

OPERATION NEW HOPE, INC.

FINANCIAL REPORT

Years Ended December 31, 2018 and 2017

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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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, 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 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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 17, 2019, 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 17, 2019

OPERATION NEW HOPE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,445,139	1,923,584
Accounts receivable	681,234	422,590
Pledges receivable	1,500	20,000
Other current assets	118,836	158,537
Total current assets	2,246,709	2,524,711
LAND, BUILDING, AND EQUIPMENT, net	3,809,533	3,991,377
Total assets	6,056,242	6,516,088
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	362,418	29,122
Accounts payable		67,340
Other current liabilities	53,104	167,102
Total current liabilities	415,522	263,564
LONG-TERM LIABILITIES		
Notes payable, less current portion	2,853,187	3,217,666
Total liabilities	3,268,709	3,481,230
NET ASSETS		
Without donor restrictions	2,306,234	2,030,517
With donor restrictions	481,299	1,004,341
Total net assets	2,787,533	3,034,858
Total liabilities and net assets	6,056,242	6,516,088

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

OPERATION NEW HOPE, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Governmental agency contracts and grants	2,368,392		2,368,392
Contributions	895,147	28,629	923,776
Noncash contributions	98,235		98,235
Replication revenue	124,000		124,000
Interest income	10,732		10,732
Property sales, net	39,281		39,281
Rental income	89,854		89,854
Other	177		177
Net assets released from restrictions	551,671	(551,671)	0
Total public support and revenues	4,177,489	(523,042)	3,654,447
EXPENSES			
Program Services	3,561,647		3,561,647
Supporting Services:			
Management and general	221,094		221,094
Fundraising	119,031		119,031
Total expenses	3,901,772	0	3,901,772
CHANGE IN NET ASSETS	275,717	(523,042)	(247,325)
NET ASSETS, BEGINNING OF YEAR	2,030,517	1,004,341	3,034,858
NET ASSETS, END OF YEAR	2,306,234	481,299	2,787,533

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

OPERATION NEW HOPE, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	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 FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	Program	Supporting Services			Total 2018
	Social Development	Management and General	Fund Raising	Total Supporting	
Personnel:					
Salaries and related benefits	1,757,879	117,192	78,128	195,320	1,953,199
Client direct services	750,173			0	750,173
Professional fees	101,507	2,900	40,603	43,503	145,010
Contract labor	24,660			0	24,660
Training and development	12,934			0	12,934
General insurance	55,836	2,939		2,939	58,775
Office expense	250,368	34,141		34,141	284,509
Occupancy	246,023	27,336		27,336	273,359
Rental	63,436	7,048		7,048	70,484
Travel	38,408	2,452		2,452	40,860
Advertising	24,677			0	24,677
Fundraising			300	300	300
Other expense	16,570			0	16,570
Miscellaneous	29	1		1	30
Total expenses before depreciation and amortization	3,342,500	194,009	119,031	313,040	3,655,540
Depreciation and amortization	219,147	27,085	0	27,085	246,232
Total expenses	3,561,647	221,094	119,031	340,125	3,901,772

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 Services		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
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
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.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	(247,325)	239,043
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	246,232	172,803
Value of donated assets	(16,481)	(391,082)
Loss on disposal of fixed assets		54,412
Accounts receivable	(258,644)	178,873
Pledges receivable	18,500	(20,000)
Other current assets	39,701	(55,169)
Accounts payable	(67,340)	62,016
Other current liabilities	(113,998)	100,619
Net cash provided by (used in) operating activities	<u>(399,355)</u>	<u>341,515</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, building and equipment	(47,907)	(231,594)
Net cash used in investing activities	<u>(47,907)</u>	<u>(231,594)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(31,183)	(25,698)
Proceeds from note payable		144,601
Net cash provided by financing activities	<u>(31,183)</u>	<u>118,903</u>
Increase (Decrease) in cash and cash equivalents	(478,445)	228,824
Cash and cash equivalents, beginning of year	1,923,584	1,694,760
Cash and cash equivalents, end of year	<u>1,445,139</u>	<u>1,923,584</u>
Cash - without donor restrictions	963,840	919,243
Cash - with donor restrictions	<u>481,299</u>	<u>1,004,341</u>
	<u>1,445,139</u>	<u>1,923,584</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION:		
Cash paid for interest during the year	44,421	35,413

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 two classes of net assets: net assets with donor restrictions and net assets without donor restrictions. 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 without restrictions 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 net assets with donor restrictions to net assets without donor restrictions 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, 2018.

