

HOPE INTERNATIONAL

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

DECEMBER 31, 2014 AND 2013

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, 2014, 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, 2014, 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 2013 consolidated financial statements, and our report dated April 21, 2014, 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, 2013, 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
May 14, 2015**

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2014 And 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,037,886	\$ 5,256,478
Contribution receivable	1,580,931	1,590,505
Microfinance loans receivable, net	3,517,779	4,363,052
Loans receivable, net	147,850	505,000
Interest receivable	16,831	45,686
Other receivables	52,467	152,941
Prepaid expenses and other assets	<u>304,517</u>	<u>163,288</u>
Total Current Assets	<u>11,658,261</u>	<u>12,076,950</u>
NONCURRENT ASSETS		
Cash and cash equivalents – board-designated endowment	1,680,041	2,247,920
Investments	3,778,711	1,702,522
Property and equipment, net	719,922	673,015
Other long-term assets	37,080	29,431
Loans receivable, net	332,730	477,580
Minority interest in net assets	<u>2,468,783</u>	<u>2,223,402</u>
Total Assets	<u>\$ 20,675,528</u>	<u>\$ 19,430,820</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 695,229	\$ 649,126
Interest payable	-	9,410
Unearned revenue	51,909	70,422
Current portion of notes payable	711,897	355,857
Client deposits	1,457,761	998,274
Security deposits and other liabilities	<u>4,037</u>	<u>3,720</u>
Total Current Liabilities	<u>2,920,833</u>	<u>2,086,809</u>
NOTES PAYABLE	<u>100,000</u>	<u>859,054</u>
Total Liabilities	<u>3,020,833</u>	<u>2,945,863</u>
NET ASSETS		
Unrestricted		
Net assets	13,760,326	11,705,476
Board-designated for endowment		
First loss reserve – HOPE notes	-	137,500
Investment	1,680,041	2,110,420
Noncontrolling interest	<u>-</u>	<u>105,182</u>
Total Unrestricted Net Assets	15,440,367	14,058,578
Temporarily restricted	693,471	1,064,252
Permanently restricted	<u>1,520,857</u>	<u>1,362,127</u>
Net Assets	<u>17,654,695</u>	<u>16,484,957</u>
Total Liabilities and Net Assets	<u>\$ 20,675,528</u>	<u>\$ 19,430,820</u>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2014 With Summarized Information For 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2013</u>
SUPPORT AND REVENUE					
Contributions					
(includes in-kind support of \$394,273)	\$ 5,911,622	\$ 6,586,133	\$ 159,029	\$ 12,656,784	\$ 10,019,454
Special events,					
net of direct expenses of \$384,092	1,643,831	99,090	-	1,742,921	1,707,076
Investment return designated for current operations	9,240	43,110	-	52,350	56,096
Interest income	2,335,904	-	-	2,335,904	2,394,051
Rental revenue	44,249	-	-	44,249	46,369
Less expenses (including depreciation)	<u>(41,254)</u>	<u>-</u>	<u>-</u>	<u>(41,254)</u>	<u>(40,710)</u>
Net rental income	<u>2,995</u>	<u>-</u>	<u>-</u>	<u>2,995</u>	<u>5,659</u>
Equity interest in income (loss) of a microfinance institution	(238,619)	-	-	(238,619)	(234,085)
Other income	<u>18</u>	<u>-</u>	<u>-</u>	<u>18</u>	<u>503</u>
Total support and revenue before net assets released from restrictions	9,664,991	6,728,333	159,029	16,552,353	13,948,754
Net assets released from restrictions	<u>7,099,114</u>	<u>(7,099,114)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>16,764,105</u>	<u>(370,781)</u>	<u>159,029</u>	<u>16,552,353</u>	<u>13,948,754</u>
FUNCTIONAL EXPENSES					
Program services	11,282,799	-	-	11,282,799	9,847,879
Management and general	845,363	-	-	845,363	554,051
Fundraising	<u>1,815,064</u>	<u>-</u>	<u>-</u>	<u>1,815,064</u>	<u>1,502,747</u>
Total expenses	<u>13,943,226</u>	<u>-</u>	<u>-</u>	<u>13,943,226</u>	<u>11,904,677</u>
Excess of revenues over expenses	<u>2,820,879</u>	<u>(370,781)</u>	<u>159,029</u>	<u>2,609,127</u>	<u>2,044,077</u>
OTHER CHANGES					
Investment return in excess of amounts designated for current operations	-	-	(299)	(299)	50,120
Net realized gain (loss) on foreign- currency transactions	23,020	-	-	23,020	22,840
Loss on foreign currency translation	(1,396,285)	-	-	(1,396,285)	(15,225)
Loss on sale of microfinance institution	<u>(41,502)</u>	<u>-</u>	<u>-</u>	<u>(41,502)</u>	<u>-</u>
Total other changes	<u>(1,414,767)</u>	<u>-</u>	<u>(299)</u>	<u>(1,415,066)</u>	<u>57,735</u>
CHANGE IN NET ASSETS BEFORE DISTRIBUTION OF MINORITY INTEREST	1,406,112	(370,781)	158,730	1,194,061	2,101,812
Distribution of minority interest	<u>(24,323)</u>	<u>-</u>	<u>-</u>	<u>(24,323)</u>	<u>-</u>
CHANGE IN NET ASSETS	1,381,789	(370,781)	158,730	1,169,738	2,101,812
NET ASSETS					
Beginning 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>
End of year	<u>\$ 15,440,367</u>	<u>\$ 693,471</u>	<u>\$ 1,520,857</u>	<u>\$ 17,654,695</u>	<u>\$ 16,484,957</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, 2014 And 2013

