

OPERATION HOPE, INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021
With Independent Auditor's Report Thereon

OPERATION HOPE, INC.
DECEMBER 31, 2022 AND 2021

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee of
Operation HOPE, Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying financial statements of Operation HOPE, Inc. ("HOPE") (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HOPE as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of HOPE and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 2 to the financial statements, HOPE adopted ASU 2016-02, *Leases* and ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to these matters.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about HOPE's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered

material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 HOPE's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HOPE's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated 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 April 13, 2023 on our consideration of HOPE'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 HOPE'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 HOPE's internal control over financial reporting and compliance.

Fulton & Kazak LLC

Morrow, Georgia
April 13, 2023

OPERATION HOPE, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

ASSETS		
	2022	2021
Current assets		
Cash and cash equivalents	\$ 4,600,445	\$ 11,790,236
Investments	2,047,917	333,603
Grants receivable	5,025,335	403,809
Promises to give, net	18,414,090	13,942,592
Prepaid expenses	196,166	170,612
Total current assets	30,283,953	26,640,852
Promises to give – long-term	9,217,504	13,643,695
Property and equipment, net	4,008,919	2,204,695
Operating lease right-of-use asset	1,876,255	-
Deposits	24,619	24,619
Total assets	\$ 45,411,250	\$ 42,513,861
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 2,445,729	\$ 561,032
Accrued payroll and other compensation	1,748,951	2,658,378
Deferred rent – short-term	-	50,432
Debt – short-term	903,639	839,571
Operating leases liability – short-term	207,487	-
Total current liabilities	5,305,806	4,109,413
Operating leases liability – long term	1,736,307	-
Deferred rent – long-term	-	302,138
Debt – long-term	1,798,732	3,111,222
Total liabilities	8,840,845	7,522,773
Net (deficit) assets		
Without donor restrictions	(777,074)	(1,121,776)
With donor restrictions	37,347,479	36,112,864
Total net (deficit) assets	36,570,405	34,991,088
Total liabilities and net assets	\$ 45,411,250	\$ 42,513,861

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

OPERATION HOPE, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions, grants, and sponsorships	\$ 3,336,741	\$ 25,336,292	\$ 28,673,033
In-kind contributions	17,838,398	-	17,838,398
Government revenue	7,217,000	166,667	7,383,667
Other	63,709	-	63,709
Revenue and support	28,455,848	25,502,959	53,958,807
Net assets released from restrictions	24,268,344	(24,268,344)	-
Total revenue and support	52,724,192	1,234,615	53,958,807
Expenses			
Program services	45,060,995	-	45,060,995
Supporting services			
General and administration	5,223,760	-	5,223,760
Fundraising	2,094,735	-	2,094,735
Total supporting services	7,318,495	-	7,318,495
Total expenses	52,379,490	-	52,379,490
Change in net assets	344,702	1,234,615	1,579,317
Net (deficit) assets at beginning of year	(1,121,776)	36,112,864	34,991,088
Net (deficit) assets at end of year	\$ (777,074)	\$ 37,347,479	\$ 36,570,405

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

OPERATION HOPE, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Contributions, grants, and sponsorships	\$ 4,491,981	\$ 36,862,645	\$ 41,354,626
In-kind contributions	5,299,561	-	5,299,561
Government revenue	2,054,921	2,000,000	4,054,921
Other	<u>32,754</u>	<u>-</u>	<u>32,754</u>
Revenue and support	11,879,217	38,862,645	50,741,862
Net assets released from restrictions	<u>19,059,852</u>	<u>(19,059,852)</u>	<u>-</u>
Total revenue and support	<u>30,939,069</u>	<u>19,802,793</u>	<u>50,741,862</u>
Expenses			
Program services	26,340,937	-	26,340,937
Supporting services			
General and administration	3,375,480	-	3,375,480
Fundraising	<u>1,577,312</u>	<u>-</u>	<u>1,577,312</u>
Total supporting services	4,952,792	-	4,952,792
Total expenses	<u>31,293,729</u>	<u>-</u>	<u>31,293,729</u>
Change in net assets	(354,660)	19,802,793	19,448,133
Net (deficit) assets at beginning of year	<u>(767,116)</u>	<u>16,310,071</u>	<u>15,542,955</u>
Net (deficit) assets at end of year	<u>\$ (1,121,776)</u>	<u>\$ 36,112,864</u>	<u>\$ 34,991,088</u>

