

HOPE INTERNATIONAL

***CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

DECEMBER 31, 2010

HOPE INTERNATIONAL

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TAIT, WELLER & BAKER LLP
Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**Board of Directors
Hope International
Lancaster, Pennsylvania**

We have audited the accompanying consolidated statement of financial position of Hope International as of December 31, 2010, and the related consolidated statements of activities, functional expenses and cash flows for the year ended December 31, 2010. These consolidated financial statements are the responsibility of the Organization's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hope International as of December 31, 2010, and the changes in its net assets and its cash flows for the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming the opinion on the basic financial statements referred to above taken as a whole. The accompanying supplemental consolidating statement of financial position and consolidating statement of activities, on pages 19 and 21, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
June 6, 2011**

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2010

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,675,627
Contribution receivable	1,521,877
Microfinance loans receivable, net	2,109,090
Loans receivable, net	619,884
Interest receivable	39,691
Other receivables	164,937
Prepaid expenses and other assets	<u>98,979</u>
Total Current Assets	<u>7,230,085</u>

NONCURRENT ASSETS

Cash and cash equivalents – board designated endowment	1,642,420
Investments	541,761
Property and equipment, net	667,041
Other long-term assets	27,691
Minority interest in net assets	<u>1,229,616</u>
Total Assets	<u>\$11,338,614</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 317,266
Interest payable	52,045
Unearned revenue	88,203
Current portion of notes payable	915,121
Client deposits	91,926
Security deposits and other liabilities	<u>231,038</u>
Total Current Liabilities	<u>1,695,599</u>

NOTES PAYABLE

Total Liabilities	<u>1,572,056</u>
	<u>3,267,655</u>

NET ASSETS

Unrestricted	
Operations	4,244,123
Board designated for endowment	
First loss reserve – HOPE notes	500,000
Investment	1,142,420
Noncontrolling interest	306,171
Temporarily restricted	1,347,305
Permanently restricted	<u>530,940</u>
Net Assets	<u>8,070,959</u>

Total Liabilities and Net Assets	<u>\$11,338,614</u>
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HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended December 31, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Contributions (includes in-kind support of \$347,102)	\$2,280,950	\$ 4,082,420	\$246,749	\$ 6,610,119
Special events, net of direct expenses of \$139,610	300,110	686,982	-	987,092
Investment return designated for current operations	16,780	-	-	16,780
Interest income	1,179,681	-	-	1,179,681
Rental revenue	38,452	-	-	38,452
Less expenses (including depreciation)	<u>30,362</u>	<u>-</u>	<u>-</u>	<u>30,362</u>
Net rental income	<u>8,090</u>	<u>-</u>	<u>-</u>	<u>8,090</u>
MFI investment loss	(133,530)	-	-	(133,530)
Other income	<u>276</u>	<u>-</u>	<u>-</u>	<u>276</u>
Total support and revenue before net assets released from restrictions	3,652,357	4,769,402	246,749	8,668,508
Net assets released from restrictions	<u>5,423,656</u>	<u>(5,423,656)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>9,076,013</u>	<u>(654,254)</u>	<u>246,749</u>	<u>8,668,508</u>
FUNCTIONAL EXPENSES				
Program services	5,890,529	-	-	5,890,529
Management and general	421,738	-	-	421,738
Fundraising	<u>1,000,812</u>	<u>-</u>	<u>-</u>	<u>1,000,812</u>
Total expenses	<u>7,313,079</u>	<u>-</u>	<u>-</u>	<u>7,313,079</u>
OTHER CHANGES				
Investment return in excess of amounts designated for current operations	-	17,763	24,627	42,390
Net realized gains on foreign currency transactions	33,697	-	-	33,697
Gain on foreign currency translation	<u>23,361</u>	<u>-</u>	<u>-</u>	<u>23,361</u>
Total other changes	<u>57,058</u>	<u>17,763</u>	<u>24,627</u>	<u>99,448</u>
CHANGE IN NET ASSETS INCLUDING CHANGE IN THE EQUITY OF NONCONTROLLING INTEREST				
	1,819,992	(636,491)	271,376	1,454,877
Change in equity of noncontrolling interest	<u>(92,764)</u>	<u>-</u>	<u>-</u>	<u>(92,764)</u>
CHANGE IN NET ASSETS	1,727,228	(636,491)	271,376	1,362,113
NET ASSETS				
Beginning of year	<u>4,372,722</u>	<u>1,983,796</u>	<u>259,564</u>	<u>6,616,082</u>
End of year	<u>\$6,192,714</u>	<u>\$ 1,347,305</u>	<u>\$530,940</u>	<u>\$ 8,070,959</u>

The accompanying notes are an integral part of these financial statements.

