

NETHOPE, INC.
Fairfax, Virginia
FINANCIAL REPORT
JUNE 30, 2019

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GBI	Global Broadband and Innovations
ICT	Information and Communication Technology

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
NetHope, Inc.
Fairfax, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of NetHope, Inc. (NetHope), which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of activities 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 audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes 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 NetHope'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 NetHope'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NetHope, Inc. as of June 30, 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.

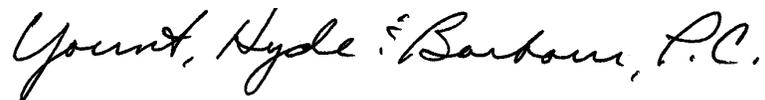
Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal 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* (Uniform Guidance), 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 audits 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 taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2020, on our consideration of NetHope'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 NetHope'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 NetHope's internal control over financial reporting and compliance.



Winchester, Virginia
March 25, 2020

NETHOPE, INC.

Statements of Financial Position

June 30, 2019 and 2018

Assets	2019	2018
Current Assets		
Cash and cash equivalents	\$ 2,183,326	\$ 2,864,964
Accounts receivable	537,599	477,218
Grants receivable	183,878	300,608
Prepaid expenses	<u>90,577</u>	<u>54,924</u>
Total current assets	<u>2,995,380</u>	<u>3,697,714</u>
Deposits	<u>35,314</u>	<u>46,621</u>
Property and equipment, net	<u>67,659</u>	<u>90,041</u>
Total assets	<u><u>\$ 3,098,353</u></u>	<u><u>\$ 3,834,376</u></u>
 Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 559,306	\$ 525,027
Deferred revenue	<u>448,520</u>	<u>188,458</u>
Total current liabilities	<u>1,007,826</u>	<u>713,485</u>
 Net Assets		
Without donor restrictions	503,717	835,916
With donor restrictions	<u>1,586,810</u>	<u>2,284,975</u>
Total net assets	<u>2,090,527</u>	<u>3,120,891</u>
Total liabilities and net assets	<u><u>\$ 3,098,353</u></u>	<u><u>\$ 3,834,376</u></u>

See Notes to Financial Statements.

NETHOPE, INC.

Statement of Activities

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
	<u> </u>	<u> </u>	<u> </u>
Revenue and Support			
Grants and contributions	\$ 3,016,783	\$ 2,887,208	\$ 5,903,991
Donated goods and services	702,388	--	702,388
Membership dues	924,000	--	924,000
Contract services and fees	739,673	--	739,673
Interest and other income	20,307	--	20,307
Net assets released from restrictions:			
Released from purpose restrictions	<u>3,585,373</u>	<u>(3,585,373)</u>	<u>--</u>
Total revenue and support	<u>8,988,524</u>	<u>(698,165)</u>	<u>8,290,359</u>
Expenses			
Program Services:			
Emergency Response and Refugee Program	1,821,534	--	1,821,534
GBI	1,462,821	--	1,462,821
Center for Digital Non-Profit	783,144	--	783,144
Summit	741,084	--	741,084
Shared Services and Strategic Sourcing	470,709	--	470,709
Crisis Informatics	486,200	--	486,200
Solution Center	92,347	--	92,347
Device Challenge	95,651	--	95,651
Connectivity	52,954	--	52,954
ICT	51,860	--	51,860
Other programs	<u>354,957</u>	<u>--</u>	<u>354,957</u>
Total program services	<u>6,413,261</u>	<u>--</u>	<u>6,413,261</u>
Supporting Services:			
Management and general	2,719,808	--	2,719,808
Fundraising	<u>187,654</u>	<u>--</u>	<u>187,654</u>
Total supporting services	<u>2,907,462</u>	<u>--</u>	<u>2,907,462</u>
Total expenses	<u>9,320,723</u>	<u>--</u>	<u>9,320,723</u>
Change in net assets	(332,199)	(698,165)	(1,030,364)
Net Assets, beginning of year	<u>835,916</u>	<u>2,284,975</u>	<u>3,120,891</u>
Net Assets, end of year	<u>\$ 503,717</u>	<u>\$ 1,586,810</u>	<u>\$ 2,090,527</u>

See Notes to Financial Statements.

