

HOPE INTERNATIONAL

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

DECEMBER 31, 2013 AND 2012

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, 2013, 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, 2013, 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 2012 consolidated financial statements, and our report dated May 16, 2013, 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, 2012, 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 27 and 29, 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
April 21, 2014**

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2013 And 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,256,478	\$ 6,184,459
Contribution receivable	1,590,505	1,111,378
Microfinance loans receivable, net	4,363,052	4,197,240
Loans receivable, net	505,000	100,000
Interest receivable	45,686	58,432
Other receivables	152,941	56,541
Prepaid expenses and other assets	<u>163,288</u>	<u>162,797</u>
Total Current Assets	12,076,950	11,870,847
NONCURRENT ASSETS		
Cash and cash equivalents – board-designated endowment	2,247,920	1,792,420
Investments	1,702,522	1,047,232
Property and equipment, net	673,015	598,343
Other long-term assets	29,431	81,647
Loans receivable, net	477,580	482,580
Minority interest in net assets	<u>2,223,402</u>	<u>1,957,487</u>
Total Assets	<u>\$ 19,430,820</u>	<u>\$ 17,830,556</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 649,126	\$ 628,735
Interest payable	9,410	34,229
Unearned revenue	70,422	68,446
Current portion of notes payable	355,857	728,048
Client deposits	998,274	850,610
Security deposits and other liabilities	<u>3,720</u>	<u>2,645</u>
Total Current Liabilities	<u>2,086,809</u>	<u>2,312,713</u>
NOTES PAYABLE	<u>859,054</u>	<u>1,134,698</u>
Total Liabilities	<u>2,945,863</u>	<u>3,447,411</u>
NET ASSETS		
Unrestricted		
Net assets	11,705,476	9,809,428
Board-designated for endowment		
First loss reserve – HOPE notes	137,500	500,000
Investment	2,110,420	1,292,420
Noncontrolling interest	<u>105,182</u>	<u>154,562</u>
Total Unrestricted Net Assets	14,058,578	11,756,410
Temporarily restricted	1,064,252	1,549,957
Permanently restricted	<u>1,362,127</u>	<u>1,076,778</u>
Net Assets	<u>16,484,957</u>	<u>14,383,145</u>
Total Liabilities and Net Assets	<u>\$ 19,430,820</u>	<u>\$ 17,830,556</u>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2013 With Summarized Information For 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2012</u>
SUPPORT AND REVENUE					
Contributions					
(includes in-kind support of \$593,290)	\$ 3,715,336	\$ 6,068,889	\$ 235,229	\$ 10,019,454	\$ 9,850,642
Special events,					
net of direct expenses of \$414,203	1,349,197	357,879	-	1,707,076	623,064
Investment return designated for current operations	17,357	38,739	-	56,096	44,179
Interest income	2,394,051	-	-	2,394,051	2,875,438
Rental revenue	46,369	-	-	46,369	38,810
Less expenses (including depreciation)	<u>(40,710)</u>	<u>-</u>	<u>-</u>	<u>(40,710)</u>	<u>38,231</u>
Net rental income	<u>5,659</u>	<u>-</u>	<u>-</u>	<u>5,659</u>	<u>579</u>
Equity interest in income (loss) of a microfinance institution	(234,085)	-	-	(234,085)	151,870
Other income	<u>503</u>	<u>-</u>	<u>-</u>	<u>503</u>	<u>-</u>
Total support and revenue before net assets released from restrictions	7,248,018	6,465,507	235,229	13,948,754	13,545,772
Net assets released from restrictions	<u>6,951,212</u>	<u>(6,951,212)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>14,199,230</u>	<u>(485,705)</u>	<u>235,229</u>	<u>13,948,754</u>	<u>13,545,772</u>
FUNCTIONAL EXPENSES					
Program services	9,847,879	-	-	9,847,879	8,793,606
Management and general	554,051	-	-	554,051	495,833
Fundraising	<u>1,502,747</u>	<u>-</u>	<u>-</u>	<u>1,502,747</u>	<u>1,425,555</u>
Total expenses	<u>11,904,677</u>	<u>-</u>	<u>-</u>	<u>11,904,677</u>	<u>10,714,994</u>
Excess of revenues over expenses	2,294,553	(485,705)	235,229	2,044,077	2,830,778
OTHER CHANGES					
Investment return in excess of amounts designated for current operations	-	-	50,120	50,120	54,645
Net realized gain (loss) on foreign currency transactions	22,840	-	-	22,840	(3,668)
Loss on foreign currency translation	(15,225)	-	-	(15,225)	(3,951)
Recognition of contingent note receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>389,274</u>
Total other changes	<u>7,615</u>	<u>-</u>	<u>50,120</u>	<u>57,735</u>	<u>436,300</u>
CHANGE IN NET ASSETS	2,302,168	(485,705)	285,349	2,101,812	3,267,078
NET ASSETS					
Beginning 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>
End of year	<u>\$ 14,058,578</u>	<u>\$ 1,064,252</u>	<u>\$ 1,362,127</u>	<u>\$ 16,484,957</u>	<u>\$ 14,383,145</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, 2013 And 2012

