

OPERATION NEW HOPE, INC.

FINANCIAL REPORT

Years Ended December 31, 2019 and 2018



SMOAK, DAVIS & NIXON LLP

Certified Public Accountants

Providing Integrated Financial Solutions

CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1 & 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4 & 5
Statements of Functional Expense	6 & 7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 17
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Financial Awards	18
Notes to Schedule of Expenditures of Financial Awards	19
Schedule of Source and Expenditure of City Grant Funds	20
Notes to Schedule of Source and Expenditure of City Grant Funds	21
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 <i>GOVERNMENT AUDITING STANDARDS</i>	22 & 23
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROJECT AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY CHAPTER 10.650, <i>RULES OF THE AUDITOR GENERAL</i>	24 - 25
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	26 - 27
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	28 - 29



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, 2019 and 2018, 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, 2019 and 2018, 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 June 30, 2020, 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 the effectiveness of Operation New Hope, Inc.'s 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
June 30, 2020

OPERATION NEW HOPE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Unrestricted cash and cash equivalents	1,462,545	1,445,139
Restricted cash	206,323	0
Accounts receivable	585,275	681,234
Pledges receivable	31,570	1,500
Other current assets	82,234	118,836
Total current assets	2,367,947	2,246,709
LAND, BUILDING, AND EQUIPMENT, net	3,596,643	3,809,533
Total assets	5,964,590	6,056,242
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	33,635	362,418
Accounts payable	16,126	0
Other current liabilities	51,412	53,104
Total current liabilities	101,173	415,522
LONG-TERM LIABILITIES		
Notes payable, less current portion	3,156,343	2,853,187
Total liabilities	3,257,516	3,268,709
NET ASSETS		
Without donor restrictions	2,113,075	2,306,234
With donor restrictions	593,999	481,299
Total net assets	2,707,074	2,787,533
Total liabilities and net assets	5,964,590	6,056,242

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

OPERATION NEW HOPE, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT AND REVENUES			
Governmental agency contracts and grants	2,808,587		2,808,587
Contributions	965,596	259,426	1,225,022
Noncash contributions	95,317		95,317
Replication revenue	39,600		39,600
Interest income	8,751		8,751
Property sales, net	8,985		8,985
Rental income	94,535		94,535
Other	2,079		2,079
Net assets released from restrictions	146,726	(146,726)	0
Total public support and revenues	4,170,176	112,700	4,282,876
EXPENSES			
Program Services	4,084,297		4,084,297
Supporting Services:			
Management and general	219,148		219,148
Fundraising	59,890		59,890
Total expenses	4,363,335	0	4,363,335
CHANGE IN NET ASSETS	(193,159)	112,700	(80,459)
NET ASSETS, BEGINNING OF YEAR	2,306,234	481,299	2,787,533
NET ASSETS, END OF YEAR	2,113,075	593,999	2,707,074

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

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 FUNCTIONAL EXPENSES

Year Ended December 31, 2019

	Program Services	Supporting Services			Total 2019
	Social Development	Management and General	Fund Raising	Total Supporting	
Personnel:					
Salaries	1,756,898	85,623	26,446	112,069	1,868,967
Employee health and retirement benefits	246,294	13,650	3,265	16,915	263,209
Salaries and related benefits	2,003,192	99,273	29,711	128,984	2,132,176
Client direct services	970,286			0	970,286
Professional fees	75,263	34,640	30,105	64,745	140,008
Contract labor	14,382			0	14,382
Training and development	1,094			0	1,094
General insurance	53,726	2,828		2,828	56,554
Office expense	294,900	35,181		35,181	330,081
Occupancy	110,614	8,698		8,698	119,312
Telephone	6,029	2,148		2,148	8,177
Rental	55,125	6,125		6,125	61,250
Travel	39,850	2,496		2,496	42,346
Advertising	27,846			0	27,846
Fundraising			74	74	74
Other expense	55,598	520		520	56,118
Bad Debt	156,000				156,000
Total expenses before depreciation and amortization	3,863,905	191,909	59,890	251,799	4,115,704
Depreciation and amortization	220,392	27,239	0	27,239	247,631
Total expenses	4,084,297	219,148	59,890	279,038	4,363,335

