

OPERATION NEW HOPE, INC.

FINANCIAL REPORT

Years Ended December 31, 2017 and 2016

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To the Board of Directors
Operation New Hope, Inc.
Jacksonville, Florida

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of Operation New Hope, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statement of activities, functional expenses, and cash flows for the year 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 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 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 financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 financial statements 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 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 financial statements.

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



Independent Auditor's Report
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Operation New Hope, Inc. as of December 31, 2017, 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.

Prior Period Financial Statements

The financial statements of Operation New Hope, Inc. as of December 31, 2016, were audited by other auditors whose report dated March 23, 2017, expressed an unmodified opinion on those statements.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of financial awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and *Chapter 10.650, Rules of the Auditor General*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2018, on our consideration of Operation New Hope, Inc.'s internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Operation New Hope, Inc.'s internal control over financial reporting and compliance.

Smoak, Davis & Nixon LLP

Jacksonville, Florida
April 25, 2018

OPERATION NEW HOPE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

| | 2017 | 2016 |
|-------------------------------------|-----------|-----------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 1,923,584 | 1,694,760 |
| Accounts receivable | 422,590 | 601,463 |
| Pledges receivable | 20,000 | 0 |
| Other current assets | 158,537 | 103,368 |
| Total current assets | 2,524,711 | 2,399,591 |
| LAND, BUILDING, AND EQUIPMENT, net | 3,991,377 | 3,595,916 |
| Total assets | 6,516,088 | 5,995,507 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Current portion of notes payable | 29,122 | 22,328 |
| Accounts payable | 67,340 | 5,324 |
| Other current liabilities | 167,102 | 66,483 |
| Total current liabilities | 263,564 | 94,135 |
| LONG-TERM LIABILITIES | | |
| Notes payable, less current portion | 3,217,666 | 3,105,557 |
| Total liabilities | 3,481,230 | 3,199,692 |
| NET ASSETS | | |
| Unrestricted | 2,030,517 | 2,218,589 |
| Temporarily restricted | 1,004,341 | 577,226 |
| Total net assets | 3,034,858 | 2,795,815 |
| Total liabilities and net assets | 6,516,088 | 5,995,507 |

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

OPERATION NEW HOPE, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

| | Unrestricted | Temporarily Restricted | Total |
|---|------------------|---------------------------|------------------|
| PUBLIC SUPPORT AND REVENUES | | | |
| Governmental agency contracts and grants | 2,658,125 | | 2,658,125 |
| Contributions | 207,574 | 792,315 | 999,889 |
| Noncash contributions | 422,359 | | 422,359 |
| Replication revenue | 132,500 | | 132,500 |
| Interest income | 11,042 | | 11,042 |
| Property sales, net | 95,874 | | 95,874 |
| Rental income | 60,875 | | 60,875 |
| Other | 66,128 | | 66,128 |
| Net assets released from restrictions | 365,200 | (365,200) | 0 |
| Total public support and revenues | 4,019,677 | 427,115 | 4,446,792 |
| EXPENSES | | | |
| Program Services | 3,850,708 | | 3,850,708 |
| Supporting Services: | | | |
| Management and general | 206,950 | | 206,950 |
| Fundraising | 150,091 | | 150,091 |
| Total expenses | 4,207,749 | 0 | 4,207,749 |
| CHANGE IN NET ASSETS | (188,072) | 427,115 | 239,043 |
| NET ASSETS, BEGINNING OF YEAR | 2,218,589 | 577,226 | 2,795,815 |
| NET ASSETS, END OF YEAR | 2,030,517 | 1,004,341 | 3,034,858 |

The Notes to Financial Statements are an integral part of this statement.

