

HOPE INTERNATIONAL

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

DECEMBER 31, 2015 AND 2014

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, 2015, 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, 2015, 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 2014 consolidated financial statements, and our report dated May 14, 2015, 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental consolidating statement of financial position and consolidating statement of activities, on pages 26 and 27, 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 17, 2016**

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2015 With Summarized Information For 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2014</u>
SUPPORT AND REVENUE					
Contributions					
(includes in-kind support of \$285,456)	\$ 7,009,523	\$ 8,373,533	\$ 188,321	\$ 15,571,377	\$ 12,656,784
Special events,					
net of direct expenses of \$450,558	1,802,178	85,318	17,214	1,904,710	1,742,921
Investment return designated for current operations	-	52,301	-	52,301	52,350
Interest income	2,416,625	-	-	2,416,625	2,335,904
Rental revenue	44,068	-	-	44,068	44,249
Less expenses (including depreciation)	<u>(36,566)</u>	<u>-</u>	<u>-</u>	<u>(36,566)</u>	<u>(41,254)</u>
Net rental income	<u>7,502</u>	<u>-</u>	<u>-</u>	<u>7,502</u>	<u>2,995</u>
Equity interest in income (loss) of a microfinance institution	(176,325)	-	-	(176,325)	(238,619)
Other income	<u>84</u>	<u>-</u>	<u>-</u>	<u>84</u>	<u>18</u>
Total support and revenue before net assets released from restrictions	11,059,587	8,511,152	205,535	19,776,274	16,552,353
Net assets released from restrictions	<u>7,161,642</u>	<u>(7,161,642)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>18,221,229</u>	<u>1,349,510</u>	<u>205,535</u>	<u>19,776,274</u>	<u>16,552,353</u>
FUNCTIONAL EXPENSES					
Program services	12,008,416	-	-	12,008,416	11,282,799
Management and general	1,057,069	-	-	1,057,069	845,363
Fundraising	<u>1,841,101</u>	<u>-</u>	<u>-</u>	<u>1,841,101</u>	<u>1,815,064</u>
Total expenses	<u>14,906,586</u>	<u>-</u>	<u>-</u>	<u>14,906,586</u>	<u>13,943,226</u>
Excess of revenues over expenses	<u>3,314,643</u>	<u>1,349,510</u>	<u>205,535</u>	<u>4,869,688</u>	<u>2,609,127</u>
OTHER CHANGES					
Investment return in excess of amounts designated for current operations	(11,687)	-	(183,196)	(194,883)	(299)
Net realized gain (loss) on foreign- currency transactions	69,841	-	-	69,841	23,020
Loss on foreign currency translation	(481,081)	-	-	(481,081)	(1,396,285)
Loss on sale of microfinance institution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(41,502)</u>
Total other changes	<u>(422,927)</u>	<u>-</u>	<u>(183,196)</u>	<u>(606,123)</u>	<u>(1,415,066)</u>
CHANGE IN NET ASSETS BEFORE CONTRIBUTED EQUITY / DISTRIBUTION OF NONCONTROLLING INTERESTS					
	2,891,716	1,349,510	22,339	4,263,565	1,194,061
Equity contribution by noncontrolling shareholder	147,507	-	-	147,507	-
Distribution of noncontrolling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(24,323)</u>
CHANGE IN NET ASSETS	3,039,223	1,349,510	22,339	4,411,072	1,169,738
NET ASSETS					
Beginning 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>
End of year	<u>\$ 18,479,590</u>	<u>\$ 2,042,981</u>	<u>\$ 1,543,196</u>	<u>\$ 22,065,767</u>	<u>\$ 17,654,695</u>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF CHANGES IN UNRESTRICTED NET ASSETS

Years Ended December 31, 2015 And 2014

	<u>Unrestricted HOPE</u>	<u>Unrestricted – Non-Controlling Interest In Microfinance Entities</u>	<u>Total</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	15,440,367	-	15,440,367
Equity contribution by noncontrolling shareholder	-	147,507	147,507
Excess (deficit) of revenues over expenses	<u>2,939,557</u>	<u>(47,841)</u>	<u>2,891,716</u>
Change in unrestricted net assets	<u>2,939,557</u>	<u>99,666</u>	<u>3,039,223</u>
Unrestricted net assets, December 31, 2015	<u>\$ 18,379,924</u>	<u>\$ 99,666</u>	<u>\$ 18,479,590</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2015