	<u>Unrestricted HOPE</u>	<u>Unrestricted – Non-Controlling Interest In Microfinance Entities</u>	<u>Total</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>2,302,168</u>
Unrestricted net assets, December 31, 2012	11,601,848	154,562	11,756,410
Change in unrestricted net assets	<u>2,351,548</u>	<u>(49,380)</u>	<u>2,302,168</u>
Unrestricted net assets, December 31, 2013	<u>\$ 13,953,396</u>	<u>\$ 105,182</u>	<u>\$ 14,058,578</u>

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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2013

	<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	\$1,535,948	\$1,663,825	\$3,199,773	\$333,644	\$812,954	\$4,346,371
Payroll taxes	282,512	142,578	425,090	28,673	68,805	522,568
Employee benefits	89,615	359,582	449,197	58,569	152,519	660,285
Other staff expenses	161,891	281,816	443,707	46,115	60,896	550,718
Insurance	3,318	1,430	4,748	3,386	557	8,691
Professional services	178,609	410,119	588,728	6,920	27,939	623,587
Office expenses	437,031	88,428	525,459	36,141	56,524	618,124
HOPE Trips	-	411,986	411,986	-	-	411,986
Tomorrow Clubs	142,643	283,179	425,822	-	-	425,822
Education	-	250,521	250,521	-	-	250,521
Marketing	-	26,129	26,129	6,577	92,967	125,673
Travel	244,873	452,102	696,975	3,497	68,506	768,978
Finance expenses – interest and fees	105,555	16,547	122,102	6,090	43,487	171,679
Depreciation	43,391	24,501	67,892	8,805	10,639	87,336
Printing and reproduction	20,865	599	21,464	-	76,850	98,314
Loan loss reserve/(recapture), net	81,927	(37,841)	44,086	-	-	44,086
Other expenses	210,714	23,029	233,743	15,634	30,104	279,481
Grants to partners	460,900	1,406,742	1,867,642	-	-	1,867,642
Taxes	38,642	4,173	42,815	-	-	42,815
	<u>\$4,038,434</u>	<u>\$5,809,445</u>	<u>\$9,847,879</u>	<u>\$554,051</u>	<u>\$1,502,747</u>	<u>\$11,904,677</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – (Continued)

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>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2013 And 2012

	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 2,101,812	\$ 3,267,078
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized gain on investments	(11,381)	(19,441)
Loan loss (recapture) reserve, net	(22,232)	84,775
Equity interest in (income) loss of a microfinance institution	234,085	(151,870)
Depreciation	103,334	111,029
(Gain) loss on sale of fixed assets	(4,635)	18,302
Contributions restricted for endowment	(235,229)	(239,737)
Recognition of contingent note receivable	-	(389,274)
(Increase) decrease in operating assets		
Contributions receivable	(479,127)	102,608
Prepaid expenses and other assets	(491)	(51,024)
Interest receivable	12,746	(12,379)
Other long term assets	52,216	122,476
Other receivables	(96,400)	45,479
Increase (decrease) in operating liabilities		
Unearned revenue	1,976	31,972
Interest payable	(24,819)	(35,298)
Accounts payable and accrued expense	20,391	113,953
Client deposits	147,664	156,030
Security deposits and other liabilities	<u>1,075</u>	<u>(1,175)</u>
Net cash provided by operating activities	<u>1,800,985</u>	<u>3,153,504</u>
INVESTING ACTIVITIES		
Designation for endowment of cash and cash equivalents	(455,500)	(150,000)
Purchase of property, plant and equipment	(195,750)	(30,079)
Proceeds from sale of fixed assets	22,379	8,367
Purchase/sales of investments, net	(643,909)	(227,185)
Issuance of microfinance loans, net	(143,580)	(313,105)
Issuance of notes receivable	(650,000)	(93,306)
Repayment of notes receivable	250,000	-
Purchase of minority interest in net assets	<u>(500,000)</u>	<u>(500,000)</u>
Net cash used in investing activities	<u>(2,316,360)</u>	<u>(1,305,308)</u>
FINANCING ACTIVITIES		
(Repayments) proceeds from notes payable, net	(647,835)	(1,059,825)
Contributions restricted for endowments	<u>235,229</u>	<u>239,737</u>
Net cash used in financing activities	<u>(412,606)</u>	<u>(820,088)</u>
Net (decrease) increase in cash and cash equivalents	(927,981)	1,028,108
CASH AND CASH EQUIVALENT		
Beginning of year	<u>6,184,459</u>	<u>5,156,351</u>
End of year	<u>\$ 5,256,478</u>	<u>\$ 6,184,459</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 66,509</u>	<u>\$ 88,681</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 And 2012

(1) NATURE OF ORGANIZATION

HOPE International (“**HI**”) is a global, faith-based, 501(c)(3) non-profit organization focused on alleviating poverty through microenterprise development. HI’s vision is to enable sustainable economic development that results in significant and lasting change in the lives of people living in poverty. HI accomplishes this vision by providing discipleship, biblically based business training, savings services, and small loans to families in poverty and by actively partnering with local churches. HI 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, Malawi, Moldova, Peru, Philippines, the Republic of Congo, Romania, Russia, Rwanda, Ukraine and Zimbabwe.

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

HI has a controlling interest in the following subsidiaries:

Higher Impact Properties, LLC (“**HIP**”), a Pennsylvania limited liability corporation, manages rental properties which HI has acquired or received as donations. These sources of funds contribute to HOPE’s work around the world.