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2010

2010	Program Services			Management And General	Fundraising	Total
	Microfinance		Total			
	Overseas Entities	United States Entities				
Salaries	\$ 767,704	\$ 873,966	\$1,641,670	\$290,480	\$ 624,855	\$ 2,557,005
Payroll taxes	180,872	71,382	252,254	22,021	49,094	323,369
Employee benefits	18,898	107,322	126,220	23,911	65,875	216,006
Other staff expenses	68,825	210,533	279,358	26,255	46,394	352,007
Insurance	4,817	1,209	6,026	4,513	425	10,964
Professional services	54,062	198,113	252,175	4,500	3,073	259,748
Office expenses	197,494	68,109	265,603	31,124	43,665	340,392
HOPE trips	-	286,938	286,938	-	-	286,938
Tomorrow Clubs	89,161	122,453	211,614	-	-	211,614
Education	5,703	24,658	30,361	313	62,096	92,770
Travel	115,323	201,622	316,945	-	34,888	351,833
Finance expenses – Interest and fees	276,466	71,213	347,679	2,037	23,984	373,700
Depreciation	30,851	17,789	48,640	7,395	10,490	66,525
Printing and reproduction	2,431	8,489	10,920	167	22,833	33,920
Recapture of loan loss reserve	(75,075)	-	(75,075)	-	-	(75,075)
Other expenses	67,233	18,971	86,204	9,022	13,140	108,366
Grants to Partners	-	1,802,997	1,802,997	-	-	1,802,997
	<u>\$1,804,765</u>	<u>\$4,085,764</u>	<u>\$5,890,529</u>	<u>\$421,738</u>	<u>\$1,000,812</u>	<u>\$7,313,079</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

OPERATING ACTIVITIES

Change in net assets	\$ 1,362,113
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized gain on investments	(17,014)
Recapture of allowance for doubtful accounts	(75,075)
Loss in minority interest	133,530
Depreciation	82,523
Contributions restricted for endowment	(246,749)
Change in noncontrolling interest	92,764
(Increase) decrease in operating assets	
Contributions receivable	(607,895)
Prepaid expenses and other assets	91,326
Interest receivable	116,242
Other long term assets	(182)
Other receivables	(164,937)
Increase (decrease) in operating liabilities	
Unearned revenue	(64,161)
Interest payable	51,541
Accounts payable and accrued expense	(22,451)
Client deposits	91,926
Security deposits and other liabilities	<u>50,502</u>
Net cash provided by operating activities	<u>874,003</u>

INVESTING ACTIVITIES

Designation for endowment of cash and cash equivalents	(800,000)
Purchase of property, plant and equipment	(80,646)
Purchase of investments	(246,442)
Program advances	133,469
Purchase of minority interest in net assets	(566,355)
Issuance of microfinance loans, net	(472,010)
Repayment of notes receivable	<u>100,000</u>
Net cash used in investing activities	<u>(1,931,984)</u>

FINANCING ACTIVITIES

Repayments of notes payable	(463,007)
Contributions restricted for endowments	<u>246,749</u>
Net cash used in financing activities	<u>(216,258)</u>

Net decrease in cash and cash equivalents (1,274,239)

CASH AND CASH EQUIVALENT

Beginning of year	<u>3,949,866</u>
End of year	<u>\$ 2,675,627</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest	<u>\$ 111,303</u>
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HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

(1) NATURE OF ORGANIZATION

The consolidated financial statements include the accounts of HOPE International, Hope Global Investment Fund (“*HGIF*”), a Vermont low profit limited liability corporation controlled by HOPE and Higher Impact Properties, LLC (“*HIP*”), a Pennsylvania limited liability company. The consolidated financial statements also include the accounts of the following microfinance institutions: HOPE Congo in the Republic of Congo, HOPE Ukraine in Ukraine and Hope for Life in Afghanistan (collectively “*HOPE*”). Prior to 2010, HOPE did not consolidate these foreign microfinance entities due to uncertainties and restrictions regarding their control of the operations and assets within these respective countries. Hope management believes such restrictions regarding their operations of these foreign microfinance institutions have been alleviated effective for 2010 and sufficient control of these entities rest with Hope. In conjunction with the consolidation of these entities, the beginning net assets of Hope have been adjusted by \$875,149.

HOPE is a global, faith-based, 501(c)(3) non-profit organization focused on poverty alleviation through microenterprise development. HOPE’s vision is to enable sustainable economic development that results in significant and lasting change, temporal and eternal, in the lives of many people living in poverty. HOPE accomplishes this vision through microfinance, making small loans to individual entrepreneurs and small business owners in developing countries, and actively supporting complementary ministries through churches, with a focus on children. HOPE was incorporated in 1996 and through its network currently serves in Afghanistan, Burundi, China, the Democratic Republic of Congo, the Dominican Republic, Haiti, India, Moldova, the Republic of Congo, Romania, Russia, Rwanda and Ukraine.

HOPE raises funds from several sources such as churches, foundations, and individuals to support its programs. In addition, HOPE offers multiple mission trip opportunities each year.

During the year ended December 31, 2010, HOPE received a contribution from Hope Global Investment Fund, a Pennsylvania non-profit corporation that was controlled by HOPE prior to dissolution of that organization. HOPE then used the proceeds from that contribution to establish and become the sole member of the Hope Global Investment Fund incorporated as a low profit limited liability corporation in the state of Vermont and purchased the assets and liabilities existing in the Pennsylvania non-profit corporation. The mission of HGIF is to support microenterprise development through offering unsecured notes to accredited investors to leverage lending activities in established microfinance institutions.

HIP manages rental properties which HOPE has acquired or received as donations. Through its subsidiary HIP, HOPE owns and operates several rental properties in Pennsylvania. These sources of funds contribute to HOPE’s work around the world.

HOPE Congo is a wholly owned microfinance institution registered in the Republic of Congo as a for-profit public limited company and is registered with the Central African Bank Commission.

