

HOPE INTERNATIONAL

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

DECEMBER 31, 2012 AND 2011

HOPE INTERNATIONAL

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated financial statements of HOPE International (a nonprofit organization) which comprise the consolidated statements of financial position as of December 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of HOPE International as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Report on Summarized Comparative Information

We have previously audited HOPE International's 2011 consolidated financial statements, and our report dated September 12, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental consolidating statement of financial position and consolidating statement of activities, on pages 26 and 28, are presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
May 16, 2013**

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2012 And 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,184,459	\$ 5,156,351
Contribution receivable	1,111,378	1,213,986
Microfinance loans receivable, net	4,197,240	3,968,910
Loan receivable, net	100,000	-
Interest receivable	58,432	46,053
Other receivables	56,541	102,020
Prepaid expenses and other assets	<u>162,797</u>	<u>111,773</u>
Total Current Assets	11,870,847	10,599,093
NONCURRENT ASSETS		
Cash and cash equivalents – board designated endowment	1,792,420	1,642,420
Investments	1,047,232	800,606
Property and equipment, net	598,343	705,962
Other long-term assets	81,647	204,123
Loan receivable, net	482,580	100,000
Minority interest in net assets	<u>1,957,487</u>	<u>1,305,617</u>
Total Assets	<u>\$ 17,830,556</u>	<u>\$ 15,357,821</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 628,735	\$ 514,782
Interest payable	34,229	69,527
Unearned revenue	68,446	36,474
Current portion of notes payable	728,048	2,011,571
Client deposits	850,610	694,580
Security deposits and other liabilities	<u>2,645</u>	<u>3,820</u>
Total Current Liabilities	<u>2,312,713</u>	<u>3,330,754</u>
NOTES PAYABLE	<u>1,134,698</u>	<u>911,000</u>
Total Liabilities	<u>3,447,411</u>	<u>4,241,754</u>
NET ASSETS		
Unrestricted		
Net assets	9,809,428	7,076,152
Board designated for endowment		
First loss reserve – HOPE notes	500,000	500,000
Investment	1,292,420	1,142,420
Noncontrolling interest	<u>154,562</u>	<u>229,931</u>
Total Unrestricted Net Assets	11,756,410	8,948,503
Temporarily restricted	1,549,957	1,385,168
Permanently restricted	<u>1,076,778</u>	<u>782,396</u>
Net Assets	<u>14,383,145</u>	<u>11,116,067</u>
Total Liabilities and Net Assets	<u>\$ 17,830,556</u>	<u>\$ 15,357,821</u>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2012 With Summarized Information For 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2011</u>
SUPPORT AND REVENUE					
Contributions (includes in-kind support of \$616,240)	\$ 3,443,792	\$ 6,172,113	\$ 234,737	\$ 9,850,642	\$ 7,813,634
Special events, net of direct expenses of \$19,850	243,293	374,771	5,000	623,064	781,552
Investment return designated for current operations	13,443	30,736	-	44,179	32,640
Interest income	2,875,438	-	-	2,875,438	2,456,141
Rental revenue	38,810	-	-	38,810	41,745
Less expenses (including depreciation)	<u>38,231</u>	<u>-</u>	<u>-</u>	<u>38,231</u>	<u>34,001</u>
Net rental income	<u>579</u>	<u>-</u>	<u>-</u>	<u>579</u>	<u>7,744</u>
Minority interest in income of a microfinance institution	151,870	-	-	151,870	76,001
Other income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>635</u>
Total support and revenue before net assets released from restrictions	6,728,415	6,577,620	239,737	13,545,772	11,168,347
Net assets released from restrictions	<u>6,412,831</u>	<u>(6,412,831)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>13,141,246</u>	<u>164,789</u>	<u>239,737</u>	<u>13,545,772</u>	<u>11,168,347</u>
FUNCTIONAL EXPENSES					
Program services	8,793,606	-	-	8,793,606	7,438,530
Management and general	495,833	-	-	495,833	506,008
Fundraising	<u>1,425,555</u>	<u>-</u>	<u>-</u>	<u>1,425,555</u>	<u>1,219,982</u>
Total expenses	<u>10,714,994</u>	<u>-</u>	<u>-</u>	<u>10,714,994</u>	<u>9,164,520</u>
Excess of revenues over expenses	2,426,252	164,789	239,737	2,830,778	2,003,827
OTHER CHANGES					
Investment return in excess of amounts designated for current operations	-	-	54,645	54,645	6,269
Net realized loss on foreign currency transactions	(3,668)	-	-	(3,668)	(10,471)
Loss on foreign currency translation	(3,951)	-	-	(3,951)	(95,739)
Recognition of contingent note receivable	<u>389,274</u>	<u>-</u>	<u>-</u>	<u>389,274</u>	<u>-</u>
Total other changes	<u>381,655</u>	<u>-</u>	<u>54,645</u>	<u>436,300</u>	<u>(99,941)</u>
CHANGE IN NET ASSETS	2,807,907	164,789	294,382	3,267,078	1,903,886
NET ASSETS					
Beginning of year	<u>8,948,503</u>	<u>1,385,168</u>	<u>782,396</u>	<u>11,116,067</u>	<u>9,212,181</u>
End of year	<u>\$ 11,756,410</u>	<u>\$ 1,549,957</u>	<u>\$ 1,076,778</u>	<u>\$ 14,383,145</u>	<u>\$ 11,116,067</u>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF CHANGES IN UNRESTRICTED NET ASSETS

Year Ended December 31, 2012 And 2011

	<u>Unrestricted HOPE</u>	<u>Unrestricted – Non-Controlling Interest In Microfinance Entities</u>	<u>Total</u>
Unrestricted net assets, December 31, 2010	\$ 7,027,765	\$ 306,171	\$ 7,333,936
Change in unrestricted net assets	<u>1,690,807</u>	<u>(76,240)</u>	<u>1,614,567</u>
Unrestricted net assets, December 31, 2011	8,718,572	229,931	8,948,503
Change in unrestricted net assets	<u>2,883,276</u>	<u>(75,369)</u>	<u>2,807,907</u>
Unrestricted net assets, December 31, 2012	<u>\$ 11,601,848</u>	<u>\$ 154,562</u>	<u>\$ 11,756,410</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2012