OPERATION NEW HOPE, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2016

| | Unrestricted | Temporarily Restricted | Total |
|---|-------------------------|---------------------------|-------------------------|
| PUBLIC SUPPORT AND REVENUES | | | |
| Governmental agency contracts and grants | 1,841,022 | | 1,841,022 |
| Contributions | 451,579 | 598,605 | 1,050,184 |
| Noncash contributions | | | 0 |
| Replication revenue | 87,500 | | 87,500 |
| Interest income | 12,181 | | 12,181 |
| Property sales, net | | | 0 |
| Rental income | | | 0 |
| Other | 20,015 | | 20,015 |
| Net assets released from restrictions | 21,379 | (21,379) | 0 |
| Total public support and revenues | <u>2,433,676</u> | <u>577,226</u> | <u>3,010,902</u> |
| EXPENSES | | | |
| Program Services | 2,615,821 | | 2,615,821 |
| Supporting Services: | | | |
| Management and general | 163,734 | | 163,734 |
| Fundraising | 128,052 | | 128,052 |
| Total expenses | <u>2,907,607</u> | <u>0</u> | <u>2,907,607</u> |
| CHANGE IN NET ASSETS | (473,931) | 577,226 | 103,295 |
| NET ASSETS, BEGINNING OF YEAR | <u>2,692,520</u> | <u>0</u> | <u>2,692,520</u> |
| NET ASSETS, END OF YEAR | <u><u>2,218,589</u></u> | <u><u>577,226</u></u> | <u><u>2,795,815</u></u> |

The Notes to Financial Statements are an integral part of this statement.

OPERATION NEW HOPE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

| | Program | Supporting Services | | | Total 2017 |
|--|-----------------------|---------------------------|-----------------|---------------------|---------------|
| | Social Development | Management and General | Fund Raising | Total Supporting | |
| Personnel: | | | | | |
| Salaries and related benefits | 1,992,196 | 132,813 | 88,542 | 221,355 | 2,213,551 |
| Client direct services | 830,657 | | | 0 | 830,657 |
| Professional fees | 144,811 | 4,137 | 57,924 | 62,061 | 206,872 |
| Contract labor | 128,713 | | | 0 | 128,713 |
| Building repairs | | | | 0 | 0 |
| Training and development | 21,029 | | | 0 | 21,029 |
| General insurance | 69,583 | 3,662 | | 3,662 | 73,245 |
| Office expense | 216,403 | 29,509 | | 29,509 | 245,912 |
| Occupancy | 120,502 | 13,389 | | 13,389 | 133,891 |
| Telephone | | | | 0 | 0 |
| Rental | 16,535 | 1,837 | | 1,837 | 18,372 |
| Travel | 39,430 | 2,517 | | 2,517 | 41,947 |
| Advertising | 36,240 | | | 0 | 36,240 |
| Fundraising | | | 3,625 | 3,625 | 3,625 |
| Other expense | 80,092 | | | 0 | 80,092 |
| Miscellaneous | 722 | 78 | | 78 | 800 |
| Total expenses before depreciation and amortization | 3,696,913 | 187,942 | 150,091 | 338,033 | 4,034,946 |
| Depreciation and amortization | 153,795 | 19,008 | 0 | 19,008 | 172,803 |
| Total expenses | 3,850,708 | 206,950 | 150,091 | 357,041 | 4,207,749 |

The Notes to Financial Statements are an integral part of this statement.

OPERATION NEW HOPE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016

| | Program Services | | Supporting Services | | Total 2016 |
|---|--------------------|------------------------|---------------------|------------------|------------|
| | Social Development | Management and General | Fund Raising | Total Supporting | |
| Salaries and related benefits | 1,565,434 | 108,369 | 67,750 | 176,119 | 1,741,553 |
| Client direct services | 380,580 | 0 | | 0 | 380,580 |
| Professional fees | 131,620 | 3,868 | 54,882 | 58,750 | 190,370 |
| Contract labor | | | | 0 | 0 |
| Building repairs | 60,157 | | | 0 | 60,157 |
| Training and development | 6,398 | | | 0 | 6,398 |
| General Insurance | 73,523 | 3,888 | | 3,888 | 77,411 |
| Office expense | 96,417 | 13,005 | | 13,005 | 109,422 |
| Occupancy | 82,225 | 9,560 | | 9,560 | 91,785 |
| Telephone | 47,049 | 7,579 | | 7,579 | 54,628 |
| Rental | | | | 0 | 0 |
| Travel | 37,892 | 2,529 | | 2,529 | 40,421 |
| Advertising | 30,406 | | | 0 | 30,406 |
| Fundraising | | | 5,420 | 5,420 | 5,420 |
| Other expense | | | | 0 | 0 |
| Miscellaneous | 1,737 | 1,921 | | 1,921 | 3,658 |
| Total expenses before depreciation and amortization | 2,513,438 | 150,719 | 128,052 | 278,771 | 2,792,209 |
| Depreciation and amortization | 102,383 | 13,015 | 0 | 13,015 | 115,398 |
| Total expenses | 2,615,821 | 163,734 | 128,052 | 291,786 | 2,907,607 |

The Notes to Financial Statements are an integral part of this statement.

