

HOMES FOR HOPE

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2021 AND 2020

HOMES FOR HOPE

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Opinion

We have audited the accompanying consolidated financial statements of Homes for HOPE (a non-profit organization) which comprise the statement of financial position as of December 31, 2021, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
August 8, 2022**

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2021 And 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 473,060	\$ 263,989
Receivables		
Pledges	269,050	300,853
Interest	27,136	27,569
Other	12,087	10,037
Prepaid expenses	1,420	1,482
Land held for resale	82,300	82,300
Loan receivable	<u>-</u>	<u>175,691</u>
Total Current Assets	865,053	861,921
NONCURRENT ASSETS		
Investment in microfinance institution	273,564	273,564
Loan receivable	<u>3,000,000</u>	<u>3,000,000</u>
Total Assets	<u>\$4,138,617</u>	<u>\$4,135,485</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 17,435	\$ 7,156
Line of credit	-	3,500
Grants payable	<u>215,000</u>	<u>-</u>
Total Current Liabilities	<u>232,435</u>	<u>10,656</u>
NET ASSETS		
Without donor restrictions	<u>3,906,182</u>	<u>4,124,829</u>
Total Liabilities and Net Assets	<u>\$4,138,617</u>	<u>\$4,135,485</u>

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For The Years Ended December 31, 2021 And 2020

	<u>2021</u>	<u>2020</u>
SUPPORT AND REVENUE		
Contributions and grants	\$1,372,244	\$1,911,043
Interest	<u>111,565</u>	<u>127,969</u>
Total support and revenue	<u>1,483,809</u>	<u>2,039,012</u>
FUNCTIONAL EXPENSES		
Program services	1,467,945	1,216,560
Management and general	89,953	94,235
Fundraising	<u>144,558</u>	<u>111,349</u>
Total expenses	<u>1,702,456</u>	<u>1,422,144</u>
CHANGES IN NET ASSETS	(218,647)	616,868
NET ASSETS		
Beginning of year	<u>4,124,829</u>	<u>3,507,961</u>
End of year	<u>\$3,906,182</u>	<u>\$4,124,829</u>

HOMES FOR HOPE

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For Years Ended December 31, 2021 And 2020

	December 31, 2021			
	<u>Program Services</u>	<u>Management And General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 11,598	\$ 29,011	\$ 75,389	\$ 115,998
Payroll taxes	839	2,648	5,451	8,938
Employee benefits	4,258	10,422	27,674	42,354
Other staff expenses	1,250	548	382	2,180
Insurance	-	2,511	523	3,034
Professional services	-	34,597	-	34,597
Office	-	2,426	681	3,107
Travel	-	-	6,843	6,843
Donor relations	-	550	25,104	25,654
Printing and reproduction	-	-	218	218
Dues and subscriptions	-	386	-	386
Bank fees	-	6,249	87	6,336
Other	-	605	2,206	2,811
Grants to partner	<u>1,450,000</u>	<u>-</u>	<u>-</u>	<u>1,450,000</u>
	<u>\$ 1,467,945</u>	<u>\$ 89,953</u>	<u>\$ 144,558</u>	<u>\$ 1,702,456</u>

	December 31, 2020			
	<u>Program Services</u>	<u>Management And General</u>	<u>Fundraising</u>	<u>Total</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>

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, 2021 And 2020

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Change in net assets	\$(218,647)	\$ 616,868
Adjustments to reconcile change in net assets to net cash used in operating activities:		
(Increase) decrease in operating assets		
Receivables	30,186	(290,951)
Prepaid expenses	62	671
Increase (decrease) in operating liabilities		
Accounts payable and accrued expense	10,279	580
Grants payable	<u>215,000</u>	<u>(400,000)</u>
Net cash provided by (used in) operating activities	<u>36,880</u>	<u>(72,832)</u>
INVESTING ACTIVITIES		
Repayment of loan receivable	<u>175,691</u>	<u>145,092</u>
Net cash provided by investing activities	<u>175,691</u>	<u>145,092</u>
FINANCING ACTIVITIES		
(Repayment of) advance from line of credit, net	<u>(3,500)</u>	<u>3,500</u>
Net cash provided by financing activities	<u>(3,500)</u>	<u>3,500</u>
Net increase (decrease) in cash and cash equivalents	209,071	75,760
CASH AND CASH EQUIVALENT		
Beginning of year	<u>263,989</u>	<u>188,229</u>
End of year	<u>\$ 473,060</u>	<u>\$ 263,989</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 55</u>	<u>\$ 10</u>

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Years Ended December 31, 2021 And 2020

(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 invest in underserved families around the world for their holistic flourishing unto the glory of God. The funds support organizations which work to support biblically based training, loans, and savings services that restore dignity and break the cycle of poverty. 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, 2021 and 2020, 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 (2018 – 2020) or expected to be taken in H4H’s 2021 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, 2021 And 2020

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 2021 and 2020 of \$2,400. 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.

