

**Operation HOPE, Inc.**

**Financial Report**

**December 31, 2011 and 2010**

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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) (the Organization) as of and for the years ended December 31, 2011 and 2010, and the related consolidated statements of activities and functional expenses for the year ended December 31, 2011. 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, 2010 consolidated financial statements and, in our report dated September 15, 2011, 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, 2011 and 2010 and the changes in its net assets for the year ended December 31, 2011 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 24, 2012 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 24, 2012

**Operation HOPE, Inc.  
(A Nonprofit Organization)**

**Consolidated Statements of Financial Position**

**December 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,002,541	\$ 1,550,650
Grants receivable	330,027	463,420
Promises to give, net	6,312,925	7,268,292
Prepaid expenses and other assets	808,886	701,334
Property, leasehold improvements and equipment, net	<u>2,053,075</u>	<u>1,224,885</u>
Total assets	<u><u>\$ 10,507,454</u></u>	<u><u>\$ 11,208,581</u></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 347,493	\$ 481,500
Accrued payroll and other compensation	349,906	368,335
Line of credit	950,000	600,000
Obligations under capital leases	4,303	33,590
Deferred revenue	<u>150,000</u>	<u>--</u>
Total liabilities	<u><u>1,801,702</u></u>	<u><u>1,483,425</u></u>
<b>Commitments (Note 10)</b>		
<b>Net assets</b>		
Unrestricted	(132,049)	1,374,556
Temporarily restricted	<u>8,837,801</u>	<u>8,350,600</u>
Total net assets	<u><u>8,705,752</u></u>	<u><u>9,725,156</u></u>
Total liabilities and net assets	<u><u>\$ 10,507,454</u></u>	<u><u>\$ 11,208,581</u></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, 2011  
(With Summarized Totals for the Year Ended December 31, 2010)**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total 2011</b>	<b>Total 2010</b>
<b>Revenue and support</b>				
Contributions, grants, and sponsorships	\$ 3,177,466	\$ 4,805,159	\$ 7,982,625	\$ 14,553,432
Contributed goods and services	2,581,191	391,769	2,972,960	3,042,124
Donated assets	--	1,000,527	1,000,527	9,294
Other revenue	113,561	--	113,561	128,058
Net assets released from restrictions	<u>5,710,254</u>	<u>(5,710,254)</u>	<u>--</u>	<u>--</u>
Total revenue and support	<u>11,582,472</u>	<u>487,201</u>	<u>12,069,673</u>	<u>17,732,908</u>
<b>Expenses</b>				
Program services	<u>8,712,198</u>	--	<u>8,712,198</u>	<u>9,897,902</u>
Supporting services:				
General and administration	2,888,475	--	2,888,475	3,040,548
Fundraising	<u>1,488,404</u>	--	<u>1,488,404</u>	<u>1,295,354</u>
Total supporting services	<u>4,376,879</u>	--	<u>4,376,879</u>	<u>4,335,902</u>
Total expenses	<u>13,089,077</u>	--	<u>13,089,077</u>	<u>14,233,804</u>
Change in net assets	(1,506,605)	487,201	(1,019,404)	3,499,104
Net assets at the beginning of the year	<u>1,374,556</u>	<u>8,350,600</u>	<u>9,725,156</u>	<u>6,226,052</u>
Net assets at the end of the year	<u>\$ (132,049)</u>	<u>\$ 8,837,801</u>	<u>\$ 8,705,752</u>	<u>\$ 9,725,156</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, 2011  
(With Summarized Totals for the Year Ended December 31, 2010)**