OPERATION NEW HOPE, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|--|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | 239,043 | 103,295 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 172,803 | 115,398 |
| Value of donated assets | (391,082) | 0 |
| Loss on disposal of fixed assets | 54,412 | 0 |
| Accounts receivable | 178,873 | (506,092) |
| Pledges receivable | (20,000) | 0 |
| Other current assets | (55,169) | (14,218) |
| Accounts payable | 62,016 | (28,255) |
| Other current liabilities | 100,619 | (55,740) |
| Net cash provided by (used in) operating activities | <u>341,515</u> | <u>(385,612)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of land, building and equipment | <u>(231,594)</u> | <u>(840,232)</u> |
| Net cash used in investing activities | <u>(231,594)</u> | <u>(840,232)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on notes payable | (25,698) | (20,956) |
| Proceeds from note payable | <u>144,601</u> | <u>787,809</u> |
| Net cash provided by financing activities | <u>118,903</u> | <u>766,853</u> |
| Increase (Decrease) in cash and cash equivalents | 228,824 | (458,991) |
| Cash and cash equivalents, beginning of year | <u>1,694,760</u> | <u>2,153,751</u> |
| Cash and cash equivalents, end of year | <u><u>1,923,584</u></u> | <u><u>1,694,760</u></u> |
| Cash - unrestricted | 919,243 | 1,117,534 |
| Cash - temporarily restricted | <u>1,004,341</u> | <u>577,226</u> |
| | <u><u>1,923,584</u></u> | <u><u>1,694,760</u></u> |
| SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION: | | |
| Cash paid for interest during the year | 35,413 | 26,472 |

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Activities:

Operation New Hope, Inc. (the "Organization") was incorporated in Florida as a nonprofit Corporation in March 1999. It is the mission of the Organization to provide individuals and families with opportunities and tools necessary to rebuild their lives and restore communities through sustainable economic development initiatives.

Financial Statement Presentation:

In accordance with generally accepted accounting principles, the Organization 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, the Organization is required to present a statement of cash flows.

Cash and Cash Equivalents:

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts receivable:

Accounts receivable balance primarily consists of amounts due to the Organization from governmental units under the terms of various contracts. No allowance for doubtful accounts has been established due to the nature of these agencies.

Land, Building, and Equipment:

Land, building, and equipment are recorded at historical cost or fair market value at date of donation. Purchases in excess of \$5,000 are capitalized. Depreciation is computed using the straight-line method over the useful lives of the assets, which range from five to forty years.

The Organization reports gifts of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. The Organization does not imply time restrictions expiring over the estimated useful life of contributed long lived assets.

Periodically, management reviews land, building, and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Impairment is measured by comparing the carrying amount of the asset to the sum of expected future cash flows (undiscounted and without interest charges) resulting from use of the asset and its eventual disposition. Management believes that there are no impairment losses on long-lived assets as of December 31, 2017.

NOTES TO FINANCIAL STATEMENTS

Note 1. (Continued)

Unrestricted Net Assets:

Unrestricted net assets are resources over which the Organization has discretionary control.

Temporarily Restricted Net Assets:

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Restricted and Unrestricted Revenue and Support:

In accordance with generally accepted accounting principles, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Public Support:

Public support revenues from government grants are recorded based on the terms of the grantor allotment which generally provides that revenue is earned when the allowable costs or units of service of the specific grant provisions have been incurred or provided. Such revenue is subject to audit by the grantor and, if the examination results in a non-allowance of units of service or expenses, the Organization will be required to reimburse any overpayments.