	<u>Unrestricted HOPE</u>	<u>Unrestricted – Non-Controlling Interest In Microfinance Entities</u>	<u>Total</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	13,953,396	105,182	14,058,578
Change in unrestricted net assets	1,486,971	(80,859)	1,406,112
Distribution of minority interest	<u>-</u>	<u>(24,323)</u>	<u>(24,323)</u>
Unrestricted net assets, December 31, 2014	<u>\$ 15,440,367</u>	<u>\$ -</u>	<u>\$ 15,440,367</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2014

	<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	\$1,816,568	\$2,111,521	\$ 3,928,089	\$ 461,651	\$ 973,397	\$ 5,363,137
Payroll taxes	287,274	179,256	466,530	39,248	80,862	586,640
Employee benefits	114,160	448,269	562,429	88,802	176,120	827,351
Other staff expenses	250,606	338,373	588,979	84,594	110,321	783,894
Insurance	9,609	1,259	10,868	3,202	491	14,561
Professional services	120,773	348,433	469,206	9,575	39,007	517,788
Office expenses	519,334	113,581	632,915	56,077	69,266	758,258
HOPE Trips	-	324,896	324,896	-	-	324,896
Tomorrow Clubs	68,821	328,750	397,571	-	-	397,571
Education	-	362,662	362,662	-	-	362,662
Marketing	-	16,068	16,068	5,126	117,069	138,263
Travel	260,121	412,465	672,586	4,182	65,713	742,481
Finance expenses – interest and fees	90,115	6,051	96,166	57,524	(166)	153,524
Depreciation	87,920	20,878	108,798	6,369	8,139	123,306
Printing and reproduction	37,211	17,469	54,680	-	126,171	180,851
Loan loss reserve/(recapture), net	74,418	67,116	141,534	-	-	141,534
Other expenses	215,151	48,373	263,524	29,013	48,674	341,211
Grants to partners	861,472	1,216,670	2,078,142	-	-	2,078,142
Taxes	106,209	947	107,156	-	-	107,156
	<u>\$4,919,762</u>	<u>\$6,363,037</u>	<u>\$11,282,799</u>	<u>\$ 845,363</u>	<u>\$1,815,064</u>	<u>\$13,943,226</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – (Continued)

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>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2014 And 2013

	<u>2014</u>	<u>2013</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,169,738	\$ 2,101,812
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss (gain) on investments	40,754	(11,381)
Loan loss (recapture) reserve, net	(131,489)	(22,232)
Loan receivable reserve	192,000	-
Equity interest in loss of a microfinance institution	238,619	234,085
Depreciation	142,165	103,334
Loss (gain) on sale of fixed assets	178	(4,635)
Contributions restricted for endowment	(159,029)	(235,229)
Loss on sale of microfinance institution	41,502	-
Distribution of minority interest related to sale of microfinance institution	24,323	-
(Increase) decrease in operating assets		
Contributions receivable	9,574	(479,127)
Prepaid expenses and other assets	(182,137)	(491)
Interest receivable	16,081	12,746
Other long term assets	(7,649)	52,216
Other receivables	100,094	(96,400)
Increase (decrease) in operating liabilities		
Unearned revenue	(18,513)	1,976
Interest payable	906	(24,819)
Accounts payable and accrued expense	145,675	20,391
Client deposits	459,487	147,664
Security deposits and other liabilities	317	1,075
Net cash provided by operating activities	<u>2,082,596</u>	<u>1,800,985</u>
INVESTING ACTIVITIES		
Designation for endowment of cash and cash equivalents	567,879	(455,500)
Purchase of property, plant and equipment	(286,233)	(195,750)
Proceeds from sale of fixed assets	-	22,379
Purchase/sales of investments, net	(2,116,943)	(643,909)
Issuance of microfinance loans, net	167,392	(143,580)
Issuance of notes receivable	(200,000)	(650,000)
Repayment of notes receivable	510,000	250,000
Proceeds from sale of microfinance institution, net of cash sold	(40,583)	-
Purchase of minority interest in net assets	(484,000)	(500,000)
Net cash used in investing activities	<u>(1,882,488)</u>	<u>(2,316,360)</u>
FINANCING ACTIVITIES		
Repayments of notes payable, net	422,271	(647,835)
Contributions restricted for endowments	159,029	235,229
Net cash used in financing activities	<u>581,300</u>	<u>(412,606)</u>
Net increase (decrease) in cash and cash equivalents	781,408	(927,981)
CASH AND CASH EQUIVALENT		
Beginning of year	<u>5,256,478</u>	<u>6,184,459</u>
End of year	<u>\$ 6,037,886</u>	<u>\$ 5,256,478</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 38,558</u>	<u>\$ 66,509</u>