	<u>Program Services</u>			<u>Management And General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Microfinance</u>		<u>Total</u>			
	<u>Overseas Entities</u>	<u>United States Entities</u>				
Salaries	\$1,955,904	\$1,354,857	\$3,310,761	\$304,955	\$805,103	\$4,420,819
Payroll taxes	266,383	116,358	382,741	26,506	68,116	477,363
Employee benefits	149,740	246,140	395,880	40,566	142,452	578,898
Other staff expenses	25,182	233,169	258,351	38,812	79,346	376,509
Insurance	3,505	1,272	4,777	3,625	496	8,898
Professional services	137,714	289,260	426,974	12,346	13,862	453,182
Office expenses	517,261	117,040	634,301	41,236	68,716	744,253
HOPE Trips	-	360,748	360,748	-	-	360,748
Tomorrow Clubs	183,810	155,986	339,796	-	-	339,796
Education	-	165,629	165,629	-	-	165,629
Marketing	-	16,638	16,638	5,345	44,896	66,879
Travel	280,271	356,305	636,576	955	54,274	691,805
Finance expenses – interest and fees	91,277	35,029	126,306	586	30,492	157,384
Depreciation	51,547	23,545	75,092	8,663	11,680	95,435
Printing and reproduction	35,246	219	35,465	6	83,836	119,307
Loan loss reserve/(recapture), net	139,345	107,841	247,186	-	-	247,186
Other expenses	181,336	16,270	197,606	12,232	22,286	232,124
Grants to partners	283,020	853,366	1,136,386	-	-	1,136,386
Taxes	35,185	7,208	42,393	-	-	42,393
	<u>\$4,336,726</u>	<u>\$4,456,880</u>	<u>\$8,793,606</u>	<u>\$495,833</u>	<u>\$1,425,555</u>	<u>\$10,714,994</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – (Continued)

Year Ended December 31, 2011

	<u>Program Services</u>			<u>Management And General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Microfinance</u>		<u>Total</u>			
	<u>Overseas Entities</u>	<u>United States Entities</u>				
Salaries	\$1,464,401	\$1,133,517	\$2,597,918	\$325,067	\$765,250	\$3,688,235
Payroll taxes	244,454	92,488	336,942	28,075	61,343	426,360
Employee benefits	88,002	200,728	288,730	41,078	121,895	451,703
Other staff expenses	106,910	296,915	403,825	34,854	14,823	453,502
Insurance	4,791	1,450	6,241	4,232	542	11,015
Professional services	81,960	219,858	301,818	7,020	6,957	315,795
Office expenses	511,634	101,392	613,026	38,901	57,596	709,523
HOPE Trips	-	450,342	450,342	-	-	450,342
Tomorrow Clubs	47,918	171,161	219,079	-	-	219,079
Education	2,530	109,752	112,282	-	-	112,282
Marketing	-	13,064	13,064	4,748	30,819	48,631
Travel	223,771	221,099	444,870	163	52,875	497,908
Finance expenses – interest and fees	132,214	37,085	169,299	1,341	26,920	197,560
Depreciation	46,829	21,656	68,485	8,137	11,438	88,060
Printing and reproduction	5,226	1,964	7,190	174	49,494	56,858
Loan loss reserve/(recapture), net	(62,158)	125,000	62,842	-	-	62,842
Other expenses	126,441	38,440	164,881	12,218	20,030	197,129
Grants to partners	-	1,120,015	1,120,015	-	-	1,120,015
Taxes	54,704	2,977	57,681	-	-	57,681
	<u>\$3,079,627</u>	<u>\$4,358,903</u>	<u>\$7,438,530</u>	<u>\$506,008</u>	<u>\$1,219,982</u>	<u>\$9,164,520</u>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2012 And 2011

	<u>2012</u>	<u>2011</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 3,267,078	\$ 1,903,886
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(19,441)	20,326
Loan loss reserve, net	84,775	62,842
Minority interest in income of a microfinance institution	(151,870)	(76,001)
Donated property available for resale	-	(89,300)
Donated computer software	-	(35,000)
Depreciation	111,029	103,893
Loss on sale of fixed assets	18,302	-
Contributions restricted for endowment	(239,737)	(245,187)
Recognition of contingent note receivable	(389,274)	-
(Increase) decrease in operating assets		
Contributions receivable	102,608	307,891
Prepaid expenses and other assets	(51,024)	2,377
Interest receivable	(12,379)	(19,439)
Other long term assets	122,476	(3,657)
Other receivables	45,479	200,215
Increase (decrease) in operating liabilities		
Unearned revenue	31,972	(51,729)
Interest payable	(35,298)	17,482
Accounts payable and accrued expense	113,953	116,308
Client deposits	156,030	134,133
Security deposits and other liabilities	(1,175)	1,500
Net cash provided by operating activities	<u>3,153,504</u>	<u>2,350,540</u>
INVESTING ACTIVITIES		
Designation for endowment of cash and cash equivalents	(150,000)	-
Purchase of property, plant and equipment	(30,079)	(28,448)
Proceeds from sale of fixed assets	8,367	-
Purchase/sales of investments, net	(227,185)	(279,171)
Issuance of microfinance loans, net	(313,105)	(1,010,105)
Issuance of notes receivable	(93,306)	(100,000)
Repayment of notes receivable	-	300,000
Purchase of minority interest in net assets	(500,000)	-
Net cash used in investing activities	<u>(1,305,308)</u>	<u>(1,117,724)</u>
FINANCING ACTIVITIES		
(Repayments) proceeds from notes payable, net	(1,059,825)	133,280
Contributions restricted for endowments	239,737	245,187
Net cash provided by financing activities	<u>(820,088)</u>	<u>378,467</u>
Net increase in cash and cash equivalents	1,028,108	1,611,283
CASH AND CASH EQUIVALENT		
Beginning of year	<u>5,156,351</u>	<u>3,545,068</u>
End of year	<u>\$ 6,184,459</u>	<u>\$ 5,156,351</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 88,681</u>	<u>\$ 103,661</u>

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

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 And 2011

(1) NATURE OF ORGANIZATION

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

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

Hope Global Investment Fund ("*HGIF*") is incorporated as a low profit limited liability corporation in the state of Vermont and is controlled by HOPE International. The mission of HGIF is to support microenterprise development through offering unsecured notes to accredited investors to leverage lending activities in established microfinance institutions.