NOTES TO FINANCIAL STATEMENTS

Note 1. (Continued)

Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources over which the Organization has discretionary control.

Net Assets With Donor Restrictions

Net assets with donor restrictions 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 net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions, if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) net assets with donor restrictions are reclassified to net assets without donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

The Organization had conditional promises to give of \$500,000 and \$625,000 at December 31, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 1. (Continued)

Noncash Contributions:

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

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, 2018. The Organization files tax returns in the U.S. federal jurisdiction. Tax years that remain subject to examination by major tax jurisdictions are 2015 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, 2018 and 2017 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 17, 2019, the date the financial statements were available to be issued.

Accounting Pronouncements Adopted:

Financial Presentation for Not-for-Profit Entities

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU ("Accounting Standards Update") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of any underwater endowment funds and related disclosure, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures that are intended to increase the usefulness of nonprofit financial statements. Additionally, ASU 2016-14 removes the requirement that not-for-profit entities that choose to prepare the statements of cash flows must also present a reconciliation (the indirect method).

Accounting Pronouncements Issued:

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The main principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 provides companies with two implementation methods: (i) apply the standard retrospectively to each prior reporting period presented (full retrospective application); or (ii) apply the standard retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application (modified retrospective application). This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Management is currently in the process of evaluating the impact of the pending adoption of ASU 2014-09 on its financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. (Continued)

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*, which establishes a comprehensive lease standard under generally accepted accounting principles for virtually all industries. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease. A lessee is also required to record a right of use asset and a lease liability on the balance sheets for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales type leases, direct financing leases and operating leases. The new standard will apply for annual periods beginning after December 15, 2019, including interim periods therein, and requires modified retrospective application. Early adoption is permitted. Management is in the process of evaluating the effects the adoption of this update may have on the combining financial statements.

Note 2. Property and Equipment

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

	<u>2018</u>	<u>2017</u>
Land and improvements	653,367	653,367
Buildings and improvements	3,260,561	3,254,261
Furniture fixtures and other equipment	<u>1,532,857</u>	<u>1,474,769</u>
	5,446,785	5,382,397
Less: Accumulated depreciation	<u>(1,637,252)</u>	<u>(1,391,020)</u>
Property and Equipment - net	<u><u>3,809,533</u></u>	<u><u>3,991,377</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 3. Notes Payable

Notes payable consisted of the following as of December 31, 2018 and 2017:

	2018	2017
<p>Promissory note issued in 2009. This note bears interest at 6.25% at December 31, 2018, 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. The note contains various default provisions and negative covenants. The Organization was in compliance with these covenants as of December 31, 2018. Management is currently in the process of renewing with the lender.</p>	308,011	330,326
<p>Promissory note issued in 2011. This note bears interest at 6.25% at December 31, 2018, 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. The note contains various default provisions and negative covenants. The Organization was in compliance with these covenants as of December 31, 2018. Management is currently in the process of renewing with the lender.</p>	48,854	52,394
<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. The Organization was in compliance with these covenants as of December 31, 2018.</p>	2,501,930	2,501,930
<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>	356,810	362,138
	3,215,605	3,246,788
Less: Current Portion	(362,418)	(29,122)
Non-current Portion	2,853,187	3,217,666

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, 2019	362,418
2020	5,798
2021	6,162
2022	339,297
2023 and thereafter	<u>2,501,930</u>
	<u><u>3,215,605</u></u>

Note 4. Employee Benefit Plan

The Organization established a 403(b) plan (the "Plan") 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. Employer contributions to the Plan were \$15,763 and \$0 at December 31, 2018 and 2017, respectively.