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

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2014 And 2013

(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, 2014 And 2013

- (v) HOPE Central Asia was 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 had a 79% ownership interest in HOPE Central Asia as of December 31, 2013 and for the first nine months of 2014. HOPE sold its position in Central Asia to a third party effective September 30, 2014 and recorded a loss of \$41,502. HA's investment in Hope Central Asia was \$91,502 at the date of sale.
- (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.

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 or certificates of deposit 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, 2014 And 2013

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 \$1,680,041 and \$2,247,920 of funds as of June 30, 2014 and 2013, respectively. The board-designated funds are 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, 2014 And 2013

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 (2011 – 2013) as well as the expected position of HOPE’s 2014 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, 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, 2014 And 2013

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 \$4,576,483 and \$4,726,687, which included a non-controlling interest of \$105,182 as of December 31, 2013. During 2014 Hope sold its ownership interest in the microfinance entity that included a non-controlling interest.

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, 2014 with an original loan term greater than one year were \$659,843.

(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, 2014 And 2013

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, 2014 and 2013, was a decrease to net assets of \$1,396,285 and \$15,225, respectively. The increase in the loss on foreign currency translation was primarily the result of the decline in the currencies of Ukraine and Russia. The conflict between these two countries as well as economic sanctions imposed against Russia has led to the decline in these currencies. The currency loss for these two countries was \$1,111,080 for the year ended December 31, 2014.

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, 2013, from which the summarized information was derived.

(3) CONTRIBUTION RECEIVABLE

HOPE had pledges receivable totaling \$1,580,931 and \$1,590,505 at December 31, 2014 and 2013. The total amount is expected to be collected within one year.

(4) MICROFINANCE LOANS

HOPE, through wholly owned microfinance institutions operating separately in Ukraine, Russia, 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.

Microfinance loans receivable as of December 31, 2014 and 2013, by location consist of the following:

	<u>2014</u>	<u>2013</u>
Ukraine	\$ 1,089,719	\$ 1,464,672
Republic of Congo	2,138,220	1,691,238
Democratic Republic of Congo	359,414	292,491
Russia	116,543	148,025
Central Asia (sold in 2014)	<u>-</u>	<u>1,084,232</u>
	3,703,896	4,680,658
Less: allowance for doubtful accounts	<u>186,117</u>	<u>317,606</u>
	<u>\$ 3,517,779</u>	<u>\$ 4,363,052</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, 2014 And 2013

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 \$1,457,761 and \$998,274 of client deposits as of December 31, 2014 and 2013, includes voluntary and compulsory savings.

The loan value of microfinance loans that were classified as nonperforming was \$18,277 and \$10,246 at December 31, 2014 and 2013, 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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 317,606	\$ 339,838
Provision for loan losses	90,370	78,532
Loans written off	(45,772)	(100,764)
Transfer of allowance to loans receivable	(125,000)	-
Currency translation adjustment	(34,188)	-
Sale of Central Asia loans	(16,899)	-
	<u>\$ 186,117</u>	<u>\$ 317,606</u>

(5) LONG-TERM INVESTMENTS

A summary of investments at December 31, 2014 and 2013 is as follows:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 1,692,556	\$ 1,692,556	\$ 2,257,704	\$ 2,257,704
Fixed income:				
Certificates of deposits	2,260,972	2,260,972	500,000	500,000
Corporate bonds	562,346	546,659	552,908	584,442
Preferred securities	385,050	400,670	343,210	326,442
Equities	56,479	46,237	49,795	55,306
Mutual funds	74,180	73,681	-	-
Master limited partnerships	146,084	137,977	71,885	76,548
Mortgage receivable	<u>300,000</u>	<u>300,000</u>	<u>150,000</u>	<u>150,000</u>
	<u>\$ 5,477,667</u>	5,458,752	<u>\$ 3,925,502</u>	3,950,442
Less: cash and cash equivalent – board-designated endowment		<u>1,680,041</u>		<u>2,247,920</u>
Long-term investment		<u>\$ 3,778,711</u>		<u>\$ 1,702,522</u>