	<u>Program Services</u>			<u>Management And General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Overseas Entities</u>	<u>United States Entities</u>	<u>Total</u>			
Salaries	\$1,616,596	\$2,225,921	\$ 3,842,517	\$ 627,424	\$ 946,905	\$ 5,416,846
Payroll taxes	239,939	197,999	437,938	52,802	76,947	567,687
Employee benefits	143,404	512,047	655,451	114,117	211,598	981,166
Other staff expenses	195,682	300,611	496,293	72,731	71,775	640,799
Insurance	13,477	1,366	14,843	3,375	533	18,751
Professional services	116,659	279,634	396,293	11,159	84,097	491,549
Office expenses	447,029	133,159	580,188	50,481	75,651	706,320
HOPE Trips	-	313,647	313,647	-	-	313,647
Tomorrow Clubs	-	388,905	388,905	-	-	388,905
Education	5,003	392,626	397,629	-	-	397,629
Marketing	-	14,173	14,173	4,562	113,140	131,875
Travel	185,315	423,686	609,001	8,935	81,884	699,820
Finance expenses – interest and fees	66,028	5,052	71,080	66,128	132	137,340
Depreciation	69,653	23,743	93,396	8,036	14,336	115,768
Printing and reproduction	22,072	44,076	66,148	836	76,361	143,345
Loan loss reserve/(recapture), net	66,602	-	66,602	-	-	66,602
Other expenses	195,199	141,137	336,336	36,483	87,742	460,561
Grants to partners	1,054,452	1,984,351	3,038,803	-	-	3,038,803
Taxes	188,811	362	189,173	-	-	189,173
	<u>\$4,625,921</u>	<u>\$7,382,495</u>	<u>\$12,008,416</u>	<u>\$1,057,069</u>	<u>\$1,841,101</u>	<u>\$14,906,586</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – (Continued)

Year Ended December 31, 2014

	<u>Program Services</u>			<u>Management And General</u>	<u>Fundraising</u>	<u>Total</u>
	<u>Overseas Entities</u>	<u>United States Entities</u>	<u>Total</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>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2015 And 2014

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 4,411,072	\$ 1,169,738
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized loss on investments	235,497	40,754
Loan loss reserve (recapture), net	8,127	(131,489)
Loan receivable reserve	-	192,000
Equity interest in loss of a microfinance institution	176,325	238,619
Depreciation	133,202	142,165
Loss on disposal of fixed assets	708	178
Contributions restricted for endowment	(205,535)	(159,029)
Equity contribution from noncontrolling shareholder	(147,507)	-
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	(108,681)	9,574
Prepaid expenses and other assets	(100,121)	(182,137)
Interest receivable	5,086	16,081
Other long term assets	(13,799)	(7,649)
Other receivables	(140,388)	100,094
Increase (decrease) in operating liabilities		
Unearned revenue	(5,212)	(18,513)
Interest payable	-	906
Accounts payable and accrued expenses	259,651	145,675
Client deposits	30,826	459,487
Security deposits and other liabilities	(1,292)	317
Net cash provided by operating activities	<u>4,537,959</u>	<u>2,082,596</u>
INVESTING ACTIVITIES		
(Designation for) release from endowment	(269,020)	567,879
Purchase of property, plant and equipment	(218,941)	(286,233)
Purchase/sales of investments, net	(3,975,283)	(2,116,943)
(Issuance) repayment of microfinance loans, net	(883,969)	167,392
Issuance of notes receivable	(200,000)	(200,000)
Repayment of notes receivable	344,850	510,000
Proceeds from sale of microfinance institution, net of cash sold	-	(40,583)
Purchase of minority interests in net assets	(1,031,142)	(484,000)
Net cash used in investing activities	<u>(6,233,505)</u>	<u>(1,882,488)</u>
FINANCING ACTIVITIES		
(Repayments of) proceeds from notes payable, net	(423,615)	422,271
Contributions restricted for endowments	205,535	159,029
Equity contribution from noncontrolling shareholder	147,507	-
Net cash (used in) provided by financing activities	<u>(70,573)</u>	<u>581,300</u>
Net (decrease) increase in cash and cash equivalents	(1,766,119)	781,408
CASH AND CASH EQUIVALENT		
Beginning of year	<u>6,037,886</u>	<u>5,256,478</u>
End of year	<u>\$ 4,271,767</u>	<u>\$ 6,037,886</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ -	\$ 38,558

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

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015 And 2014

(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 Burundi, China, Democratic Republic of Congo, the Dominican Republic, Haiti, India, Malawi, Moldova, Peru, Philippines, the Republic of Congo, Romania, Russia, Rwanda, Ukraine, Zambia 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 majority-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.

In December 2015, Dignity Builders, a subsidiary of Homes for Hope (**Note 12**), made an equity contribution that resulted in a 9.76% noncontrolling interest in HOPE Ukraine.