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

Hope Advancement, Inc. (“**HA**”) is incorporated as a not-for-profit in the state of Delaware and is a 501(c)(3) organization. HA was created for the purpose of holding investments in microfinance entities and a savings and credit association (“**SCA**”). A description of the type of legal entity and the percentage of HA’s ownership interest in the microfinance entities and SCA included in the consolidation is as 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.
- (ii) 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 Zaporozhe, Ukraine, which HI controls.
- (iv) HOPE Russia is a wholly owned microfinance institution registered in Russia as a non-governmental organization.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

- (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 79% and 72% ownership interest in HOPE Central Asia as of December 31, 2013 and 2012, respectively.
- (vi) HOPE Burundi SCA is a wholly owned entity registered in Burundi as a non-governmental organization which provides training and oversight in the creation and execution of savings and credit associations in Burundi. HOPE Burundi commenced operations in 2013.

The consolidated financial statements include the accounts of HI, HIP, HGIF and HA (collectively “HOPE”).

(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.

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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

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, 2013 and 2012, \$137,500 and \$500,000 of the endowment, respectively, is designated as a first loss reserve to repay investors of HOPE Notes, if required. The remaining board-designated endowment of \$2,110,420 and \$1,292,420 as of December 31, 2013 and 2012, 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 HI Loan Endowment. The HI 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, 2013 And 2012

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 (2010 – 2012) as well as the expected position of HOPE's 2013 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, as well as HOPE Russia and HOPE Burundi SCA as non-governmental organizations, 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) involve specialized skills, are performed by people with those skills, and would otherwise be purchased by HOPE. Volunteer services provided to HOPE 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.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

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 five subsidiaries located in foreign countries. These subsidiaries in addition to HOPE Burundi 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 and SCA entities was \$4,726,687 and \$3,759,774, which included a non-controlling interest of \$105,182 and \$154,562 as of December 31, 2013 and 2012, 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. Loans outstanding in HOPE Ukraine and HOPE Russia as of December 31, 2013 with an original loan term greater than one year were \$760,906.

(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.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

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, 2013 and 2012, was a decrease to net assets of \$15,225 and \$3,951, respectively.

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, 2012, from which the summarized information was derived.

(3) CONTRIBUTION RECEIVABLE

HOPE had pledges receivable totaling \$1,590,505 and \$1,111,378 at December 31, 2013 and 2012. 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, 2013 and 2012, by location consist of the following:

	<u>2013</u>	<u>2012</u>
Ukraine	\$ 1,464,672	\$ 1,858,141
Republic of Congo	1,691,238	1,215,169
Democratic Republic of Congo	292,491	246,276
Russia	148,025	250,380
Central Asia	<u>1,084,232</u>	<u>967,112</u>
	4,680,658	4,537,078
Less: allowance for doubtful accounts	<u>317,606</u>	<u>339,838</u>
	<u>\$ 4,363,052</u>	<u>\$ 4,197,240</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.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

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 \$998,274 and \$850,610 of client deposits as of December 31, 2013 and 2012, includes voluntary and compulsory savings.

The loan value of microfinance loans that were classified as nonperforming was \$10,246 and \$16,184 at December 31, 2013 and 2012, 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, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 339,838	\$ 255,063
Provision for loan losses	78,532	274,679
Loans written off	<u>(100,764)</u>	<u>(189,904)</u>
	<u>\$ 317,606</u>	<u>\$ 339,838</u>

(5) LONG-TERM INVESTMENTS

A summary of investments at December 31, 2013 and 2012 is as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 2,257,704	\$ 2,257,704	\$ 1,800,773	\$ 1,800,773
Fixed income:				
Certificates of deposits	500,000	500,000	-	-
Corporate bonds	552,908	584,442	429,806	458,912
Preferred securities	343,210	326,442	293,210	300,927
Equities	49,795	55,306	39,605	33,825
Mutual funds				
Fixed income	-	-	34,155	33,968
Master limited partnerships	71,885	76,548	74,128	61,247
Mortgage receivable	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>
	<u>\$ 3,925,502</u>	3,950,442	<u>\$ 2,821,677</u>	2,839,652
Less: cash and cash equivalent – board-designated endowment		<u>2,247,920</u>		<u>1,792,420</u>
Long-term investment		<u>\$ 1,702,522</u>		<u>\$ 1,047,232</u>

Investments are comprised of the following net assets:

	<u>2013</u>	<u>2012</u>
Unrestricted – funds functioning as endowment funds	\$ 2,247,920	\$ 1,792,420
Unrestricted – general	500,000	-
Permanently restricted endowment funds	<u>1,202,522</u>	<u>1,047,232</u>
	<u>\$ 3,950,442</u>	<u>\$ 2,839,652</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

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 in conjunction with the investment advisor monitors portfolio performance and the compliance of investment guidelines given to selected investment managers.

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

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Dividends and interest	\$ 17,357	\$ 38,739	\$ 38,739	\$ 94,835
Net realized and unrealized gains			11,381	11,381
Return on investments	17,357	38,739	50,120	106,216
Less: Investment return designated for current operations	17,357	38,739	-	56,096
Investment return in excess of amounts designated for current operations	\$ -	\$ -	\$ 50,120	\$ 50,120

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

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

(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.