NETHOPE, INC.

Statement of Activities

For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grants and contributions	\$ 4,222,652	\$ 3,385,200	\$ 7,607,852
Donated goods and services	967,197	--	967,197
Membership dues	910,800	--	910,800
Contract services and fees	653,195	--	653,195
Interest and other income	24,082	--	24,082
Net assets released from restrictions:			
Released from purpose restrictions	3,601,995	(3,601,995)	--
Total revenue and support	10,379,921	(216,795)	10,163,126
Expenses			
Program Services:			
Emergency Response and Refugee Program	2,660,158	--	2,660,158
GBI	1,777,355	--	1,777,355
Center for Digital Non-Profit	998,735	--	998,735
Summit	534,182	--	534,182
Shared Services and Strategic Sourcing	492,776	--	492,776
Crisis Informatics	405,967	--	405,967
Solution Center	141,205	--	141,205
Device Challenge	123,936	--	123,936
Connectivity	84,305	--	84,305
ICT	43,365	--	43,365
Other programs	545,335	--	545,335
Total program services	7,807,319	--	7,807,319
Supporting Services:			
Management and general	2,329,410	--	2,329,410
Fundraising	235,693	--	235,693
Total supporting services	2,565,103	--	2,565,103
Total expenses	10,372,422	--	10,372,422
Change in net assets	7,499	(216,795)	(209,296)
Net Assets, beginning of year	828,417	2,501,770	3,330,187
Net Assets, end of year	\$ 835,916	\$ 2,284,975	\$ 3,120,891

See Notes to Financial Statements.

NETHOPE, INC.

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	\$ (1,030,364)	\$ (209,296)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation and amortization	27,229	25,615
Decrease (increase) in assets:		
Accounts receivable	(60,381)	(30,299)
Grants receivable	116,730	627,183
Prepaid expenses	(35,653)	4,994
Deposits	11,307	(1,747)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	34,279	(18,413)
Deferred revenue	260,062	(98,242)
Refundable advance	--	(1,055,152)
Net cash (used in) operating activities	(676,791)	(755,357)
 Cash Flows from Investing Activities,		
purchase of property and equipment	(4,847)	(11,023)
 Change in cash and cash equivalents	(681,638)	(766,380)
 Cash and Cash Equivalents		
Beginning of year	2,864,964	3,631,344
 End of year	\$ 2,183,326	\$ 2,864,964
 Supplemental Disclosure of Cash Flow Information,		
donated goods and services	\$ 702,388	\$ 967,197

See Notes to Financial Statements.

NETHOPE, INC.

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization

NetHope, Inc. (NetHope) which started in 2001, is a new-generation information technology collaboration of 56 leading international governmental organizations (NGOs) representing more than \$40 billion U.S. dollars of humanitarian development, emergency response and conservation programs serving millions of beneficiaries in more than 180 countries. Through member collaboration and by facilitating public-private partnerships with major technology companies, foundations and individuals, NetHope helps members use their technology investments to better serve people in the most remote areas. NetHope is supported primarily through membership dues and grants and contributions and was incorporated under the laws of the state of Delaware.

In addition to normal revenue and expense fluctuations as new programs are funded and old ones are finished, NetHope's income and expenses can vary greatly if NetHope has responded to a disaster during the fiscal year. Not all years include disaster response, but the years that do, NetHope will have a large fluctuation in the overall income and expenses.

Basis of Accounting

NetHope uses the accrual method of accounting for financial statement reporting purposes. Under this method, revenue is recognized when earned and expenses when incurred.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and money market accounts. NetHope considers all highly-liquid financial instruments purchased with an initial maturity of three months or less to be cash equivalents. NetHope has not experienced any losses on its accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable

Accounts receivable are recorded at their net realizable value. All amounts are due within one year. Accounts receivable that are past due are individually analyzed for collectability. Management annually adjusts the allowance account based upon its estimate of those receivables it believes to be uncollectible. As of June 30, 2019 and 2018, NetHope did not have an allowance for doubtful accounts.

