

HOMES FOR HOPE

***CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

DECEMBER 31, 2017 AND 2016

HOMES FOR HOPE

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
 FINANCIAL STATEMENTS	
<i>Consolidated Statements of Financial Position,</i> December 31, 2017 and 2016	2
<i>Consolidated Statements of Activities and Changes in Net Assets,</i> Years ended December 31, 2017 and 2016	3
<i>Consolidated Statements of Functional Expenses,</i> Years ended December 31, 2017 and 2016	4
<i>Consolidated Statements of Cash Flows,</i> Years ended December 31, 2017 and 2016	5
<i>Notes to Consolidated Financial Statements</i>	6

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**Board of Directors
Homes for Hope
Lancaster, Pennsylvania**

We have audited the accompanying consolidated financial statements of Homes for Hope (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Homes for Hope as of December 31, 2017 and 2016, 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.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
June 22, 2018**

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2017 And 2016

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 296,596	\$ 842,948
Pledges receivable	-	35,000
Land and building held for sale	-	260,343
Prepaid expenses and other current assets	1,045	341
Loan receivable	-	<u>657,034</u>
Total Current Assets	<u>297,641</u>	1,795,666
NONCURRENT ASSETS		
Noncontrolling interest in net assets	207,524	147,524
Loan receivable	<u>567,086</u>	-
Total Assets	<u><u>\$ 1,072,251</u></u>	<u><u>\$ 1,943,190</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 100,960	\$ 30,859
Grant payable	-	663,248
Notes payable	-	<u>235,721</u>
Total Current Liabilities	<u>100,960</u>	<u>929,828</u>
NET ASSETS		
Unrestricted	<u>971,291</u>	<u>1,013,362</u>
Total Liabilities and Net Assets	<u><u>\$ 1,072,251</u></u>	<u><u>\$ 1,943,190</u></u>

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Years Ended December 31, 2017 And 2016

	<u>2017</u>	<u>2016</u>
SUPPORT AND REVENUE		
Contributions	\$ 1,152,107	\$ 685,083
Interest	<u>11,725</u>	<u>12,967</u>
Total support and revenue	<u>1,163,832</u>	<u>698,050</u>
FUNCTIONAL EXPENSES		
Program services	1,025,125	691,364
Management and general	93,595	84,039
Fundraising	<u>87,183</u>	<u>103,373</u>
Total expenses	<u>1,205,903</u>	<u>878,776</u>
CHANGES IN NET ASSETS	(42,071)	(180,726)
NET ASSETS		
Beginning of year	<u>1,013,362</u>	<u>1,194,088</u>
End of year	<u>\$ 971,291</u>	<u>\$ 1,013,362</u>

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For Years Ended December 31, 2017 And 2016

	December 31, 2017			
	Management			
	Program Services	And General	Fundraising	Total
Salaries	\$ 9,953	\$24,884	\$64,697	\$ 99,534
Payroll taxes	646	2,188	4,196	7,030
Employee benefits	1,377	3,615	8,947	13,939
Other staff expenses	716	747	1,669	3,132
Insurance	-	2,024	509	2,533
Professional services	-	39,322	-	39,322
Office	97	17,400	1,679	19,176
Travel	7,207	1,002	-	8,209
Donor relations	2,994	854	2,184	6,032
Printing and reproduction	1,044	-	-	1,044
Dues and subscriptions	1,020	674	1,721	3,415
Bank fees	-	731	99	830
Other	71	154	1,482	1,707
Grants to partner	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>1,000,000</u>
	<u>\$1,025,125</u>	<u>\$93,595</u>	<u>\$87,183</u>	<u>\$1,205,903</u>