- (iv) HOPE Russia is a wholly owned microfinance institution registered in Russia as a non-governmental organization. HA is in the process of ceasing operations in Russia.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

- (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 was registered with the applicable regulatory agency. HOPE sold its 79% ownership interest 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.
- (vii) HOPE Zambia SCA is a wholly owned entity registered in Zambia as a non-governmental organization which provides training and oversight in the creation and execution of savings and credit associations in Zambia. HOPE Zambia commenced operations in 2015.
- (viii) HOPE Hong Kong is a wholly owned entity registered in Hong Kong as a non-governmental organization which raises funds from several sources such as churches, foundations, and individuals to support programs in HI's network. HOPE Hong Kong commenced operations in 2015.

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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

MICROFINANCE ENTERPRISE LOANS

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

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

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

PROPERTY AND EQUIPMENT

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

NET ASSETS

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

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

The Board of Directors designated \$1,949,061 and \$1,680,041 of funds for investment as of December 31, 2015 and 2014, respectively. The investment income on board-designated endowment funds are to be used for operations.

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, 2015 And 2014

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 (2012 – 2014) as well as the expected position of HOPE’s 2015 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, and HOPE Ukraine as for-profit entities, as well as HOPE Russia, HOPE Burundi SCA, HOPE Zambia SCA and HOPE Hong Kong 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

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 third party 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.

HOPE also issues microfinance loans through its three subsidiaries and maintains net assets in three other wholly-owned subsidiaries and in two branch offices located in developing 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 has net assets in these developing countries totaling \$5,718,668 and \$5,064,299, including \$4,393,621 and \$3,517,779 of microfinance loans at December 31, 2015 and 2014, respectively. During 2014 HOPE sold its ownership interest in Central Asia 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, most loans are due in less than one year. Loans outstanding in HOPE Ukraine as of December 31, 2015 with an original loan term greater than one year were approximately \$453,000.

(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, 2015 And 2014

FOREIGN CURRENCY TRANSLATION

For HOPE's subsidiary microfinance organizations and SCA entities, 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, 2015 and 2014, was a decrease to net assets of \$795,263 and \$1,396,285, respectively. The loss on foreign currency translation was primarily the result of the decline in the currencies of Ukraine and Russia. The conflict between Ukraine and Russia as well as economic sanctions imposed against Russia has led to the decline in these currencies. The currency loss for these two countries was \$483,928 and \$1,111,080 for the years ended December 31, 2015 and 2014, 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, 2014, from which the summarized information was derived.

RECLASSIFICATION

Certain account balances in the 2014 financial statements presentation have been reclassified to conform to the 2015 presentation.

(3) CONTRIBUTION RECEIVABLE

HOPE had pledges receivable totaling \$1,689,612 and \$1,580,931 at December 31, 2015 and 2014. 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, 2015 and 2014, by location consist of the following:

	<u>2015</u>	<u>2014</u>
Ukraine	\$ 730,608	\$ 1,089,719
Republic of Congo	3,122,121	2,138,220
Democratic Republic of Congo	728,677	359,414
Russia	<u>6,459</u>	<u>116,543</u>
	4,587,865	3,703,896
Less: allowance for doubtful accounts	<u>194,244</u>	<u>186,117</u>
	<u>\$4,393,621</u>	<u>\$3,517,779</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

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

The microfinance institutions in the Republic of Congo and the Democratic Republic of Congo have a compulsory savings component. This savings requirement can be applied towards balances in default. The \$1,488,587 and \$1,457,761 of client deposits as of December 31, 2015 and 2014, includes voluntary and compulsory savings.

The loan value of microfinance loans that were classified as nonperforming was \$12,707 and \$18,277 at December 31, 2015 and 2014, 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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$186,117	\$ 317,606
Provision for loan losses	81,036	90,370
Loans written off	(57,561)	(45,772)
Transfer of allowance to loans receivable	-	(125,000)
Currency translation adjustment	(15,348)	(34,188)
Sale of Central Asia loans	-	(16,899)
	<u>\$194,244</u>	<u>\$ 186,117</u>

(5) LONG-TERM INVESTMENTS

A summary of investments at December 31, 2015 and 2014 is as follows:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 49,034	\$ 49,034	\$ 1,692,556	\$ 1,692,556
Fixed income:				
Certificates of deposits	6,000,724	6,000,724	2,260,972	2,260,972
Corporate bonds	2,160,838	1,987,938	562,346	546,659
Preferred securities	431,050	456,323	385,050	400,670
US Treasury bonds	538,000	561,743	-	-
Equities	43,009	30,440	56,479	46,237
Mutual funds	-	-	74,180	73,681
Master limited partnerships	133,792	81,356	146,084	137,977
Mortgage receivable	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
	<u>\$9,656,447</u>	9,467,558	<u>\$5,477,667</u>	5,458,752
Less: board-designated endowment		<u>1,949,061</u>		<u>1,680,041</u>
Long-term investment		<u>\$7,518,497</u>		<u>\$3,778,711</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