HOPE Ukraine is a wholly owned microfinance institution registered in Ukraine as a Finance Company, a for-profit limited liability company, with the Ukraine State Regulatory Committee of Markets of Financial Services. HOPE Ukraine is controlled through equity holdings held directly by HOPE and two non-profits based in Uzhgorod and Zaporozhye Ukraine which HOPE International controls.

Hope for Life is a majority owned microfinance institution registered in Afghanistan as Microfinance Company, a for-profit joint stock limited liability company and is registered with the Afghanistan Investment Support Agency. HOPE has a 61% ownership interest in Hope for Life as of December 31, 2010.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING AND PRESENTATION

The financial statements of HOPE have been prepared on the accrual basis of accounting. All material intercompany accounts and transactions have been eliminated. For the microfinance entity in Afghanistan in which HOPE owns less than 100%, the noncontrolling interest is recorded and reflected as a component of unrestricted net assets in the consolidated statement of financial position.

SUBSEQUENT EVENTS

Subsequent events after the date of the statement of financial position through the date that the financial statements were available for issuance, June 6, 2011, have been evaluated in the preparation of the financial statements.

CASH AND CASH EQUIVALENTS

HOPE considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents, except for money market funds which have been designated for long-term investment including those funds reflected as cash and cash equivalents – board designated endowment on the Statement of Position.

INVESTMENTS

Marketable securities are stated at their market value.

LOANS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Loans receivable represent monies loaned to microfinance organizations in developing countries for the purpose of lending monies to individuals and business owners. These loans are unsecured. HOPE uses the allowance method to account for uncollectible receivables. An allowance for estimated loan losses is based on management's estimates of the ability of the microfinance organizations to repay, current economic conditions and historical information.

MICROFINANCE ENTERPRISE LOANS

Microfinance loans receivable are carried at their estimated collectible amounts. Interest income on loans receivable is recognized using the interest method. Interest income on impaired loans is recognized as cash is collected.

Microfinance loans receivable are periodically evaluated for collectibility based on past credit history with clients and their current financial condition. Provisions for losses on loans receivable are determined on the basis of loss experience, known and inherent risks in the loan portfolio, and current economic conditions. Loans are written off when the loan is 180 days delinquent or sooner if in management's judgment, there is no prospect of recovery.

PROPERTY AND EQUIPMENT

Expenditures in the United States greater than \$3,000 for the acquisition of property and equipment are capitalized at cost, and donated property and equipment are capitalized at fair value. Expenditures at HOPE's foreign operations are capitalized at differing levels depending on local statutory regulations. All depreciation is computed on the straight-line method over the estimated useful lives of the assets which range from 3 to 30 years.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

NET ASSETS

HOPE reports its resources, according to externally (donor) imposed restrictions, in the following net asset categories.

Unrestricted net assets include the revenues and expenses associated with the principal purpose of HOPE and its subsidiaries.

During the year ended December 31, 2010 the Board of Directors designated additional funds to the board designated endowment. As of December 31, 2010, \$500,000 of the endowment is designated as a first loss reserve to repay investors of HOPE Notes, if required. The remaining board designated endowment of \$1,142,420 is designated for investment. The board designated endowment is invested in cash and cash equivalents.

Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met.

Permanently restricted net assets include gifts held in perpetuity for the HOPE International Loan Endowment. The HOPE International Loan Endowment, as required by the donor's restrictions, requires that the corpus, realized and unrealized gains (losses) and 30% of dividend and interest earned to be maintained in perpetuity. The remaining 70% of dividend and interest is to be made available for microfinance loans. Initially, endowment fund cash contributions are maintained in a money market fund until the endowment fund investment manager has identified investments to be purchased that are in accordance with the endowment fund investment policy.

INCOME TAXES

HOPE is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a).

Management has reviewed the tax positions for each of the open tax years (2007 – 2009) or expected to be taken in HOPE's 2010 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

HOPE Congo, HOPE Ukraine and Hope for Life are for profit entities and pay taxes in the respective countries in which they are registered.

CONTRIBUTIONS

HOPE records unconditional promises to give (pledges) as a receivable and revenue when the pledge is received, net of the discount to present value of the future cash flows and of uncollectible receivables. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are then classified to unrestricted net assets and reported in the statement of activities as "*net assets released from restrictions.*"

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

DONATED MATERIALS AND SERVICES

In-kind contributions are reflected as support in the financial statements at their estimated values on the date of donation. Donated services are recognized as contributions in accordance with accounting standards associated with recognition of contribution revenue, if the services (a) create or enhance nonfinancial assets or (b) specialized skills, are performed by people with those skills, and would otherwise be purchased by HOPE. Volunteers provided services throughout the year that are not recognized as contributions in the financial statements since the criteria for revenue recognition are not met in accordance with accounting standards for such donated services.

FUNCTIONAL EXPENSE ALLOCATION

The costs of providing HOPE's various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services. Microfinance expenses are reflected as overseas entities or United States entities expenses in the Statement of Functional Expenses based on whether a foreign or United States entity incurred the expense.

ACCOUNTING ESTIMATES

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

CONCENTRATIONS OF CREDIT RISK AND OTHER RISKS

HOPE occasionally maintains cash in banks in excess of federally insured limits. The accounting standards associated with concentration of credit risk identifies uninsured cash as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

Concentration of credit risk with respect to loans receivable is the result of a small number of loans being made to both third party and subsidiary microfinance organizations in developing countries. HOPE manages the risks through its underwriting process and the continued monitoring of the respective microfinance organization's financial condition and operating performance.