	Program Services	Supporting Service			Total Expenses		
		Management and General	Fund Raising	Total Supporting Service	2011	2010	
Printing	\$ 76,311	\$ 59,773	\$ 21,536	\$ 81,309	\$ 157,620	\$ 73,824	
Communications	187,592	43,106	49,199	92,305	279,897	285,099	
Computer expense	33,100	89,411	12,312	101,723	134,823	165,924	
Contract labor	--	54,034	20,826	74,860	74,860	59,199	
Donations	--	9,850	29,095	38,945	38,945	42,176	
Equipment rental and purchase	30,108	77,377	20,685	98,062	128,170	119,728	
Program and event expenses	196,006	525	13,859	14,384	210,390	195,698	
Insurance	81,443	57,034	12,056	69,090	150,533	96,982	
Mileage and parking	74,855	26,522	18,927	45,449	120,304	128,770	
Office services and supplies	49,201	44,801	30,576	75,377	124,578	159,448	
Other expenses	112,770	35,983	31,183	67,166	179,936	182,436	
Payroll taxes	281,868	84,702	54,483	139,185	421,053	443,288	
Postage	40,171	32,890	35,677	68,567	108,738	146,412	
Professional fees	81,772	215,747	7,714	223,461	305,233	407,038	
Public relations	42,782	50,072	7,381	57,453	100,235	124,305	
Renovation	--	--	--	--	--	418	
Rent	594,007	98,264	60,785	159,049	753,056	897,501	
Repairs and maintenance	51,539	7,410	831	8,241	59,780	73,006	
Salaries and benefits	4,187,747	1,146,236	822,166	1,968,402	6,156,149	6,424,299	
Travel and entertainment	183,727	9,475	230,309	239,784	423,511	607,804	
Total expenses before depreciation and amortization, in-kind, and interest	6,304,999	2,143,212	1,479,600	3,622,812	9,927,811	10,633,355	
Depreciation and amortization	238,918	106,901	6,236	113,137	352,055	557,867	
In-kind							
Advertising	656,885	65,601	--	65,601	722,486	647,729	
Equipment usage	--	--	--	--	--	3,050	
Professional services	1,083,795	392,290	2,568	394,858	1,478,653	2,110,902	
Program service expense	61,572	25,759	--	25,759	87,331	17,637	
Rent	366,029	92,410	--	92,410	458,439	230,879	
Interest expense	--	62,302	--	62,302	62,302	32,385	
Total expenses	\$ 8,712,198	\$ 2,888,475	\$ 1,488,404	\$ 4,376,879	\$ 13,089,077	\$ 14,233,804	

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, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ (1,019,404)	\$ 3,499,104
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization expense	352,055	557,867
Increase in provision for uncollectible promises to give	12,204	92,079
Increase (decrease) in discount on unconditional promises to give	(65,327)	53,517
Donated assets	(1,000,527)	(9,294)
Decrease (increase) in:		
Grants receivable	133,393	(12,128)
Promises to give, net	1,008,490	(6,125,362)
Prepaid expenses and other assets	(107,552)	18,266
Increase (decrease) in:		
Accounts payable and accrued liabilities	(134,007)	222,093
Accrued payroll and other compensation	(18,429)	70,648
Deferred revenue	<u>150.000</u>	<u>--</u>
Net cash used in operating activities	<u>(689,104)</u>	<u>(1,633,210)</u>
<b>Cash Flows Used In Investing Activities</b>		
Purchases of property and equipment	<u>(179,718)</u>	<u>(518,360)</u>
<b>Cash Flows From Financing Activities</b>		
Net borrowings on line of credit	350,000	600,000
Payments on obligations under capital leases	<u>(29,287)</u>	<u>(47,983)</u>
Net cash provided by financing activities	<u>320,713</u>	<u>552,017</u>
Net decrease in cash and cash equivalents	<u>(548,109)</u>	<u>(1,599,553)</u>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>1,550,650</u>	<u>3,150,203</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 1,002,541</u>	<u>\$ 1,550,650</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for interest	<u>\$ 62,302</u>	<u>\$ 32,385</u>

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

**Operation HOPE, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2011 and 2010**

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**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, Florida, 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 and Entrepreneur Education.

Hope Advisors LLC, a wholly-owned subsidiary of Operation HOPE, Inc., was formed in 2007 to provide consulting services to organizations regarding joint ventures. Hope Advisors LLC had no operations during the years ended December 31, 2011 and 2010, and held no assets nor had any liabilities as of December 31, 2011 and 2010.

**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, 2011 and 2010**

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**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, 2010, 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, 2011 and 2010, HOPE had no permanently restricted net assets.

**Operation HOPE, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2011 and 2010**

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**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, 2011 and 2010**

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**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 2011 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, 2011 and 2010, 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, 2011 and 2010**

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**Note 2. Summary of Significant Accounting Policies (Continued)**

***Deferred Revenue***

Grant revenue paid to HOPE in advance is recorded as deferred revenue. Such revenue will be recognized in the period expenditures are incurred.

***Contributed Goods and Services***

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

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

During the years ended December 31, 2011 and 2010, 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 \$2,972,960 and \$3,042,124 for the years ended December 31, 2011 and 2010, respectively.

***Advertising Costs***

Advertising costs are expensed as incurred. Total advertising expenses amounted to \$722,486 and \$647,729 for the years ended December 31, 2011 and 2010, respectively. All advertising expenses were from in-kind contributions.