Investments are comprised of the following net assets:

	<u>2014</u>	<u>2013</u>
Unrestricted – funds functioning as endowment funds	\$ 1,680,041	\$ 2,247,920
Unrestricted – general	2,279,446	500,000
Permanently restricted endowment funds	<u>1,499,265</u>	<u>1,202,522</u>
	<u>\$ 5,458,752</u>	<u>\$ 3,950,442</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014 And 2013

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:

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Dividends and interest	\$ 9,240	\$ 43,110	\$ 43,110	\$ 95,460
Net realized and unrealized gains	<u>-</u>	<u>-</u>	<u>(43,409)</u>	<u>(43,409)</u>
Return on investments	9,240	43,110	(299)	52,051
Less: Investment return designated for current operations	<u>9,240</u>	<u>43,110</u>	<u>-</u>	<u>52,350</u>
Investment return in excess of amounts designated for current operations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (299)</u>	<u>\$ (299)</u>

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

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014 And 2013

(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, 2014 and 2013, is as follows:

	2014		
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>
Investments			
Money market funds	\$ 1,692,556	\$ 1,692,556	\$ -
Certificates of deposits	2,260,972	2,260,972	-
Fixed income:			
Corporate bonds	546,659	-	546,659
Preferred securities	400,670	-	400,670
Equities	46,237	46,237	-
Mutual funds	73,681	73,681	-
Master limited partnership	137,977	137,977	-
Mortgage receivable	300,000	-	300,000
	<u>\$ 5,458,752</u>	<u>\$ 4,211,423</u>	<u>\$ 1,247,329</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014 And 2013

	2013		
	<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>

There were no transfers between Level 1 and 2 for the years ended December 31, 2014 and 2013.

The carrying value of its mortgage receivable approximates fair value.

(7) PROPERTY

Property and equipment as of December 31, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Equipment and computer software	\$ 604,627	\$ 467,532
Leasehold improvements	130,514	130,514
Rental properties		
Buildings and improvements	478,759	478,759
Other	<u>21,049</u>	<u>30,000</u>
	1,234,949	1,106,805
Less: accumulated depreciation	<u>515,027</u>	<u>433,790</u>
	<u>\$ 719,922</u>	<u>\$ 673,015</u>

Depreciation expense was \$142,165 for the year ended December 31, 2014, of which \$15,998 and \$2,861 is included within rental properties and education expense. Depreciation expense for the year ended December 31, 2013 was \$103,334 of which \$15,998 is included within rental properties expense.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014 And 2013

(8) LOANS RECEIVABLE

Loans receivable as of December 31, 2014 and 2013 consisted of the following:

<u>BORROWER</u>	<u>TERMS</u>	<u>Interest Rate</u>	<u>2014</u>	<u>2013</u>
Invest Credit (Moldova)	Semi-annual interest payments with semi-annual principal payments commencing in March 2014, maturity date is March 2016.	5.88%	\$ 90,000	\$ 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)	\$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
	\$200,000 due August 2015 with quarterly interest payments commencing in November 2014.	2.23%	200,000	-
	\$66,666 principal and outstanding interest due February, May and August 2014.	2.23%	-	<u>200,000</u>
			677,580	987,580
	Less: current portion, net allowance of \$197,000 in 2014 and \$5,000 in 2013		<u>147,850</u>	<u>505,000</u>
	Less: allowance for doubtful accounts		<u>529,730</u> <u>197,000</u>	<u>482,580</u> <u>5,000</u>
		<u>\$ 332,730</u>	<u>\$ 477,580</u>	

At December 31, 2014, loans receivable maturities were as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2015	\$ 344,850
2016	247,892
2017	<u>84,838</u>
	<u>\$ 677,580</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014 And 2013

(9) MINORITY INTEREST IN NET ASSETS

As of the years ended December 31, 2014 and 2013, HOPE had a minority interest in the following financial institutions:

<u>Name</u>	<u>2014</u>	
	<u>% Owned</u>	<u>Carrying Value</u>
URWEGO Opportunity Bank, a microfinance institution in Rwanda	49.00%	\$ 2,374,694
Turame Community Finance, a microfinance institution in Burundi	4.18%	<u>94,089</u>
		<u>\$ 2,468,783</u>

<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>

HOPE carries its interest in URWEGO Opportunity Bank on the equity basis of accounting. For the years ended December 31, 2014 and 2013, HOPE's equity interest in the loss of URWEGO Opportunity Bank was \$(238,619) and \$(234,085), respectively. In 2014 and 2013, HOPE contributed an additional \$484,000 and \$500,000 of equity which increased HOPE's ownership in URWEGO Opportunity Bank to 49% and 38.32%, respectively. HOPE carries its interest in Turame at cost. HOPE's proportionate share of Turame's equity as of December 31, 2014 and 2013 was \$60,182 and \$49,865 (unaudited), respectively.