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

OPERATION HOPE, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Program activities	Management and general	Fundraising	Totals
Personnel	\$ 18,697,489	\$ 2,403,657	\$ 1,532,555	\$ 22,633,701
Contract and professional fees	4,915,823	1,093,954	172,279	6,182,056
Client assistance	1,467,714	-	-	1,467,714
Office	1,055,130	146,906	102,523	1,304,559
Conferences and events	1,264,953	-	26,465	1,291,418
Travel and entertainment	347,704	56,120	176,645	580,469
Occupancy	226,303	142,312	-	368,615
Advertising and promotions	220,727	93,735	34,300	348,762
Telecommunications	271,423	35,633	12,403	319,459
Insurance	212,059	43,568	20,489	276,116
Total expenses before bad debt, in-kind depreciation, and interest	28,679,325	4,015,885	2,077,659	34,772,869
In-kind goods and services	15,764,186	274,212	-	16,038,398
Depreciation	617,484	39,265	16,380	673,129
Bad debt	-	601,246	-	601,246
Interest	-	161,141	-	161,141
Other	-	132,011	696	132,707
Total expenses	\$ 45,060,995	\$ 5,223,760	\$ 2,094,735	\$ 52,379,490

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

OPERATION HOPE, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Program activities	Management and general	Fundraising	Totals
Personnel	\$ 14,887,930	\$ 2,068,705	\$ 1,154,785	\$ 18,111,420
Contract and professional fees	1,921,039	534,473	52,434	2,507,946
Client assistance	1,817,016	-	-	1,817,016
Office	628,635	138,687	95,346	862,668
Conferences and events	655,724	-	130,256	785,980
Travel and entertainment	71,917	26,231	57,661	155,809
Occupancy	90,854	114,713	-	205,567
Advertising and promotions	207,266	51,106	43,177	301,549
Telecommunications	191,427	29,983	13,083	234,493
Insurance	170,189	33,346	17,883	221,418
Total expenses before bad debt, in-kind depreciation, and interest	20,641,997	2,997,244	1,564,625	25,203,866
In-kind goods and services	5,216,515	83,046	-	5,299,561
Depreciation	476,012	21,277	7,556	504,845
Bad debt	-	50,000	-	50,000
Interest	-	223,874	-	223,874
Other	6,413	39	5,131	11,583
Total expenses	\$ 26,340,937	\$ 3,375,480	\$ 1,577,312	\$ 31,293,729

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

OPERATION HOPE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,579,317	\$ 19,448,133
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Cumulative effect of change in accounting principle	25,065	-
Depreciation	673,129	504,845
Contributed property	(1,800,000)	-
Unrealized loss (gain) on investments	132,011	(26,878)
Loss on disposal of property and equipment	-	11,544
Amortization of operating lease right-of-use asset	106,156	-
(Increase) Decrease in operating assets		
Grants receivable	(4,621,526)	13,920
Promises to give	(45,307)	(15,075,690)
Prepaid expenses	(25,554)	(71,191)
Deposits	-	(16,223)
Increase (Decrease) in operating liabilities		
Accounts payable and accrued expenses	1,884,697	314,729
Accrued payroll and other compensation	(909,427)	1,648,155
Deferred rent	16,710	352,570
Operating lease liabilities	<u>(63,682)</u>	<u>-</u>
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(3,048,411)	7,103,914
NET CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments	5,596,280	-
Purchase of investments	(7,442,605)	(275,769)
Purchase of property and equipment	<u>(1,046,633)</u>	<u>(1,000,836)</u>
NET CASH USED IN INVESTING ACTIVITIES	(2,892,958)	(1,276,605)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of debt	<u>(1,248,422)</u>	<u>(938,202)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(1,248,422)</u>	<u>(938,202)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(7,189,791)	4,889,107
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEARS	<u>11,790,236</u>	<u>6,901,129</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEARS	<u>\$ 4,600,445</u>	<u>\$ 11,709,236</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 169,219</u>	<u>\$ 229,439</u>

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

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

1. ORGANIZATION

Operation HOPE, Inc. (“HOPE”), 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. HOPE 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. HOPE’s support comes primarily from individual donors’ contributions, corporate and foundation gifts, and sponsorships for various program events.