***Functional Allocation of Expenses***

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

***Income Taxes***

HOPE is a nonprofit organization qualifying under Section 501(c)(3) of the Internal Revenue Code and corresponding California provisions. As such, except for taxes pertaining to unrelated business income, HOPE is exempt from federal and state income taxes. No provision has been made for income taxes as HOPE had no unrelated business income. HOPE is not considered a private foundation. HOPE believes that it has appropriate support for any tax provision taken and, as such, does not have any uncertain tax positions that would require recognition or disclosure at December 31, 2011.

**Operation HOPE, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2011 and 2010**

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**Note 3. Promises to Give**

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

	2011	2010
Within one year	\$ 3,708,104	\$ 4,080,777
Within two to five years	<u>2,870,538</u>	<u>3,506,355</u>
	6,578,642	7,587,132
Less discount to reflect contributions receivable at present value	(87,711)	(153,038)
Less allowance for uncollectible pledges	<u>(178,006)</u>	<u>(165,802)</u>
	<u><u>\$ 6,312,925</u></u>	<u><u>\$ 7,268,292</u></u>

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

	2011	2010
US Bancorp - U.S. Bank	\$ 780,000	\$ 1,240,000
E*Trade	2,000,000	1,680,000
Bank of the West	906,800	150,000
The First American Corporation	--	525,000
Union Bank	300,000	400,000
Capital One	--	25,000
Transunion	--	30,270
Core Logic	225,000	--
LPL Financial	<u>600,000</u>	<u>--</u>
	<u><u>\$ 4,811,800</u></u>	<u><u>\$ 4,050,270</u></u>

**Note 4. Prepaid Expenses and Other Assets**

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

	2011	2010
Prepaid insurance and other expenses	\$ 82,833	\$ 80,449
Travel advances to employees	5,500	5,500
Employee loan receivable	67	470
Prepaid rent and program services		
contributions receivable	661,852	563,293
Deposit	<u>58,634</u>	<u>51,622</u>
	<u><u>\$ 808,886</u></u>	<u><u>\$ 701,334</u></u>

**Operation HOPE, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2011 and 2010**

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**Note 4. Prepaid Expenses and Other Assets (Continued)**

HOPE received in-kind contributions for the use of buildings for HOPE programs through 2014. HOPE has recorded these in-kind contributions as prepaid rent and amortizes annually over the life of the rent. The amount of amortized in-kind rent expenses are \$172,034 and \$133,195 for 2011 and 2010, respectively.

**Note 5. Property and Equipment**

Property and equipment consisted of the following at December 31:

	2011	2010
Leasehold improvements	\$ 1,489,190	\$ 1,482,201
Furniture and fixtures	106,947	106,949
Computer equipment	<u>3,318,537</u>	<u>2,145,279</u>
	4,914,674	3,734,429
Less accumulated depreciation and amortization	<u>(2,861,599)</u>	<u>(2,509,544)</u>
	<u>\$ 2,053,075</u>	<u>\$ 1,224,885</u>

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 amounted to \$352,055 and \$557,867, respectively.

**Note 6. Line of Credit and Subsequent Event**

HOPE had a revolving line of credit agreement (the Agreement) with a bank. The Agreement provided for maximum borrowings up to \$1,100,000. The line carried a variable interest rate at the bank's reference rate (3.25% at December 31, 2011) plus 2% with interest rate floor at 6.00%. Interest was payable on a monthly basis. The outstanding balance was \$950,000 and \$600,000 as of December 31, 2011 and 2010, respectively. Interest expense on the line of credit was \$57,996 and \$26,312 for the years ended December 31, 2011 and 2010, respectively. All borrowings under the Agreement were collateralized by all the property and assets of HOPE and the assignment of the life insurance policy on the life of HOPE's Chief Executive Officer. The line of credit expired January 10, 2012.

**Operation HOPE, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2011 and 2010**

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**Note 6. Line of Credit and Subsequent Event (Continued)**

The Agreement contained various covenants, conditions and restrictions including, but not limited to, maintenance of debt service coverage ratio. A certain covenant had not been met and the bank has waived such noncompliance as of December 31, 2011.

Subsequent to December 31, 2011, HOPE entered into a new revolving line of credit agreement (the New Agreement) with a bank. The New Agreement provides for maximum borrowings up to \$1,100,000. The line carries a variable interest rate at the bank's reference rate (3.25% at December 31, 2011) plus 1% with interest rate floor at 4.25%. Interest is payable on a monthly basis. The New Agreement expires on March 5, 2013. All borrowings under the New Agreement are collateralized by all the property and assets of HOPE.