(10) NOTES PAYABLE

Notes payable as of December 31, 2014 and 2013 consisted of the following:

<u>LENDER</u>	<u>TERMS</u>	<u>2014</u>	<u>2013</u>
HOPE International Kiva	Unsecured zero interest rate loan due upon demand.	610,230	285,644
Private Foundation	Unsecured, interest free note payable maturing November 2016.	100,000	100,000
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
Central Asia Assistance Mission	Unsecured zero interest rate loan, payable upon HOPE Central Asia reaching operational self-sufficiency.	-	12,387
HOPE Congo Kiva	Unsecured zero interest rate loan due upon demand.	<u>101,667</u>	<u>70,213</u>
		811,897	1,214,911
	Less: current portion	<u>711,897</u>	<u>355,857</u>
		<u>\$ 100,000</u>	<u>\$ 859,054</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014 And 2013

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 HOPE Notes in the amount of \$250,000 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, 2014, there is one remaining HOPE Note in the amount of \$100,000, which is loaned to a third party microfinance organization. In 2014 the note was transferred to HOPE International.

As of December 31, 2014 and 2013, HOPE has a secured line of credit of \$950,000 and \$700,000, respectively, with a financial institution. The line of credit is secured by all assets of HOPE. In addition, the line of credit 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, 2014 and 2013. 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 2014 and 2013. Any outstanding loan and interest is due on demand. The \$950,000 line of credit is subject to renewal annually and there is no expiration date.

As of December 31, 2013, HGIF had 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. The HGIF line of credit had no activity in 2014 and was closed at the request of management in 2014.

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

2015	\$ 711,897
2016	<u>100,000</u>
Total	<u>\$ 811,897</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014 And 2013

(11) RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Programs – Microfinance		
Democratic Republic of Congo	\$ 750	\$ 10,001
Dominican Republic	9,050	14,050
Republic of Congo	122	-
China	72	-
Other Countries	20,185	86,582
Undesignated	397,625	565,033
Programs – Savings and Credit Associations		
Burundi SCA	-	73,306
Haiti SCA	94,905	3,104
India SCA	-	43,324
Rwanda SCA	45,000	45,000
Zimbabwe SCA	-	38,472
Peru SCA	-	1,063
Malawi SCA	38	60,616
HOPE Trips	52,045	44,342
Tomorrow Clubs	65,961	71,641
Other	<u>7,718</u>	<u>7,718</u>
	<u>\$ 693,471</u>	<u>\$ 1,064,252</u>

Net assets were released from donor restrictions by satisfying the restricted purposes as follows during the year ended December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Programs – Microfinance		
Democratic Republic of Congo	\$ 183,515	\$ 607,410
Central Asia	73,640	323,625
Burundi	98,902	73,549
China	226,956	157,511
Dominican Republic	304,985	491,319
Haiti	41,255	50,638
Moldova	(1,476)	22
Philippines	82,823	41,810
Republic of Congo	966,074	975,424
Russia	32,148	16,977
Rwanda	500,546	423,230
Ukraine	447,028	427,200
Romania	2,092	(987)
Programs – Savings and Credit Associations		
Burundi SCA	611,865	443,511
Haiti SCA	272,120	216,657
Rwanda SCA	689,758	952,830
India SCA	348,090	307,567
Zimbabwe SCA	122,898	105,276
Peru SCA	27,512	103,781
Philippines SCA	235,536	111,777
Malawi SCA	598,923	200,141

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014 And 2013

	<u>2014</u>	<u>2013</u>
Tomorrow Clubs		
Ukraine	255,142	190,682
Russia	21,924	8,140
Moldova	20,960	4,886
Romania	9,567	-
Armenia	21,156	-
HOPE Trips	227,432	210,624
Education	66,195	5,055
Spiritual Integration	295,295	247,830
Other	<u>316,253</u>	<u>254,727</u>
	<u>\$7,099,114</u>	<u>\$6,951,212</u>

Permanently restricted net assets are available for the following purpose as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
HI Loan Endowment	<u>\$1,520,857</u>	<u>\$1,362,127</u>

Endowment net asset composition by type of fund as of December 31, 2014 and 2013:

	<u>2014</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor restricted endowment funds	\$ -	\$ -	\$ 1,520,857	\$ 1,520,857
Funds functioning as endowment funds	<u>1,680,041</u>	<u>-</u>	<u>-</u>	<u>1,680,041</u>
	<u>\$ 1,680,041</u>	<u>\$ -</u>	<u>\$ 1,520,857</u>	<u>\$ 3,200,898</u>
	<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>