In addition to loans receivable, HOPE issues microfinance loans through its three subsidiaries located in foreign countries. These subsidiaries operate in countries which from time to time do not have stable governments or economies to the extent that if negative events occur in these countries, HOPE may be at risk to recover and repatriate such assets from these countries. HOPE's investment of minority interest in microfinance organizations are subject to similar credit and other risks.

Equity in HOPE's microfinance organizations was \$1,915,567 which included a non-controlling interest of \$306,171.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

FOREIGN CURRENCY TRANSLATION

For HOPE's subsidiary microfinance organizations, assets and liabilities reflected in foreign currencies are translated into US dollars at the rate of exchange at the statement of financial position date. Accounts reflected in the statement of activities are translated at the average exchange rates during the year and any gains or losses resulting from foreign currency translation are reflected in the statement of activities. The net effect of such translation adjustments for the year ending December 31, 2010 was an increase to net assets of \$23,361.

(3) LONG-TERM INVESTMENTS

A summary of investments at December 31, 2010 are as follows:

	<u>Cost</u>	<u>Market</u>
Money Market Funds	\$1,648,536	\$1,648,536
Corporate Bonds	413,449	420,569
Equities	71,705	83,836
Mutual Fund – Equity	<u>29,862</u>	<u>31,240</u>
	<u>\$2,163,552</u>	2,184,181
Less: cash and cash equivalent – board designated endowment		<u>1,642,420</u>
Long-term investment		<u>\$ 541,761</u>

Investments comprise the following net assets:

	<u>2010</u>
Unrestricted endowment funds	\$1,642,420
Permanently restricted endowment funds	<u>530,940</u>
	<u>\$2,173,360</u>

HOPE has investments which comprises the permanently restricted endowment funds. As stipulated by the donor, investment earnings on the endowed assets are to be classified as either permanently restricted or temporarily restricted.

The Board designated endowment consists of money market funds and is included in noncurrent cash and cash equivalents – board designated reserve. The earnings from those assets designated for endowment are used for current year operations.

The overall investment objective is to further the advancement of HOPE's vision through providing the proper amount of liquidity while preserving capital and allowing for a return on investment in excess of investment costs and inflation. In order to achieve the investment objective, the Board designated endowment is maintained in money market funds. HOPE's Finance Committee in conjunction with the investment advisor monitors portfolio performance and the compliance of investment guidelines given to selected investment managers.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

The following schedule summarizes the investment return for the endowment investments and its classification in the statement of activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividends and interest	\$16,780	\$17,763	\$ 7,613	\$ 42,156
Net realized and unrealized gains	<u>-</u>	<u>-</u>	<u>17,014</u>	<u>17,014</u>
Return on investments	16,780	17,763	24,627	59,170
Less: Investment return designated for current operations	<u>16,780</u>	<u>-</u>	<u>-</u>	<u>16,780</u>
Investment return in excess of amounts designated for current operations	<u>\$ -</u>	<u>\$17,763</u>	<u>\$24,627</u>	<u>\$ 42,390</u>

(4) FAIR VALUE OF FINANCIAL INSTRUMENTS

HOPE follows financial accounting standards associated with fair value measurements which clarifies the definition of fair value and requires additional disclosures about the use of fair value measurements. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of the fair value hierarchy in accordance with financial accounting standards are described below:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities that HOPE has the ability to access.

Level 2 – observable inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing HOPE’s own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The summary of inputs used to value HOPE’s investments as of December 31, 2010 is as follows:

	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>	<u>Level 3 Significant Unobservable Inputs</u>
Investments				
Money Market Funds	\$ 1,648,536	\$ 1,648,536	\$ -	\$ -
Corporate Bonds	420,569	-	420,569	-
Equities	83,836	83,836	-	-
Mutual Fund – Equity	<u>31,240</u>	<u>31,240</u>	<u>-</u>	<u>-</u>
	<u>\$2,184,181</u>	<u>\$1,763,612</u>	<u>\$420,569</u>	<u>\$ -</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

(5) CONTRIBUTION RECEIVABLE

HOPE had pledges receivable totaling \$1,521,877 at December 31, 2010. The total amount is expected to be collected within one year.

(6) PROPERTY

Property and equipment as of December 31, 2010, consisted of the following:

Equipment and computer software	\$237,033
Leasehold improvements	123,616
Rental properties	
Buildings	477,586
Building improvements	<u>1,173</u>
	839,408
Less: accumulated depreciation	<u>172,367</u>
	<u>\$667,041</u>

Depreciation expense was \$82,523 for the year ended December 31, 2010 of which \$15,998 is included within rental properties expense, respectively.