Higher Impact Properties, LLC ("*HIP*"), a Pennsylvania limited liability corporation, manages rental properties which HOPE International has acquired or received as donations. Through its subsidiary HIP, HOPE International owns and operates several rental properties in Pennsylvania. These sources of funds contribute to HOPE International's work around the world.

Hope Advancement, Inc. is incorporated as a not-for-profit in the state of Delaware and is a 501(c)(3) organization. Hope Advancement, Inc. was created during the year ended December 31, 2011, for the primary purpose of holding equity positions in HOPE International's controlled subsidiaries. Hope Advancement has an equity interest of \$3,759,774, including a noncontrolling interest of \$154,562 as of December 31, 2012, in microfinance entities in Ukraine, Russia, Central Asia, the Democratic Republic of Congo and the Republic of Congo. Accordingly, Hope Advancement and its wholly and majority-owned microfinance entities are consolidated in HOPE International's financial statements. A description of the type of legal entity and the percentage of Hope Advancement's ownership interest in the microfinance entities included in the consolidation follows:

- (i) 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.
- (i) HOPE DRC is a wholly owned microfinance institution registered in the Democratic Republic of Congo as a for-profit public limited company and is regulated by the Central Bank of Congo.
- (iii) 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 INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

- (iv) HOPE Russia is a wholly owned microfinance institution registered in Russia as a non-governmental organization.
- (v) HOPE Central Asia is a majority-owned microfinance institution registered in Central Asia as a Microfinance Company, a for-profit joint stock limited liability company, that is registered with the applicable regulatory agency. HOPE has a 72% and 69% ownership interest in HOPE Central Asia as of December 31, 2012 and 2011, respectively.

The consolidated financial statements include the accounts of HOPE International, Hope Advancement, Inc., Hope Global Investment Fund and Higher Impact Properties, LLC. The consolidated financial statements also include the accounts of the following microfinance institutions: HOPE Congo in the Republic of Congo, HOPE Ukraine in Ukraine, HOPE Russia in Russia, HOPE DRC in the Democratic Republic of Congo and HOPE Central Asia (collectively “HOPE”). Prior to 2011, HOPE did not consolidate the HOPE DRC and HOPE Russia 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 2011 and sufficient control of these entities rest with HOPE. In conjunction with the consolidation of these two additional entities and a related adjustment to HGIF’s beginning net assets, the beginning net assets of HOPE for 2011 was adjusted by \$1,141,222.

(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 Central Asia 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.

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.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

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. Management believes that these allowances are adequate for loan losses inherent in the loan portfolio. Loans are written off when the loan is 180 days delinquent or sooner if, in management's judgment, there is no prospect of recovery.

A loan is considered impaired when it is probable that all principal and interest amounts due will not be collected in accordance with the loan's contractual terms. Impairment is recognized by allocating a portion of the allowance for loan losses to such a loan to the extent that the recorded investment of an impaired loan exceeds its value. Allocations on impaired loans are considered in relation to the overall adequacy of the allowance for loan losses, and adjustments are made to the provision for loan losses as deemed necessary.

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.

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.

The Board of Directors designated funds to the board designated endowment. As of December 31, 2012 and 2011, \$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 \$1,292,420 and \$1,142,420 as of December 31, 2012 and 2011, respectively, 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 donors' restrictions, requires that the corpus, realized and unrealized gains and losses, stock dividends, and 50% of cash dividend and interest earned be maintained in perpetuity. The remaining 50% of cash 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

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 (2009 – 2011) or expected to be taken in HOPE's 2012 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

HOPE Congo, HOPE DRC, HOPE Ukraine and HOPE Central Asia as for-profit entities, and HOPE Russia as a non-governmental organization, each 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.*”

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 allocated to overseas entities or United States entities in the Statement of Functional Expenses.

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.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

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 five 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 is subject to similar credit and other risks. Equity in HOPE's microfinance organizations was \$3,759,774 and \$3,684,078, which included a non-controlling interest of \$154,562 and 229,931 as of December 31, 2012 and 2011, respectively.

The microfinance institutions are exposed to a number of other risks. The following outlines some of these risks:

(a) Credit Risk

Credit risk is the risk of financial loss arising from the failure of a customer to settle financial obligations to the microfinance institution as they fall due. This is an inherent risk associated with the microfinance industry. HOPE's financial institutions manage exposure to credit risk on a regular basis by closely monitoring credit limits, loan portfolios and concentrations of exposure.

(b) Foreign Currency Risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign currency exchange rates. The exposure to exchange rate risk is continually monitored by HOPE.

(c) Interest Rate Risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the market interest rates. HOPE manages interest rate risk by monitoring market conditions and applying pricing based on the cost analysis of each product. Generally, all loans are due in less than one year.

(d) Liquidity Risk

Liquidity risk is the risk that the microfinance institutions will encounter difficulty in raising funds to meet the commitment associated with financial instruments. Each country has minimum capital requirements that the microfinance institutions must adhere to. Additionally, each institution monitors liquidity on a daily basis to meet its internal liquidity requirements.

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, 2012 and 2011, was a decrease to net assets of \$3,951 and \$95,739, respectively.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with HOPE's audited financial statements for the year ended December 31, 2011, from which the summarized information was derived.