**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, 2011 and 2010. Accumulated amortization of the leased furniture and equipment at December 31, 2011 and 2010 was \$110,007 and \$87,441. 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, 2011 are as follows:

Year Ending December 31, 2012	\$ 5,532
Less amount representing interest	<u>(1,229)</u>
Present value of net minimum lease payments	4,303
Less current maturities of capital lease obligations	<u>(4,303)</u>
Long-term capital lease obligations	\$ --

**Operation HOPE, Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2011 and 2010**

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**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:

	2011	2010
Educational services	\$ 150,470	\$ 651,326
HOPE coalition	447,570	1,391,279
Call center	370,951	370,951
HOPE centers	5,446,931	4,529,552
South Africa	185,262	408,933
Research and assessment	445,706	--
Passage of time	1,663,557	403,293
Other purposes	<u>127,354</u>	<u>595,266</u>
	<u><b>\$ 8,837,801</b></u>	<u><b>\$ 8,350,600</b></u>

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:

	2011	2010
Educational services	\$ 1,936,422	\$ 2,432,975
HOPE coalition	1,255,104	235,395
Call center	--	83,028
HOPE centers	1,682,316	1,784,411
South Africa	338,670	319,608
Special events	51,737	106,892
5MK	84,460	48,696
Research and assessment	106,191	--
Passage of time	132,034	390,196
Other purposes	<u>123,320</u>	<u>--</u>
	<u><b>\$ 5,710,254</b></u>	<u><b>\$ 5,401,201</b></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, 2011 and 2010 through the Federal Deposit Insurance Corporation. Total uninsured cash balance for the years ended December 31, 2011 and 2010 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.

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**Note 9. Concentration of Credit Risk (Continued)**

***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, 2011 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.

***Major Donors***

HOPE received \$4,348,700 from four donors, which represents approximately 36% of total revenue and support for the year ended December 31, 2011. Promises to give at December 31, 2011 included \$2,906,800 from these donors.

**Note 10. Commitments**

***Operating Leases***

At December 31, 2011, HOPE has leased under various noncancelable operating leases certain office equipment and office spaces expiring on various dates through January 2018. Certain leases require HOPE to pay its prorata share of operating expenses, insurance and property taxes. Some leases also require the annual rent to be adjusted according to the change in the Consumer Price Index. HOPE also has the option to extend the term of the lease for an additional five-year period upon the expiration date of some of the leases. Future minimum lease payments, by year and in the aggregate, required under noncancelable operation leases consist of the following:

Years Ending December 31,

2012	\$ 441,900
2013	447,900
2014	471,400
2015	455,400
2016	408,700
Thereafter	<u>240,000</u>
	<u>\$ 2,465,300</u>

Rent expense for the years ended December 31, 2011 and 2010 amounted to \$753,056 and \$897,501, respectively.

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**Note 10. Commitments (Continued)**

***Sublease Income***

HOPE subleased portions of two of its office spaces under noncancelable operating leases which expired September 30, 2011. The total rental income for the years ended December 31, 2011 and 2010 amounted to \$100,000 and \$78,388, respectively.

**Note 11. Employee Benefit Plan**

HOPE has a 401k plan (the Plan) which covers substantially all employees except for those who are members of a collective bargaining unit and non-resident aliens. Eligible employees must have completed 90 days of service. Employees may elect to make salary deferrals subject to the annual contribution limitation set by Internal Revenue Code. HOPE may make matching contributions that equal to a percentage of employees' salary deferrals determined annually. HOPE may also make additional discretionary contributions to the Plan on an annual basis. HOPE made contributions in the amount of \$37,181 and \$41,686 to the Plan during the years ended December 31, 2011 and 2010, 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.

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**Note 13. Fair Value Measurement (Continued)**

*Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

*Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Unconditional promises to give are measured using present value techniques that consider historical trends of collection, the type of donor and market rate assumptions. Unconditional promises to give are reported utilizing Level 2 inputs.

<u>Fair Value Measurements Using</u>				
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At December 31, 2011				
Promises to give, net	\$ <u>        </u> --	\$ <u>6,312,925</u>	\$ <u>        </u> --	\$ <u>6,312,925</u>
At December 31, 2010				
Promises to give, net	\$ <u>        </u> --	\$ <u>7,268,292</u>	\$ <u>        </u> --	\$ <u>7,268,292</u>

**Note 14. Subsequent Events**

Except as discussed in Note 6, management has evaluated and noted no subsequent events for recognition and disclosure through September 24, 2012, the date on which the financial statements were available to be issued.