(7) NOTES PAYABLE

Notes payable as of December 31, 2010, consisted of the following:

<u>LENDER</u>	<u>TERMS</u>	
HGIF Various	Three unsecured HOPE Notes bearing interest at a rate of 3% due annually, payable in full by December 31, 2012.	\$1,250,000
HOPE Ukraine Oikocredit	Unsecured debt bearing interest at a rate of 11% due semi-annually, principal is due in December 2011.	250,000
Habitat for Humanity International	Unsecured debt bearing interest at a rate of 4% due semi-annually, principal is due in July 2013.	200,000
Oxfam Novib	Unsecured debt bearing interest at a rate of 10% due semi-annually, principal is due November 2011.	638,000
Hope for Life Microfinance Investment Support Facility for Afghanistan (MISFA)	Debt bearing interest at a rate of 5% due quarterly, principal repayable commencing in February 2016 with the final principal payment due in November 2020.	109,027
International Assistance Mission	Unsecured zero interest rate loan, payable upon Hope for Life reaching operational self sustainability.	13,029
HOPE Congo Kiva	Unsecured zero interest rate loan due upon demand. HOPE International is the guarantor for these loans.	<u>27,121</u>
		2,487,177
	Less: current portion	<u>915,121</u>
		<u>\$1,572,056</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

In accordance with a private placement offering, HGIF offers unsecured notes (“*HOPE Notes*”) up to an aggregate principal amount of \$4,000,000. The HOPE Notes are sold solely by the directors, officers and employees of HGIF on a best efforts basis to accredited investors. Each HOPE Note is sold with an interest rate not to exceed 3%. The Notes have a maturity of up to 5 years. Generally, HOPE Notes are unsecured and will have interest only payments with a balloon principal payment at maturity. The proceeds of HOPE Notes are loaned to microfinance institutions including a microfinance institution which is wholly owned by HOPE. The loan between HOPE and the wholly owned subsidiary has been eliminated in these consolidated financial statements. Repayments of principal and interest on loans made to microfinance institutions will be used to repay HOPE Note obligations. Principal and interest payments on HOPE Notes will be dependent solely upon the financial condition and strength of HGIF and upon repayments of loans made by the borrowing microfinance institutions. Although not required by the private placement offering, HGIF currently maintains all funds, both grant and loan proceeds, received from HOPE as a reserve for principal repayments to third party investors. As of December 31, 2010, HGIF had received \$750,000 of grant and loan proceeds from HOPE.

As of December 31, 2010, HOPE has a secured line of credit of \$500,000 with a financial institution. The line of credit is secured by all assets of HOPE. In addition, the loan is secured by a 1st lien mortgage on two real estate properties owned by HIP. There was no outstanding balance under the line of credit as of December 31, 2010. The interest rate on the line of credit is the financial institution’s prime rate minus .50% with a minimum interest rate of 5%. Any outstanding loan and interest is due on demand and the line of credit is subject to renewal annually.

As of December 31, 2010, HGIF has an unsecured line of credit of \$250,000 with a financial institution. There was no outstanding balance under the line of credit as of December 31, 2010. The interest rate on the line of credit is the financial institution’s prime rate plus 1.50% with a minimum interest rate of 5%. Any outstanding loan and interest is due on demand and the line of credit is subject to renewal annually.

Principal reductions of long-term debt for succeeding years are as follows:

2011	\$ 915,121
2012	1,250,000
2013	213,029
2014	-
2015	-
Thereafter	<u>109,027</u>
Total	<u>\$2,487,177</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

(8) RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2010:

Programs – Microfinance	
Democratic Republic of Congo	\$ 154,318
Dominican Republic	129,653
Republic of Congo	34,120
Rwanda SL	106,246
Haiti	276,045
India SL	18,811
Afghanistan	24,014
Burundi	4,055
China	22,943
Caribbean Region	71,396
Undesignated	389,559
Tomorrow Clubs	
Ukraine	11,835
Russia	1,612
HOPE Trips	35,691
Spiritual Integration	45,162
Other	21,845
	<u>\$ 1,347,305</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows during the year ended December 31, 2010:

Microfinance Program	
Democratic Republic of Congo	\$ 1,285,665
Afghanistan	422,872
Burundi	24,324
China	137,024
Dominican Republic	403,475
Moldova	11,430
Philippines	8,173
Republic of Congo	1,178,402
Russia	1,600
Rwanda	495,616
Rwanda SL	258,308
Ukraine	227,111
Romania	80
Haiti	268,628
Haiti SL	84,933
India SL	46,130
Tomorrow Clubs	
Ukraine	126,661
Russia	263
HOPE trips	147,683
Spiritual Integration	263,938
Other	31,340
	<u>\$ 5,423,656</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

Permanently restricted net assets are available for the following purpose as of December 31, 2010:

HOPE International Loan Endowment \$530,940

During the year ended December 31, 2010, \$17,763 of dividend and interests earned in the endowment were designated as temporarily restricted. The earnings classified as temporarily restricted are to be used for microfinance loans.

Endowment net asset composition by type of fund as of December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$17,763	\$530,940	\$ 548,703
Funds functioning as endowment funds	<u>1,642,420</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$1,642,420</u>	<u>\$17,763</u>	<u>\$530,940</u>	<u>\$2,191,123</u>

HOPE classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as permanently restricted net assets. Interest and dividend earned on donor restricted endowment funds are allocated 70% to temporarily restricted and 30% to permanently restricted as stipulated by the donor. In addition, realized and unrealized gains/losses are to be classified as permanently restricted. HOPE's Board may also designate certain unrestricted revenues to function as endowment funds; such revenues are classified within unrestricted net assets as funds functioning as endowment funds.