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., HOPE Advisors LLC, and Operation HOPE Properties LLC (hereafter, collectively referred to as HOPE). HOPE Advisors LLC, a wholly-owned subsidiary of Operation HOPE, Inc., was formed in 2007 to provide consulting services to organizations regarding joint ventures. Operation HOPE Properties LLC, a single member of Operation HOPE, was formed in August 2022 to own donated land and building assets. 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:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of the organization. These net assets may be used at the discretion of HOPE’s management and the board of directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Those restrictions will be met by actions of HOPE or by the passage of time.

Contributions received are recorded as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions in the consolidated 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. 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.

Investments

Investments in equity and debt securities are reported at fair value with realized and unrealized gains and losses included in the consolidated statement of activities.

Federal grants and grants receivable

Federal grants are considered conditional contributions. The principal condition attached to these awards is that HOPE must incur costs in accordance with the Office of Management and Budget's uniform guidance before costs can be reimbursed. HOPE exercises judgment regarding what constitutes a reimbursable cost per compliance with federal regulations. Grants receivable represent amounts due from funding organizations for reimbursable expenses incurred. Cash received under grants and contracts in advance of incurring the related expenses is reported as deferred revenue.

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.

Revenue recognition

HOPE recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Federal, state and local grants

A portion of HOPE's revenue is derived from cost-reimbursable federal, state and local contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when HOPE has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the consolidated statement of financial position. As of December 31, 2022 and 2021, HOPE did not have any deferred revenue on the consolidated statement of financial position.

Advertising and promotion costs

Advertising and promotion costs are expensed as incurred. Total advertising and promotion costs amounted to \$348,762 and \$301,549 for the years ended December 31, 2022 and 2021, respectively.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are 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
Building	39 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.

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.

Functional allocation of expenses

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of HOPE. Those expenses including personnel, contract and professional fees, office, travel and entertainment, advertising and promotions, occupancy, telecommunications, and insurance are allocated on the basis of estimates of time and effort.

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 consolidated financial statements in conformity with GAAP. Actual results could differ from these estimates.

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 had no unrelated business income and no provision for income taxes had been made as of December 31, 2022 and 2021.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2019.

Recently adopted accounting guidance

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing guidance for accounting for leases under *Topic 840, Leases*. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU 2018-10, *Codification Improvements to Topic 842, Leases*; ASU 2018-11, *Leases (Topic 842): Targeted Improvements*; ASU 2018-20, *Narrow-scope Improvements for Lessors*; and ASU 2019-01, *Leases (Topic 842): Codification Improvements*; ASU 2020-05, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*; and ASU 2021-09, *Leases (Topic 842): Discount Rate for Lessees That Are Not Public Business Entities*. The most significant change in the new leasing guidance is the requirement to recognize right-to-use (ROU) assets and lease liabilities for operating leases on the consolidated statements of financial position.

HOPE adopted FASB Topic 842, *Leases*, effective January 1, 2022 and recognized and measured leases existing at the beginning of the period of adoption through a cumulative effect adjustment with certain practical expedients available. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

HOPE elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed HOPE to carry forward the historical lease classification. In addition, HOPE elected the practical expedient to use hindsight in determining the lease term for existing leases, which resulted in extending the lease terms due to a lease amendment on April 1, 2022, and the reclassification of corresponding leasehold improvements.