The inputs methodology used for valuing securities is not necessarily an indication of risk associated with investing in those securities.

The summary of inputs used to value HOPE's investments as of December 31, 2013 and 2012, is as follows:

	<u>2013</u>		
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>
Investments			
Money market funds	\$ 2,257,704	\$ 2,257,704	\$ -
Certificates of deposits	500,000	500,000	-
Fixed income:			
Corporate bonds	584,442	-	584,442
Preferred securities	326,442	-	326,442
Equities	55,306	55,306	-
Master limited partnership	76,548	76,548	-
Mortgage receivable	150,000	-	150,000
	<u>\$ 3,950,442</u>	<u>\$ 2,889,558</u>	<u>\$ 1,060,884</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

	2012		
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>
Investments			
Money market funds	\$ 1,800,773	\$ 1,800,773	\$ -
Fixed income:			
Corporate bonds	458,912	-	458,912
Preferred securities	300,927	-	300,927
Equities	33,825	33,825	-
Mutual fund – fixed income	33,968	33,968	-
Master limited partnership	61,247	61,247	-
Mortgage receivable	<u>150,000</u>	<u>-</u>	<u>150,000</u>
	<u>\$ 2,839,652</u>	<u>\$ 1,929,813</u>	<u>\$ 909,839</u>

There were no transfers between Level 1 and 2 for the years ended December 31, 2013 and 2012.

The carrying value of its mortgage receivable approximates fair value.

(7) PROPERTY

Property and equipment as of December 31, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Equipment and computer software	\$ 467,532	\$ 370,041
Leasehold improvements	130,514	130,514
Rental properties		
Buildings and improvements	478,759	478,759
Other	<u>30,000</u>	<u>-</u>
	1,106,805	979,314
Less: accumulated depreciation	<u>433,790</u>	<u>380,971</u>
	<u>\$ 673,015</u>	<u>\$ 598,343</u>

Depreciation expense was \$103,334 and \$111,029 for the year ended December 31, 2013 and 2012, of which \$15,998 and \$15,594 is included within rental properties expense.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

(8) LOANS RECEIVABLE

Loans receivable as of December 31, 2013 and 2012 consisted of the following:

<u>BORROWER</u>	<u>TERMS</u>	<u>Interest Rate</u>	<u>2013</u>	<u>2012</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
	Interest only payment in March 2014 with principal and interest payments of varying amounts due with maturity in October 2014.	2.28%	175,000	-
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
	\$62,500 principal and outstanding interest due February and May 2014.	2%	125,000	-
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%	387,580	387,580
	\$66,666 principal and outstanding interest due February, May and August 2014.	2.23%	<u>200,000</u>	<u>-</u>
			987,580	587,580
	Less: current portion, net \$5,000 allowance		<u>505,000</u>	<u>100,000</u>
			482,580	487,580
	Less: allowance for doubtful accounts		<u>5,000</u>	<u>5,000</u>
			<u>\$ 477,580</u>	<u>\$ 482,580</u>

At December 31, 2013, loans receivable maturities were as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2014	\$ 510,000
2015	144,849
2016	247,892
2017	<u>84,839</u>
	<u>\$ 987,580</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

(9) MINORITY INTEREST IN NET ASSETS

As of the years ended December 31, 2013 and 2012, HOPE had a minority interest in the following financial institutions:

<u>Name</u>	<u>2013</u>	
	<u>% Owned</u>	<u>Carrying Value</u>
URWEGO Opportunity Bank, a microfinance institution in Rwanda	38.32%	\$ 2,129,313
Turame Community Finance, a microfinance institution in Burundi	4.18%	<u>94,089</u>
		<u>\$ 2,223,402</u>

<u>Name</u>	<u>2012</u>	
	<u>% Owned</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>

HOPE carries its interest in URWEGO Opportunity Bank on the equity basis of accounting. For the years ended December 31, 2013 and 2012, HOPE's equity interest in the income (loss) of URWEGO Opportunity Bank was \$(234,085) and \$151,870, respectively. In 2013, HOPE contributed an additional \$500,000 of equity which increased HOPE's ownership in URWEGO Opportunity Bank to 38.32%. HOPE carries its interest in Turame at cost. HOPE's proportionate share of Turame's equity as of December 31, 2013 and 2012 was \$49,865 and \$65,041 (unaudited), respectively.

(10) NOTES PAYABLE

Notes payable as of December 31, 2013 and 2012 consisted of the following:

<u>LENDER</u>	<u>TERMS</u>	<u>2013</u>	<u>2012</u>
HGIF Various	Unsecured HOPE Notes bearing interest at a rate of 3% due annually, payable on demand, was transferred to HI and forgiven in January 2013.	\$ -	\$ 250,000
Various	Three unsecured HOPE Notes bearing interest at a rate of 3% due annually, payable in April and November 2016. \$450,000 of HOPE Notes was repaid to a lender in September 2013. \$100,000 of HOPE Notes was transferred to HI and became interest free.	-	550,000
HOPE International Kiva	Unsecured zero interest rate loan due upon demand.	285,644	271,940
Private Foundation	Unsecured, interest free note payable maturing November 2016.	100,000	-