Notes to Financial Statements

Property and Equipment and Related Depreciation and Amortization

Property and equipment in excess of \$1,000 are capitalized and are carried at cost. Depreciation on program and office equipment is provided for on a straight-line basis over the estimated useful lives of the assets, which range from five to seven years. Costs related to the website are recorded at cost and is amortized using the straight-line method over five years. The cost of property and equipment retired or disposed of is removed from the accounts along with the related accumulated depreciation or amortization, and any gain or loss is reflected in revenue and support in the accompanying statement of activities. Major additions are capitalized while replacements, maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

Net Assets

The net assets of NetHope, Inc. are reported as follows:

- Net assets without donor restrictions represent the portion of expendable funds that are available for operations;
- Net assets with donor restrictions represent amounts that are specifically restricted by donors or grantors for various purposes or time periods.

Revenue Recognition

NetHope recognizes all unconditional contributed support in the period in which the commitment is made. Grants and contributions are considered revenue and support without donor restrictions and are available for general operations unless specifically restricted by the donor. NetHope reports grants of cash and other assets as revenue and support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets to a particular purpose or to future periods. When the stipulated time restriction ends or the purpose of the restriction is met, net assets with donor restrictions are classified to net assets without donor restrictions reported in the accompanying statements of activities as net assets released from restrictions. Revenue recognized on these grants for which the cash has not been received from the grantor as of year-end is reflected as grants receivable in the accompanying statements of financial position.

NetHope receives grants from U.S. Government agencies in exchange for services. Revenue from these grants is recognized as direct costs are incurred on the basis of direct costs plus allowable indirect costs. Revenue recognized on these grants for which billings have not been presented to the grantor and cash has not been received from the grantor is reflected as grants receivable in the accompanying statements of financial position.

Income from membership dues is recorded during the period of membership, which is generally one year. NetHope prepares an annual dues formula based on members' annual revenue. Dues payments received in advance for a succeeding year are reflected as deferred revenue in the accompanying statements of financial position.

Notes to Financial Statements

Contract service and fees revenue represents information technology (IT) support services that are provided to member organizations. Revenue is recognized as services are provided to the member. Revenue recognized on contracts for which billings have not been billed or received as of year-end is included in accounts receivable in the accompanying statements of financial position.

Donated Goods and Services

Donated goods and services are recognized as revenue and support and expenses in the accompanying statements of activities at their estimated fair value as provided by the donor, at the date of receipt. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the schedule of functional expenses. Certain costs have been allocated among program, management and general and fundraising. Such allocations have been made by management on an equitable basis. Personnel and consulting expenses are allocated based on time and effort. All other costs are allocated based on direct allocation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

Upcoming Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for NetHope for the year ended June 30, 2022. Early adoption is permitted. NetHope is currently evaluating the impact that the adoption of Topic 842 will have on its financial statements.

Notes to Financial Statements

In June 2018, the FASB issued Accounting Standards Update No. 2018-08, Not-for-Profit Entities (Topic 958), which clarifies the scope and the accounting guidance for contributions received and contributions made. Specifically, the update assists entities in determining whether a transaction should be accounted for as a contribution or an exchange transaction. If a transaction is accounted for as an exchange transaction, other accounting guidance, for example, in Topic 606, Revenue from Contracts with Customers, should be followed. If, however, a transaction is accounted for as a contribution, guidance in Subtopic 958-605 should be followed. Additionally, the update assists entities in determining whether a contribution is conditional. ASU 2018-08 is effective for contributions received by NetHope for its year ended June 30, 2020. ASU 2018-08 is effective for contributions made, if applicable, by NetHope for its year ended June 30, 2021. Early adoption is permitted. NetHope is currently evaluating the impact that the adoption of Topic 958 will have on its financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance for recognizing revenue from contracts with customers. The core principle of ASU 2014-09 is that revenue will be recognized when promised goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services. Generally, the ASU states that revenue should be recognized by following a five step process which include identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligation in the contract, and recognizing revenue as the entity satisfies a performance obligation. ASU 2014-09 is effective for NetHope for its year ended June 30, 2020. NetHope is currently evaluating the impact that the adoption of Topic 606 will have on its financial statements.

