

HOMES FOR HOPE

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

DECEMBER 31, 2020 AND 2019

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, 2020 and 2019, 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, 2020 and 2019, 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 30, 2021**

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2020 And 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 263,989	\$ 188,229
Receivables		
Pledges	300,853	7,500
Interest	27,569	40,008
Other	10,037	-
Prepaid expenses	1,482	2,153
Land held for resale	82,300	82,300
Loan receivable	<u>175,691</u>	<u>-</u>
Total Current Assets	861,921	320,190
NONCURRENT ASSETS		
Investment in microfinance institution	273,564	273,564
Loan receivable	<u>3,000,000</u>	<u>3,320,783</u>
Total Assets	<u>\$4,135,485</u>	<u>\$3,914,537</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 7,156	\$ 6,576
Line of credit	3,500	-
Grants payable	<u>-</u>	<u>400,000</u>
Total Current Liabilities	<u>10,656</u>	<u>406,576</u>
NET ASSETS		
Without donor restrictions	<u>4,124,829</u>	<u>3,507,961</u>
Total Liabilities and Net Assets	<u>\$4,135,485</u>	<u>\$3,914,537</u>

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Years Ended December 31, 2020 And 2019

	<u>2020</u>	<u>2019</u>
SUPPORT AND REVENUE		
Contributions and grants	\$1,911,043	\$ 898,627
Interest	<u>127,969</u>	<u>182,143</u>
Total support and revenue	<u>2,039,012</u>	<u>1,080,770</u>
FUNCTIONAL EXPENSES		
Program services	1,216,560	1,312,361
Management and general	94,235	100,962
Fundraising	<u>111,349</u>	<u>117,667</u>
Total expenses	<u>1,422,144</u>	<u>1,530,990</u>
CHANGES IN NET ASSETS	616,868	(450,220)
NET ASSETS		
Beginning of year	<u>3,507,961</u>	<u>3,958,181</u>
End of year	<u>\$4,124,829</u>	<u>\$3,507,961</u>

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For Years Ended December 31, 2020 And 2019

	December 31, 2020			
	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Services</u>	<u>And</u>		
		<u>General</u>		
Salaries	\$ 10,909	\$ 32,114	\$ 70,909	\$ 113,932
Payroll taxes	767	2,545	4,986	8,298
Employee benefits	3,237	5,372	21,040	29,649
Other staff expenses	-	1,450	766	2,216
Insurance	-	2,743	527	3,270
Professional services	-	38,197	-	38,197
Office	100	3,112	1,503	4,715
Travel	-	1,164	1,637	2,801
Donor relations	1,547	196	7,843	9,586
Printing and reproduction	-	31	179	210
Dues and subscriptions	-	877	-	877
Bank fees	-	5,708	4	5,712
Other	-	726	1,955	2,681
Grants to partner	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>1,200,000</u>
	<u>\$ 1,216,560</u>	<u>\$ 94,235</u>	<u>\$ 111,349</u>	<u>\$ 1,422,144</u>

	December 31, 2019			
	<u>Program</u>	<u>Management</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Services</u>	<u>And</u>		
		<u>General</u>		
Salaries	\$ 9,507	\$ 24,177	\$ 61,798	\$ 95,482
Payroll taxes	750	2,425	4,872	8,047
Employee benefits	1,997	11,054	12,978	26,029
Other staff expenses	-	686	635	1,321
Insurance	-	2,029	509	2,538
Professional services	-	40,597	-	40,597
Office	107	14,474	2,271	16,852
Travel	-	1,639	13,859	15,498
Donor relations	-	437	16,629	17,066
Printing and reproduction	-	-	594	594
Dues and subscriptions	-	402	1,839	2,241
Bank fees	-	876	12	888
Other	-	2,166	1,671	3,837
Grants to partner	<u>1,300,000</u>	<u>-</u>	<u>-</u>	<u>1,300,000</u>
	<u>\$ 1,312,361</u>	<u>\$ 100,962</u>	<u>\$ 117,667</u>	<u>\$ 1,530,990</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, 2020 And 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 616,868	\$(450,220)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
(Increase) decrease in operating assets		
Receivables	(290,951)	(39,930)
Prepaid expenses	671	(794)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expense	580	(3,940)
Grants payable	<u>(400,000)</u>	<u>400,000</u>
Net cash used in operating activities	<u>(72,832)</u>	<u>(94,884)</u>
INVESTING ACTIVITIES		
Investment in microfinance institution	-	(50,040)
Repayment of loan receivable	<u>145,092</u>	<u>124,980</u>
Net cash provided by investing activities	<u>145,092</u>	<u>74,940</u>
FINANCING ACTIVITIES		
Advance from line of credit, net	<u>3,500</u>	-
Net cash provided by financing activities	<u>3,500</u>	-
Net increase (decrease) in cash and cash equivalents	75,760	(19,944)
CASH AND CASH EQUIVALENT		
Beginning of year	<u>188,229</u>	<u>208,173</u>
End of year	<u>\$ 263,989</u>	<u>\$ 188,229</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 10</u>	<u>\$ -</u>

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Years Ended December 31, 2020 And 2019

(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 4).

(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, 2020 and 2019, 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 (2017 – 2019) or expected to be taken in H4H’s 2020 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, 2020 And 2019

CONTRIBUTIONS

Cash contributions are recorded as revenue when received. 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 from a related party for 2020 and 2019 were \$2,400 and \$14,000, respectively. The corresponding expense is included in office expense.