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

LENDER	TERMS	2013	2012
HOPE Central Asia MISFA	Debt bearing interest at a rate of 5% due quarterly, principal repayable commencing in December 2015 with the final principal payment due in June 2023. Debt is secured by the gross loan portfolio.	746,667	576,480
Central Asia Assistance Mission	Unsecured zero interest rate loan, payable upon HOPE Central Asia reaching operational self-sufficiency.	12,387	8,218
HOPE Democratic Republic of Congo Kiva	Unsecured zero interest rate loan due upon demand.	-	99,070
HOPE Congo Kiva	Unsecured zero interest rate loan due upon demand.	<u>70,213</u>	<u>107,038</u>
		1,214,911	1,862,746
	Less: current portion	<u>355,857</u>	<u>728,048</u>
		<u>\$ 859,054</u>	<u>\$1,134,698</u>

The notes payable of the microfinance organizations are the obligations of the individual institution.

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 had a maturity of up to 5 years. HOPE Notes are unsecured and have interest only payments with a balloon principal payment at maturity. During 2013 and 2012, HOPE Notes in the amount of \$250,000 and \$500,000, respectively, were forgiven by the lenders and is included in contributions in the Statement of Activity.

The proceeds of HOPE Notes have generally been loaned to the microfinance institutions which are wholly owned by HA. These intercompany loans are eliminated in the consolidation. As of December 31, 2013, there is one remaining HOPE Note in the amount of \$100,000, which is loaned to a third party microfinance organization. Principal and interest payments on HOPE Notes are dependent solely upon the financial condition and strength of HGIF and upon repayments of loans made by the borrowing microfinance institutions. Currently, HOPE maintains a reserve within the board-designated endowment of \$137,500 for principal repayments.

As of December 31, 2013 and 2012, HOPE has a secured line of credit of \$700,000 and \$500,000, respectively, with a financial institution. The line of credit is secured by all assets of HOPE. In addition, the loan is secured by a first lien mortgage on two real estate properties owned by HIP. There was no outstanding balance under the line of credit as of December 31, 2013 and 2012. The interest rate on the line of credit is the financial institution’s prime rate minus .50% with a minimum interest rate of 4% in 2013 and 5% in 2012. Any outstanding loan and interest is due on demand. The \$700,000 line of credit is subject to renewal annually and the current agreement expires September 30, 2014.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

As of December 31, 2013 and 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, 2013 and 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 September 30, 2014.

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

2014	\$ 355,857
2015	16,831
2016	124,444
2017	75,556
2018	133,333
Thereafter	<u>508,890</u>
Total	<u>\$ 1,214,911</u>

(11) RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Programs – Microfinance		
Democratic Republic of Congo	\$ 10,001	\$ 35,721
Dominican Republic	14,050	30,118
Republic of Congo	-	207,945
China	-	34,410
Other Countries	86,582	56,448
Undesignated	565,033	654,540
Programs – Savings and Credit Associations		
Burundi SCA	73,306	100,000
Haiti SCA	3,104	240
India SCA	43,324	84,360
Rwanda SCA	45,000	313,481
Zimbabwe SCA	38,472	2,823
Peru SCA	1,063	-
Malawi SCA	60,616	-
HOPE Trips	44,342	20,439
Tomorrow Clubs	71,641	1,714
Other	<u>7,718</u>	<u>7,718</u>
	<u>\$ 1,064,252</u>	<u>\$ 1,549,957</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

Net assets were released from donor restrictions by satisfying the restricted purposes as follows during the year ended December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Programs – Microfinance		
Democratic Republic of Congo	\$ 607,410	\$1,565,294
Central Asia	323,625	231,527
Burundi	73,549	24,473
China	157,511	315,441
Dominican Republic	491,319	397,953
Haiti	50,638	246,717
Moldova	22	19,058
Philippines	41,810	14,903
Republic of Congo	975,424	772,946
Russia	16,977	2,363
Rwanda	423,230	522,296
Ukraine	427,200	340,465
Romania	(987)	142
Programs – Savings and Credit Associations		
Burundi SCA	443,511	30,000
Haiti SCA	216,657	139,203
Rwanda SCA	952,830	667,173
India SCA	307,567	194,361
Zimbabwe SCA	105,276	66,801
Peru SCA	103,781	47,321
Philippines SCA	111,777	95,462
Malawi SCA	200,141	-
Tomorrow Clubs		
Ukraine	190,682	156,183
Russia	8,140	-
Moldova	4,886	-
HOPE Trips	210,624	172,688
Education	5,055	100,000
Spiritual Integration	247,830	218,401
Other	<u>254,727</u>	<u>71,660</u>
	<u>\$6,951,212</u>	<u>\$6,412,831</u>

Permanently restricted net assets are available for the following purpose as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
HI Loan Endowment	<u>\$1,362,127</u>	<u>\$1,076,778</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

Endowment net asset composition by type of fund as of December 31, 2013 and 2012:

	<u>2013</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor restricted endowment funds	\$ -	\$ -	\$ 1,362,127	\$ 1,362,127
Funds functioning as endowment funds	<u>2,247,920</u>	<u>-</u>	<u>-</u>	<u>2,247,920</u>
	<u>\$ 2,247,920</u>	<u>\$ -</u>	<u>\$ 1,362,127</u>	<u>\$ 3,610,047</u>