Donor restricted endowment funds are comprised of the following as of December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investments	\$ 1,499,265	\$ 1,202,522
Cash and cash equivalents	5,096	141,378
Contribution receivable	<u>16,496</u>	<u>18,227</u>
	<u>\$ 1,520,857</u>	<u>\$ 1,362,127</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014 And 2013

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 2014 and 2013, 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 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, 2014 and 2013:

	2014			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ 2,247,920	\$ -	\$ 1,362,127	\$ 3,610,047
Investment return	9,240	43,110	(299)	52,051
Contributions and other	-	-	159,029	159,029
Less: Board designation released	567,879	-	-	567,879
Less: Endowment income designated for current operations	<u>9,240</u>	<u>43,110</u>	<u>-</u>	<u>52,350</u>
	<u>\$ 1,680,041</u>	<u>\$ -</u>	<u>\$ 1,520,857</u>	<u>\$ 3,200,898</u>

	2013			<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>

(12) RELATED PARTY TRANSACTIONS

During the years ended December 31, 2014 and 2013, HOPE received \$900,000 and \$350,000 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, 2014 and 2013, HOPE provided administrative services to H4H for which HOPE was reimbursed in the amount of \$21,630 and \$20,992. As of December 31, 2013, there was a \$479 payable outstanding to Homes for HOPE.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014 And 2013

(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 \$83,991 and \$63,751 in 2014 and 2013, respectively.

(14) RESERVE AND REGULATORY CAPITAL REQUIREMENTS

HOPE's microfinance institutions have certain regulatory and capital requirements that they must maintain. The Self Sufficiency ratio required by the Central Bank of the Democratic Republic of Congo requires operating revenue to be greater than 119.4% of operating expenses. HOPE DRC's operating revenue was 52% and 42% of operating expenses as of December 31, 2014 and 2013, respectively. In conjunction with ongoing discussions with the Central Bank of the Democratic Republic of Congo regarding this noncompliance, the Central Bank of the Democratic Republic of Congo is currently not taking any action. HOPE DRC is aggressively trying to improve this ratio by acquiring clients and diversifying into new loan products.

(15) CONTINGENCIES

As of December 31, 2013 the Democratic Republic of Congo's federal taxing agency, Directorate General of Taxes (DGI), was 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, the DGI through court order froze \$242,350 of HOPE DRC cash deposits held with Rawbank SARL. In June 2014 HOPE settled with the DGI, and paid \$27,516 for taxes and fees. As a result the DGI's claims were dropped and HOPE DRC's bank accounts were unfrozen.

In February 2014, Russian Federation armed forces invaded Ukraine. Military action and political instability in Ukraine has negatively impacted both HOPE Ukraine and HOPE Russia asset and liability valuations as of December 31, 2014. As is evident through the 2014 translation loss reported, the geopolitical activity had a devaluing impact on both currencies in relation to the United States Dollar. 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 \$1,078,821 and \$97,847 (86% and 57% of total assets) in HOPE Ukraine and HOPE Russia as of December 31, 2014. Net microfinance loans receivable were \$1,457,115 and \$147,134 (81% and 43% of total assets) in HOPE Ukraine and HOPE Russia as of December 31, 2013, respectively.

As of December 31, 2014, \$28,049 held in Forum Bank in Ukraine was inaccessible due to the government takeover of the bank and freezing of all deposit accounts. It is currently unknown whether funds will be accessible in the future as there has been no communication by the Ukrainian government on this matter.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2014 And 2013

(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, May 14, 2015, have been evaluated in the preparation of the financial statements.

SUPPLEMENTAL INFORMATION

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2014 With Summarized Information For 2013