(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, 2021, there were no capitalized construction costs 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 and is due on demand. The line of credit expired during 2021 and was not renewed. As a result, there was no outstanding balance on the construction line of credit as of December 31, 2021. The balance on the line of credit was \$3,500 as of December 31, 2020.

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For The Years Ended December 31, 2021 And 2020

(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, 2021 and 2020, the investment in microfinance institution carried at cost was \$273,564. During 2021, HOPE made an equity contribution and as a result Dignity’s ownership interest decreased from 9.57% to 8.83%. H4H’s proportionate share of equity based on ownership interest of 8.83% and 9.57% as of December 31, 2021 and 2020, respectively, was approximately \$215,000 and \$219,000.

(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 remaining principal on the Note was paid as of December 31, 2021. The outstanding amount due on the Note as of December 31, 2020 was \$175,691. During 2021 and 2020, interest earned on this note receivable was \$2,688 and \$4,908, 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 2021 and 2020, H4H earned \$107,942 and \$120,852 of interest income on this note receivable which included an interest receivable balance of \$27,136 and \$27,569 as of December 31, 2021 and 2020, respectively. No payments were received on this outstanding loan balance for the years ended December 31, 2021 and 2020.

As of December 31, 2021 and 2020, 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, 2021 and 2020, H4H received contributions of approximately \$854,642 and \$654,576, respectively, from companies whose officers are primarily members of the Board of Directors of H4H.

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For The Years Ended December 31, 2021 And 2020

During the year ended December 31, 2021, H4H awarded grants in the amount of \$400,000 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. HOPE has a separate Board of Directors which does not control H4H. In addition to the grants awarded to HOPE, H4H also awarded grants in the amount of \$1,050,000 to the National Christian Foundation during the year ended December 31, 2021, which were designated to support HOPE's mission. In both 2021 and 2020, H4H received administrative services, which are included in professional services expense, from HOPE in the amount of \$22,947. As of December 31, 2021 and 2020, payables to HOPE of \$12,363 and \$3,144, respectively, are included in accounts payable and accrued expenses in the statement of financial position.

(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.

(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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Financial Assets:		
Cash and cash equivalents	\$473,060	\$263,989
Receivables	308,273	338,459
Loan receivable	<u>-</u>	<u>175,691</u>
Financial assets available to meet current obligations	<u>\$781,333</u>	<u>\$778,139</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.

HOMES FOR HOPE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

For The Years Ended December 31, 2021 And 2020

(8) SUBSEQUENT EVENTS

Subsequent events after the balance sheet through the date that the financial statements were available for issuance, August 8, 2022, have been evaluated in the preparation of the financial statements and management has determined that there are subsequent events that would require disclosure or adjustment in the financial statements.

On February 24, 2022, Russia invaded Ukraine resulting in an enormous disruption to the daily lives of the Ukrainians and to the economic activity of Ukraine. Subsequent to the initial invasion, Russia has significantly escalated the war by attacking regions throughout Ukraine including the capital city of Kyiv. The Ukrainians have fought back and continue to resist the Russian advance, but as the war prolongs, the disruption to the economy continues with possible severe consequences to companies operating within Ukraine. Dignity has a non-controlling interest in HOPE Ukraine, a microfinance institution (see Note 4), operating within Ukraine. HOPE Ukraine has temporarily suspended lending in the south and east, with limited lending in the west. In 2022, HOPE Ukraine restructured client loans to extend the loan period approximately one year and is offering grace periods on any principal repayments and waiving interest for all clients during the period in which martial law remains in effect in Ukraine. The majority of clients with restructured loans are farmers in Russian occupied territories and HOPE Ukraine has subsequently elected to reserve for the restructured loans for certain branches. HOPE Ukraine is continuing to pay its staff with the intent to continue its operations if and when the war and related issues are resolved. HOPE has no ability to discern when or if that will happen. The impact on the carrying value (cost) of the investment is not presently determinable.

During 2022, the Bank of the Republic of Burundi (BRB) approved a purchase of shares by Dignity of Turame Community Finance S.A. (Turame), a microfinance institution registered in Burundi as a for-profit public limited company, which is regulated by BRB and majority-owned by HOPE. As a result of the share purchase, Dignity has acquired a non-controlling interest in Turame. In addition, Dignity has pending transactions for purchases of additional shares in Turame and management anticipates these pending transactions to be completed in 2022.