	<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>

Donor restricted endowment funds are comprised of the following as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Investments	\$ 1,202,522	\$ 1,047,232
Cash and cash equivalents	141,378	26,191
Contribution receivable	<u>18,227</u>	<u>3,355</u>
	<u>\$ 1,362,127</u>	<u>\$ 1,076,778</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 2013 and 2012, 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, 2013 and 2012:

	<u>2013</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ 1,792,420	\$ -	\$ 1,076,778	\$ 2,869,198
Investment return	17,357	38,739	50,120	106,216
Contributions and other	455,500		235,229	690,729
Less: Endowment income designated for current operations	<u>17,357</u>	<u>38,739</u>	<u>-</u>	<u>56,096</u>
	<u>\$ 2,247,920</u>	<u>\$ -</u>	<u>\$ 1,362,127</u>	<u>\$ 3,610,047</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

	2012			<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>

(12) RELATED PARTY TRANSACTIONS

During the years ended December 31, 2013 and 2012, HOPE received \$350,000 and \$450,000 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, 2013 and 2012, HOPE provided administrative services to H4H for which HOPE was reimbursed in the amount of \$20,992 and \$20,000. As of December 31, 2013, there was a \$479 payable outstanding to Homes for HOPE.

(13) RETIREMENT PLAN

In February 2013 HOPE expanded its 403(b) plan to include an employer match. HOPE’s 403(b) plan is a deferred salary arrangement under section 403(b) of the Internal Revenue Code. Under the plan, participating U.S. employees may defer a portion of their pre-tax earnings, up to the IRS annual contribution limits. Annually, HOPE matches 50% of each employee’s contributions up to 3% of the employee’s eligible earnings or \$1,800, whichever is less. HOPE’s matching contributions to the 403(b) plan was \$63,751 in 2013.

(14) RESERVE AND REGULATORY CAPITAL REQUIREMENTS

HOPE’s microfinance institutions have certain regulatory and capital requirements that they must maintain. As of December 31, 2012, HOPE DRC was in active conversations with the Central Bank of Congo regarding financial presentation concerns causing compliance issues. Through the continuation of these discussions and actions taken in 2013, all but the regulatory issue relating to Operational Self Sufficiency was resolved. The Self Sufficiency ratio requires operating revenue to be greater than 119.4% of operating expenses. HOPE DRC’s operating revenue was 42% of operating expenses as of December 31, 2013. In conjunction with ongoing discussions with the Central Bank of Congo regarding this noncompliance, the Central Bank of Congo is currently not taking any action.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2013 And 2012

(15) CONTINGENCIES

As of December 31, 2013 the Democratic Republic of Congo's federal taxing agency, Directorate General of Taxes (DGI), is claiming \$81,328 in disputed 2011 and 2012 taxes against HOPE DRC. The disputed taxes consist of \$8,685 in income tax and \$72,643 of payroll taxes associated primarily with the allowability of deductions for employee phone and transportation reimbursements and allowances. In connection with this dispute as of December 31, 2013, DGI through court order froze \$242,350 of HOPE DRC cash deposits held with Rawbank SARL. HOPE believes that the claims as stated by DGI are not justified by the evidence and is rigorously contesting DGI in court.

(16) SUBSEQUENT EVENTS

Subsequent events after the date of the statement of financial position through the date that the financial statements were available for issuance, April 21, 2014, have been evaluated in the preparation of the financial statements.

Subsequent to year-end, Russian Federation armed forces invaded Ukraine. Continued military action and political instability in Ukraine may negatively impact both HOPE Ukraine and HOPE Russia asset valuations and estimates as of December 31, 2013. The geo-political activities have had a devaluing impact on both currencies as compared to the United States Dollar. The Ukrainian Hryvnia has devalued from a rate of 7.99 to 1 United States Dollar as of December 31, 2013 to 11.25 to 1 United States Dollar as of April 21, 2014. The Russian Ruble has devalued from a rate of 32.73 to 1 United States Dollar as of December 31, 2013 to 35.67 to 1 United States Dollar as of April 21, 2014. Net assets invested in Ukraine and Russia at December 31, 2013 was \$1,707,047 and \$338,883, respectively. In addition, Management does not believe there has been any significant negative impact regarding the credit risk associated with its microfinance loans receivable portfolio in either HOPE Ukraine or HOPE Russia as a result of the continuing political instability. Net microfinance loans receivable was \$1,457,115 and \$147,134 (81% and 43% of total assets) in HOPE Ukraine and Hope Russia as of December 31, 2013, respectively.