Contributions and Promises to Give:

The Organization recognizes contributions received, including unconditional promises to give, as assets and revenues in the period received at their net realizable fair values. Conditional promises to give, which depend upon specified future and uncertain events, are recognized as revenue when the conditions upon which they depend are substantially met. All contributions are considered available for unrestricted use unless specifically restricted by the donor. Gifts of cash or other assets are reported as restricted support if they are received with donor stipulations that limit the use of such assets. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Organization had conditional promises to give of \$625,000 and \$500,000 at December 31, 2017 and 2016, respectively.

Noncash contributions:

When equipment is donated, in-kind values are recorded as contributions.

NOTES TO FINANCIAL STATEMENTS

Note 1. (Continued)

Concentrations of Credit Risk:

The Organization's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents. The Organization places its cash and cash equivalents with high credit quality institutions. At such times the financial instruments may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits.

Financial Statement Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 those estimates.

Functional Expense Allocation:

Costs related to the administration of the Organization's programs have been detailed in the statement of functional expenses and are summarized in the statement of activities. Personnel and operating expenses which are associated with a specific program are charged directly to that program. Personnel and operating expenses which benefit more than one program are allocated to the various programs based on the relative benefit provided. Administrative expenses represent indirect costs of administering these programs.

Income Tax Status:

The Organization is a tax-exempt Organization as defined in Section 501(c)(3) of the Internal Revenue Code. The Organization is exempt from federal and state income taxes on related income pursuant to Section 501 (a) of the Internal Revenue Code and Chapter 220.13 of the Florida Statutes, respectively.

The Organization applies generally accepted accounting principles related to income tax uncertainties. The Organization has determined that there were no unrecognized tax benefits for the years ended December 31, 2017. The Organization files tax returns in the U.S. federal jurisdiction. Tax years that remain subject to examination by major tax jurisdictions are 2014 and forward.

Fair Value Measurements:

The carrying amounts reflected in the balance sheet for cash, accounts receivable, pledges receivable, other current assets, accounts payable and other current liabilities approximate fair value due to the relative terms and/or short maturity of these financial instruments. The fair value of notes payable at December 31, 2017 and 2016 approximate carrying value due to the interest rates in effect.

NOTES TO FINANCIAL STATEMENTS

Note 1. (Continued)

Subsequent events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 25, 2018, the date the financial statements were available to be issued.

New Accounting Pronouncement:

Effective for periods beginning after December 15, 2017, the Financial Accounting Standards Board (FASB) issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which, upon implementation, and as applicable, will impact these financial statements as follows:

Net assets categories are reduced to "net assets with donor restrictions" and "net assets without donor restrictions." Additional financial statement disclosures are required, including amounts and purposes of self-imposed limits of resources without donor-imposed restrictions, composition and impact of restrictions of net assets with donor restrictions, qualitative and quantitative information about asset management and liquidity, expenses categorized by natural and functional classification, methods used to allocate costs for program and support functions, and information on underwater endowments. There are also changes within the areas of investment returns and reporting expirations of restrictions on gifts that are used to acquire or construct long-lived assets.

Note 2. Property and Equipment

Major classes of property and equipment and accumulated depreciation are as follows:

| | <u>2017</u> | <u>2016</u> |
|--|-------------------------|-------------------------|
| Land and improvements | 653,367 | 265,839 |
| Buildings and improvements | 3,254,261 | 680,609 |
| Furniture fixtures and other equipment | 1,474,769 | 1,175,738 |
| Construction in process | 0 | 2,709,478 |
| | <u>5,382,397</u> | <u>4,831,664</u> |
| Less: Accumulated depreciation | <u>(1,391,020)</u> | <u>(1,235,748)</u> |
| Property and Equipment - net | <u><u>3,991,377</u></u> | <u><u>3,595,916</u></u> |

NOTES TO FINANCIAL STATEMENTS

Note 3. Notes Payable

Notes payable consisted of the following as of December 31, 2017 and 2016:

| | 2017 | 2016 |
|--|-----------|-----------|
| <p>Promissory note issued in 2009. This note bears interest at 6.25% at December 31, 2017, is due in monthly installments of \$3,411, and matures in March 2019. The note is secured by a mortgage. A balloon payment in the amount of \$305,903 is due at maturity.</p> | 330,326 | 349,660 |
| <p>Promissory note issued in 2011. This note bears interest at 6.25% at December 31, 2017, is due in monthly installments of \$541 and matures in March 2019. The note is secured by a mortgage. A balloon payment in the amount of \$48,520 is due at maturity.</p> | 52,394 | 55,461 |
| <p>Note payable - City of Jacksonville, issued in 2013. The note is administered by the City of Jacksonville, Florida, provided through the Neighborhood Stabilization Program, a federal grant program awarded by the United States Department of Housing and Urban Development ("HUD"). The note is secured by a mortgage and incurs no interest, as long as there is no event of default. The project involved construction of a multifamily residential rental building in prior year. At construction completion, the loan is deferred and within the terms of certain covenants, upon maturity in July 2036, will be forgiven.</p> | 2,501,930 | 2,484,957 |
| <p>Construction loan issued in 2015. Interest of 4.75% accrued until March 2017. Beginning in April 2017, the note bears interest of 5.25% and monthly installments of principal and interest are due in the amount of \$2,018. The note is secured by a mortgage and is in compliance with the terms of certain covenants. A balloon payment in the amount of \$339,418 is due at maturity in March 2022.</p> | 362,138 | 237,807 |
| | 3,246,788 | 3,127,885 |
| Less: Current Portion | (29,122) | (22,328) |
| Non-current Portion | 3,217,666 | 3,105,557 |

NOTES TO FINANCIAL STATEMENTS

Note 3. (Continued)

Aggregate principal payments on the notes payable in the succeeding years are due as follows:

| | |
|------------------------------|-------------------------|
| Year ended December 31, 2018 | 29,122 |
| 2019 | 364,419 |
| 2020 | 5,798 |
| 2021 | 6,162 |
| 2022 and thereafter | <u>2,841,287</u> |
| | <u><u>3,246,788</u></u> |

Note 4. Employee Benefit Plan

The Organization established a 403(b) whereby employees may elect to make contributions pursuant to a salary reduction agreement upon meeting age and length of service requirements. Under the Plan, employees may contribute an amount not to exceed the limit imposed by the Internal Revenue Service. The Organization may elect to make a discretionary profit sharing contribution to the Plan. There were no contributions made to the Plan for the year ending December 31, 2017 and 2016.

Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at December 31, 2017 and 2016:

| | <u>2017</u> | <u>2016</u> |
|------------------------|-------------------------|-----------------------|
| Breaking the Cycle | 197,706 | 260,743 |
| JaxPort Academy | 376,369 | 250,000 |
| Future program support | <u>430,266</u> | <u>66,483</u> |
| | <u><u>1,004,341</u></u> | <u><u>577,226</u></u> |

Note 6. Assets Released from Donor Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from temporary restrictions amounted to \$365,200 and \$21,379 for the year ending December 31, 2017 and 2016, respectively.

Note 7. Reclassification

Certain financial statement accounts in the prior year have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

SUPPLEMENTARY INFORMATION

OPERATION NEW HOPE, INC.

SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For the Year Ended December 31, 2017