As a result of the adoption of the new lease accounting guidance, at the beginning of 2022, HOPE recognized a lease liability of \$2,049,950, which represents the present value of the remaining operating lease payments of \$2,482,053, discounted using an incremental borrowing rate of 5%, and a ROU of \$1,645,548, which represents the operating lease liability of \$2,049,950 adjusted for lease incentives of \$404,402.

The adoption had a material impact on HOPE's consolidated statements of financial position but did not have a material impact on the consolidated statements of activities nor consolidated statements of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Nonfinancial Assets

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on the entity’s policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively to annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. HOPE adopted the standard on January 1, 2022, on a retrospective basis. The standard did not have a material impact on the consolidated financial statements. HOPE has updated disclosures as necessary (See note 14 Donated Facilities, Goods, and Services).

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Subsequent events

HOPE has evaluated subsequent events through April 13, 2023, the date which the consolidated financial statements were available to be issued.

3. AVAILABILITY AND LIQUIDITY

The following represents HOPE’s financial assets at December 31, 2022, reduced by amounts not available for expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year.

Financial assets:

Cash and cash equivalents	\$ 4,600,445
Investments	2,047,917
Grants receivable	5,025,335
Promises to give, net	<u>27,631,594</u>

Financial assets, at year-end 39,305,291

Less amounts unavailable to be used within one year:

Net assets with donor restrictions	37,347,479
Less net assets with time restrictions to be met in less than a year	<u>(14,922,959)</u>
	<u>22,424,520</u>

Financial assets available to meet general expenditures over the next year \$ 16,880,771

HOPE’s goal is generally to maintain financial assets to meet 6 months of operating expenses. As part of its liquidity plan, HOPE keeps a portion of cash reserves in a savings account.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

4. PROMISES TO GIVE

Unconditional promises to give are estimated to be collected as follows at December 31:

	<u>2022</u>	<u>2021</u>
Within one year	\$ 19,017,209	\$ 13,992,592
Within two to five years	<u>9,520,424</u>	<u>13,938,750</u>
	28,537,633	27,931,342
Less allowance for uncollectible promises to give	(603,119)	(50,000)
Less discount to net present value	<u>(302,920)</u>	<u>(295,055)</u>
	<u>\$ 27,631,594</u>	<u>\$ 27,586,287</u>

The effective interest rates used to discount the promises to give was 4% and 1% for years ended December 31, 2022 and 2021, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	<u>2022</u>	<u>2021</u>
Computers and software	\$ 4,547,510	\$ 3,666,706
Land	1,100,000	-
Leasehold improvements	980,478	1,206,364
Building	700,000	-
Furniture and fixtures	<u>156,874</u>	<u>134,439</u>
	7,484,862	5,007,509
Less accumulated depreciation	<u>(3,475,943)</u>	<u>(2,802,814)</u>
	<u>\$ 4,008,919</u>	<u>\$ 2,204,695</u>

Depreciation expense for the years ended December 31, 2022 and 2021, amounted to \$673,129 and \$504,845, respectively.

6. DEBT

Operation HOPE has 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. The outstanding loan balance was \$2,702,371 and \$3,950,793 for the years ended December 31, 2022 and 2021, respectively. During 2022, \$400,000 of additional principal payments were made, reducing the expected loan retirement date of November 1, 2025. Total interest expense was \$161,141 and \$223,874 for the years ended December 31, 2022 and 2021, respectively.

Aggregate maturities of the loan are as follows:

<u>December 31,</u>	<u>Principal</u>
2023	\$ 903,639
2024	949,871
2025	<u>848,861</u>
Total	<u>\$ 2,702,371</u>

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

7. 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, 2022, through the Federal Deposit Insurance Corporation. HOPE maintains cash balances that may exceed insured limits as of December 31, 2022. As of December 31, 2022, HOPE held funds of \$2,894,660 that exceeded the insured limits. 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, 2022 and 2021 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 receivables are from contract programs granted by governmental agencies.