FUNCTIONAL EXPENSE ALLOCATION

The costs of providing H4H’s program and supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program and supporting services. Costs are directly charged to a specific activity when the costs pertain solely to such activity. Salaries have been allocated to program and supporting services based on level of effort attributable to program and supporting services. Certain salary related and other operating expenses have been allocated based on salaries incurred by program 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.

RECLASSIFICATION

Certain account balances in the 2019 financial statements have been reclassified to conform to the 2020 financial statement presentation.

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For The Years Ended December 31, 2020 And 2019

(3) LINE OF CREDIT

H4H entered into a construction agreement in the amount not to exceed \$325,000 with a builder to construct a home which will ultimately be sold. During 2020, H4H executed a construction line of credit from a bank in the amount of \$325,000 to finance the construction. As of December 31, 2020, there were no capitalized construction cost related to this project. This home construction project will be built on the donated land that is reflected as Land Held for Resale (**Note 5**). Outstanding principal on the construction line of credit is owed by H4H and accrues interest at the Bank's prime rate (effective interest rate at December 31, 2020 was 3.25%) and is due on demand. The outstanding balance on the construction line of credit as of December 31, 2020 was \$3,500. Upon the sale of the home, H4H will pay-off the line of credit and the net proceeds will be retained by H4H.

(4) INVESTMENT IN MICROFINANCE INSTITUTION

Dignity has a noncontrolling interest in HOPE Ukraine, a microfinance institution, which is majority-owned by HOPE International, Inc. ("**HOPE**") (**See Note 5**). As of December 31, 2020 and 2019, the investment in microfinance institution carried at cost was \$273,564. During 2020, HOPE made an equity contribution and as a result Dignity's ownership interest decreased from 9.81% to 9.57%. As a result of additional equity contributions by Dignity in 2019, Dignity's ownership interest increased from 9.06% to 9.81%. H4H's proportionate share of equity based on ownership interest of 9.57% and 9.81% as of December 31, 2020 and 2019, respectively, was approximately \$219,000 and \$256,000.

(5) 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. Effective January 20, 2021, the Note is due on demand. The outstanding amount due on the Note was \$175,691 and \$320,783 at December 31, 2020 and 2019, respectively. During 2020 and 2019, interest earned on this note receivable was \$4,908 and \$6,821, 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 (165 building lots), \$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. During 2020 and 2019, H4H earned \$120,852 and \$171,742 of interest income on this note receivable which included an interest receivable balance of \$27,569 and \$40,008 as of December 31, 2020 and 2019, respectively. No payments were received on this outstanding loan balance for the years ended December 31, 2020 and 2019.

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For The Years Ended December 31, 2020 And 2019

As of December 31, 2020 and 2019, land held for resale of \$82,300 (**Note 3**) 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.

During the years ended December 31, 2020 and 2019, H4H received contributions of approximately \$654,576 and \$403,865, respectively, from companies whose officers are primarily members of the Board of Directors of H4H.

During the year ended December 31, 2019, H4H awarded grants in the amount of \$1,300,000 to HOPE, a related non-profit organization of which three Board of Directors of H4H serve as the Chairman of the Board of Directors, President and Chief Advancement Officer of HOPE. In connection with the grants awarded to HOPE, there was a grant payable of \$400,000 as of December 31, 2019. HOPE has a separate Board of Directors which does not control H4H. In both 2020 and 2019, H4H received administrative services, which are included in professional services expense, from HOPE in the amount of \$22,947. As of December 31, 2020 and 2019, payables to HOPE of \$3,144 and \$3,813, respectively, are included in accounts payable and accrued expenses in the statement of financial position.

Dignity received contributions of \$50,040 during the year ended December 31, 2019 from HOPE to be used as an equity contribution for HOPE Ukraine.

(6) COVID-19 AND PAYCHECK PROTECTION PROGRAM

In December 2019, a novel strain of the coronavirus (“COVID-19”) was reported. The extent of the impact of COVID-19 on H4H’s operational and financial performance will depend on future developments, including the duration and spread of the outbreak and the impact on H4H’s funders, donors, employees and vendors, all of which are uncertain and cannot be predicted.

In April 2020, H4H received \$21,577 from the federal Paycheck Protection Program (PPP). The PPP loan is designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Small Business Administration (SBA) forgives loans if all employees are kept on the payroll for a specific period of time and the money is used for certain allowable costs. Any amounts not forgiven at the end of the program period convert into a loan with 1% interest, payable over 24 months. The cash received under the PPP was recorded as a liability until H4H received forgiveness of the loan. In October 2020, forgiveness of the PPP loan was received from the SBA. For the year ended December 31, 2020, H4H recognized \$22,577, including \$1,000 received for a COVID-19 Economic Injury Disaster Loan Advance, as grant revenue.

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For The Years Ended December 31, 2020 And 2019

(7) 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 accounts.

The following table reflects the H4H's financial assets as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial Assets:		
Cash and cash equivalents	\$263,989	\$188,229
Receivables	338,459	47,508
Loan receivable	<u>175,691</u>	<u>-</u>
Financial assets available to meet current obligations	<u>\$778,139</u>	<u>\$235,737</u>

As part of H4H's liquidity management, it has a practice to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

(8) SUBSEQUENT EVENTS

Subsequent events after the balance sheet through the date that the financial statements were available for issuance, June 30, 2021, 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.