| Federal/State Grantor/Pass-Through Grantor/Federal Program/State Project | CFDA CSFA Number | Contract Number | Program or Award Amount | Disbursements/ Expenses |
|--|------------------------|------------------------------------|----------------------------|--------------------------------|
| <u>FEDERAL PROGRAMS:</u> | | | | |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES: | | | | |
| Passed through LSF Health Systems Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | LS048 | 297,802 | <u>62,403</u> |
| U.S. DEPARTMENT OF LABOR: | | | | |
| Training to Work 3 - Adult Reentry | 17.270 | PE-27379-15-60-A-12 | 1,137,655 | 542,735 |
| Passed through First Coast Workforce Development Fresh Start Program | 17.270 | FCWD 2018-ONH-01 | | 161,536 |
| Passed through City of Jacksonville, Florida Jacksonville Journey | | | | <u>123,911</u> |
| | | | | <u>828,182</u> |
| U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT: | | | | |
| Passed through HomeFree-USA HUD Housing Counseling Funds | 14.169 | | | 11,077 |
| Passed through City of Jacksonville, Florida Renew Jax - Community Development Block Grants / Entitlement Grants | 14.218 | B-14-UC-12-0017 / 8013-65 | 382,000 | 375,666 |
| Home Investment Partnerships Program | 14.239 | 8013-69, 8013-70, 8013-71, 8013-74 | 298,500 | 255,520 |
| Passed through Local Initiatives Support Corporation | 14.252 | 42049-0055 | | 3,500 |
| | 14.252 | 42049-0060 | | <u>10,997</u> |
| | | | | 656,760 |
| Total Expenditures of Federal Awards | | | | <u><u>1,547,345</u></u> |
| <u>STATE PROJECTS:</u> | | | | |
| FLORIDA DEPARTMENT OF CORRECTIONS: | | | | |
| Transitional Services - Post Release | 70.011 | C2855 | | 1,368,523 |
| FLORIDA DEPARTMENT OF STATE: | | | | |
| Historic Preservation Grants | 45.031 | 18.h.sm.100.069 | 37,500 | <u>9,375</u> |
| Total Expenditures of State Projects | | | | <u><u>1,377,898</u></u> |
| <u>GENERAL STATE FUNDING:</u> | | | | |
| Passed through LSF Health Systems Block Grants for Prevention and Treatment of Substance Abuse | | LS048 | | <u>59,704</u> |
| Total Expenditures of General State Funding | | | | <u><u>59,704</u></u> |
| LOCAL ASSISTANCE: | | | | |
| Local Initiatives Support Corporation | | 42049-0068 | | 6,709 |
| | | 42049-0065 | | 100,000 |
| | | 42049-0067 | | 96,371 |
| | | 42049-0058 | | <u>11,000</u> |
| | | | | 214,080 |
| Jacksonville Area Legal Aid | | | | <u>58,284</u> |
| Total Expenditures of Local Assistance | | | | <u><u>272,364</u></u> |
| Total Expenditures of Federal Awards, State Financial Assistance, and Local Assistance | | | | <u><u><u>3,257,311</u></u></u> |

OPERATION NEW HOPE, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For The Year Ended December 31, 2017

1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of financial awards includes the federal, state, and local grant activity of Operation New Hope, Inc. and is prepared on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit, and Administrative Requirements for Federal Awards* (Uniform Guidance) and *Department of Financial Services' State Projects Compliance Supplement*. Because the Schedule presents only a selected portion of the operations of Operation New Hope, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Operation New Hope, Inc.

Type A programs are those federal programs with expenditures greater than or equal to \$750,000. All other programs are considered Type B.

2. PASS-THROUGH AWARDS

The Organization receives certain federal awards and state financial assistance from pass-through awards of the State, local government, and other entities. The total amount of such pass-through awards is included on the supplementary schedule of expenditures of financial awards.

3. CONTRACT AND GRANT REVENUES

The total amount of expenditures of federal awards, state financial assistance, and local assistance as presented on the Schedule of Expenditures of Financial Awards includes revenue for CFDA's 14.218 and 14.239 in the amount of \$599,186 that is recorded in Property Sales, Net.



To the Board of Directors
Operation New Hope, Inc.
Jacksonville, Florida

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

We have audited, in accordance with the 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, the financial statements of the Operation New Hope, Inc. (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. We did identify certain deficiencies in internal control, as described in the accompanying schedule of findings and questioned costs as item 2017-001 and 2017-002, that we consider to be significant deficiencies.



INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2017-003.

Operation New Hope's Response to Findings

Operation New Hope's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Operation New Hope's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smoak, Davis & Nixon LLP

Jacksonville, Florida
April 25, 2018



To the Board of Directors
Operation New Hope, Inc.
Jacksonville, Florida

INDEPENDENT AUDITOR'S REPORT
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

Report on Compliance for Each Major Federal Program and State Project

We have audited Operation New Hope, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the requirements described in the Department of Financial Services' State Projects Compliance Supplement, that could have a direct and material effect on each of the Organization's major Federal programs and State projects for the year ended December 31, 2017. The Organization's major Federal programs and State projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with Federal and State statutes, regulations, and the terms and conditions of its Federal and State awards applicable to its Federal programs and State projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major Federal programs and State projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance")* and *Chapter 10.650, Rules of the Auditor General*. Those standards, the Uniform Guidance, and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program and State project. However, our audit does not provide a legal determination of the Organization's compliance.