New Accounting Pronouncement

In August 2016, the FASB issued ASU No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance replaces the three classes of net assets currently presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess an entity's available financial resources, along with its management of liquidity and liquidity risk (Note 2). The guidance requires all not-for-profit entities to present expenses by both their natural and functional classification in a single location in the financial statements (Note 13). NetHope adopted the standard in the current year. Adoption of this new standard had no effect on the change in net assets or in total.

Notes to Financial Statements

Note 2. Liquidity and Availability of Resources

NetHope has the following financial assets within one year of the statement of financial position date to meet cash needs for general expenditure. NetHope has a demand loan in the amount of \$250,000, which it could draw upon in the event of an unexpected liquidity need.

Financial assets, at year-end	
Cash and cash equivalents	\$ 2,183,326
Accounts receivable	537,599
Grants receivable	<u>183,878</u>
	2,904,803
Less those unavailable for general expenditure within one year, due to, donor-imposed restrictions	<u>1,586,810</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 1,317,993</u>

Note 3. Grants Receivable

NetHope's grants receivable consisted of federal awards receivable as of June 30, 2019 and 2018. All amounts are due in less than one year and considered fully collectible.

Note 4. Property and Equipment and Accumulated Depreciation and Amortization

NetHope's property and equipment consist of the following as of June 30, 2019 and 2018:

	2019	2018
Program equipment	\$ 25,722	\$ 25,722
Office equipment	23,884	19,038
Website	<u>117,791</u>	<u>117,791</u>
Total property and equipment	167,397	162,551
Less: accumulated depreciation and amortization	<u>(99,738)</u>	<u>(72,510)</u>
Property and equipment, net	<u>\$ 67,659</u>	<u>\$ 90,041</u>

Depreciation and amortization expense totaled \$27,229 and \$25,615 for the years ended June 30, 2019 and 2018, respectively.

Notes to Financial Statements

Note 5. Demand Loan

NetHope has a \$250,000 demand loan with a financial institution. There is no date of maturity associated with the demand loan; it is due when called upon. The demand loan bears interest at the prime rate, as published in the Money Rates section of the Wall Street Journal, plus 0.5%, and at no time shall the interest be below 4.5% per annum. As of June 30, 2019 and 2018, the interest rate was 6% and 5.50%, respectively, and no amounts were outstanding either year on this demand loan.

Note 6. Risks and Contingencies

Office of Management and Budget and the Uniform Guidance

NetHope has instructed its independent auditors to audit its applicable federal programs for the year ended June 30, 2019, in compliance with the Uniform Guidance issued by the U.S. Office of Management and Budget (OMB). Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the reviews by the federal agencies of the independent auditor's reports for the year ended June 30, 2019 will not have a material effect on NetHope's financial position as of June 30, 2019 or its results of operations for the year then ended.

Provisional Indirect Costs Rates

Billings under cost-reimbursable government contracts and grants are calculated using provisional rates that permit recovery of indirect costs. These rates are subject to audit by the U.S. Agency for International Development (USAID), NetHope's cognizant agency. The audit results in the negotiation and determination of the final indirect cost rates, which may create a liability for indirect cost recovery for amounts billed in excess of the actual rates, or may allow for additional billings for unbilled indirect costs.

USAID audits costs related to U.S. Government contracts and grants in accordance with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. USAID has yet to audit indirect costs for the years ended June 30, 2011 through 2019. Management believes that cost disallowances, if any, arising from USAID's audits will not have a material effect on NetHope's financial position as of June 30, 2019 and 2018, or results of operations for the years then ended.