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 Services		Supporting Services		Total 2018
	Social Development	Management and General	Fund Raising	Total Supporting	
Personnel:					
Salaries	1,533,527	102,235	68,157	170,392	1,703,919
Employee health and retirement benefits	224,352	14,957	9,971	24,928	249,280
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.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	(80,459)	(247,325)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	247,631	246,232
Value of donated assets	(21,550)	(16,481)
Accounts receivable	95,959	(258,644)
Pledges receivable	(30,070)	18,500
Other current assets	36,602	39,701
Accounts payable	16,126	(67,340)
Other current liabilities	(1,692)	(113,998)
Net cash provided by (used in) operating activities	<u>262,547</u>	<u>(399,355)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of land, building and equipment	<u>(13,191)</u>	<u>(47,907)</u>
Net cash used in investing activities	<u>(13,191)</u>	<u>(47,907)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	<u>(25,627)</u>	<u>(31,183)</u>
Net cash provided by financing activities	<u>(25,627)</u>	<u>(31,183)</u>
Increase (Decrease) in cash, cash equivalents, and restricted cash	223,729	(478,445)
Cash, cash equivalents, and restricted cash beginning of year	<u>1,445,139</u>	<u>1,923,584</u>
Cash, cash equivalents, and restricted cash end of year	<u><u>1,668,868</u></u>	<u><u>1,445,139</u></u>
Cash - without donor restrictions	1,074,869	963,840
Cash - with donor restrictions	<u>593,999</u>	<u>481,299</u>
	<u><u>1,668,868</u></u>	<u><u>1,445,139</u></u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION:		
Cash paid for interest during the year	39,655	44,421

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, 2019.

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 \$625,000 and \$500,000 at December 31, 2019 and 2018, 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, 2019. The Organization files tax returns in the U.S. federal jurisdiction. Tax years that remain subject to examination by major tax jurisdictions are 2016 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, 2019 and 2018 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 June 30, 2020, the date the financial statements were available to be issued.

In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. The ultimate impact of COVID-19 on the financial performance of the Organization is not reasonably estimable at this time.

On April 30, 2020, the Organization successfully closed on a Small Business Administration (SBA) Economic Injury Disaster Loan (EIDL) under the umbrella of the existing SBA 7(a) program as amended by the CARES Act - generally referred to as a "Paycheck Protection Program" loan - in the amount of \$409,600 (the Loan). The term of the Loan is 2 years bearing interest at 1.0% per annum. The Loan contains provisions favorable to the Organization including, but not limited to, no payments are due under the Loan until after a 6-month deferment period, borrower fees, lender fees and prepayment fees have been waived and further, the Organization can be eligible for loan forgiveness equal to the total amount paid for payroll costs, rent and utility costs as defined under the Act. There is no assurance that the Organization will be eligible or qualify, in whole or in part, for such loan forgiveness.

Accounting Pronouncements Adopted:

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. As a result of adopting these standards using the modified retrospective application, no prior year amounts were reclassified to conform to the presentation requirements. There was no material impact to the financial statements as a result of adoption.

NOTES TO FINANCIAL STATEMENTS

Note 1. (Continued)

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*, which requires that the change in restricted cash and cash equivalents be presented in the statement of cash flows along with cash and cash equivalents. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. As a result of adopting these standards using the retrospective transition method, no prior year amounts were reclassified to conform to the presentation requirements. There was no material impact to the financial statements as a result of adoption.

Contributions Received and Made

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which shifts the accounting for revenue recognition for most government grants from an exchange model to the contribution accounting model, resulting in most federal grants being accounted for as donor-restricted conditional contributions. The Organization has elected the “simultaneous release” accounting policy option such that grants received and used within the same period are reported in net assets without donor restriction, consistent with the previous presentation of government grants and contracts revenue in the statement of activities. Because most federal grants are awarded on a cost reimbursable basis, contribution revenue is triggered by incurring reimbursable costs and timing of revenue recognition is not materially impacted by this amendment. For sub-grants, expense recognition is deferred for conditional arrangements and immediate for unconditional arrangements. ASU 2018-08 is effective for annual periods beginning after June 15, 2018 for contributions received and effective for annual periods beginning after December 15, 2018 on contributions made; early adoption is permitted. As a result of adopting this standard using the prospective adoption approach, and in accordance with ASU 2018-08, no prior period results are restated in supplemental schedules nor are cumulative-effect adjustments reflected in the opening balance of net assets.