Note 5. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Breaking the Cycle	0	197,706
JaxPort Academy	342,409	376,369
Future program support	<u>138,890</u>	<u>430,266</u>
	<u><u>481,299</u></u>	<u><u>1,004,341</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 donor restrictions amounted to \$551,671 and \$365,200 for the year ending December 31, 2018 and 2017, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 7. Liquidity and Availability of Resources

The Organization's financial assets available within one year of the statements of financial position date for general expenditure are as follows:

	<u>2018</u>
Cash and cash equivalents	1,445,139
Accounts receivable	681,234
Pledges receivable	1,500
Other current assets	<u>118,836</u>
 Total financial assets available within one year	 2,246,709
 Less:	
Amounts unavailable for general expenditures within one year, due to:	
Current debt obligations	(362,418)
Restricted by donors with purpose restrictions	<u>(481,299)</u>
Total financial assets available to management for general expenditures within one year	 <u><u>1,402,992</u></u>

Liquidity Management

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

SUPPLEMENTARY INFORMATION

OPERATION NEW HOPE, INC.

SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For the Year Ended December 31, 2018

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	447,663	<u>44,652</u>
U.S. DEPARTMENT OF LABOR:				
Training to Work 3 - Adult Reentry	17.270	PE-27379-15-60-A-12	1,137,655	196,736
Training to Work 3 - Adult Reentry	17.270	PE-32144-18-60-A-12	1,500,000	<u>28,651</u>
				225,387
Passed through First Coast Workforce Development Fresh Start Program	17.270	FCWD 2018-ONH-01	343,255	<u>27,656</u>
				<u>253,043</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Passed through City of Jacksonville, Florida Renew Jax - Community Development Block Grants / Entitlement Grants	14.218	B-17-UC-12-0017 / 8013-76	36,600	36,600
	14.218	PDC 001/18 / 8013-75	25,000	<u>25,000</u>
				61,600
Total Expenditures of Federal Awards				<u><u>359,295</u></u>
<u>STATE PROJECTS:</u>				
FLORIDA DEPARTMENT OF CORRECTIONS:				
Transitional Services - Post Release	70.011	C2855	1,725,000	1,467,842
FLORIDA DEPARTMENT OF STATE:				
Historic Preservation Grants	45.031	18.h.sm.100.069	37,500	<u>27,340</u>
Total Expenditures of State Projects				<u><u>1,495,182</u></u>
<u>GENERAL STATE FUNDING:</u>				
Passed through LSF Health Systems Block Grants for Prevention and Treatment of Substance Abuse		LS048	447,663	<u>46,206</u>
Total Expenditures of General State Funding				<u><u>46,206</u></u>
LOCAL ASSISTANCE:				
Passed through City of Jacksonville, Florida Jacksonville Journey		8013-72	331,904	54,897
Re-Entry Services		8013-77	400,000	<u>38,240</u>
				93,137
Local Initiatives Support Corporation		42049-0068	25,000	14,291
		42049-0069	231,487	231,207
		42049-0070	6,641	6,641
		42049-0072	65,000	58,500
		42049-0073	447,663	<u>27,500</u>
				338,139
United Way - Basic Needs			25,000	25,000
Jacksonville Area Legal Aid				<u>11,433</u>
Total Expenditures of Local Assistance				<u><u>467,709</u></u>
Total Expenditures of Federal Awards, State Financial Assistance, and Local Assistance				<u><u>2,368,392</u></u>

OPERATION NEW HOPE, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For The Year Ended December 31, 2018

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.

OPERATION NEW HOPE, INC.

SCHEDULE OF SOURCE AND EXPENDITURES OF CITY GRANT FUNDS

For the Year Ended December 31, 2018

Contract #	Contract Period	Total Budget	Receipts/Expenditures	Balance Remaining 2019
		Reentry Program		
8013-77	10/1/18 - 9/30/19		10/1/18 - 12/31/18	
Receipts:		400,000	0	400,000
Expenditures:				
Direct client expenses		400,000	38,240	
Total Expenditures		400,000	38,240	361,760

OPERATION NEW HOPE, INC.