Changes in endowment net assets for the year ended December 31, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 842,420	\$ 3,455	\$259,564	\$1,105,439
Investment return	16,780	17,763	24,627	59,170
Contributions and other	800,000	-	246,749	1,046,749
Less: Endowment income designated for current operations	<u>16,780</u>	<u>3,455</u>	<u>-</u>	<u>20,235</u>
	<u>\$1,642,420</u>	<u>\$17,763</u>	<u>\$530,940</u>	<u>\$2,191,123</u>

(9) RELATED PARTY TRANSACTIONS

During the year ended December 31, 2010, HOPE received \$550,000 in operating grants from Homes For HOPE (“H4H”) and such amounts are included in contributions in the Statement of Activities. H4H is a related non-profit organization in which the chairman of the Board of Directors of HOPE serves as a Board of Director.

During the year ended December 31, 2010 HOPE provided administrative services to H4H for which HOPE was reimbursed in the amounts of \$19,000.

As of December 31, 2010 there were loans to employees of HOPE Ukraine outstanding in the amount of \$23,531.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

(10) MINORITY INTEREST IN NET ASSETS

As of the year ended December 31, 2010, HOPE had a minority interest in the following financial institutions:

<u>Name</u>	<u>% Owned</u>	<u>Carrying Value</u>
URWEGO Opportunity Bank, a microfinance institution in Rwanda	32.51%	\$1,135,527
Turame, a microfinance institution in Burundi	4.18%	<u>94,089</u>
		<u>\$1,229,616</u>

Effective for 2010, HOPE with its increase in ownership to 32.51% from 19.99%, previously recorded at cost, reflects the value of its minority interest in URWEGO Opportunity Bank on the equity basis. In conjunction with HOPE reflecting its investment in URWEGO Opportunity Bank on the equity basis, HOPE decreased its beginning net assets by \$173,210 for the retroactive effect of changing the basis of the carrying value of the investment. HOPE recognized a loss on its minority interest in URWEGO Opportunity Bank of \$133,530 for 2010. HOPE carries its minority interest in Turame at cost. HOPE's proportionate share of Turame's equity as of December 31, 2010 was \$69,644 (unaudited).

(11) RETIREMENT PLAN

HOPE sponsors a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan provides for elective employee deferrals with no contribution made by HOPE.

(12) GRANTS TO PARTNERS

HOPE provides grants to the following affiliated organizations which are organized in the respective overseas country: HOPE DRC (Democratic Republic of Congo), HOPE Ukraine Tomorrow Clubs, (Ukraine) HOPE Russia, HOPE Russia Tomorrow Clubs (Russia), Turame & URWEGO Opportunity Bank. These affiliated organizations provide microenterprise loans to individual borrowers which enables them to start or expand small businesses. HOPE has a majority ownership interest in HOPE DRC, but does not consolidate the financial position and operating results of this organization due to the significant uncertainty regarding HOPE's control as a result of restrictions imposed by the government of the Democratic Republic of Congo. Such restrictions limit HOPE's ability to repatriate assets held by HOPE DRC. Since HOPE does not have a controlling financial interest or a majority voting interest in the Board of Directors of HOPE Russia, Turame or URWEGO Opportunity Bank, HOPE does not consolidate the activity of these organizations. HOPE reflects funding to HOPE Russia as grants to partners. For Turame and URWEGO Opportunity Bank, HOPE makes both capital contributions and grants to these affiliates (*Note 10*).

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

Grants provided to these affiliates for the year ended December 31, 2010 are as follows:

Microfinance:	
Democratic Republic of Congo	\$ 923,069
Tomorrow Clubs (Children’s Ministry)	
Ukraine	<u>122,190</u>
	<u>1,045,259</u>
Spiritual Integration	
Democratic Republic of Congo	17,500
Turame	25,000
Russia	4,100
URWEGO Opportunity Bank	<u>17,500</u>
	<u>64,100</u>
Total grants – affiliates	<u>\$1,109,359</u>

Equity capital of HOPE DRC amounted to approximately \$233,387 at December 31, 2010. Total net outstanding loans of HOPE DRC under the microenterprise program totaled approximately \$709,974 at December 31, 2010.

HOPE also contributed \$693,638 during the year ended December 31, 2010, to non-affiliated partner organizations under their micro-enterprise programs.

(13) MICROFINANCE LOANS

HOPE through wholly-owned and majority-owned microfinance institutions operating separately in the Ukraine, Afghanistan and the Republic of Congo provide microfinance loans. These loans consist of funds lent to entrepreneurial individuals for the purpose of furthering economic development in the communities served.

Microfinance loans receivable as of December 31, 2010 by location consist of the following:

Ukraine	\$1,131,055
Congo	312,006
Afghanistan	<u>728,083</u>
	2,171,144
Less: allowance for doubtful accounts	<u>62,054</u>
	<u>\$2,109,090</u>

The microfinance institution in the Republic of Congo has a compulsory savings component. This savings requirement, which can be applied towards balances in default, was \$91,926 as of December 31, 2010 and is included in client deposits in the Statement of Financial Position.