RECLASSIFICATION

Certain account balances in the 2011 financial statements have been reclassified to conform to the 2012 presentation.

(3) CONTRIBUTION RECEIVABLE

HOPE had pledges receivable totaling \$1,111,378 and \$1,213,986 at December 31, 2012 and 2011. The total amount is expected to be collected within one year.

(4) MICROFINANCE LOANS

HOPE, through wholly owned and majority-owned microfinance institutions operating separately in Ukraine, Russia, Central Asia, the Democratic Republic of Congo and the Republic of Congo, provides microfinance loans. These loans consist of funds lent to entrepreneurial individuals for the purpose of furthering economic development in the communities served. These loans are granted generally for periods between one week to one year at interest rates between 18% and 93%.

Microfinance loans receivable as of December 31, 2012 and 2011, by location consist of the following:

	<u>2012</u>	<u>2011</u>
Ukraine	\$ 1,858,141	\$ 1,727,687
Republic of Congo	1,215,169	866,159
Democratic Republic of Congo	246,276	637,998
Russia	250,380	245,016
Central Asia	<u>967,112</u>	<u>747,113</u>
	4,537,078	4,223,973
Less: allowance for doubtful accounts	<u>339,838</u>	<u>255,063</u>
	<u>\$ 4,197,240</u>	<u>\$ 3,968,910</u>

HOPE's microfinance institutions will often make loans to borrowers who would be unable to secure financing through commercial sources. The ability of each borrower to repay their respective microfinance institution depends on the entrepreneurial success of each borrower. In addition, payments to the microfinance institutions depend on the economic and political environment of each locality in which loans are made.

The microfinance institutions in the Republic of Congo and the Democratic Republic of Congo have a compulsory savings component. This savings requirement can be applied towards balances in default. The \$850,610 and \$694,580 of client deposits as of December 31, 2012 and 2011, includes voluntary and compulsory savings.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

The loan value of microfinance loans that were classified as nonperforming was \$16,184 and \$10,176 at December 31, 2012 and 2011, and as such, interest income was not being accrued on these loans.

A summary of the activity in the allowance for loan losses for the year ended December 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 255,063	\$ 147,330
Provision for loan losses	274,679	140,195
Loans written off	<u>(189,904)</u>	<u>(32,462)</u>
	<u>\$ 339,838</u>	<u>\$ 255,063</u>

(5) LONG-TERM INVESTMENTS

A summary of investments at December 31, 2012 and 2011 is as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 1,800,773	\$ 1,800,773	\$ 1,648,482	\$ 1,648,482
Fixed income:				
Corporate bonds	429,806	458,912	380,909	391,092
Preferred securities	293,210	300,927	169,360	174,770
Equities	39,605	33,825	173,478	164,897
Mutual funds				
Fixed income	34,155	33,968	-	-
Equity	-	-	38,023	39,365
Master limited partnerships	74,128	61,247	36,465	24,420
Mortgage receivable	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,821,677</u>	2,839,652	<u>\$ 2,446,717</u>	2,443,026
Less: cash and cash equivalent – board designated endowment		<u>1,792,420</u>		<u>1,642,420</u>
Long-term investment		<u>\$ 1,047,232</u>		<u>\$ 800,606</u>

Investments are comprised of the following net assets:

	<u>2012</u>	<u>2011</u>
Unrestricted – funds functioning as endowment funds	\$ 1,792,420	\$ 1,642,420
Unrestricted – general	-	145,356
Permanently restricted endowment funds	<u>1,047,232</u>	<u>655,250</u>
	<u>\$ 2,839,652</u>	<u>\$ 2,443,026</u>

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 utilizes an investment advisor to manage the permanently restricted endowment fund and maintains its board designated endowment 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, 2012 And 2011

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

	2012			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Dividends and interest	\$ 13,443	\$ 30,736	\$ 35,204	\$ 79,383
Net realized and unrealized gains	<u>-</u>	<u>-</u>	<u>19,441</u>	<u>19,441</u>
Return on investments	13,443	30,736	54,645	98,824
Less: Investment return designated for current operations	<u>13,443</u>	<u>30,736</u>	<u>-</u>	<u>44,179</u>
Investment return in excess of amounts designated for current operations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,645</u>	<u>\$ 54,645</u>

	2011			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Dividends and interest	\$ 12,318	\$ 20,322	\$ 20,322	\$ 52,962
Net realized and unrealized gains	<u>-</u>	<u>-</u>	<u>(14,053)</u>	<u>(14,053)</u>
Return on investments	12,318	20,322	6,269	38,909
Less: Investment return designated for current operations	<u>12,318</u>	<u>20,322</u>	<u>-</u>	<u>32,640</u>
Investment return in excess of amounts designated for current operations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,269</u>	<u>\$ 6,269</u>

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

HOPE follows financial accounting standards associated with fair value measurements which clarify the definition of fair value and require 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, would be based on the best information available.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(7) PROPERTY

Property and equipment as of December 31, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Equipment and computer software	\$366,531	\$ 457,312
Leasehold improvements	130,514	130,514
Vehicles	3,510	-
Rental properties		
Buildings	477,586	477,586
Building improvements	<u>1,173</u>	<u>1,173</u>
	979,314	1,066,585
Less: accumulated depreciation	<u>380,971</u>	<u>360,623</u>
	<u>\$598,343</u>	<u>\$ 705,962</u>

Depreciation expense was \$111,029 and \$103,893 for the year ended December 31, 2012 and 2011, of which \$15,594 and \$15,833 is included within rental properties expense.

