

HOMES FOR HOPE

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

DECEMBER 31, 2018 AND 2017

HOMES FOR HOPE

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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, 2018 and 2017, 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, 2018 and 2017, 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
August 5, 2019**

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 And 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 208,173	\$ 296,596
Land held for sale	82,300	-
Prepaid expenses and other current assets	<u>8,937</u>	<u>1,045</u>
Total Current Assets	299,410	297,641
NONCURRENT ASSETS		
Noncontrolling interest in net assets	223,524	207,524
Loan receivable	<u>3,445,763</u>	<u>567,086</u>
Total Assets	<u>\$ 3,968,697</u>	<u>\$ 1,072,251</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	<u>\$ 10,516</u>	<u>\$ 100,960</u>
Total Current Liabilities	<u>10,516</u>	<u>100,960</u>
NET ASSETS		
Without donor restrictions	<u>3,958,181</u>	<u>971,291</u>
Total Liabilities and Net Assets	<u>\$ 3,968,697</u>	<u>\$ 1,072,251</u>

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Years Ended December 31, 2018 And 2017

	<u>2018</u>	<u>2017</u>
SUPPORT AND REVENUE		
Contributions	\$3,908,029	\$ 1,152,107
Interest	<u>10,384</u>	<u>11,725</u>
Total support and revenue	<u>3,918,413</u>	<u>1,163,832</u>
FUNCTIONAL EXPENSES		
Program services	736,670	1,025,125
Management and general	100,724	93,595
Fundraising	<u>94,129</u>	<u>87,183</u>
Total expenses	<u>931,523</u>	<u>1,205,903</u>
CHANGES IN NET ASSETS	2,986,890	(42,071)
NET ASSETS		
Beginning of year	<u>971,291</u>	<u>1,013,362</u>
End of year	<u>\$3,958,181</u>	<u>\$ 971,291</u>

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For Years Ended December 31, 2018 And 2017

	December 31, 2018			
	Program	Management	Fundraising	Total
	Services	And		
		General		
Salaries	\$ 8,711	\$ 21,778	\$56,624	\$ 87,113
Payroll taxes	778	2,491	5,055	8,324
Employee benefits	1,482	4,134	9,635	15,251
Other staff expenses	518	187	323	1,028
Insurance	-	2,029	509	2,538
Professional services	-	44,276	15	44,291
Office	-	16,942	1,770	18,712
Travel	10,371	1,608	1,904	13,883
Donor relations	4,021	5,305	13,756	23,082
Printing and reproduction	163	-	1,202	1,365
Dues and subscriptions	581	723	1,209	2,513
Bank fees	-	1,179	36	1,215
Other	45	72	2,091	2,208
Grants to partner	<u>710,000</u>	<u>-</u>	<u>-</u>	<u>710,000</u>
	<u>\$736,670</u>	<u>\$100,724</u>	<u>\$94,129</u>	<u>\$ 931,523</u>

	December 31, 2017			
	Program	Management	Fundraising	Total
	Services	And		
		General		
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>

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

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2018 And 2017

	<u>2018</u>	<u>2017</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 2,986,890	\$ (42,071)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
(Increase) decrease in operating assets		
Prepaid expenses and other current assets	(7,892)	(704)
Pledges receivable	-	35,000
(Decrease) increase in operating liabilities		
Accounts payable and accrued expense	(90,444)	70,101
Grant payable	-	(663,248)
Net cash provided by (used in) operating activities	<u>2,888,554</u>	<u>(600,922)</u>
INVESTING ACTIVITIES		
Investment in noncontrolling interest in net assets	(16,000)	(60,000)
Reimbursement of capitalized cost of land and building held for sale	-	311,773
Donation of land and building held for sale	(82,300)	-
Purchase of land and building held for sale	-	(51,430)
Donation of loan receivable	(3,000,000)	-
Repayment of loan receivable	<u>121,323</u>	<u>89,948</u>
Net cash (used in) provided by investing activities	<u>(2,976,977)</u>	<u>290,291</u>
FINANCING ACTIVITIES		
Advances/(repayments) on note payable, net	<u>-</u>	<u>(235,721)</u>
Net cash used in financing activities	<u>-</u>	<u>(235,721)</u>
Net decrease in cash and cash equivalents	(88,423)	(546,352)
CASH AND CASH EQUIVALENT		
Beginning of year	<u>296,596</u>	<u>842,948</u>
End of year	<u>\$ 208,173</u>	<u>\$ 296,596</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid and capitalized	<u>\$ -</u>	<u>\$ 13,569</u>

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Years Ended December 31, 2018 And 2017

(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 H4H’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:

Net assets without donor restrictions include the revenues and expenses associated with the principal purpose of H4H.

