698
Hope centers	3,879,552	--
South Africa	408,933	80,753
Passage of time	403,293	793,489
Other purposes	<u>363,232</u>	<u>5,000</u>
	<u>\$ 8,350,600</u>	<u>\$ 3,230,200</u>

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 8. Temporarily Restricted Net Assets (Continued)

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

	2010	2009
Educational services	\$ 2,432,975	\$ 1,871,801
Hope Coalition	235,395	80,016
Call Center	83,028	460,633
Hope Centers	1,784,411	2,054,597
South Africa	319,608	183,435
Special events	106,982	274,050
5MK	48,696	61,750
Passage of time	390,196	369,151
Office of Vice Chairman	--	97,367
Other purposes	--	29,204
	<u>\$ 5,401,291</u>	<u>\$ 5,482,004</u>

Note 9. Concentration of Credit Risk

Concentration of Cash Balances

HOPE maintains its funds with a financial institution that insures cash balances of and up to \$250,000 as of December 31, 2010 and 2009 through the Federal Deposit Insurance Corporation. Total uninsured cash balance for the years ended December 31, 2010 and 2009 were \$929,174 and \$3,084,858, respectively. HOPE performs on-going evaluations of the financial institution to limit its concentration of credit risk exposure. HOPE has not experienced any losses in such accounts and management believes HOPE is not exposed to any significant credit risk related to cash.

Concentration of Grants Receivable

The financial instruments which potentially subject HOPE to credit risk are primarily grants receivables. The primary grants receivable balance outstanding at December 31, 2010 consists of government contracts receivables due from other nonprofit, state and federal granting agencies. Concentration of credit risks with respect to these receivables is limited, as the majority of HOPE's receivable consist of earned fees from contract programs granted by governmental agencies.

Operation Hope, Inc.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 9. Concentration of Credit Risk (Continued)

Major Donors

HOPE received \$5,050,000 from four donors, which represents approximately 28% of total revenue and support for the year ended December 31, 2010. Promises to give at December 31, 2010 included \$4,120,000 from these donors.

Note 10. Commitments

Operating Leases

At December 31, 2010, HOPE has leased under various noncancelable operating leases certain office equipment and office spaces expiring on various dates through August 2016. Certain leases require HOPE to pay its prorata share of operating expenses, insurance and property taxes. Some leases also require the annual rent to be adjusted according to the change in the Consumer Price Index. HOPE also has the option to extend the term of the lease for an additional five-year period upon the expiration date of some of the leases. Future minimum lease payments, net of interest, by year and in the aggregate, required under noncancelable operation leases consist of the following:

Years Ending December 31,

2011	\$ 697,481
2012	333,409
2013	229,333
2014	229,332
2015	236,216
Thereafter	<u>166,656</u>
	<u>\$ 1,892,427</u>

Rent expense for the years ended December 31, 2010 and 2009 amounted to \$897,501 and \$860,008, respectively.

Sublease Income

HOPE subleases portions of two of its office spaces under noncancelable operating leases expiring on various dates through September 30, 2011. The total rental income for the years ended December 31, 2010 and 2009 amounted to \$100,000 and \$78,388, respectively. At December 31, 2010 the total amount of minimum rentals to be received under noncancelable leases was \$83,333 over the next year.

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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 \$41,686 and \$43,443 to the Plan during the years ended December 31, 2010 and 2009, 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, 2010				
Promises to give, net	\$ <u> --</u>	\$ <u> 7,268,292</u>	\$ <u> --</u>	\$ <u> 7,268,292</u>
At December 31, 2009				
Promises to give, net	\$ <u> --</u>	\$ <u> 1,288,526</u>	\$ <u> --</u>	\$ <u> 1,288,526</u>

Note 14. Subsequent Events

Management has evaluated and noted no subsequent events for recognition and disclosure through September 15, 2011, the date on which the financial statements were available to be issued.