	HOPE ADVANCEMENT											2013
	* 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	\$ 4,021,601	\$ 20,050	\$ 466	\$ 110,076	\$ -	\$ 499,856	\$ 72,959	\$ 1,061,460	\$ 251,418	\$ -	\$ 6,037,886	\$ 5,256,478
Contribution receivable	1,580,931	-	-	-	-	-	-	-	-	-	1,580,931	1,590,505
Microfinance loans receivable, net	(64,999)(1)	-	-	1,078,821	-	341,445	97,847	2,064,665	-	-	3,517,779	4,363,052
Loans receivable	142,850	5,000	-	-	-	-	-	-	-	-	147,850	505,000
Interest receivable	1,861	1,323	-	13,647	-	-	-	-	-	-	16,831	45,686
Other assets	887,814	-	-	-	-	4,483	-	12,118	4,833	(856,781)	52,467	152,941
Prepaid expenses and other assets	268,425	-	-	24,597	-	2,693	-	7,488	1,314	-	304,517	163,288
Total Current Assets	6,838,483	26,373	466	1,227,141	-	848,477	170,806	3,145,731	257,565	(856,781)	11,658,261	12,076,950
NONCURRENT ASSETS												
Cash and cash equivalents – board-designated reserve	1,680,041	-	-	-	-	-	-	-	-	-	1,680,041	2,247,920
Investments	3,222,813	-	-	-	-	-	-	555,898	-	-	3,778,711	1,702,522
Property and equipment, net	520,924	-	-	26,846	-	72,298	-	79,153	20,701	-	719,922	673,015
Other long-term assets	-	-	-	-	-	18,000	-	19,080	-	-	37,080	29,431
Loans receivable	252,730	80,000	-	-	-	-	-	-	-	-	332,730	477,580
Investment in subsidiary	106,373	-	4,576,483	-	-	-	-	-	-	(4,682,856)	-	-
Minority interest in net assets	94,088	-	2,374,695	-	-	-	-	-	-	-	2,468,783	2,223,402
Total Assets	\$ 12,715,452	\$ 106,373	\$ 6,951,644	\$ 1,253,987	\$ -	\$ 938,775	\$ 170,806	\$ 3,799,862	\$ 278,266	\$ (5,539,637)	\$ 20,675,528	\$ 19,430,820

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

(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, 2014 With Summarized Information For 2013

	HOPE ADVANCEMENT											2013
	* 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	\$ 454,879	\$ -	\$ -	\$ 15,116	\$ -	\$ 118,246	\$ -	\$ 111,769	\$ 8,745	\$ (13,526)	\$ 695,229	\$ 649,126
Interest payable	-	-	-	-	-	-	-	-	-	-	-	9,410
Unearned revenue	-	-	-	51,908	-	-	-	-	-	-	51,909	70,422
Current portion of notes payable	610,230	-	843,255	-	-	-	-	101,667	-	(843,255)	711,897	355,857
Client deposits	-	-	-	-	-	111,420	-	1,346,342	-	-	1,457,761	998,274
Security deposits and other liabilities	4,037	-	-	-	-	-	-	-	-	-	4,037	3,720
Total Current Liabilities	<u>1,069,146</u>	<u>-</u>	<u>843,255</u>	<u>67,024</u>	<u>-</u>	<u>229,666</u>	<u>-</u>	<u>1,559,778</u>	<u>8,745</u>	<u>(856,781)</u>	<u>2,920,833</u>	<u>2,086,809</u>
NOTES PAYABLE	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>	<u>859,054</u>
Total Liabilities	<u>1,169,146</u>	<u>-</u>	<u>843,255</u>	<u>67,024</u>	<u>-</u>	<u>229,666</u>	<u>-</u>	<u>1,559,778</u>	<u>8,745</u>	<u>(856,781)</u>	<u>3,020,833</u>	<u>2,945,863</u>
NET ASSETS												
Unrestricted												
Operations	7,651,937	106,373	6,108,389	1,186,963	-	709,109	170,806	2,240,084	269,521	(4,682,856)	13,760,326	11,705,476
Board-designated for endowment	1,680,041	-	-	-	-	-	-	-	-	-	1,680,041	2,247,920
Noncontrolling interest	-	-	-	-	-	-	-	-	-	-	-	105,182
Temporarily restricted	693,471	-	-	-	-	-	-	-	-	-	693,471	1,064,252
Permanently restricted	1,520,857	-	-	-	-	-	-	-	-	-	1,520,857	1,362,127
Total Net Assets	<u>11,546,306</u>	<u>106,373</u>	<u>6,108,389</u>	<u>1,186,963</u>	<u>-</u>	<u>709,109</u>	<u>170,806</u>	<u>2,240,084</u>	<u>269,521</u>	<u>(4,682,856)</u>	<u>17,654,695</u>	<u>16,484,957</u>
Total Liabilities and Net Assets	<u>\$ 12,715,452</u>	<u>\$ 106,373</u>	<u>\$ 6,951,644</u>	<u>\$ 1,253,987</u>	<u>\$ -</u>	<u>\$ 938,775</u>	<u>\$ 170,806</u>	<u>\$ 3,799,862</u>	<u>\$ 278,266</u>	<u>\$ (5,539,637)</u>	<u>\$ 20,675,528</u>	<u>\$ 19,430,820</u>

* – Includes assets, liabilities and net assets of Higher Impact Properties, Rwanda SCA and Malawi SCA