INDEPENDENT AUDITOR'S REPORT
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

Opinion on Each Major Federal Program and State Project

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs and State projects for the year ended December 31, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and Chapter 10.650, Rules of the Auditor General, which is described in the accompanying schedule of findings and questioned costs as item 2017-003. Our opinion on each Federal program and State project is not modified with respect to this matter.

The Organization's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program or state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.



INDEPENDENT AUDITOR'S REPORT
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program or state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001 and 2017-002, that we consider to be a significant deficiencies.

Operation New Hope's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Operation New Hope's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

SmOak, Davis & Nixon LLP

Jacksonville, Florida
April 25, 2018

OPERATION NEW HOPE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL PROGRAMS AND STATE PROJECTS

For the Year Ended December 31, 2017

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 Yes X No

Significant deficiency(ies) identified?

 X Yes None reported

Noncompliance material to financial statement noted?

 Yes X No

Federal Awards and State Projects

Internal control over major programs:

Material weakness(es) identified?

 Yes X No

Significant deficiency(ies) identified?

 X Yes None reported

Type of auditor's report issued on compliance
for major programs:

Unmodified

Any audit findings disclosed that are required to be
reported in accordance with CFR 200.516(a) or
Chapter 10.650 *for nonprofit and for-program
organizations* ?

 X Yes No

Identification of major programs:

Federal Program or Cluster

Federal CFDA No.

Reentry Employment Opportunities

17.270

Community Development Block Grants/
Entitlement Grants

14.218

Home Investment Partnerships Program

14.239

State Program

State CFSA No.

Florida Department of Corrections

Transitional Services - Post Release

70.011

OPERATION NEW HOPE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL PROGRAMS AND STATE PROJECTS

For the Year Ended December 31, 2017

SUMMARY OF AUDITOR'S RESULTS

Dollar threshold used to distinguish between

Type A and Type B programs - Federal Programs: \$750,000

Dollar threshold used to distinguish between

Type A and Type B programs - State Projects: \$750,000

Auditee qualified as low-risk auditee pursuant to the

Uniform Guidance (Not applicable for State projects)? _____ Yes X No

FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2017-001

Condition: We were unable to obtain sufficient supporting documentation in regards to cash receipts in our internal control testing. In our testing selections, there were instances without any support other than the book of deposit slips. As a result, we were unable to make determinations on cash receipts, such as timeliness of deposits, restrictions from donors, proper recording of deposits, or sources of cash receipts.

Criteria: Internal controls should be in place that provide reasonable assurance that cash receipts are properly recorded and supporting documentation maintained.

Cause: There are no procedures in place that require appropriate oversight on cash receipts.

Effect: Because of the failure to maintain appropriate oversight on cash receipts, the Organization may be in violation of restricted donations, there may be misappropriation of cash receipts, there may be inaccurate accounting records, and there is no record of funding sources.

Recommendation: Procedures should be implemented requiring a log of cash receipts, as well as maintaining cash receipts support and appropriate segregation of duties surrounding cash handling.

Views of responsible officials and planned corrective actions: The Organization agrees with the finding and the recommended procedures have been implemented.

OPERATION NEW HOPE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL PROGRAMS AND STATE PROJECTS

For the Year Ended December 31, 2017

SUMMARY OF AUDITOR'S RESULTS

FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

Finding 2017-002

Condition: We were unable to obtain sufficient supporting documentation in regards to internal controls surrounding the Schedule of Expenditures of Financial Awards.

Criteria: Internal controls should be in place that provide reasonable assurance that all federal, state, and local expenditures are properly stated and recorded.

Cause: There are no procedures in place that indicate appropriate oversight in regards to recording governmental funds received.

Effect: Because of the failure to maintain appropriate oversight on cash receipts, the Organization may be in violation of compliance requirements indicated throughout governmental contracts.

Recommendation: Procedures should be implemented that indicate appropriate oversight of governmental funding and recording.

Views of responsible officials and planned corrective actions: The Organization agrees with the finding and the recommended procedures have been implemented.