(8) LOANS RECEIVABLE

Loans receivable as of December 31, 2012 and 2011 consisted of the following:

<u>BORROWER</u>	<u>TERMS</u>	<u>Interest Rate</u>	<u>2012</u>	<u>2011</u>
Invest Credit (Moldova)	Semi-annual interest payments with semi-annual principal payments commencing in March 2014, maturity date is March 2016.	5.88%	\$ 100,000	\$ 100,000
Esperanza International (Dominican Republic)	\$50,000 principal and outstanding interest due March 13, 2013 and \$50,000 principal and outstanding interest due June 13, 2013.	5%	100,000	-
ROMCOM (Romania)	Semi-annual interest payments with various scheduled maturity payments commencing in May 2015 with a final principal and interest payment due May 2017	2%	<u>387,580</u>	<u>-</u>
	Less: current portion		<u>587,580</u>	100,000
			<u>100,000</u>	<u>-</u>
			487,580	100,000
	Less: allowance for doubtful accounts		<u>5,000</u>	<u>-</u>
			<u>\$ 482,580</u>	<u>\$ 100,000</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

At December 31, 2012, loans receivable maturities were as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2013	\$ 100,000
2014	10,000
2015	144,849
2016	247,892
2017	<u>84,839</u>
	<u>\$ 587,580</u>

(9) MINORITY INTEREST IN NET ASSETS

As of the years ended December 31, 2012 and 2011, HOPE had a minority interest in the following financial institutions:

<u>Name</u>	<u>2012</u>	
	<u>%</u>	<u>Carrying Value</u>
URWEGO Opportunity Bank, a microfinance institution in Rwanda	36.03%	\$ 1,863,398
Turame Community Finance, a microfinance institution in Burundi	4.18%	<u>94,089</u>
		<u>\$ 1,957,487</u>

<u>Name</u>	<u>2011</u>	
	<u>%</u>	<u>Carrying Value</u>
URWEGO Opportunity Bank, a microfinance institution in Rwanda	32.51%	\$ 1,211,528
Turame Community Finance, a microfinance institution in Burundi	4.18%	<u>94,089</u>
		<u>\$ 1,305,617</u>

HOPE carries its interest in URWEGO Opportunity Bank on the equity basis of accounting. For the years ended December 31, 2012 and 2011, HOPE's equity interest in the income of URWEGO Opportunity Bank was \$151,870 and \$76,001, respectively. In 2012, HOPE contributed an additional \$500,000 of equity which increased HOPE's ownership in URWEGO Opportunity Bank to 36.03%. HOPE carries its interest in Turame at cost. HOPE's proportionate share of Turame's equity as of December 31, 2012 and 2011 was \$65,041 and \$69,880 (unaudited), respectively.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(10) NOTES PAYABLE

Notes payable as of December 31, 2012 and 2011 consisted of the following:

LENDER	TERMS	2012	2011
HGIF Various	Unsecured HOPE Notes bearing interest at a rate of 3% due annually, payable on demand.	\$ 250,000	\$ 750,000
Various	Three unsecured HOPE Notes bearing interest at a rate of 3% due annually, payable in April and November 2016.	550,000	550,000
HOPE International Kiva	Unsecured zero interest rate loan due upon demand.	271,940	347,566
HOPE Ukraine Oikocredit	Unsecured debt bearing interest at a rate of 11% due semi-annually, principal is due in December 2011; repaid in January 2012.	-	125,000
Habitat for Humanity International	Unsecured debt bearing interest at a rate of 4% due semi-annually, principal is due in July 2013; repaid in September 2012.	-	200,000
Oxfam Novib	Unsecured debt bearing interest at a rate of 10% due semi-annually, principal is due November 2011; repaid in January 2012.	-	638,000
HOPE Central Asia 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.	576,480	152,315
International Assistance Mission	Unsecured zero interest rate loan, payable upon HOPE Central Asia reaching operational self-sufficiency.	8,218	8,685
HOPE Democratic Republic of Congo Kiva	Unsecured zero interest rate loan due upon demand.	99,070	112,401
HOPE Congo Kiva	Unsecured zero interest rate loan due upon demand. HOPE International is the guarantor for these loans.	107,038	38,604
		1,862,746	2,922,571
	Less: current portion	<u>728,048</u>	<u>2,011,571</u>
		<u>\$ 1,134,698</u>	<u>\$ 911,000</u>

The notes payable of the microfinance organizations are the obligations of the individual institution. These borrowings are nonrecourse to HOPE and its subsidiaries, except for two loans to Kiva for which HOPE is the guarantor.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

In accordance with a private placement offering, HGIF had offered unsecured notes (“*HOPE Notes*”) up to an aggregate principal amount of \$4,000,000. The HOPE Notes were sold solely by the directors, officers and employees of HGIF on a best efforts basis to accredited investors. Currently, HOPE Notes are not being solicited. Each HOPE Note was sold with an interest rate not to exceed 3%. The outstanding Notes have a maturity of up to 5 years. HOPE Notes are unsecured and have interest only payments with a balloon principal payment at maturity. During 2012, a lender of a HOPE Note for \$500,000 donated the loan to HOPE International which is reflected in contributions as an in-kind donation. In connection with the forgiveness of the HOPE Note, \$300,000 in HGIF loans extended to HOPE DRC was forgiven resulting in a benefit to HOPE DRC and the reduction of loans receivable and the allowance for doubtful accounts for HGIF. The impact of the loan forgiveness is eliminated through consolidation. In January 2013, an additional HOPE Note for \$250,000 was forgiven and, accordingly, the forgiveness will be recognized in 2013.

The proceeds of HOPE Notes have generally been loaned to microfinance institutions which are wholly owned by HOPE. Any outstanding loans between HOPE and its wholly owned subsidiaries have been eliminated in these consolidated financial statements. As of December 31, 2012, HOPE has one outstanding loan with a third party microfinance organization for \$100,000. 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. Currently, HGIF maintains a reserve within the board designated endowment of \$500,000 for principal repayments to third party investors.

As of December 31, 2012, 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, 2012. 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. The line of credit is subject to renewal annually and the current agreement expires on September 30, 2013.

As of December 31, 2012, 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, 2012. 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. The line of credit is subject to renewal annually and the current agreement expires on September 30, 2013.