ASU 2018-08 also requires that entities determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets, which is likely to result in more grants and contracts being accounted for as conditional contributions than in prior years and an increase in the amount of deferred revenue and refundable advances. This guidance is applied on a modified prospective basis, meaning that there is no cumulative-effect adjustment to the opening balance of net assets as a result of adoption.

NOTES TO FINANCIAL STATEMENTS

Note 1. (Continued)

Accounting Pronouncements Issued:

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. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842)*, which defers the effective date of ASU 2016-02, until annual periods beginning after December 15, 2021. 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:

	2019	2018
Land and improvements	653,367	653,367
Buildings and improvements	3,273,752	3,260,561
Furniture fixtures and other equipment	1,554,408	1,532,857
	5,481,527	5,446,785
Less: Accumulated depreciation	(1,884,884)	(1,637,252)
Property and Equipment - net	<u>3,596,643</u>	<u>3,809,533</u>

NOTES TO FINANCIAL STATEMENTS

Note 3. Notes Payable

Notes payable consisted of the following as of December 31, 2019 and 2018:

	2019	2018
<p>During 2019, the Organization renewed a promissory note in the amount of \$302,724. This note bears interest at 5.58% at December 31, 2019, is due in monthly installments of \$3,303, and matures in June 2024. The note is secured by a mortgage. A balloon payment in the amount of \$173,557 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, 2019.</p>	290,696	308,011
<p>During 2019, the Organization renewed a promissory note in the amount of \$48,106. This note bears interest at 5.58% at December 31, 2019, is due in monthly installments of \$524 and matures in June 2024. The note is secured by a mortgage. A balloon payment in the amount of \$27,528 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, 2019.</p>	46,108	48,854
<p>Note payable - City of Jacksonville, issued in 2013 in the amount of \$2,116,243. 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, 2019.</p>	2,501,930	2,501,930

NOTES TO FINANCIAL STATEMENTS

Note 3. Notes Payable (Continued)

Construction loan issued in 2015 in the amount of \$500,000. 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.

	3,189,978	3,215,605
Less: Current Portion	(33,635)	(362,418)
Non-current Portion	3,156,343	2,853,187

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

Year ended December 31, 2020	33,635
2021	35,593
2022	370,400
2023	32,897
2024 and thereafter	2,717,453
	3,189,978

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 \$25,638 and \$15,763 at December 31, 2019 and 2018, respectively.

Note 5. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods at December 31, 2019 and 2018:

	2019	2018
JaxPort Academy	327,100	342,409
St. Augustine	227,856	0
Future program support	39,043	138,890
	593,999	481,299

NOTES TO FINANCIAL STATEMENTS

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 \$146,726 and \$551,671 for the year ending December 31, 2019 and 2018, respectively.

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>2019</u>	<u>2018</u>
Cash and cash equivalents	1,668,868	1,445,139
Accounts receivable	585,275	681,234
Pledges receivable	31,570	1,500
Other current assets	<u>82,234</u>	<u>118,836</u>
Total financial assets available within one year	2,367,947	2,246,709
Less:		
Amounts unavailable for general expenditures within one year, due to:		
Current debt obligations	(33,635)	(362,418)
Restricted by donors with purpose restrictions	<u>(593,999)</u>	<u>(481,299)</u>
Total financial assets available to management for general expenditures within one year	<u><u>1,740,313</u></u>	<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.

Note 8. Reclassification

Certain accounts in the 2018 Statements of Income have been reclassified to conform with the current year financial statement presentation.

SUPPLEMENTARY INFORMATION

OPERATION NEW HOPE, INC.

SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For the Year Ended December 31, 2019

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>21,841</u>
U.S. DEPARTMENT OF LABOR:				
Training to Work 3 - Adult Reentry	17.270	PE-32144-18-60-A-12	1,500,000	<u>520,778</u>
Total Expenditures of Federal Awards				<u><u>542,619</u></u>
<u>STATE PROJECTS:</u>				
FLORIDA DEPARTMENT OF CORRECTIONS:				
Transitional Services - Post Release	70.011	C2855	2,225,000	<u>1,740,620</u>
Total Expenditures of State Projects				<u><u>1,740,620</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>22,605</u>
Total Expenditures of General State Funding				<u><u>22,605</u></u>
LOCAL ASSISTANCE:				
Passed through City of Jacksonville, Florida				
Re-Entry Services		8013-77	400,000	361,755
Re-Entry Services		8013-78	400,000	<u>14,180</u>
				375,935
Local Initiatives Support Corporation				
		42049-0069	269,812	37,558
		42049-0073	62,500	<u>34,250</u>
				71,808
United Way - Basic Needs			25,000	25,000
City of St. Augustine			30,000	<u>30,000</u>
Total Expenditures of Local Assistance				<u><u>502,743</u></u>
Total Expenditures of Federal Awards, State Financial Assistance, and Local Assistance				<u><u>2,808,587</u></u>

OPERATION NEW HOPE, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FINANCIAL AWARDS

For The Year Ended December 31, 2019

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, 2019

Contract #	Contract Period	Total Budget	Receipts/Expenditures		Balance Remaining 2019	
			Reentry Program			
8013-77	10/01/18 - 09/30/19		10/01/18-12/31/2018	01/01/19-09/30/19		
Receipts:		400,000	0	399,995	5	
Expenditures:						
Direct client expenses		400,000	38,240	361,755		
Total Expenditures		400,000	38,240	361,755	5	
			Reentry Program			
8013-78	10/01/19 - 09/30/20			10/01/19-12/31/19		
Receipts:		400,000		0	400,000	
Expenditures:						
Direct client expenses		400,000		14,180		
Total Expenditures		400,000	0	14,180	385,820	

OPERATION NEW HOPE, INC.

NOTES TO SCHEDULE OF SOURCE AND EXPENDITURE OF CITY GRANT FUNDS

For The Year Ended December 31, 2019

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 \$5 for contract number 8013-77 reflects expenditures not incurred by the Organization during the contract period and will not be billed to the City of Jacksonville ("City").

CONTRACT 8013-78

The remaining expenditures balance of \$385,820 for contract number 8013-78 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, 2019 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, 2019 and 2018, 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 June 30, 2020.

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 or 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
June 30, 2020



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, 2019. 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.

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, 2019.



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 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.

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 or significant deficiencies.

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
June 30, 2020

OPERATION NEW HOPE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEDERAL PROGRAMS AND STATE PROJECTS

For the Year Ended December 31, 2019

FINDINGS - FINANCIAL STATEMENT AUDIT

Finding 2018-001

Condition:

This finding was a significant deficiency stating that there were issues with timely deposits of cash receipts.

Recommendation:

The auditor recommended that procedures should be implemented to ensure that cash receipts are handled in a timely manner.

Current Status:

The recommendation was adopted during 2019. No similar findings were noted in the 2019 audit.

Finding 2018-002 - DEPARTMENT OF CORRECTIONS

Condition:

This finding was a significant deficiency stating that there were instances of participant direct expenses invoiced to Florida Department of Corrections invoiced incorrectly.

Recommendation:

The auditor recommended that procedures should be implemented that ensure that invoices to the Florida Department of Corrections are reviewed and approved prior to submission for payment.

Current Status:

The recommendation was adopted during 2019. No similar findings were noted in the 2019 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 or 2019 audit.

OPERATION NEW HOPE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEDERAL PROGRAMS AND STATE PROJECTS

For the Year Ended December 31, 2019

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 or 2019 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 or 2019 audit.

OPERATION NEW HOPE, INC.

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

For the Year Ended December 31, 2019

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? Yes X 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? Yes X 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 Yes X No

Identification of major programs:

Federal Program or Cluster Federal CFDA No.

N/A for 2019

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, 2019

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 2019

FINDINGS - FINANCIAL STATEMENT AUDIT

None

FINDINGS and QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS

None

FINDINGS and QUESTIONED COSTS - MAJOR STATE PROJECTS

FLORIDA DEPARTMENT OF CORRECTIONS

CSFA #70.011

None

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.