	December 31, 2016			
	Management			
	Program Services	And General	Fundraising	Total
Salaries	\$ 10,767	\$26,916	\$ 69,983	\$ 107,666
Payroll taxes	858	2,882	5,576	9,316
Employee benefits	1,197	3,938	7,752	12,887
Other staff expenses	1,973	246	563	2,782
Insurance	-	2,015	509	2,524
Professional services	-	25,517	-	25,517
Office	247	17,108	2,324	19,679
Travel	8,413	194	6,766	15,373
Donor relations	1,780	4,284	6,241	12,305
Printing and reproduction	1,657	83	6	1,746
Dues and subscriptions	1,018	405	1,278	2,701
Bank fees	-	364	-	364
Other	206	87	2,375	2,668
Grants to partner	<u>663,248</u>	<u>-</u>	<u>-</u>	<u>663,248</u>
	<u>\$691,364</u>	<u>\$84,039</u>	<u>\$103,373</u>	<u>\$878,776</u>

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2017 And 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (42,071)	\$(180,726)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
(Increase) decrease in operating assets		
Prepaid expenses and other current assets	(704)	15,261
Pledges receivable	35,000	116,411
(Decrease) increase in operating liabilities		
Accounts payable and accrued expense	70,101	(85,852)
Grant payable	<u>(663,248)</u>	<u>663,248</u>
Net cash (used in) provided by operating activities	<u>(600,922)</u>	<u>528,342</u>
INVESTING ACTIVITIES		
Investment in noncontrolling interest in net assets	(60,000)	-
Reimbursement of capitalized cost of land and building held for sale	311,773	-
Purchase of land and building held for sale	(51,430)	(49,309)
Repayment of loan receivable	<u>89,948</u>	<u>88,591</u>
Net cash provided by investing activities	<u>290,291</u>	<u>39,282</u>
FINANCING ACTIVITIES		
Advances/(repayments) on note payable, net	<u>(235,721)</u>	<u>41,340</u>
Net cash (used in) provided by financing activities	<u>(235,721)</u>	<u>41,340</u>
Net (decrease) increase in cash and cash equivalents	(546,352)	608,964
CASH AND CASH EQUIVALENT		
Beginning of year	<u>842,948</u>	<u>233,984</u>
End of year	<u>\$ 296,596</u>	<u>\$ 842,948</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid and capitalized	<u>\$ 13,569</u>	<u>\$ 6,742</u>

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Years Ended December 31, 2017 And 2016

(1) NATURE OF ORGANIZATION

Homes for Hope (“H4H”), is a 501(c)(3) non-profit organization which works within the building industry forming partnerships with builders, their trade partners and other industry members, to generate financial resources through the construction of Homes for Hope projects. The funds support organizations which work to help alleviate physical and spiritual poverty in developing countries throughout the world. The consolidated financial statements include Homes for Hope’s wholly owned subsidiary, Dignity Builders, LLC. (“Dignity”). Dignity was established to invest in microfinance institutions (See Note 3).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of H4H have been prepared on the accrual basis of accounting. All material intercompany accounts and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

H4H considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

EQUIPMENT

Expenditures greater than \$3,000 for the acquisition of property and equipment are capitalized at cost, and donated property and equipment are capitalized at fair value.

NET ASSETS

H4H reports its resources, according to externally (donor) imposed restrictions, in the following categories:

Unrestricted net assets include the revenues and expenses associated with the principal purpose of H4H.

Temporarily restricted net assets include contributions for which donor-imposed restrictions have not been met.

As of June 30, 2017 and 2016, H4H has only unrestricted net assets.

INCOME TAXES

H4H is a non-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a).

H4H has reviewed the tax positions for each of the open years (2014 – 2016) or expected to be taken in H4H’s 2017 fiscal year end tax return and has concluded that there are not significant uncertain tax positions that would require recognition in the financial statements.

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For The Years Ended December 31, 2017 And 2016

CONTRIBUTIONS

H4H records unconditional promises to give (pledges) as a receivable and revenue when the pledge is received, net of the discount to present value the future cash flows and to recognize uncollectible receivables. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are then classified to unrestricted net assets and reported in the statement of activities as “*net assets released from restrictions*,” except for donor restricted contributions whose restrictions are met in the same period are reflected as unrestricted contributions. Contributions include in-kind contributions of rent for \$16,800 in 2017 and 2016. The corresponding expense is included in office expense.

FUNCTIONAL EXPENSE ALLOCATION

The costs of providing H4H’s various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services.