Investments are comprised of the following net assets:

	<u>2015</u>	<u>2014</u>
Unrestricted – funds functioning as endowment funds	\$ 1,949,061	\$ 1,680,041
Unrestricted – general	6,004,274	2,279,446
Permanently restricted endowment funds	<u>1,514,223</u>	<u>1,499,265</u>
	<u>\$ 9,467,558</u>	<u>\$ 5,458,752</u>

The board-designated endowment consists of various investments and is included in noncurrent investments – 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 and board-designated endowment funds. The board-designated endowment funds represent the funds segregated and invested with one financial institution. 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:

	<u>2015</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Dividends and interest	\$ 19,457	\$52,301	\$ 52,301	\$ 124,059
Net realized and unrealized gains	<u>(31,144)</u>	<u>-</u>	<u>(235,497)</u>	<u>(266,641)</u>
Return on investments	(11,687)	52,301	(183,196)	(142,582)
Less: Investment return designated for current operations	<u>-</u>	<u>52,301</u>	<u>-</u>	<u>52,301</u>
Investment return in excess of amounts designated for current operations	<u>\$(11,687)</u>	<u>\$ -</u>	<u>\$(183,196)</u>	<u>\$(194,883)</u>

	<u>2014</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

(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, 2015 and 2014, is as follows:

	2015		
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>
Investments			
Money market funds	\$ 49,034	\$ 49,034	\$ -
Certificates of deposits	6,000,724	6,000,724	-
Fixed income:			
Corporate bonds	1,987,938	-	1,987,938
Preferred securities	456,323	456,323	-
US Treasury bonds	561,743	-	561,743
Equities	30,440	30,440	-
Master limited partnership	81,356	81,356	-
Mortgage receivable	300,000	-	300,000
	<u>\$ 9,467,558</u>	<u>\$ 6,617,877</u>	<u>\$ 2,849,681</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

	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	<u>300,000</u>	<u>-</u>	<u>300,000</u>
	<u>\$ 5,458,752</u>	<u>\$ 4,612,093</u>	<u>\$ 846,659</u>

There were no transfers between Level 1 and 2 for the years ended December 31, 2015 and 2014.

The carrying value of its mortgage receivable approximates fair value.

(7) PROPERTY

Property and equipment as of December 31, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Equipment and computer software	\$ 648,326	\$ 604,627
Leasehold improvements	132,947	130,514
Rental properties		
Buildings and improvements	478,759	478,759
Other	<u>83,126</u>	<u>21,049</u>
	1,343,158	1,234,949
Less: accumulated depreciation	<u>538,205</u>	<u>515,027</u>
	<u>\$ 804,953</u>	<u>\$ 719,922</u>

Depreciation expense was \$133,202 for the year ended December 31, 2015, of which \$15,998 and \$1,436 is included within rental properties and education expense. Depreciation expense for the year ended December 31, 2014 was \$142,165 of which \$15,998 and \$2,861 is included within rental properties and education expense.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

(8) LOANS RECEIVABLE

Loans receivable as of December 31, 2015 and 2014 consisted of the following:

<u>BORROWER</u>	<u>TERMS</u>	<u>Interest Rate</u>	<u>2015</u>	<u>2014</u>
Invest Credit (Moldova)	Semi-annual interest payments with semi-annual principal payments commencing in March 2014, maturity date is March 2016.	5.88%	\$ 80,000	\$ 90,000
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%	252,730	387,580
	\$200,000 due November 2016 with quarterly interest payments commencing in February 2016.	2.23%	200,000	-
	\$200,000 due August 2015 with quarterly interest payments coming in November 2014.	2.23%	-	<u>200,000</u>
			532,730	677,580
	Less: current portion, net allowance of \$197,000 in 2015 and 2014		<u>250,891</u>	<u>147,850</u>
			281,839	529,730
	Less: allowance for doubtful accounts		<u>197,000</u>	<u>197,000</u>
			<u>\$ 84,839</u>	<u>\$ 332,730</u>

At December 31, 2015, loans receivable maturities were as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2016	\$ 447,891
2017	<u>84,839</u>
	<u>\$ 532,730</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