Notes to Financial Statements

Note 7. Net Assets With Donor Restrictions

Net assets with donor restrictions were available for the following programs and time periods as of June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Advocacy	\$ 299,517	\$ 170,000
Device Challenge	--	213,779
Emergency Response	718,547	1,494,646
The Center for the Digital Nonprofit	380,000	--
Microsoft - Account Management	33,333	--
Patterson - Connective Impact	--	14,001
Visa Innovation Grant Awards	155,413	392,549
Total	<u>\$ 1,586,810</u>	<u>\$ 2,284,975</u>

Note 8. Concentrations

Major Grantors

For the year ended June 30, 2019, NetHope earned revenue of \$2,075,968 directly from USAID which represented 27% of NetHope's total revenue and support excluding in-kind revenue. For the year ended June 30, 2018, NetHope earned revenue of \$2,339,565 directly from USAID and \$1,000,000 directly from Facebook which represented 25% and 11%, respectively, of NetHope's total revenue and support excluding in-kind revenue.

As of June 30, 2019, \$183,878 of NetHope's grants receivable balance was due directly from USAID which represented 100% of NetHope's grants receivable balance. As of June 30, 2018, \$300,608 of NetHope's grants receivable balance was due directly from USAID which represented 100% of NetHope's grants receivable balance.

NetHope received in-kind revenue totaling \$595,069 and \$647,864 from Cisco which represented 85% and 67% of NetHope's in-kind revenue for the year ended June 30, 2019 and 2018, respectively.

Foreign Operations

During the year ended June 30, 2019, NetHope performed services and transacted business in Australia, Austria, Afghanistan, Brazil, Canada, Colombia, Czech Republic, Ethiopia, Germany, Greece, Guatemala, Iceland, Ireland, India, Jordan, Kenya, Lebanon, Liberia, Malawi, Mozambique, New Zealand, Nigeria, Pakistan, Philippines, Rwanda, Switzerland, Uganda, United Kingdom, United Arab Emirates, and Venezuela.

Notes to Financial Statements

Note 9. Donated Goods and Services

Donated goods and services consist primarily of professional services, legal services, staffing, IT support and equipment donations. Donated services are recognized if the services received create or enhance long-lived assets or require specialized skills, are provided by individual possessing these skills, and would typically need to be purchased if not donated. The financial statements include in-kind revenue and expense for the years ended June 30, 2019 and 2018, related to the following:

	<u>2019</u>	<u>2018</u>
Staffing and equipment	\$ 595,069	\$ 905,864
Software	50,000	--
Legal services	42,586	56,880
Other	<u>14,733</u>	<u>4,453</u>
Total	<u>\$ 702,388</u>	<u>\$ 967,197</u>

Note 10. Retirement Plan

NetHope established a tax-exempt profit sharing plan and trust (the Plan), effective January 1, 2006, under Internal Revenue Code (IRC) Section 401(a). Employees become eligible upon employment and attaining the age of 21. NetHope will match 100% of the employee's contribution to the plan up to 3% of the employee's gross annual salary, and then 50% of the employee's contribution to the plan up to 5% of the employee's gross annual salary. Employees are fully vested in the employer contributions once they begin participating in the plan. Contributions to the plan by NetHope were \$59,640 and \$62,788 for the years ended June 30, 2019 and 2018, respectively.

Note 11. Income Taxes

NetHope qualifies as a tax-exempt organization under Section 501(c)(3) of the IRC and is classified as a publicly supported organization under Section 509(a)(1) of the IRC. As such, NetHope is taxed only on its net unrelated business income. No provision for income taxes has been made in the accompanying financial statements for the years ended June 30, 2019 and 2018, as there was no net unrelated business income.