SUPPLEMENTAL INFORMATION

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2013 With Summarized Information For 2012

	HOPE ADVANCEMENT											2012
	* HOPE International	HGIF	HOPE Advancement	HOPE Ukraine	HOPE Central Asia	HOPE DRC	HOPE Russia	HOPE Congo	Burundi SCA	Eliminating Entries	Consolidated	
CURRENT ASSETS												
Cash and cash equivalents	\$ 2,441,284	\$ 490,154	\$ 886	\$ 252,079	\$ 241,629	\$ 455,322	\$ 191,749	\$ 1,161,796	\$ 21,579	\$ -	\$ 5,256,478	\$ 6,184,459
Contribution receivable	1,590,505	-	-	-	-	-	-	-	-	-	1,590,505	1,111,378
Microfinance loans receivable, net	(190,000)(1)	-	-	1,457,115	1,067,332	274,772	147,134	1,606,699	-	-	4,363,052	4,197,240
Loans receivable	750,000	275,000	-	-	-	-	-	-	-	(520,000)	505,000	100,000
Interest receivable	1,966	1,470	-	23,297	18,953	-	-	-	-	-	45,686	58,432
Other receivables	1,038,397	-	-	-	1,152	18,999	-	5,222	15,961	(926,790)	152,941	56,541
Prepaid expenses and other assets	135,421	-	-	17,530	6,404	-	-	3,384	549	-	163,288	162,797
Total Current Assets	<u>5,767,573</u>	<u>766,624</u>	<u>886</u>	<u>1,750,021</u>	<u>1,335,470</u>	<u>749,093</u>	<u>338,883</u>	<u>2,777,101</u>	<u>38,089</u>	<u>(1,446,790)</u>	<u>12,076,950</u>	<u>11,870,847</u>
NONCURRENT ASSETS												
Cash and cash equivalents – board-designated reserve	2,110,420	137,500	-	-	-	-	-	-	-	-	2,247,920	1,792,420
Investments	1,702,522	-	-	-	-	-	-	-	-	-	1,702,522	1,047,232
Property and equipment, net	518,998	-	-	53,896	1,343	7,061	-	67,511	24,206	-	673,015	598,343
Other long-term assets	-	-	-	-	-	20,000	-	9,431	-	-	29,431	81,647
Loans receivable	387,580	90,000	-	-	-	-	-	-	-	-	477,580	482,580
Minority interest in net assets	94,089	-	2,129,313	-	-	-	-	-	-	-	2,223,402	1,957,487
Investment in subsidiaries	744,124	-	4,621,505	-	-	-	-	-	-	(5,365,629)	-	-
Total Assets	<u>\$ 11,325,306</u>	<u>\$ 994,124</u>	<u>\$ 6,751,704</u>	<u>\$ 1,803,917</u>	<u>\$ 1,336,813</u>	<u>\$ 776,154</u>	<u>\$ 338,883</u>	<u>\$ 2,854,043</u>	<u>\$ 62,295</u>	<u>\$ (6,812,419)</u>	<u>\$ 19,430,820</u>	<u>\$ 17,830,556</u>

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

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

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION – (Continued)

December 31, 2013 With Summarized Information For 2012

	HOPE ADVANCEMENT											2012
	* HOPE International	HGIF	HOPE Advancement	HOPE Ukraine	HOPE Central Asia	HOPE DRC	HOPE Russia	HOPE Congo	Burundi SCA	Eliminating Entries	Consolidated	
CURRENT LIABILITIES												
Accounts payable and accrued expenses	\$ 404,617	\$ -	\$ -	\$ 26,448	\$ 67,482	\$ 93,103	\$ -	\$ 76,614	\$ 4,514	\$ (23,652)	\$ 649,126	\$ 628,735
Interest payable	-	-	-	-	9,410	-	-	-	-	-	9,410	34,229
Unearned revenue	-	-	-	70,422	-	-	-	-	-	-	70,422	68,446
Current portion of notes payable	285,644	-	903,255	-	-	-	-	70,213	-	(903,255)	355,857	728,048
Client deposits	-	-	-	-	-	93,601	-	904,673	-	-	998,274	850,610
Security deposits and other liabilities	3,720	-	-	-	-	-	-	-	-	-	3,720	2,645
Total Current Liabilities	<u>693,981</u>	<u>-</u>	<u>903,255</u>	<u>96,870</u>	<u>76,892</u>	<u>186,704</u>	<u>-</u>	<u>1,051,500</u>	<u>4,514</u>	<u>(926,907)</u>	<u>2,086,809</u>	<u>2,312,713</u>
NOTES PAYABLE	<u>100,000</u>	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>759,054</u>	<u>269,884</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(519,884)</u>	<u>859,054</u>	<u>1,134,698</u>
Total Liabilities	<u>793,981</u>	<u>250,000</u>	<u>903,255</u>	<u>96,870</u>	<u>835,946</u>	<u>456,588</u>	<u>-</u>	<u>1,051,500</u>	<u>4,514</u>	<u>(1,446,791)</u>	<u>2,945,863</u>	<u>3,447,411</u>
NET ASSETS												
Unrestricted												
Operations	5,994,526	606,624	5,848,449	1,707,047	395,685	319,566	338,883	1,802,543	57,781	(5,365,628)	11,705,476	9,809,428
Board-designated for endowment	2,110,420	137,500	-	-	-	-	-	-	-	-	2,247,920	1,792,420
Noncontrolling interest	-	-	-	-	105,182	-	-	-	-	-	105,182	154,562
Temporarily restricted	1,064,252	-	-	-	-	-	-	-	-	-	1,064,252	1,549,957
Permanently restricted	1,362,127	-	-	-	-	-	-	-	-	-	1,362,127	1,076,778
Total Net Assets	<u>10,531,325</u>	<u>744,124</u>	<u>5,848,449</u>	<u>1,707,047</u>	<u>500,867</u>	<u>319,566</u>	<u>338,883</u>	<u>1,802,543</u>	<u>57,781</u>	<u>(5,365,628)</u>	<u>16,484,957</u>	<u>14,383,145</u>
Total Liabilities and Net Assets	<u>\$ 11,325,306</u>	<u>\$ 994,124</u>	<u>\$ 6,751,704</u>	<u>\$ 1,803,917</u>	<u>\$ 1,336,813</u>	<u>\$ 776,154</u>	<u>\$ 338,883</u>	<u>\$ 2,854,043</u>	<u>\$ 62,295</u>	<u>\$ (6,812,419)</u>	<u>\$ 19,430,820</u>	<u>\$ 17,830,556</u>