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

2013	\$ 728,048
2014	8,218
2015	-
2016	574,020
2017	60,050
Thereafter	<u>492,410</u>
Total	<u>\$1,862,746</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(11) RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Programs – Microfinance		
Democratic Republic of Congo	\$ 35,721	\$ 175,600
Dominican Republic	30,118	73,758
Republic of Congo	207,945	13,350
Haiti	-	130,690
Rwanda	-	151,874
Burundi	-	9,772
China	34,410	149,982
Caribbean Region	-	62,512
Other Countries	56,448	5,975
Undesignated	654,540	306,247
Programs – Savings and Credit Associations		
Burundi SCA	100,000	-
Haiti SCA	240	16,432
India SCA	84,360	41,741
Rwanda SCA	313,481	160,228
Zimbabwe SCA	2,823	14,669
Peru SCA	-	16,508
HOPE Trips	20,439	3,081
Spiritual Integration	-	20,000
Other	<u>9,432</u>	<u>32,749</u>
	<u>\$ 1,549,957</u>	<u>\$ 1,385,168</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

Net assets were released from donor restrictions by satisfying the restricted purposes as follows during the year ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Programs – Microfinance		
Democratic Republic of Congo	\$ 1,565,294	\$ 833,134
Central Asia	231,527	375,209
Burundi	24,473	43,799
China	315,441	109,267
Dominican Republic	397,953	475,759
Haiti	246,717	212,068
Moldova	19,058	71,910
Philippines	14,903	74,924
Republic of Congo	772,946	439,098
Russia	2,363	31,114
Rwanda	522,296	62,997
Ukraine	340,465	370,767
Romania	142	6,424
Programs – Savings and Credit Associations		
Burundi SCA	30,000	-
Haiti SCA	139,203	118,968
Rwanda SCA	667,173	456,321
India SCA	194,361	91,843
Zimbabwe SCA	66,801	18,934
Peru SCA	47,321	4,767
Philippines SCA	95,462	93,180
Tomorrow Clubs		
Ukraine	156,183	250,856
Russia	-	3,132
HOPE Trips	172,688	195,418
Education	100,000	50,000
Spiritual Integration	218,401	332,660
Other	<u>71,660</u>	<u>11,115</u>
	<u>\$6,412,831</u>	<u>\$4,733,664</u>

Permanently restricted net assets are available for the following purpose as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
HOPE International Loan Endowment	<u>\$1,076,778</u>	<u>\$782,396</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

Endowment net asset composition by type of fund as of December 31, 2012 and 2011:

	<u>2012</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor restricted endowment funds	\$ -	\$ -	\$1,076,778	\$ 1,076,778
Funds functioning as endowment funds	<u>1,792,420</u>	<u>-</u>	<u>-</u>	<u>1,792,420</u>
	<u>\$1,792,420</u>	<u>\$ -</u>	<u>\$1,076,778</u>	<u>\$ 2,869,198</u>

	<u>2011</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor restricted endowment funds	\$ -	\$ -	\$782,396	\$ 782,396
Funds functioning as endowment funds	<u>1,642,420</u>	<u>-</u>	<u>-</u>	<u>1,642,420</u>
	<u>\$1,642,420</u>	<u>\$ -</u>	<u>\$782,396</u>	<u>\$ 2,424,816</u>

Donor restricted endowment funds are comprised of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Investments	\$ 1,047,232	\$ 655,250
Cash and cash equivalents	26,191	10,666
Contribution receivable	<u>3,355</u>	<u>116,480</u>
	<u>\$ 1,076,778</u>	<u>\$ 782,396</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. In 2012 and 2011, interest and dividends earned on donor restricted endowment funds which are paid in cash are allocated 50% to temporarily restricted and 50% to permanently restricted as stipulated by the donor. In 2012, a stock dividend of \$4,468 was included as dividends allocated to the permanently restricted endowment. In addition, realized and unrealized gains and 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, 2012 and 2011:

	<u>2012</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$1,642,420	\$ -	\$ 782,396	\$ 2,424,816
Investment return	13,443	30,736	54,645	98,824
Contributions and other	150,000	-	239,737	389,737
Less: Endowment income designated for current operations	<u>13,443</u>	<u>30,736</u>	<u>-</u>	<u>44,179</u>
	<u>\$1,792,420</u>	<u>\$ -</u>	<u>\$ 1,076,778</u>	<u>\$ 2,869,198</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

	2011			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,642,420	\$ -	\$ 530,940	\$ 2,173,360
Investment return	12,318	20,322	6,269	38,909
Contributions and other	-	-	245,187	245,187
Less: Endowment income designated for current operations	<u>12,318</u>	<u>20,322</u>	<u>-</u>	<u>32,640</u>
	<u>\$ 1,642,420</u>	<u>\$ -</u>	<u>\$ 782,396</u>	<u>\$ 2,424,816</u>

(12) RELATED PARTY TRANSACTIONS

During the years ended December 31, 2012 and 2011, HOPE received \$450,000 and \$600,000 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 member.

During the year ended December 31, 2012 and 2011, HOPE provided administrative services to H4H for which HOPE was reimbursed in the amount of \$20,000.

(13) 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.

(14) RESERVE AND REGULATORY CAPITAL REQUIREMENTS

HOPE’s microfinance institutions have certain regulatory and capital requirements that they must maintain. Except for HOPE DRC, as of December 31, 2012, HOPE was in compliance with the various regulatory and reserve requirements associated with its microfinance institutions. As of December 31, 2012, HOPE DRC is in active conversations with the Central Bank of Congo regarding the financial presentation concerns causing the compliance issues.

(15) SUBSEQUENT EVENTS

Subsequent events after the date of the statement of financial position through the date that the financial statements were available for issuance, May 16, 2013, have been evaluated in the preparation of the financial statements.