(9) MINORITY INTEREST IN NET ASSETS

As of the years ended December 31, 2015 and 2014, HOPE had a minority interest in the following financial institutions:

<u>Name</u>	<u>2015</u>	
	<u>% Owned</u>	<u>Carrying Value</u>
URWEGO Opportunity Bank, a microfinance institution in Rwanda	49.24%	\$ 2,893,751
Turame Community Finance, a microfinance institution in Burundi	25.00%	<u>429,849</u>
		<u>\$ 3,323,600</u>

<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	5.5%	<u>94,089</u>
		<u>\$ 2,468,783</u>

HOPE carries its interest in URWEGO Opportunity Bank on the equity basis of accounting. For the years ended December 31, 2015 and 2014, HOPE's equity interest in the loss of URWEGO Opportunity Bank was \$(230,943) and \$(238,619), respectively. In 2015, HOPE contributed an additional \$750,000 to maintain HOPE's ownership in URWEGO Opportunity Bank at 49.24%. In 2014, HOPE contributed an additional \$484,000 of equity which increased HOPE's ownership in URWEGO Opportunity Bank to 49%. In 2015, HOPE contributed an additional \$281,142 of equity which increased HOPE's ownership in Turame to 25%. As a result, HOPE began carrying its interest in Turame on the equity basis of accounting. For the year ended December 31, 2015, HOPE's equity interest in the income of Turame was \$54,618. Prior to 2015, HOPE carried its interest in Turame at cost. HOPE's investment in Turame carried at cost was \$94,089 while its proportionate share based on a 5.5% ownership interest was \$78,411 at December 31, 2014.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

(10) NOTES PAYABLE

Notes payable as of December 31, 2015 and 2014 consisted of the following:

LENDER	TERMS	2015	2014
HOPE International Kiva	Unsecured zero interest rate loan due upon demand.	\$ 287,160	\$ 610,230
Private Foundation	Unsecured, interest free note payable maturing November 2016.	100,000	100,000
HOPE Congo Kiva	Unsecured zero interest rate loan due upon demand.	<u>1,122</u>	<u>101,667</u>
		388,282	811,897
	Less: current portion	<u>388,282</u>	<u>711,897</u>
		<u>\$ -</u>	<u>\$ 100,000</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.

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, 2015, 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, 2015 and 2014, HOPE has a secured line of credit of \$950,000, 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, 2015 and 2014. 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 2015 and 2014. 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.

HGIF had an unsecured line of credit of \$250,000 with a financial institution. The HGIF line of credit had no activity in 2014 and was closed at the request of management in 2014.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

(11) RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Programs – Microfinance		
Democratic Republic of Congo	\$ -	\$ 750
Dominican Republic	8,708	9,050
Republic of Congo	-	122
China	-	72
Rwanda	1,672,185	-
Other Countries	-	20,185
Undesignated	152,758	397,625
Programs – Savings and Credit Associations		
Haiti SCA	239	94,905
Rwanda SCA	45,000	45,000
Zambia SCA	105,304	-
Malawi SCA	-	38
HOPE Trips	43,604	52,045
Tomorrow Clubs	8,412	65,961
Other	<u>6,771</u>	<u>7,718</u>
	<u>\$2,042,981</u>	<u>\$693,471</u>

Net assets were released from donor restrictions by satisfying the restricted purposes as follows during the year ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Programs – Microfinance		
Democratic Republic of Congo	\$ 420,255	\$ 183,515
Central Asia	6,743	73,640
Burundi	208,579	98,902
China	388,683	226,956
Dominican Republic	230,415	304,985
Haiti	18,777	41,255
Moldova	15,067	(1,476)
Philippines	148,654	82,823
Republic of Congo	780,202	966,074
Russia	3,051	32,148
Rwanda	674,190	500,546
Ukraine	302,632	447,028
Romania	4,502	2,092
Programs – Savings and Credit Associations		
Burundi SCA	595,704	611,865
Haiti SCA	200,064	272,120
Rwanda SCA	528,162	689,758
India SCA	275,240	348,090
Zambia SCA	198,278	-
Zimbabwe SCA	41,428	122,898
Peru SCA	26,546	27,512
Philippines SCA	170,818	235,536
Malawi SCA	577,322	598,923

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

	<u>2015</u>	<u>2014</u>
Tomorrow Clubs		
Ukraine	300,151	255,142
Russia	17,729	21,924
Moldova	27,124	20,960
Romania	26,640	9,567
Armenia	18,726	21,156
HOPE Trips	266,846	227,432
Education	159,244	66,195
Spiritual Integration	270,014	295,295
Other	<u>259,856</u>	<u>316,253</u>
	<u>\$7,161,642</u>	<u>\$7,099,114</u>