The loan value of microfinance loans that were classified as nonperforming was \$17,190 at December 31, 2010.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2010

(14) LOANS RECEIVABLE

Loans receivable at December 31, 2010 are as follows:

<u>Borrower</u>	<u>Terms</u>	<u>Interest Rate</u>	
IMF HOPE DRC	Semi-annual interest payment only, principal due January 2011.	5%	\$ 619,884
	Semi-annual interest payment only, principal due July 2011.	5%	100,000
ROMCOM	Semi-annual interest payment only, principal due May 2011.	5%	250,000
Invest Credit	Semi-annual interest payment only, principal due September 2011.	5.56%	<u>50,000</u>
			1,019,884
Less: allowance for doubtful accounts			<u>400,000</u>
			<u>\$ 619,884</u>

Certain notes receivable are subject to the following financial covenants:

IMF HOPE DRC, ROMCOM And Invest Credit

1. Portfolio at Risk (over 30 days) of not more than 6%. The Portfolio at Risk is defined as the percent of loans that have at least one payment overdue by more than 30 days to the total loan portfolio.

During 2010, IMF HOPE DRC continued to be in default of its Portfolio at Risk debt covenant. HGIF has issued waivers related to this covenant and issued the latest waiver in October, 2010 for a period of 6 months. During the year, IMF HOPE DRC closed one branch office located in Kisangani by December 31, 2010, in an effort to restructure its operations and improve the quality of the loan portfolio. The loan portfolio of the continuing operations in IMF HOPE DRC are in compliance with the Portfolio at Risk debt covenant as of December 31, 2010. Due to the continuing restructuring of IMF HOPE DRC's operations, HGIF's management maintained a \$400,000 allowance for doubtful accounts as of December 31, 2010 related to loans receivable from IMF HOPE DRC.

ROMCOM and Invest Credit, also, continued to be in default of their Portfolio at Risk debt covenant during 2010. HGIF issued the latest waivers related to their portfolio at risk debt covenant in October 2010. As of December 31, 2010, Invest Credit is in compliance with their Portfolio at Risk covenant. Due to the improvement in the quality of the loan portfolio at Invest Credit, HGIF's management does not believe any allowance is necessary on this loan receivable. In May 2011, ROMCOM repaid all outstanding principal and accrued interest.

SUPPLEMENTAL INFORMATION

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2010

	*						
	HOPE	HGIF	HOPE	HOPE	HOPE	Eliminating	Consolidated
	International		Ukraine	For Life	Congo	Entries	
				(Afghanistan)			
CURRENT ASSETS							
Cash and cash equivalents	\$ 965,728	\$ 396,158	\$ 501,711	\$ 206,938	\$ 605,092	\$ -	\$ 2,675,627
Pledges receivable	1,521,877	-	-	-	-	-	1,521,877
Microfinance loans receivable, net	-	-	1,102,804	709,880	296,406	-	2,109,090
Loans receivable	250,000	769,884	-	-	-	(400,000)	619,884
Interest receivable	-	18,577	14,478	12,136	-	(5,500)	39,691
Other receivable	202,012	-	1,815	3,837	-	(42,727)	164,937
Prepaid expenses and other current assets	<u>77,429</u>	<u>103</u>	<u>16,000</u>	<u>4,622</u>	<u>825</u>	<u>-</u>	<u>98,979</u>
Total Current Assets	<u>3,017,046</u>	<u>1,184,722</u>	<u>1,636,808</u>	<u>937,413</u>	<u>902,323</u>	<u>(448,227)</u>	<u>7,230,085</u>
NONCURRENT ASSETS							
Cash and cash equivalents – board designated reserve	1,142,420	500,000	-	-	-	-	1,642,420
Investments	541,761	-	-	-	-	-	541,761
Property and equipment, net	574,683	-	45,028	3,407	43,923	-	667,041
Other long-term assets	-	-	25,217	-	2,474	-	27,691
Minority interest in net assets	1,229,616	-	-	-	-	-	1,229,616
Investment in subsidiaries	<u>2,055,585</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,055,585)</u>	<u>-</u>
Total Assets	<u>\$8,561,111</u>	<u>\$1,684,722</u>	<u>\$1,707,053</u>	<u>\$940,820</u>	<u>\$948,720</u>	<u>\$ (2,503,812)</u>	<u>\$11,338,614</u>

* Includes assets, liabilities and net assets of Higher Impact Properties.

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION – (Continued)