Major Donors

For the years ended December 31, 2022 and 2021, HOPE received \$15,780,023 from nine donors and \$29,701,294 from nine donors, respectively, which represented approximately 47% and 72%, respectively, of total revenue and support. Promises to give included \$22,452,855 and \$21,517,131 from these donors, which represented approximately 80% and 78% of total promises to give at December 31, 2022 and 2021, respectively. In-kind goods and services included \$15,854,350 and \$3,801,747 from these donors, which represented approximately 89% and 72% of total in-kind goods and services for the years ending December 31, 2022 and 2021, respectively.

8. LEASING ARRANGEMENTS

During the year, HOPE entered into a noncancelable operating lease agreement through September 2029. HOPE determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets, other current liabilities, and operating lease liabilities on the consolidated statement of financial position.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the leases do not provide an implicit rate, HOPE used their incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that HOPE will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

8. LEASING ARRANGEMENTS - Continued

The following summarizes the line items in the balance sheets which include amounts for operating leases as of December 31, 2022:

Operating Leases	
Operating lease right-of-use-assets	<u>\$ 1,876,255</u>
Other current liabilities	\$ 207,487
Operating lease liabilities	<u>1,736,307</u>
Total operating lease liabilities	<u>\$ 1,943,794</u>

The following summarizes the weighted average remaining lease term and discount rate as of December 31, 2022:

Weighted Average Remaining Lease Term	
Operating leases	81 months
Weighted Average Discount Rate	
Operating leases	5%

The maturities of operating lease liabilities as of December 31, 2022 are as follows:

Year Ending December 31:	
2023	\$ 298,986
2024	321,117
2025	332,023
2026	343,313
2027	354,993
Thereafter	<u>650,955</u>
Total lease payments	2,301,387
Less: present value discount	<u>(357,593)</u>
Present value of lease liabilities	<u>\$ 1,943,794</u>

Rent expense for the years ended December 31, 2022 and 2021, amounted to \$366,895 and \$205,567, respectively.

9. 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 \$266,669 and \$208,802 to the Plan during the years ended December 31, 2022 and 2021, respectively.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

10. 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 outcome of such matters will not have a material adverse effect on HOPE’s financial position or results of operations.

11. INVESTMENTS

The fair value of investments as follows at December 31:

	<u>2022</u>	<u>2021</u>
Short term reserves and cash	\$ -	\$ 11,043
Equity funds	361,722	200,897
Fixed Income	1,686,195	-
Balanced mutual funds	<u>-</u>	<u>121,663</u>
	<u>\$ 2,047,917</u>	<u>\$ 333,603</u>

12. 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, 2022 and 2021, and are deemed as Level 1.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

13. RELATED PARTY TRANSACTIONS

The Promise Homes Company

Operation HOPE received \$25,000 and \$25,000 in membership from The Promise Homes Company (TPHC) in 2022 and 2021 respectively. As a member, TPHC provided their residents with access to Operation HOPE's financial coaching services.

Operation HOPE received \$10,644 and \$2,414 in 2022 and 2021 respectively for rent and office expenses associated with two workspaces provided for The Promise Homes Company.

Operation HOPE received \$11,750 and \$11,750 in 2022 and 2021 respectively for HOPE Inside Adult workshops and sessions as well as Youth programming to residents of The Promise Homes Company.

The Founder, Chairman and CEO of Operation HOPE served in a similar capacity with The Promise Homes Company (TPHC), which is an owner of single-family residential properties for working class and middle-class communities. He is also an employee and receives compensation from TPHC. There is also an individual that serves on both boards.

Bryant Family Foundation

Operation HOPE received a multi-year pledge of \$12,500 from Bryant Family Foundation in 2022.

The pledge was restricted to the Youth Program.

The Founder, Chairman and CEO of Operation HOPE served in a similar capacity with Bryant Family Foundation, which provides nominal financial grants to select individuals from underserved communities, primarily those who are pursuing their dreams through higher education.

John and Chaitra Bryant

Operation HOPE received a multi-year pledge of \$2,500,000 from John and Chaitra Bryant in 2021.