ACCOUNTING ESTIMATES

The preparation of the 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

CONCENTRATIONS OF CREDIT RISK

H4H occasionally maintains cash in banks in excess of federally insured limits. The accounting standards associated with concentration of credit risk identifies uninsured cash as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

(3) NONCONTROLLING INTEREST IN NET ASSETS

Dignity has a noncontrolling interest in HOPE Ukraine which is majority-owned by HOPE International, Inc. (“HOPE”) (See Note 5). As of December 31, 2017, and 2016, the noncontrolling interest in net assets carried at cost was \$207,524 and \$147,524, respectively. As a result of additional equity contributions in 2017, Dignity’s ownership interest increased from 7.69% to 9.53% and its proportionate share of equity based on ownership interest of 9.51% and 7.69% as of December 31, 2017 and 2016, respectively, was approximately \$154,000 and \$100,000.

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For The Years Ended December 31, 2017 And 2016

(4) RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, H4H received a stock donation in the amount of \$1,500,000 from a supporting organization of which H4H is one of a number of possible designated organizations. The stock donated was shares of a corporation owned by a person who is both a Board of Director of H4H and the supporting organization.

In conjunction with the stock donation, the aforementioned Board of Director purchased the donated stock for \$1,500,000 and entered into a loan agreement (*“Note”*) with H4H in the amount of \$1,500,000. Interest on the loan is at an interest rate of 1.53% and is due annually on December 31 until the principal and any accrued interest is paid in full. The loan is collateralized by the shares of stock sold. The loan was extended to January 20, 2021. The outstanding amount due on the Note was \$567,086 and \$657,034 at December 31, 2017 and 2016, respectively.

H4H and a builder had an agreement in which H4H acquired land and provided financing to a company owned by a Board of Director so that the company could construct a home in which the net proceeds were donated to H4H. H4H had entered into a note payable on July 3, 2014 for \$47,000 for the purchase of land. The cost of the land included in land and building held for sale in the consolidated statements of financial position was \$58,746 as of December 31, 2016. Commencing on July 3, 2015, the interest rate was 7.5% and principal and accrued interest was payable on demand.

In connection with the land purchase, H4H entered into a construction agreement in the amount of \$220,000 with the company. H4H utilized a line of credit from a bank in the amount of \$200,400 to finance the construction. The home construction was completed and the home was sold during 2017. The capitalized cost of the home and land was \$311,773 at the date of the sale. H4H received \$360,000 of proceeds from the sale of the home which was used to repay both the line of credit and the note payable for the land. H4H realized a gain of \$48,227 on the sale of the home which is included within unrestricted contributions in the statement of activities for the year ended December 31, 2017. The line of credit to finance the construction was closed upon repayment of the construction loan.

During the year ended December 31, 2017 and 2016, H4H received contributions of approximately \$568,000 and \$335,000, respectively, primarily from companies whose officers are members of the Board of Directors of H4H.

During the years ended December 31, 2017 and 2016, H4H awarded grants in the amount of \$1,000,000 and \$663,248, respectively, to HOPE, a related non-profit organization of which two Board of Directors of H4H serve as the Chairman of the Board of Directors and President of HOPE. HOPE has a separate Board of Directors which does not control H4H. At December 31, 2016, the awarded grants of \$663,248 were reflected as grant payable in the statement of financial position. In addition, H4H received administrative services, which are included in professional services expense, from HOPE in the amount of \$22,947 during the years ended December 31, 2017 and 2016. The administrative services and other payable to HOPE of \$78,395 and \$22,947 are included in accounts payable and accrued expenses as of December 31, 2017 and 2016, respectively.

Dignity received a contribution of \$60,000 from Hope to be used as an equity contribution for HOPE Ukraine.

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For The Years Ended December 31, 2017 And 2016

(5) SUBSEQUENT EVENTS

Subsequent events after the balance sheet through the date that the financial statements were available for issuance, June 22, 2018, have been evaluated in the preparation of the financial statements and management has determined that there are no subsequent events that would require disclosure or adjustment to the financial statements.