December 31, 2010

	*						
	<u>HOPE</u>	<u>HGIF</u>	<u>HOPE</u>	<u>HOPE</u>	<u>HOPE</u>	<u>Eliminating</u>	<u>Consolidated</u>
	<u>International</u>		<u>Ukraine</u>	<u>For Life</u>	<u>Congo</u>	<u>Entries</u>	
				<u>(Afghanistan)</u>			
CURRENT LIABILITIES							
Accounts payable and accrued expenses	\$ 259,114	\$ 44,704	\$ 835	\$ 32,890	\$ 22,450	\$ (42,727)	\$ 317,266
Interest payable	-	-	56,724	821	-	(5,500)	52,045
Unearned revenue	-	-	88,203	-	-	-	88,203
Current portion of notes payable	-	-	1,038,000	-	27,121	(150,000)	915,121
Client deposits	-	-	-	-	91,926	-	91,926
Security deposits and other liabilities	<u>231,038</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>231,038</u>
Total Current Liabilities	<u>490,152</u>	<u>44,704</u>	<u>1,183,762</u>	<u>33,711</u>	<u>141,497</u>	<u>(198,227)</u>	<u>1,695,599</u>
NOTES PAYABLE	<u>-</u>	<u>1,500,000</u>	<u>200,000</u>	<u>122,056</u>	<u>-</u>	<u>(250,000)</u>	<u>1,572,056</u>
Total Liabilities	<u>490,152</u>	<u>1,544,704</u>	<u>1,383,762</u>	<u>155,767</u>	<u>141,497</u>	<u>(448,227)</u>	<u>3,267,655</u>
NET ASSETS							
Unrestricted							
Operations	5,050,294	(359,982)	323,291	478,882	807,223	(2,055,585)	4,244,123
Board designated for endowment	1,142,420	500,000	-	-	-	-	1,642,420
Noncontrolling interest	-	-	-	306,171	-	-	306,171
Temporarily restricted	1,347,305	-	-	-	-	-	1,347,305
Permanently restricted	<u>530,940</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>530,940</u>
Total Net Assets	<u>8,070,959</u>	<u>140,018</u>	<u>323,291</u>	<u>785,053</u>	<u>807,223</u>	<u>(2,055,585)</u>	<u>8,070,959</u>
Total Liabilities and Net Assets	<u>\$8,561,111</u>	<u>\$1,684,722</u>	<u>\$1,707,053</u>	<u>\$940,820</u>	<u>\$948,720</u>	<u>\$ (2,503,812)</u>	<u>\$11,338,614</u>

* – Includes assets, liabilities and net assets of Higher Impact Properties.

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF ACTIVITIES

For the year ended December 31, 2010

	*						
	<u>HOPE International</u>	<u>HGIF</u>	<u>HOPE Ukraine</u>	<u>HOPE For Life (Afghanistan)</u>	<u>HOPE Congo</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
SUPPORT AND REVENUE							
Contributions (includes \$347,102 of in-kind support)	\$6,596,202	\$ -	\$ -	\$ 168,167	\$ -	\$ (154,250)	\$ 6,610,119
Contributions from HOPE	-	154,249	252,013	168,208	860,153	(1,434,623)	-
Special events, net of direct expenses of \$139,610	987,092	-	-	-	-	-	987,092
Investment return designated for current operations	16,780	-	-	-	-	-	16,780
Interest income	32,428	138,101	791,969	234,937	61,781	(79,535)	1,179,681
Rental revenue	38,452	-	-	-	-	-	38,452
Less expenses (including depreciation)	<u>30,362</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,362</u>
Net rental income	<u>8,090</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,090</u>
MFI investment loss	(719,833)	-	-	-	-	586,303	(133,530)
Other income	<u>276</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>276</u>
Total support and revenue	<u>6,921,035</u>	<u>292,350</u>	<u>1,043,982</u>	<u>571,312</u>	<u>921,934</u>	<u>(1,082,105)</u>	<u>8,668,508</u>
FUNCTIONAL EXPENSES							
Program services	4,018,546	74,717	1,246,620	372,087	258,094	(79,535)	5,890,529
Management and general	365,396	210,592	-	-	-	(154,250)	421,738
Fundraising	<u>1,000,812</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,812</u>
Total expenses	<u>5,384,754</u>	<u>285,309</u>	<u>1,246,620</u>	<u>372,087</u>	<u>258,094</u>	<u>(233,785)</u>	<u>7,313,079</u>

* Includes revenue, expenses and changes in net assets of Higher Impact Properties.

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF ACTIVITIES – (Continued)

For the year ended December 31, 2010

	*						
	<u>HOPE International</u>	<u>HGIF</u>	<u>HOPE Ukraine</u>	<u>HOPE For Life (Afghanistan)</u>	<u>HOPE Congo</u>	<u>Eliminating Entries</u>	<u>Consolidated</u>
OTHER CHANGES							
Investment return in excess of amounts designated for operations	42,390	-	-	-	-	-	42,390
Gain/(loss) on foreign currency transactions	-	-	33,088	830	(221)	-	33,697
Gain/(loss) on foreign currency translation	<u>9,183</u>	<u>-</u>	<u>2,129</u>	<u>37,801</u>	<u>(16,569)</u>	<u>(9,183)</u>	<u>23,361</u>
Total other changes	<u>51,573</u>	<u>-</u>	<u>35,217</u>	<u>38,631</u>	<u>(16,790)</u>	<u>(9,183)</u>	<u>99,448</u>
CHANGES IN NET ASSETS INCLUDING CHANGE IN EQUITY OF NONCONTROLLING INTEREST							
	1,587,854	7,041	(167,421)	237,856	647,050	(857,503)	1,454,877
Change in equity of noncontrolling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>(92,764)</u>	<u>-</u>	<u>-</u>	<u>(92,764)</u>
CHANGE IN NET ASSETS	1,587,854	7,041	(167,421)	145,092	647,050	(857,503)	1,362,113
NET ASSETS							
Beginning of year	<u>6,483,105</u>	<u>132,977</u>	<u>490,712</u>	<u>547,197</u>	<u>160,173</u>	<u>(1,198,082)</u>	<u>6,616,082</u>
End of year	<u>\$ 8,070,959</u>	<u>\$ 140,018</u>	<u>\$ 323,291</u>	<u>\$ 785,053</u>	<u>\$ 807,223</u>	<u>\$ (2,055,585)</u>	<u>\$ 8,070,959</u>

* – Includes revenues, expenses and changes in net assets of Higher Impact Properties.