NetHope follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Financial Accounting Standards Board Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. NetHope performed an evaluation of uncertain tax positions for the year ended June 30, 2019, and determined that there are no matters that would

Notes to Financial Statements

require recognition in the financial statements or that may have any effect on its tax-exempt status. It is NetHope's policy to recognize interest and penalties related to uncertain tax positions, if any, in income tax expense. As of June 30, 2019, the statute of limitations for tax years ended June 30, 2016 through June 30, 2018, remains open with the U.S. Federal jurisdiction or the various states and local jurisdictions in which NetHope files tax returns.

Note 12. Subsequent Events

NetHope has evaluated the effect of subsequent events on these financial statements through March 25, 2020, the date the financial statements were available to be issued. There were no subsequent events identified through March 25, 2020 that are required to be disclosed in these financial statements.

Notes to Financial Statements

Note 13. Schedules of Functional Expenses

The schedules of functional expenses are as follows for the years ended June 30, 2019 and 2018:

	2019				
	Program Services	Supporting Services		Total Supporting Services	Total
		Management and General	Fundraising		
Consulting	\$ 2,394,182	\$ 300,816	\$ --	\$ 300,816	\$ 2,694,998
Supplies	106,320	14,313	375	14,688	121,008
Grants	167,520	--	--	--	167,520
Personnel	1,220,634	1,574,264	175,926	1,750,190	2,970,824
Telecommunication	127,649	3,357	--	3,357	131,006
Travel and related expenses	607,535	186,919	5,756	192,675	800,210
Donated goods and services	655,069	47,319	--	47,319	702,388
Website, marketing and communication	56,815	43,804	--	43,804	100,619
Professional fees	55,277	381,304	5,000	386,304	441,581
Postage and delivery	68,516	863	--	863	69,379
Dues and subscriptions	471,236	44,366	597	44,963	516,199
Conferences and meetings	465,869	63,337	--	63,337	529,206
Non-capitalizable equipment	1,615	1,691	--	1,691	3,306
Occupancy	6,900	3,125	--	3,125	10,025
Printing and publication	6,011	(110)	--	(110)	5,901
Insurance	2,113	14,186	--	14,186	16,299
Depreciation and amortization	--	27,229	--	27,229	27,229
Bad debt expense	--	13,025	--	13,025	13,025
Total expenses	<u>\$ 6,413,261</u>	<u>\$ 2,719,808</u>	<u>\$ 187,654</u>	<u>\$ 2,907,462</u>	<u>\$ 9,320,723</u>

Notes to Financial Statements

2018

	<u>Supporting Services</u>			Total Supporting Services	<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>		
Consulting	\$ 3,378,984	\$ 264,709	\$ 55,872	\$ 320,581	\$ 3,699,565
Supplies	409,653	16,297	1,200	17,497	427,150
Grants	31,232	--	--	--	31,232
Personnel	1,279,792	1,299,925	166,456	1,466,381	2,746,173
Telecommunication	64,982	3,478	16	3,494	68,476
Travel and related expenses	658,167	116,848	10,669	127,517	785,684
Donated goods and services	910,317	56,880	--	56,880	967,197
Website, marketing and communication	46,213	87,996	105	88,101	134,314
Professional fees	114,606	337,977	--	337,977	452,583
Postage and delivery	107,609	792	18	810	108,419
Dues and subscriptions	485,191	30,101	848	30,949	516,140
Conferences and meetings	280,743	68,555	444	68,999	349,742
Non-capitalizable equipment	6,031	4,933	--	4,933	10,964
Occupancy	22,955	1,000	--	1,000	23,955
Printing and publication	8,536	4,261	65	4,326	12,862
Insurance	2,308	10,043	--	10,043	12,351
Depreciation and amortization	--	25,615	--	25,615	25,615
Total expenses	<u>\$ 7,807,319</u>	<u>\$ 2,329,410</u>	<u>\$ 235,693</u>	<u>\$ 2,565,103</u>	<u>\$ 10,372,422</u>

**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**

To the Board of Directors
NetHope, Inc.
Fairfax, Virginia

Report on the Financial Statements

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 NetHope, Inc. (NetHope), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NetHope’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 NetHope’s internal control. Accordingly, we do not express an opinion on the effectiveness of NetHope’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 NetHope’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. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NetHope'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 NetHope's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NetHope's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gourent, Hyde & Barbour, P.C.