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF ACTIVITIES

For the years ended December 31, 2014 With Summarized Information For 2013

	HOPE ADVANCEMENT											2013
	* 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 \$394,273 of in-kind support)	\$ 14,527,825	\$ -	\$ 3,180,451	\$ 596,787	\$ 14,646	\$ 751,400	\$ 21,539	\$ 875,277	\$ 664,893	\$ (7,976,034)	\$ 12,656,784	\$ 10,019,454
Special events, net of direct expenses of \$384,092	1,742,921	-	-	-	-	-	-	-	-	-	1,742,921	1,707,076
Investment return designated for current operations	52,350	-	-	-	-	-	-	-	-	-	52,350	56,096
Interest income	37,148	8,708	-	569,212	301,916	316,190	78,472	1,024,258	-	-	2,335,904	2,394,051
Rental revenue	44,249	-	-	-	-	-	-	-	-	-	44,249	46,369
Less expenses (including depreciation)	(151,254)	-	-	-	-	-	-	-	-	110,000	(41,254)	(40,710)
Net rental income	(107,005)	-	-	-	-	-	-	-	-	110,000	2,995	5,659
Minority interest in income of microfinance institution	(637,752)	-	(1,448,835)	-	-	-	-	-	-	1,847,968	(238,619)	(234,085)
Other income	18	-	-	-	-	-	-	-	-	-	18	503
Total support and revenue	<u>15,615,505</u>	<u>8,708</u>	<u>1,731,616</u>	<u>1,165,999</u>	<u>316,562</u>	<u>1,067,590</u>	<u>100,011</u>	<u>1,899,535</u>	<u>664,893</u>	<u>(6,018,066)</u>	<u>16,552,353</u>	<u>13,948,754</u>
FUNCTIONAL EXPENSES												
Program services	11,943,298	646,256	50,419	745,711	693,649	676,783	130,776	1,173,027	452,625	(5,229,745)	11,282,799	9,847,879
Management and general	844,996	203	164	-	-	-	-	-	-	-	845,363	554,051
Fundraising	1,815,064	-	-	-	-	-	-	-	-	-	1,815,064	1,502,747
Total expenses	<u>14,603,358</u>	<u>646,459</u>	<u>50,583</u>	<u>745,711</u>	<u>693,649</u>	<u>676,783</u>	<u>130,776</u>	<u>1,173,027</u>	<u>452,625</u>	<u>(5,229,745)</u>	<u>13,943,226</u>	<u>11,904,677</u>

* Includes revenue, expenses and changes in net assets of Higher Impact Properties, Rwanda SCA and Malawi SCA

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF ACTIVITIES – (Continued)

For the years ended December 31, 2014 With Summarized Information For 2013

	HOPE ADVANCEMENT											2013
	* 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	\$ (299)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (299)	\$ 50,120
Gain/(loss) on foreign currency transactions	18,326	-	-	33,333	(810)	(2,021)	63	(26,143)	272	-	23,020	22,840
Gain (loss) on foreign currency translation	(15,193)	-	(1,379,591)	(973,705)	(7,145)	757	(137,375)	(262,824)	(800)	1,379,591	(1,396,285)	(15,225)
Loss on sale of microfinance institution	-	-	(41,502)	-	-	-	-	-	-	-	(41,502)	-
Total other changes	<u>2,834</u>	<u>-</u>	<u>(1,421,093)</u>	<u>(940,372)</u>	<u>(7,955)</u>	<u>(1,264)</u>	<u>(137,312)</u>	<u>(288,967)</u>	<u>(528)</u>	<u>1,379,591</u>	<u>(1,415,066)</u>	<u>57,735</u>
CHANGE IN NET ASSETS	1,014,981	(637,751)	259,940	(520,084)	(385,042)	389,543	(168,077)	437,541	211,740	591,270	1,194,061	2,101,812
Distribution of Controlling Interest related to sale of microfinance institution	-	-	-	-	(91,502)	-	-	-	-	91,502	-	-
Distribution of minority interest related to To sale of microfinance institution	-	-	-	-	(24,323)	-	-	-	-	-	(24,323)	-
CHANGE IN NET ASSETS	<u>1,014,981</u>	<u>(637,751)</u>	<u>259,940</u>	<u>(520,084)</u>	<u>(500,867)</u>	<u>389,543</u>	<u>(168,077)</u>	<u>437,541</u>	<u>211,740</u>	<u>682,772</u>	<u>1,169,738</u>	<u>2,101,812</u>
NET ASSETS												
Beginning 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>
End of year	<u>\$ 11,546,306</u>	<u>\$ 106,373</u>	<u>\$ 6,108,389</u>	<u>\$ 1,186,963</u>	<u>\$ -</u>	<u>\$ 709,109</u>	<u>\$ 170,806</u>	<u>\$ 2,240,084</u>	<u>\$ 269,521</u>	<u>\$ (4,682,856)</u>	<u>\$ 17,654,695</u>	<u>\$ 16,484,957</u>

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