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

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF ACTIVITIES

For the years ended December 31, 2013 With Summarized Information For 2012

	HOPE ADVANCEMENT											2012
	* HOPE International	HGIF	HOPE Advancement	HOPE Ukraine	HOPE Central Asia	HOPE DRC	HOPE Russia	HOPE Congo	Burundi SCA	Eliminating Entries	Consolidated	
SUPPORT AND REVENUE												
Contributions (includes \$593,290 of in-kind support)	\$ 10,668,609	\$ -	\$ 2,072,931	\$ 739,325	\$ 104,851	\$ 426,535	\$ 6,710	\$ 584,218	\$ 192,400	\$ (4,776,125)	\$ 10,019,454	\$ 9,850,642
Special events, net of direct expenses of \$414,203	1,707,076	-	-	-	-	-	-	-	-	-	1,707,076	623,064
Investment return designated for current operations	56,096	-	-	-	-	-	-	-	-	-	56,096	44,179
Interest income	21,347	34,646	-	872,632	416,320	280,894	92,620	700,329	-	(24,737)	2,394,051	2,875,438
Rental revenue	46,369	-	-	-	-	-	-	-	-	-	46,369	38,810
Less expenses (including depreciation)	(40,710)	-	-	-	-	-	-	-	-	-	(40,710)	38,231
Net rental income	5,659	-	-	-	-	-	-	-	-	-	5,659	579
Minority interest in income of microfinance institution	(1,604)	-	(1,237,710)	-	-	-	-	-	-	1,005,229	(234,085)	151,820
Other income	503	-	-	-	-	-	-	-	-	-	503	-
Total support and revenue	12,457,686	34,646	835,221	1,611,957	521,171	707,429	99,330	1,284,547	192,400	(3,795,633)	13,948,754	13,545,772
FUNCTIONAL EXPENSES												
Program services	9,141,405	35,644	1,049	1,159,008	532,061	581,288	135,458	901,751	134,817	(2,774,602)	9,847,879	8,793,606
Management and general	553,410	606	35	-	-	-	-	-	-	-	554,051	495,833
Fundraising	1,502,747	-	-	-	-	-	-	-	-	-	1,502,747	1,425,555
Total expenses	11,197,562	36,250	1,084	1,159,008	532,061	581,288	135,458	901,751	134,817	(2,774,602)	11,904,677	10,714,994

* 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, 2013 With Summarized Information For 2012

	HOPE ADVANCEMENT											2012
	* HOPE International	HGIF	HOPE Advancement	HOPE Ukraine	HOPE Central Asia	HOPE DRC	HOPE Russia	HOPE Congo	Burundi SCA	Eliminating Entries	Consolidated	
OTHER CHANGES												
Investment return in excess of amounts designated for operations	\$ 50,120	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50,120	\$ 54,645
Gain/(loss) on foreign currency transactions	18,420	-	-	2,626	(66)	2,481	-	980	(994)	(607)	22,840	(3,668)
Gain (loss) on foreign currency translation	(4,660)	-	(6,951)	-	(40,185)	(1,933)	(28,399)	58,760	1,192	6,951	(15,225)	(3,951)
Recognition of contingent note receivable	-	-	-	-	-	-	-	-	-	-	-	389,274
Total other changes	<u>63,880</u>	<u>-</u>	<u>(6,951)</u>	<u>2,626</u>	<u>(40,251)</u>	<u>548</u>	<u>(28,399)</u>	<u>59,740</u>	<u>198</u>	<u>6,344</u>	<u>57,735</u>	<u>436,300</u>
CHANGE IN NET ASSETS	1,324,004	(1,604)	827,186	455,575	(51,141)	126,689	(64,527)	442,536	57,781	(1,014,687)	2,101,812	3,267,078
NET ASSETS												
Beginning of year	<u>9,207,321</u>	<u>745,728</u>	<u>5,021,263</u>	<u>1,251,472</u>	<u>552,008</u>	<u>192,877</u>	<u>403,410</u>	<u>1,360,007</u>	<u>-</u>	<u>(4,350,941)</u>	<u>14,383,145</u>	<u>11,116,067</u>
End of year	<u>\$ 10,531,325</u>	<u>\$ 744,124</u>	<u>\$ 5,848,449</u>	<u>\$ 1,707,047</u>	<u>\$ 500,867</u>	<u>\$ 319,566</u>	<u>\$ 338,883</u>	<u>\$ 1,802,543</u>	<u>\$ 57,781</u>	<u>\$ (5,365,628)</u>	<u>\$ 16,484,957</u>	<u>\$ 14,383,145</u>

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