Winchester, Virginia
March 25, 2020

**INDEPENDENT AUDITOR’S REPORT
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

To the Board of Directors
NetHope, Inc.
Fairfax, Virginia

Report on Compliance for Each Major Federal Program

We have audited NetHope, Inc.’s (NetHope) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of NetHope’s major federal programs for the year ended June 30, 2019. NetHope’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of NetHope’s compliance.

Opinion on Each Major Federal Program

In our opinion, NetHope complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of NetHope 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 NetHope's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 NetHope'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 federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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, material weaknesses may exist that have not been identified.

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



Winchester, Virginia
March 25, 2020

NETHOPE, INC.

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Passed Through to Subrecipients	Federal Expenditures
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT			
USAID Foreign Assistance for Programs Overseas			
Global Broadband and Innovations (GBI) Program	98.001	\$ 101,318	\$ 2,075,968
 Total Expenditures of Federal Awards		<u>\$ 101,318</u>	<u>\$ 2,075,968</u>

See notes to the schedule of expenditures of federal awards.

NETHOPE, INC.

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of NetHope, Inc. under programs of the federal government for the year ended June 30, 2019. The information in the 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 Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of NetHope, Inc. it is not intended to and does not present the financial position, changes in net assets, or cash flows of NetHope, Inc.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Reconciliation of Schedule of Expenditures of Federal Awards to the Financial Statements

Federal program revenue	\$ 2,075,968
Plus: nonfederal program revenue	<u>3,828,023</u>
Grants and contributions per Statement of Activities	<u>\$ 5,903,991</u>

Note 4. Indirect Cost Rate

NetHope, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2019-001

Information on the Federal Program: USAID Foreign Assistance for Programs Overseas, CFDA #98.001, Period of Performance: September 2010 through September 2020.

Criteria: Per 2 CFR 200.84, a questioned cost means a cost that is questioned by the auditor because of an audit finding which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award.

Condition: The Organization billed an amount during fiscal year 2019 above its provisional indirect cost rate of 29.08%.

Questioned Costs: The amount of indirect costs billed over the provisional rate amount to \$35,458.

Cause: The Organization submitted documentation to USAID during the year ended June 30, 2019 requesting a final indirect cost rate of 31.27%. In May 2019, the Organization billed an amount in excess of its provisional indirect cost rate of 29.08% in advance of receiving approval of the final indirect cost rate. As of March 25, 2020, the Organization had not received approval of the final indirect cost rate.

Effect: The Organization withdrew funds in excess of allowable indirect costs.

Context: Indirect costs withdrawn in excess of the provisional rate of 29.08% totaled \$35,458.

Identification as a repeat finding: This finding is not a repeat finding for the Organization.

Recommendation: We recommend for an additional level of review to occur to ensure the reimbursement for indirect costs is in line with approved rates.

View of responsible individuals and planned corrective action: To prevent future occurrences, the Finance Manager will annually create a spreadsheet which calculates the allowable indirect costs for the fiscal year. A comparison will be made between the amount calculated for allowable indirect costs to the amount recorded and requested for reimbursement. The Finance Manager will have the Chief of Party review the spreadsheet and sign off on the calculation.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None.



Corrective Action Plan
For the Year Ended June 30, 2019

The responsible individuals for the corrective action plan are the Finance Manager and Chief of Party. The expected completion date for the plan is June 30, 2020.

Identifying Number: 2019-001

Finding: The Organization withdrew funds in excess of allowable indirect costs.

Corrective Actions Taken or Planned: To prevent future occurrences, the Finance Manager will annually create a spreadsheet which calculates the allowable indirect costs for the fiscal year. A comparison will be made between the amount calculated for allowable indirect costs to the amount recorded and requested for reimbursement. The Finance Manager will have the Chief of Party review the spreadsheet and sign off on the calculation.