Permanently restricted net assets are available for the following purpose as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
HI Loan Endowment	<u>\$1,543,196</u>	<u>\$1,520,857</u>

Endowment net asset composition by type of fund as of December 31, 2015 and 2014:

	<u>2015</u>			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Donor restricted endowment funds	\$ -	\$ -	\$ 1,543,196	\$ 1,543,196
Funds functioning as endowment funds	<u>1,949,061</u>	<u>-</u>	<u>-</u>	<u>1,949,061</u>
	<u>\$1,949,061</u>	<u>\$ -</u>	<u>\$1,543,196</u>	<u>\$3,492,257</u>

	<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>

Donor restricted endowment funds are comprised of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Investments	\$ 1,514,223	\$ 1,499,265
Cash and cash equivalents	25,699	5,096
Contribution receivable	<u>3,274</u>	<u>16,496</u>
	<u>\$1,543,196</u>	<u>\$1,520,857</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

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 2015 and 2014, 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, 2015 and 2014:

	2015			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ 1,680,041	\$ -	\$ 1,520,857	\$ 3,200,898
Investment return	(11,687)	52,301	(183,196)	(142,582)
Contributions and other	280,707	-	205,535	486,242
Less: Board designation released	-	-	-	-
Less: Endowment income designated for current operations	-	52,301	-	52,301
	<u>\$ 1,949,061</u>	<u>\$ -</u>	<u>\$ 1,543,196</u>	<u>\$ 3,492,257</u>

	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	9,240	43,110	-	52,350
	<u>\$ 1,680,041</u>	<u>\$ -</u>	<u>\$ 1,520,857</u>	<u>\$ 3,200,898</u>

(12) RELATED PARTY TRANSACTIONS

During the years ended December 31, 2015 and 2014, HOPE received \$1,000,000 and \$900,000 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 and the President of HOPE serve as Board members.

During the year ended December 31, 2015 and 2014, HOPE provided administrative services to H4H for which HOPE was reimbursed in the amount of \$19,779 and \$21,630.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2015 And 2014

(13) RETIREMENT PLAN

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. For 2015, HOPE increased its matching contribution to 100% of each employee's contributions up to 5% of the employee eligible earnings or \$3,000, whichever is less. In 2014, HOPE matched 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 \$173,726 and \$83,991 in 2015 and 2014, 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 61% and 52% of operating expenses as of December 31, 2015 and 2014, 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 \$1,323,108 in disputed 2012, 2013, and 2014 taxes against HOPE DRC. The disputed taxes consist of \$321,289 in income tax and \$1,001,818 of taxes associated primarily with the transfer of funds from HOPE International. HOPE DRC has a long history of settling tax disputes for a fraction of the initial claim, however, the outcome is uncertain at this time, but management believes that the outcome will not have a material adverse effect on HOPE's financial position.

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, 2015 and 2014. As is evident through the 2015 and 2014 translation losses reported, the geo-political 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 HOPE Ukraine as a result of the continuing political instability. HOPE Russia ceased lending in 2015 and at December 31, 2015, assets consisted principally of cash. Net microfinance loans receivable were \$721,389 and \$1,078,821 (67% and 86% of total assets) in HOPE Ukraine as of December 31, 2015 and 2014, respectively.

(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 17, 2016, have been evaluated in the preparation of the financial statements.