SUPPLEMENTAL INFORMATION

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2012 With Summarized Information For 2011

	*											
	<u>HOPE</u>	<u>HOPE</u>	<u>HGIF</u>	<u>HOPE</u>	<u>HOPE</u>	<u>HOPE</u>	<u>HOPE</u>	<u>HOPE</u>	<u>Eliminating</u>	<u>Consolidated</u>	<u>2011</u>	
	<u>International</u>	<u>Advancement</u>		<u>Ukraine</u>	<u>Central</u>	<u>DRC</u>	<u>Russia</u>	<u>Congo</u>	<u>Entries</u>			
CURRENT ASSETS												
Cash and cash equivalents	\$ 4,008,080	\$ 907	\$ 184,594	\$ 144,989	\$ 237,891	\$ 412,695	\$ 157,734	\$ 1,037,569	\$ -	\$ 6,184,459	\$ 5,156,351	
Contribution receivable	1,111,378	-	-	-	-	-	-	-	-	1,111,378	1,213,986	
Microfinance loans receivable, net	(227,842)(1)	-	-	1,849,242	954,313	228,613	245,676	1,147,238	-	4,197,240	3,968,910	
Loans receivable	350,000	-	419,884	-	-	-	-	-	(669,884)	100,000	-	
Interest receivable	608	-	32,102	39,617	16,737	-	-	-	(30,632)	58,432	46,053	
Other receivables	488,225	-	-	-	257	23,477	-	2,624	(458,042)	56,541	102,020	
Prepaid expenses and other assets	122,305	-	103	14,899	10,254	12,148	-	3,088	-	162,797	111,773	
Total Current Assets	<u>5,852,754</u>	<u>907</u>	<u>636,683</u>	<u>2,048,747</u>	<u>1,219,452</u>	<u>676,933</u>	<u>403,410</u>	<u>2,190,519</u>	<u>(1,158,558)</u>	<u>11,870,847</u>	<u>10,599,093</u>	
NONCURRENT ASSETS												
Cash and cash equivalents – board designated reserve	1,292,420	-	500,000	-	-	-	-	-	-	1,792,420	1,642,420	
Investments	1,047,232	-	-	-	-	-	-	-	-	1,047,232	800,606	
Property and equipment, net	507,525	-	-	44,369	913	8,663	-	36,873	-	598,343	705,962	
Other long-term assets	-	-	-	-	-	74,380	-	7,267	-	81,647	204,123	
Loans receivable	387,580	-	695,000	-	-	-	-	-	(600,000)	482,580	100,000	
Minority interest in net assets	94,089	1,863,398	-	-	-	-	-	-	-	1,957,487	1,305,617	
Investment in subsidiaries	745,728	3,605,213	-	-	-	-	-	-	(4,350,941)	-	-	
Total Assets	<u>\$ 9,927,328</u>	<u>\$ 5,469,518</u>	<u>\$ 1,831,683</u>	<u>\$ 2,093,116</u>	<u>\$ 1,220,365</u>	<u>\$ 759,976</u>	<u>\$ 403,410</u>	<u>\$ 2,234,659</u>	<u>\$ (6,109,499)</u>	<u>\$ 17,830,556</u>	<u>\$ 15,357,821</u>	

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

(1) Represents a general loan loss reserve in HOPE International's records related to HOPE's microfinance institutions' loans receivable.

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION – (Continued)

December 31, 2012 With Summarized Information For 2011

	*											
	<u>HOPE</u>	<u>HOPE</u>	<u>HGIF</u>	<u>HOPE</u>	<u>HOPE</u>	<u>HOPE DRC</u>	<u>HOPE</u>	<u>HOPE</u>	<u>Eliminating</u>	<u>Consolidated</u>	<u>2011</u>	
	<u>International</u>	<u>Advancement</u>		<u>Ukraine</u>	<u>Central</u>		<u>Russia</u>	<u>Congo</u>	<u>Entries</u>			
CURRENT LIABILITIES												
Accounts payable and accrued expenses	\$ 445,422	\$ -	\$ 11,955	\$ 1,206	\$ 73,430	\$ 63,307	\$ -	\$ 43,202	\$ (9,787)	\$ 628,735	\$ 514,782	
Interest payable	-	-	24,000	21,992	10,229	8,640	-	-	(30,632)	34,229	69,527	
Unearned revenue	-	-	-	68,446	-	-	-	-	-	68,446	36,474	
Current portion of notes payable	271,940	448,255	250,000	150,000	-	368,954	-	107,038	(868,139)	728,048	2,011,571	
Client deposits	-	-	-	-	-	126,198	-	724,412	-	850,610	694,580	
Security deposits and other liabilities	2,645	-	-	-	-	-	-	-	-	2,645	3,820	
Total Current Liabilities	<u>720,007</u>	<u>448,255</u>	<u>285,955</u>	<u>241,644</u>	<u>83,659</u>	<u>567,099</u>	<u>-</u>	<u>874,652</u>	<u>(908,558)</u>	<u>2,312,713</u>	<u>3,330,754</u>	
NOTES PAYABLE	<u>-</u>	<u>-</u>	<u>800,000</u>	<u>600,000</u>	<u>584,698</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(850,000)</u>	<u>1,134,698</u>	<u>911,000</u>	
Total Liabilities	<u>720,007</u>	<u>448,255</u>	<u>1,085,955</u>	<u>841,644</u>	<u>668,357</u>	<u>567,099</u>	<u>-</u>	<u>874,652</u>	<u>(1,758,558)</u>	<u>3,447,411</u>	<u>4,241,754</u>	
NET ASSETS												
Unrestricted												
Operations	5,288,166	5,021,263	245,728	1,251,472	397,446	192,877	403,410	1,360,007	(4,350,941)	9,809,428	7,076,152	
Board designated for endowment	1,292,420	-	500,000	-	-	-	-	-	-	1,792,420	1,642,420	
Noncontrolling interest	-	-	-	-	154,562	-	-	-	-	154,562	229,931	
Temporarily restricted	1,549,957	-	-	-	-	-	-	-	-	1,549,957	1,385,168	
Permanently restricted	1,076,778	-	-	-	-	-	-	-	-	1,076,778	782,396	
Total Net Assets	<u>9,207,321</u>	<u>5,021,263</u>	<u>745,728</u>	<u>1,251,472</u>	<u>552,008</u>	<u>192,877</u>	<u>403,410</u>	<u>1,360,007</u>	<u>(4,350,941)</u>	<u>14,383,145</u>	<u>11,116,067</u>	
Total Liabilities and Net Assets	<u>\$ 9,927,328</u>	<u>\$ 5,469,518</u>	<u>\$ 1,831,683</u>	<u>\$ 2,093,116</u>	<u>\$ 1,220,365</u>	<u>\$ 759,976</u>	<u>\$ 403,410</u>	<u>\$ 2,234,659</u>	<u>\$ (6,109,499)</u>	<u>\$ 17,830,556</u>	<u>\$ 15,357,821</u>	