Net assets with donor restrictions include contributions for which donor-imposed restrictions have not been met.

As of December 31, 2018 and 2017, H4H has only net assets without donor restrictions

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 (2015 – 2017) or expected to be taken in H4H’s 2018 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, 2018 And 2017

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, net assets with donor restrictions are then classified to net assets without donor restrictions 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 2018 and 2017. 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.

NEW ACCOUNTING PRONOUNCEMENT

On August 18, 2016, the FASB issued Accounting Standards Update ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update addressed the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. The main provisions of this guidance include the presentation of two classes of net assets versus the previously required three. This guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification. The ASU is effective for years beginning after December 15, 2017 and was adopted by H4H for the year ended December 31, 2018. The adoption of the ASU had no impact on these financial statements.

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For The Years Ended December 31, 2018 And 2017

NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and determining whether a transaction is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. The ASU should be applied using a modified prospective basis. H4H plans to adopt the new ASU at the required implementation date.

(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 4). As of December 31, 2018, and 2017, the noncontrolling interest in net assets carried at cost was \$223,524 and \$207,524, respectively. As a result of additional equity contributions in 2018, Dignity’s ownership interest decreased from 9.53% to 9.06% and its proportionate share of equity based on ownership interest of 9.06% and 9.53% as of December 31, 2018 and 2017, respectively, was approximately \$178,000 and \$154,000.

(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 \$445,763 and \$567,086 at December 31, 2018 and 2017, respectively.

On December 31, 2018, H4H received another secured promissory note from the Board of Director disclosed previously. The note is for \$3,000,000 with an interest rate of the one-month LIBOR rate plus 3.5%. The interest is payable in arrears on the first day of each calendar quarter, commencing April 1, 2019 and continuing until the entire note is paid in full. The original principal balance is payable from time to time upon settlement for the sale of building lots which are part of the secured mortgaged property. Upon the settlement of each building lot, \$18,182 shall be payable. Regardless of the sale of the building lots the entire principal balance of the note is due December 31, 2025. The building lots will be developed by a company in which the owner is the aforementioned Board of Director of H4H.

As of December 31, 2018, land held for resale of \$82,300 represents the value of donated land received in 2018 from a company 50% owned by a Board of Director of H4H. The purpose of the donation is for a homebuilder to construct and sell an H4H project with the net proceeds being donated to H4H.

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For The Years Ended December 31, 2018 And 2017

In connection with a land purchase, H4H had entered into a construction agreement in the amount of \$220,000 with the company. H4H had 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 contributions without donor restrictions 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 in 2017.

During the year ended December 31, 2018 and 2017, H4H received contributions of approximately \$3,519,490, including the \$3,000,000 loan receivable discussed above, and \$568,000, respectively, primarily from companies whose officers are members of the Board of Directors of H4H.

During the years ended December 31, 2018 and 2017, H4H awarded grants in the amount of \$710,000 and \$1,000,000, 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 both 2018 and 2017, H4H received administrative services, which are included in professional services expense, from HOPE in the amount of \$22,947. As of December 31, 2018, H4H has a receivable from HOPE of \$7,578, included in prepaid expenses and other current assets in the statement of financial position. The receivable reflects H4H donations received by Hope net of administrative expenses incurred by HOPE on behalf of H4H. As of December 31, 2017, administrative services and other payables to HOPE of \$78,395 are included in accounts payable and accrued expenses in the statement of financial position.

Dignity received contributions of \$16,000 and \$60,000 during the years ended December 31, 2018 and 2017, respectively from HOPE to be used as an equity contribution for HOPE Ukraine.

(5) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

H4H strives to maintain liquid financial assets to be available as its general expenditures, liabilities and other obligations become due. Financial assets in excess of daily cash requirements are invested in money market funds.

The following table reflects the H4H's financial assets as of December 31, 2018:

	<u>2018</u>
Financial Assets:	
Cash and cash equivalents	\$ 208,173
Accounts receivable	<u> 7,578</u>
Financial assets available to meet current obligations	<u>\$215,751</u>

(6) SUBSEQUENT EVENTS

Subsequent events after the balance sheet through the date that the financial statements were available for issuance, August 5, 2019, 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.