SUPPLEMENTAL INFORMATION

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

For the years ended December 31, 2015 With Summarized Information For 2014

	HOPE ADVANCEMENT											2014
	* HOPE International	HGIF	HOPE Advancement	HOPE Hong Kong	HOPE Congo	HOPE DRC	HOPE Russia	HOPE Ukraine	** SCA	Eliminating Entries	Consolidated	
CURRENT ASSETS												
Cash and cash equivalents - US	\$ 1,931,919	\$ 34,747	\$ 1,048	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,967,714	\$ 5,290,705
Cash and cash equivalents – field	357,362	-	-	14,707	912,009	410,799	111,062	307,024	191,090	-	2,304,053	747,181
Contribution receivable	1,689,612	-	-	-	-	-	-	-	-	-	1,689,612	1,580,931
Microfinance loans receivable, net	(65,000)	-	-	-	3,044,077	692,271	884	721,389	-	-	4,393,621	3,517,779
Loans receivable	175,891	75,000	-	-	-	-	-	-	-	-	250,891	147,850
Interest receivable	955	1,176	-	-	-	-	-	9,614	-	-	11,745	16,831
Other receivables	1,007,503	-	-	8,735	9,228	19,072	-	-	5,014	(856,697)	192,855	52,467
Prepaid expenses and other assets	360,339	-	-	844	16,345	2,553	-	22,351	2,206	-	404,638	304,517
Total Current Assets	<u>5,458,581</u>	<u>110,923</u>	<u>1,048</u>	<u>24,286</u>	<u>3,981,659</u>	<u>1,124,695</u>	<u>111,946</u>	<u>1,060,378</u>	<u>198,310</u>	<u>(856,697)</u>	<u>11,215,129</u>	<u>11,658,261</u>
NONCURRENT ASSETS												
Investments –												
board-designated endowment	1,949,061	-	-	-	-	-	-	-	-	-	1,949,061	1,680,041
Investments	7,018,754	-	-	-	499,743	-	-	-	-	-	7,518,497	3,778,711
Property and equipment, net	576,385	-	-	-	81,360	61,468	-	19,468	66,272	-	804,953	719,922
Other long-term assets	-	-	-	-	30,479	20,400	-	-	-	-	50,879	37,080
Loans receivable	84,839	-	-	-	-	-	-	-	-	-	84,839	332,730
Investment in subsidiary	110,923	-	5,230,427	-	-	-	-	-	-	(5,341,350)	-	-
Minority interest in net assets	-	-	3,323,600	-	-	-	-	-	-	-	3,323,600	2,468,783
Total Assets	<u>\$ 15,198,543</u>	<u>\$ 110,923</u>	<u>\$ 8,555,075</u>	<u>\$ 24,286</u>	<u>\$ 4,593,241</u>	<u>\$ 1,206,563</u>	<u>\$ 111,946</u>	<u>\$ 1,079,846</u>	<u>\$ 264,582</u>	<u>\$ (6,198,047)</u>	<u>\$ 24,946,958</u>	<u>\$ 20,675,528</u>
CURRENT LIABILITIES												
Accounts payable and accrued expenses	\$ 554,356	\$ -	\$ -	\$ 18,777	\$ 246,638	\$ 106,761	\$ -	\$ 11,979	\$ 29,811	\$ (13,442)	\$ 954,880	\$ 695,229
Unearned revenue	-	-	-	-	-	-	-	46,697	-	-	46,697	51,909
Current portion of notes payable	387,160	-	843,255	-	1,122	-	-	-	-	(843,255)	388,282	711,897
Client deposits	-	-	-	-	1,346,879	141,708	-	-	-	-	1,488,587	1,457,761
Security deposits and other liabilities	2,745	-	-	-	-	-	-	-	-	-	2,745	4,037
Total Current Liabilities	<u>944,261</u>	<u>-</u>	<u>843,255</u>	<u>18,777</u>	<u>1,594,639</u>	<u>248,469</u>	<u>-</u>	<u>58,676</u>	<u>29,811</u>	<u>(856,697)</u>	<u>2,881,191</u>	<u>2,920,833</u>
NOTES PAYABLE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Total Liabilities	<u>944,261</u>	<u>-</u>	<u>843,255</u>	<u>18,777</u>	<u>1,594,639</u>	<u>248,469</u>	<u>-</u>	<u>58,676</u>	<u>29,811</u>	<u>(856,697)</u>	<u>2,881,191</u>	<u>3,020,833</u>
NET ASSETS												
Unrestricted												
Operations	8,719,044	110,923	7,711,820	5,509	2,998,602	958,094	111,946	921,504	234,771	(5,341,350)	16,430,863	13,760,326
Board-designated for endowment	1,949,061	-	-	-	-	-	-	-	-	-	1,949,061	1,680,041
Noncontrolling interest	-	-	-	-	-	-	-	99,666	-	-	99,666	-
Temporarily restricted	2,042,981	-	-	-	-	-	-	-	-	-	2,042,981	693,471
Permanently restricted	1,543,196	-	-	-	-	-	-	-	-	-	1,543,196	1,520,857
Total Net Assets	<u>14,254,282</u>	<u>110,923</u>	<u>7,711,820</u>	<u>5,509</u>	<u>2,998,602</u>	<u>958,094</u>	<u>111,946</u>	<u>1,021,170</u>	<u>234,771</u>	<u>(5,341,350)</u>	<u>22,065,767</u>	<u>17,654,695</u>
Total Liabilities and Net Assets	<u>\$ 15,198,543</u>	<u>\$ 110,923</u>	<u>\$ 8,555,075</u>	<u>\$ 24,286</u>	<u>\$ 4,593,241</u>	<u>\$ 1,206,563</u>	<u>\$ 111,946</u>	<u>\$ 1,079,846</u>	<u>\$ 264,582</u>	<u>\$ (6,198,047)</u>	<u>\$ 24,946,958</u>	<u>\$ 20,675,528</u>