The pledge was restricted to \$1,250,000 directed to the benefit of employees, \$750,000 to form Operation HOPE's endowment, \$200,000 for Operation HOPE's One Million Black Businesses (1MBB) initiative, \$200,000 for Operation HOPE's Financial Literacy For All (FL4A) initiative, and \$100,000 for capacity building.

Board Members

HOPE's board members included representatives from banks where the debt is held.

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

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

14. DONATED FACILITIES, GOODS, AND SERVICES

Operation HOPE (HOPE) received gifts-in-kind for the years ended December 31, 2022, and 2021:

	<u>2022</u>	<u>2021</u>
Office space	\$ 1,408,901	\$ 1,615,514
Professional services	1,627,517	1,340,187
E-Commerce subscriptions	12,528,000	2,320,000
Goods	473,980	23,860
Land	1,100,000	-
Building	<u>700,000</u>	<u>-</u>
Total gifts-in-kind	<u>\$ 17,838,398</u>	<u>\$ 5,299,561</u>

HOPE’s gifts-in-kind policy is to utilize the assets given to carry out the mission of the organization. If the asset does not allow HOPE to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or independent specialist depending on the type of asset.

HOPE requires the use of dedicated office space within our partner organizations. The office spaces are provided at no cost to HOPE and valued at current market rates provided by partner organizations.

HOPE received donated office space valued at \$1,408,901 and \$1,615,514 for the years ended December 31, 2022, and 2021, respectively.

HOPE received various legal, marketing, and other professional services to support HOPE’s mission and clients. Based on current market rates, services were valued at \$1,627,517 and \$1,340,187 for the years ended December 31, 2022, and 2021, respectively.

HOPE received e-commerce subscriptions available to clients in the One Million Black Businesses initiative. Subscriptions received are valued at retail rates totaling \$12,528,000 and \$2,320,000 for years ended December 31, 2022, and 2021, respectively.

HOPE received donated goods with a fair market value of \$473,980 and \$23,860 for the years ended December 31, 2022, and 2021, respectively. The goods provided were utilized in support of HOPE Global Forums.

HOPE received a donated building and its accompanying land located in Tucker, GA during the year ended December 31, 2022. The independently appraised value of the land and building at the time of the donation was valued at \$1,100,000 and \$700,000, respectively. The use of the building will be for general activities related to the execution of our services to clients.

All gifts-in-kind received by HOPE for the years ended December 31, 2022, and 2021 were considered without donor restrictions and able to be used by HOPE as determined by the board of directors and management unless otherwise noted above.

OPERATION HOPE, INC.
NOTES TO FINANCIAL STATEMENTS – Continued

15. NET ASSETS

Net assets with donor restrictions were as follows for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Subject to the passage of time	\$ 24,140,464	\$ 24,993,431
Subject to expenditures for specific purpose:		
Adult and youth programs	12,158,238	9,503,231
Disaster programs	-	373,372
Operational support	<u>1,048,777</u>	<u>1,242,830</u>
Sub-total purpose	<u>13,207,015</u>	<u>11,119,433</u>
Total net assets with donor restrictions	<u>\$ 37,347,479</u>	<u>\$ 36,112,864</u>

Net assets with donor restrictions released from restrictions were as follows for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Subject to the passage of time	\$ 8,999,905	\$ 7,815,684
Satisfaction of purpose restrictions:		
Adult and youth programs	11,265,129	9,677,225
Disaster programs	579,757	1,566,943
Operational support	<u>3,423,553</u>	<u>-</u>
Sub-total purpose	<u>15,268,440</u>	<u>11,244,168</u>
Total net assets released from restrictions	<u>\$ 24,268,344</u>	<u>\$ 19,059,852</u>