OPERATION NEW HOPE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL PROGRAMS AND STATE PROJECTS

For the Year Ended December 31, 2017

SUMMARY OF AUDITOR'S RESULTS

FINDINGS and QUESTIONED COSTS - MAJOR FEDERAL PROGRAM AUDIT

Finding 2017-003

SIGNIFICANT DEFICIENCY:

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CFDA 14.218

Community Development Block Grants/Entitlement Grants - Activities Allowed or Unallowed

CFDA 14.239

Home Investment Partnerships Program - Eligibility

Condition: Federal program 14.218 specifies that the allowable activities are those that benefit low and moderate income persons and that it should provide direct homeownership assistance to low and moderate income households to facilitate and expand homeownership. Federal program 14.239 specifies that only low income or very low income persons as defined, can receive housing assistance. Program funds were utilized to purchase and renovate three separate residences. Client was able to produce documentation for two of the home buyers, but not the third. The client provided support from the City of Jacksonville indicating the third home buyer's qualifications; however, the contract stipulates that Operation New Hope should maintain appropriate records on home purchaser qualifications.

Criteria: Eligibility for the program requires family income to remain within certain ranges as indicated in the contracts.

Cause: There was no documentation maintained by Operation New Hope indicating that the participant met the income requirement.

Effect: The cost of the assistance may be disallowed.

OPERATION NEW HOPE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL PROGRAMS AND STATE PROJECTS

For the Year Ended December 31, 2017

SUMMARY OF AUDITOR'S RESULTS

Finding 2017-003 (Continued)

Context: Federal funds were utilized to purchase three separate residential units to renovate and sell to families meeting certain income requirements. Total reimbursement for each residential unit is approximately \$200,000. A sample of three separate reimbursement requests were selected out of the population of monthly requests for reimbursement. The test found that no support was maintained by Operation New Hope in regards to income verification for the buyer of one unit.

Recommendation: Operation New Hope should maintain appropriate records as required in each contract. In this instance, documentation was provided by the City of Jacksonville on the income verification of this participant; however, the contract indicates that this should be done at the entity level. There were files maintained for the other participants, but this one was missing.

Views of Responsible Officials and Planned Corrective Actions: The Organization agrees with the finding and the recommended procedures have been implemented.

FINDINGS and QUESTIONED COSTS - MAJOR STATE PROJECTS

None

OPERATION NEW HOPE, INC.
CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2017

SIGNIFICANT DEFICIENCY: 2017-001

Name of contact person:

Peggy Boord, Chief Financial Officer

Corrective action:

Management agrees with this finding. The selections described herein represent deposits prior to the current Finance staff was in place. A process has been implemented to correct this weakness. The current process insures that there is proper control over funds received, timely deposit and appropriate recording as to restriction. The current process requires for a non-finance team member, currently the Executive Administrative Assistant, to open all mail and to log any cash or checks received. The received cash or checks are given to the accounting staff for entry into the financial records and deposit to the bank. Once deposited, a copy of the deposit slip is provided to the Executive Administrative Assistant to record in the cash receipts log being maintained. The procedure calls for notification to the CFO if funds are not deposited within 5 days of receipt and then escalation up to the CEO if no action is taken. In addition, all documentation received with funds received is scanned and saved to a shared network drive and is accessible by ONH finance staff. It is also attached to the deposit transaction in the financial accounting system.

SIGNIFICANT DEFICIENCY: 2017-002

Name of contact person:

Peggy Boord, Chief Financial Officer

Corrective action:

Management agrees with this finding. A process has been implemented to insure that all grant funds are appropriately identified and tracked. When ONH is awarded a grant, a grant tracking spreadsheet is created. The tracking includes the information required to properly identify the source of the funding such as the CFDA number. Funds received and expended are recorded and each month the tracking spreadsheet is reconciled to the financial accounting system. This will facilitate preparation of the Schedule of Expenditures of Financial Awards.

OPERATION NEW HOPE, INC.
CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2017

SIGNIFICANT DEFICIENCY: 2017-003

Name of contact person:

Peggy Boord, Chief Financial Officer

Corrective action:

The process for qualifying a buyer for each of the three homes under this funding was the initial qualification was done by ONH. Prior to the closing, the City of Jacksonville did a final verification. While it is correct that the file referenced below could not be located at the time of the audit, all final verifications were done prior to closing. This was confirmed by the representative at the City. A more concerted effort will be made to insure that all documentation is in ONH files in accordance with the contract. Most documents are now being scanned and stored now which will reduce the possibility of missing information.