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

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF ACTIVITIES

For the years ended December 31, 2012 With Summarized Information For 2011

	*											
	<u>HOPE</u>	<u>HOPE</u>	<u>HGIF</u>	<u>HOPE</u>	<u>HOPE</u>	<u>HOPE DRC</u>	<u>HOPE</u>	<u>HOPE</u>	<u>Eliminating</u>	<u>Consolidated</u>	<u>2011</u>	
	<u>International</u>	<u>Advancement</u>		<u>Ukraine</u>	<u>Central</u>		<u>Russia</u>	<u>Congo</u>	<u>Entries</u>			
SUPPORT AND REVENUE												
Contributions												
(includes \$616,240 of in-kind support)	\$10,235,641	\$ 1,553,763	\$ 500,000	\$ (167,000)	\$ 30,857	\$ 819,940	\$ -	\$ 451,079	\$ (3,573,638)	\$ 9,850,642	\$ 7,813,634	
Special events, net of direct expenses of \$19,850	623,064	-	-	-	-	-	-	-	-	623,064	781,552	
Investment return designated for current operations	44,179	-	-	-	-	-	-	-	-	44,179	32,640	
Interest income	(58,031)	-	80,399	1,076,825	386,658	680,738	131,509	648,244	(70,904)	2,875,438	2,456,141	
Rental revenue	38,810	-	-	-	-	-	-	-	-	38,810	41,745	
Less expenses (including depreciation)	<u>38,231</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,231</u>	<u>34,001</u>	
Net rental income	<u>579</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>579</u>	<u>7,744</u>	
Minority interest in income of microfinance institution	210,425	(538,245)	-	-	-	-	-	-	479,690	151,870	76,001	
Other income	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>635</u>	
Total support and revenue	<u>11,055,857</u>	<u>1,015,518</u>	<u>580,399</u>	<u>909,825</u>	<u>417,515</u>	<u>1,500,678</u>	<u>131,509</u>	<u>1,099,323</u>	<u>(3,164,852)</u>	<u>13,545,772</u>	<u>11,168,347</u>	
FUNCTIONAL EXPENSES												
Program services	7,259,628	1,200	366,909	1,066,729	569,586	1,567,441	116,781	654,998	(2,809,666)	8,793,606	7,438,530	
Management and general	492,988	(220)	3,065	-	-	-	-	-	-	495,833	506,008	
Fundraising	<u>1,425,555</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,425,555</u>	<u>1,219,982</u>	
Total expenses	<u>9,178,171</u>	<u>980</u>	<u>369,974</u>	<u>1,066,729</u>	<u>569,586</u>	<u>1,567,441</u>	<u>116,781</u>	<u>654,998</u>	<u>(2,809,666)</u>	<u>10,714,994</u>	<u>9,164,520</u>	

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

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF ACTIVITIES – (Continued)

For the years ended December 31, 2012 With Summarized Information For 2011

	*										
	<u>HOPE</u>	<u>HOPE</u>	<u>HGIF</u>	<u>HOPE</u>	<u>HOPE</u>	<u>HOPE DRC</u>	<u>HOPE</u>	<u>HOPE</u>	<u>Eliminating</u>	<u>Consolidated</u>	<u>2011</u>
	<u>International</u>	<u>Advancement</u>		<u>Ukraine</u>	<u>Central</u>		<u>Russia</u>	<u>Congo</u>	<u>Entries</u>		
OTHER CHANGES											
Investment return in excess of amounts designated for operations	\$ 54,645	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,645	\$ 6,269
Gain/(loss) on foreign currency transactions	-	-	-	(4,389)	(1,006)	586	-	1,141	-	(3,668)	(10,471)
Gain (loss) on foreign currency translation	-	6,305	-	1,398	(36,628)	(801)	22,471	9,609	(6,305)	(3,951)	(95,739)
Recognition of contingent note receivable	<u>389,274</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>389,274</u>	<u>-</u>
Total other changes	<u>443,919</u>	<u>6,305</u>	<u>-</u>	<u>(2,991)</u>	<u>(37,634)</u>	<u>(215)</u>	<u>22,471</u>	<u>10,750</u>	<u>(6,305)</u>	<u>436,300</u>	<u>(99,941)</u>
CHANGE IN NET ASSETS	2,321,605	1,020,843	210,425	(159,895)	(189,705)	(66,978)	37,199	455,075	(361,491)	3,267,078	1,903,886
NET ASSETS											
Beginning of year	<u>6,885,716</u>	<u>4,000,420</u>	<u>535,303</u>	<u>1,411,367</u>	<u>741,713</u>	<u>259,855</u>	<u>366,211</u>	<u>904,932</u>	<u>(3,989,450)</u>	<u>11,116,067</u>	<u>9,212,181</u>
End of year	<u>\$ 9,207,321</u>	<u>\$ 5,021,263</u>	<u>\$ 745,728</u>	<u>\$ 1,251,472</u>	<u>\$ 552,008</u>	<u>\$ 192,877</u>	<u>\$ 403,410</u>	<u>\$ 1,360,007</u>	<u>\$ (4,350,941)</u>	<u>\$ 14,383,145</u>	<u>\$ 11,116,067</u>

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