NOTES TO SCHEDULE OF SOURCE AND EXPENDITURE OF CITY GRANT FUNDS

For The Year Ended December 31, 2018

BASIS OF ACCOUNTING

The accompanying schedule of source and expenditure of city grant funds includes grant activity related to funding from the various departments within the City of Jacksonville.

The information in this schedule is presented in accordance with the requirements of Ordinance Code Chapter 118.202(e) of the City of Jacksonville, Florida. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CONTRACT 8013-77

The remaining expenditures balance of \$361,760 for contract number 8013-77 reflects expenditures to be incurred by the Organization during the remaining contract period. The remaining balance of \$400,000 represents both funds to be received from the City for expenditures incurred as of December 31, 2018 and funds to be disbursed by the City for expenses incurred during the remaining contract period.



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 statements of financial position as of December 31, 2018 and 2017, and the related statements 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 17, 2019.

Internal Control Over Financial Reporting

In planning and performing our audits 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 weaknesses. We did identify a certain deficiency in internal control, as described in the accompanying schedule of findings and questioned costs as item 2018-001, that we consider to be a significant deficiency.



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 2018-002.

Operation New Hope's Response to Findings

The Organization's response to the 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 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 17, 2019



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

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

Report on Compliance for Each Major State Project

We have audited Operation New Hope, Inc.'s (the "Organization") compliance with the types of compliance 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 state projects for the year ended December 31, 2018. The Organization's major 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 State statutes, regulations, and the terms and conditions of its State awards applicable to its state projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major 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 and the standards applicable to financial audits contained in Chapter 10.650, *Rules of the Auditor General*. Those standards 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 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 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 STATE PROJECT AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

Opinion on Each Major 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 state projects for the year ended December 31, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with Chapter 10.650, *Rules of the Auditor General*, which is described in the accompanying schedule of findings and questioned costs as item 2018-002. Our opinion on each 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 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 state project and to test and report on internal control over compliance in accordance with 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 STATE PROJECT AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY 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 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 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 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 2018-001, that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance 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.

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 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 17, 2019

OPERATION NEW HOPE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEDERAL PROGRAMS AND STATE PROJECTS

For the Year Ended December 31, 2018

FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2017-001

Condition:

This finding was a significant deficiency stating that the supporting documentation surrounding cash receipts and internal controls was not maintained.

Recommendation:

The auditor recommended that 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.

Current Status:

The recommendation was adopted during 2018. No similar findings were noted in the 2018 audit.

Finding 2017-002

Condition:

This finding was a significant deficiency stating that there was insufficient supporting documentation in regards to internal controls surrounding the Schedule of Expenditures of Financial Awards.

Recommendation:

The auditor recommended that procedures should be implemented that indicate that there is appropriate oversight of governmental funding and recording.

Current Status:

The recommendation was adopted during 2018. No similar findings were noted in the 2018 audit.

Finding 2017-003 - DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Condition:

Documentation of verification of low income status could not be located for one of the three separate residences funded by two grants.

Recommendation:

The auditor recommended that appropriate records should be maintained as required in each contract.

Current Status:

The program ended in 2017. No similar findings were noted in the 2018 audit.

OPERATION NEW HOPE, INC.

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

For the Year Ended December 31, 2018

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> X </u> Yes	<u> </u> None reported

Noncompliance material to financial statement noted?

<u> </u> Yes	<u> X </u> No
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Federal Awards and State Projects

Internal control over major programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> 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

<u> X </u> Yes	<u> </u> No
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Identification of major programs:

<u>Federal Program or Cluster</u>	<u>Federal CFDA No.</u>
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N/A for 2018

<u>State Program</u>	<u>State CFSA No.</u>
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Florida Department of Corrections Transitional Services - Post Release	70.011
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OPERATION NEW HOPE, INC.