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

** Includes assets, liabilities and net assets of Burundi SCA and Zambia 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 ACTIVITIES

For the years ended December 31, 2015 With Summarized Information For 2014

	HOPE ADVANCEMENT											2014
	* HOPE International	HGIF	HOPE Advancement	HOPE Hong Kong	HOPE Congo	HOPE DRC	HOPE Russia	HOPE Ukraine	** SCA	Eliminating Entries	Consolidated	
SUPPORT AND REVENUE												
Contributions (includes \$285,456 of in-kind support)	\$ 16,651,992	\$ -	\$ 3,441,806	\$ 43,819	\$ 948,662	\$ 611,758	\$ 15,478	\$ 192,253	\$ 584,471	\$ (6,918,862)	\$ 15,571,377	\$ 12,656,784
Special events, net of direct expenses of \$450,558	1,902,118	-	-	2,592	-	-	-	-	-	-	1,904,710	1,742,921
Investment return designated for current operations	52,301	-	-	-	-	-	-	-	-	-	52,301	52,350
Interest income	52,914	5,151	-	-	1,421,244	501,379	26,388	409,549	-	-	2,416,625	2,335,904
Rental revenue	44,068	-	-	-	-	-	-	-	-	-	44,068	44,249
Less expenses (including depreciation)	(36,566)	-	-	-	-	-	-	-	-	-	(36,566)	(41,254)
Net rental income	7,502	-	-	-	-	-	-	-	-	-	7,502	2,995
Minority interest in income of microfinance institution	4,550	-	(1,145,625)	-	-	-	-	-	-	964,750	(176,325)	(238,619)
Other income	84	-	-	-	-	-	-	-	-	-	84	18
Total support and revenue	18,671,461	5,151	2,296,181	46,411	2,369,906	1,113,137	41,866	601,802	584,471	(5,954,112)	19,776,274	16,552,353
FUNCTIONAL EXPENSES												
Program services	13,224,652	388	420	19,640	1,344,817	860,591	66,429	467,365	626,402	(4,602,288)	12,008,416	11,282,799
Management and general	1,050,892	213	190	6,964	-	-	-	-	-	(1,190)	1,057,069	845,363
Fundraising	1,826,803	-	-	14,298	-	-	-	-	-	-	1,841,101	1,815,064
Total expenses	16,102,347	601	610	40,902	1,344,817	860,591	66,429	467,365	626,402	(4,603,478)	14,906,586	13,943,226
OTHER CHANGES												
Investment return in excess of amounts designated for operations	\$ (194,883)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (194,883)	\$ (299)
Gain/(loss) on foreign currency transactions	78,810	-	-	-	(10,373)	(1,623)	92	1,802	1,133	-	69,841	23,020
Gain (loss) on foreign currency translation	254,935	-	(692,140)	-	(256,198)	(1,938)	(34,389)	(449,539)	6,048	692,140	(481,081)	(1,396,285)
Loss on sale of microfinance institution	-	-	-	-	-	-	-	-	-	-	-	(41,502)
Total other changes	138,862	-	(692,140)	-	(266,571)	(3,561)	(34,297)	(447,737)	7,181	692,140	(606,123)	(1,415,066)
CHANGE IN NET ASSETS BEFORE EQUITY CONTRIBUTION/DISTRIBUTION OF NONCONTROLLING INTERESTS	2,707,976	4,550	1,603,431	5,509	758,518	248,985	(58,860)	(313,300)	(34,750)	(658,494)	4,263,565	1,194,061
Equity contribution by noncontrolling shareholder	-	-	-	-	-	-	-	147,507	-	-	147,507	-
Distribution of minority interest related to sale of microfinance institution	-	-	-	-	-	-	-	-	-	-	-	(24,323)
CHANGE IN NET ASSETS	2,707,976	4,550	1,603,431	5,509	758,518	248,985	(58,860)	(165,793)	(34,750)	(658,494)	4,411,072	1,169,738
NET ASSETS												
Beginning of year	11,546,306	106,373	6,108,389	-	2,240,084	709,109	170,806	1,186,963	269,521	(4,682,856)	17,654,695	16,484,957
End of year	\$ 14,254,282	\$ 110,923	\$ 7,711,820	\$ 5,509	\$ 2,998,602	\$ 958,094	\$ 111,946	\$ 1,021,170	\$ 234,771	\$ (5,341,350)	\$ 22,065,767	\$ 17,654,695

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

** Includes revenue, expenses and changes in net assets of Burundi SCA and Zambia SCA.