16. EMPLOYEE RETENTION CREDIT

The CARES Act provides an employee retention credit (“CARES Employee Retention credit”), which is a refundable tax credit against certain employment taxes of up to \$5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. Additional relief provisions were passed by the United States government, which extend and slightly expand the qualified wage caps on these credits through December 31, 2021. Based on these additional provisions, the tax credit is now equal to 70% of qualified wages paid to employees during a quarter, and the limit on qualified wages per employee has been increased to \$10,000 of qualified wages per quarter. HOPE qualifies for the tax credit under the CARES Act and expects to receive additional tax credits under the additional relief provisions for qualified wages through December 31, 2021. During the fiscal year ended December 31, 2022 and December 31, 2021, HOPE recorded \$4,369,865 and \$0, respectively, related to the CARES Employee Retention credit in “Government Revenue” on the Consolidated Statements of Activities. As of December 31, 2022, HOPE has a \$4,369,865 receivable balance from the United States government related to the CARES Act, which is recorded in "Grants Receivable" on the Consolidated Statements of Financial Position.

SINGLE AUDIT SECTION

OPERATION HOPE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

<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	04-79-07599	11.307	\$ -	\$ 628,250
Economic Adjustment Assistance	01-79-14965	11.307	25,985	189,579
Economic Adjustment Assistance	01-79-14859	11.307	-	414,696
Total U.S. Department of Commerce			<u>25,985</u>	<u>1,232,525</u>
Total Economic Development Cluster			<u>25,985</u>	<u>1,232,525</u>
U.S. Department of Commerce				
<i>Direct Federal</i>				
MBDA Business Center	MB22OBD8050288	11.805	-	166,224
MBDA Business Center	MB20OBD8050154	11.805	-	306,838
Total U.S. Department of Commerce			<u>-</u>	<u>473,062</u>
U.S. Department of Housing and Urban Development				
<i>Direct Federal</i>				
Housing Counseling Assistance Program	HC220431004	14.169	-	73,272
Housing Counseling Assistance Program	HC210431002	14.169	-	287,044
Total U.S. Department of Housing and Urban Development			<u>-</u>	<u>360,316</u>
U.S. Department of the Treasury				
<i>Passed through Invest Atlanta</i>				
Coronavirus Relief Fund	COVID-19	21.027	-	65,137
Total U.S. Department of the Treasury			<u>-</u>	<u>65,137</u>

OPERATION HOPE, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2022

<i>Federal Grantor / Program Title</i>	<i>Grant ID No.</i>	<i>CFDA Number</i>	<i>Passed through to Subrecipients</i>	<i>Revenue/ Expenditures</i>
U.S. Small Business Administration				
<i>Passed through Georgia Micro Enterprise Network</i>				
Community Navigator Pilot Program	SBAHQ22CNP0016	59.077	-	112,522
Total U.S. Small Business Administration			-	112,522
 U.S. Department of Agriculture				
<i>Direct Federal</i>				
Rural Micro-entrepreneur Assistance Program	RO131211 70785	10.870	-	36,992
Total U.S. Department of Agriculture			-	36,992
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 \$ 25,985	 \$ 2,280,554

OPERATION HOPE, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
DECEMBER 31, 2022

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, 2022. 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.

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 Audit Committee 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. ("HOPE") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 13, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered HOPE's internal control over financial reporting (internal control) as a basis for designing 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 HOPE's internal control. Accordingly, we do not express an opinion on the effectiveness of HOPE'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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether HOPE'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 financial statements. 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*.

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.

Julius A Kozak LLC

Morrow, Georgia
April 13, 2023

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

To the Audit Committee of
Operation HOPE, Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Operation HOPE, Inc.'s ("HOPE") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of HOPE's major federal programs for the year ended December 31, 2022. HOPE's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, HOPE 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, 2022.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of HOPE and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of HOPE's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to HOPE's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on HOPE's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about HOPE's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding HOPE's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of HOPE's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 HOPE's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Jonathan A. Kozak LLC

Morrow, Georgia
April 13, 2023

OPERATION HOPE, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2022

Section I – Summary of Auditor’s Results

Financial Statements

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

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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
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OPERATION HOPE, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 DECEMBER 31, 2022

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.169 59.077	Housing Counseling Assistance Program Community Navigator Pilot Program

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

\$750,000

<u>Yes</u>	<u>No</u>
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Auditee qualified as low-risk auditee?

X

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.