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

For the Year Ended December 31, 2018

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)?	N/A for 2018

FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2018-001

Condition: We noted instances that indicate an issue with timely deposits of cash receipt.

Criteria: Internal controls should be in place that provide reasonable assurance that cash receipts are properly handled and deposited in a timely manner.

Cause: Cash log was implemented, but there was a lag in certain instances of more than 2 weeks between receipt and documented deposit.

Effect: There is the risk that cash will be mishandled or misappropriated.

Recommendation: Procedures should be implemented that ensure that cash receipts are handled in a timely manner.

Views of responsible officials and planned corrective actions: Management's response is included in the Corrective Action Plan.

FINDINGS and QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS

None

FINDINGS and QUESTIONED COSTS - MAJOR STATE PROJECTS

FLORIDA DEPARTMENT OF CORRECTIONS

CSFA #70.011

Finding 2018-002

Condition: We noted instances of participant direct expenses invoiced to Florida Department of Corrections invoiced incorrectly.

Criteria: Invoices and supporting documentation should be reviewed prior to submission to ensure items are billed and recorded correctly.

OPERATION NEW HOPE, INC.

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

For the Year Ended December 31, 2018

SUMMARY OF AUDITOR'S RESULTS

Finding 2018-002, continued

Cause: There were several instances that supporting documentation did not agree to the amount included in the invoice. These included housing vouchers and uniform assistance. The amounts were not considered material in nature, but do reflect noncompliance to the program requirements.

Effect: There is the risk that invoices submitted to Florida Department of Corrections are overstated.

Recommendation: Procedures should be implemented that ensure that invoices to the Florida Department of Corrections are reviewed and approved prior to submission for payment.

Views of responsible officials and planned corrective actions: Management's response is included in the Corrective Action Plan.

No management letter is required because there were no findings required to be reported in the management letter.

Summary of Schedule of Prior Audit Findings is included.

OPERATION NEW HOPE, INC.

CORRECTIVE ACTION PLAN

For the Year Ended December 31, 2018

SIGNIFICANT DEFICIENCY: 2018-001

Name of contact person:

Peggy Boord, Chief Financial Officer

Corrective action:

Management agrees with this finding, however, management does not agree that there was a significant internal control deficiency. There were receipts that were not deposited in what is considered a typical timeframe, however, it is the opinion of management that there is a good internal control in place around cash. The cash receipts process incorporates separation of duties as well as the tracking of receipts from date received to deposit. Undeposited checks are kept in a locked safe in a locked office.

Checks are logged into a cash receipts log by a non-accounting staff member, currently the Executive Administrative Assistant, when they arrive. The checks are stamped “for deposit only” with the bank account information included. The checks are then given to the accounting staff. If there are no questions about the receipt, the check is entered onto a deposit slip and secured in the safe until taken to the bank for deposit. Once the deposit occurs, the Executive Administrative Assistant is provided proof of the deposit and logs that information into the receipt log. If the Executive Administrative Assistant does not receive confirmation of the deposit, there is a process of escalation that occur in 5, 10 and 15 days up to the CEO.

Management does agree that deposits should be made timelier and will insure this is done. E-deposit has been implemented to facilitate more frequent deposits and the CFO will implement stricter processes.

OPERATION NEW HOPE, INC.
CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2018

STATE PROJECT AUDIT FINDING: 2018-002

Name of contact person:

Peggy Boord, Chief Financial Officer

Corrective action:

Management agrees with this finding. Operation New Hope staff prepares over 900 pages of documentation monthly to support the billing provided to the Florida Department of Corrections. The documentation is accumulated and reviewed in order to meet a strict submission deadline of the 15th of the month following the expenditures. The invoice and supporting documentation is prepared by the Grants Administrator and then is reviewed by one or more Operation New Hope staff including the CFO, as time permits, prior to submission. Once received by the Department of Corrections (DOC), it is again thoroughly reviewed by the Contract Manager and Accounting departments at the DOC. While it is possible for an error to occur and go undetected, a significant error is unlikely to go undetected.

To address this finding, management will insure a more thorough review of the amounts billed each month.