

HOPE INTERNATIONAL

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

DECEMBER 31, 2016 AND 2015

HOPE INTERNATIONAL

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1-2
FINANCIAL STATEMENTS	
<i>Consolidated Statements of Financial Position,</i> December 31, 2016 and 2015	3
<i>Consolidated Statement of Activities,</i> Year ended December 31, 2016 with Summarized Information for 2015	4
<i>Consolidated Statements of Changes in Unrestricted Net Assets,</i> Years ended December 31, 2016 and 2015	5
<i>Consolidated Statements of Functional Expenses,</i> Year ended December 31, 2016	6
Year ended December 31, 2015	7
<i>Consolidated Statements of Cash Flows,</i> Years ended December 31, 2016 and 2015	8-9
<i>Notes to Consolidated Financial Statements</i>	10-27
SUPPLEMENTAL INFORMATION	
<i>Consolidating Statement of Financial Position,</i> December 31, 2016 with Summarized Information for 2015	28
<i>Consolidating Statement of Activities,</i> Year ended December 31, 2016 with Summarized Information for 2015	29

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, 2016, 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 did not audit the financial statements of HOPE Congo, HOPE DRC, HOPE Ukraine or Turame Community Finance S.A., subsidiaries, which statements reflect total assets of \$9,484,789, as of December 31, 2016 and total support and revenues of \$4,255,697, for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for HOPE Congo, HOPE DRC, HOPE Ukraine and Turame Community Finance S.A., is based solely on the reports of the other auditors. 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 from 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.

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HOPE International as of December 31, 2016, 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.

Report on Summarized Comparative Information

We have previously audited HOPE International's 2015 consolidated financial statements, and our report dated May 17, 2016, 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, 2015, 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 28 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
July 26, 2017**

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2016 With Summarized Information For 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2015</u>
SUPPORT AND REVENUE					
Contributions					
(includes in-kind support of \$324,608)	\$ 7,746,355	\$ 6,361,213	\$ 70,525	\$ 14,178,093	\$ 15,571,377
Special events,					
net of direct expenses of \$485,085	1,599,590	198,937	184,278	1,982,805	1,904,710
Investment return designated for current operations	-	50,854	-	50,854	52,301
Interest income	3,432,298	-	-	3,432,298	2,416,625
Rental revenue	45,981	-	-	45,981	44,068
Less expenses (including depreciation)	<u>(35,953)</u>	<u>-</u>	<u>-</u>	<u>(35,953)</u>	<u>(36,566)</u>
Net rental income	<u>10,028</u>	<u>-</u>	<u>-</u>	<u>10,028</u>	<u>7,502</u>
Equity interest in income (loss) of microfinance institutions	(1,724,361)	-	-	(1,724,361)	(176,325)
Other income	<u>10,941</u>	<u>-</u>	<u>-</u>	<u>10,941</u>	<u>84</u>
Total support and revenue before net assets released from restrictions	11,074,851	6,611,004	254,803	17,940,658	19,776,274
Net assets released from restrictions	<u>8,123,102</u>	<u>(8,123,102)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>19,197,953</u>	<u>(1,512,098)</u>	<u>254,803</u>	<u>17,940,658</u>	<u>19,776,274</u>
FUNCTIONAL EXPENSES					
Program services	13,213,131	-	-	13,213,131	12,008,416
Management and general	1,248,897	-	-	1,248,897	1,057,069
Fundraising	<u>1,912,955</u>	<u>-</u>	<u>-</u>	<u>1,912,955</u>	<u>1,841,101</u>
Total expenses	<u>16,374,983</u>	<u>-</u>	<u>-</u>	<u>16,374,983</u>	<u>14,906,586</u>
Excess of revenues over expenses	<u>2,822,970</u>	<u>(1,512,098)</u>	<u>254,803</u>	<u>1,565,675</u>	<u>4,869,688</u>
OTHER CHANGES					
Investment return in excess (deficit) of amounts designated for current operations	26,455	-	150,316	176,771	(194,883)
Net realized gain on foreign currency transactions	335,601	-	-	335,601	69,841
Loss on foreign currency translation	(626,812)	-	-	(626,812)	(481,081)
Consideration paid in excess of fair value of assets related to acquisition of controlling interest, net	<u>(498,453)</u>	<u>-</u>	<u>-</u>	<u>(498,453)</u>	<u>-</u>
Total other changes	<u>(763,209)</u>	<u>-</u>	<u>150,316</u>	<u>(612,893)</u>	<u>(606,123)</u>
CHANGE IN NET ASSETS BEFORE CONTRIBUTED EQUITY / AND PURCHASE / DISTRIBUTION OF EQUITY INTERESTS	2,059,761	(1,512,098)	405,119	952,782	4,263,565
Equity contribution by noncontrolling shareholder	-	-	-	-	147,507
Noncontrolling interest related to acquisition of microfinance institutions	<u>836,484</u>	<u>-</u>	<u>-</u>	<u>836,484</u>	<u>-</u>
CHANGE IN NET ASSETS	2,896,245	(1,512,098)	405,119	1,789,266	4,411,072
NET ASSETS					
Beginning 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>
End of year	<u>\$ 21,375,835</u>	<u>\$ 530,883</u>	<u>\$ 1,948,315</u>	<u>\$ 23,855,033</u>	<u>\$ 22,065,767</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, 2016 And 2015

	<u>Unrestricted HOPE</u>	<u>Unrestricted – Non-Controlling Interest In Microfinance Entities</u>	<u>Total</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	18,379,924	99,666	18,479,590
Change in unrestricted net assets	2,086,019	(26,258)	2,059,761
Noncontrolling interest related to acquisition of microfinance institutions	<u>-</u>	<u>836,484</u>	<u>836,484</u>
Change in unrestricted net assets	<u>2,086,019</u>	<u>810,226</u>	<u>2,896,245</u>
Unrestricted net assets, December 31, 2016	<u>\$ 20,465,943</u>	<u>\$ 909,892</u>	<u>\$ 21,375,835</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016

	<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	\$2,433,101	\$ 2,249,826	\$ 4,682,927	\$ 682,940	\$1,039,537	\$ 6,405,404
Payroll taxes	426,424	189,692	616,116	55,909	83,099	755,124
Employee benefits	239,042	478,093	717,135	143,499	229,746	1,090,380
Other staff expenses	343,824	366,044	709,868	64,798	64,822	839,488
Insurance	18,260	2,144	20,404	3,243	541	24,188
Professional services	166,537	296,809	463,346	24,032	29,130	516,508
Office expenses	660,838	181,618	842,456	37,208	70,528	950,192
HOPE Trips	-	318,592	318,592	-	-	318,592
Tomorrow Clubs	-	343,376	343,376	-	-	343,376
Education	35,638	465,128	500,766	-	-	500,766
Marketing	-	438	438	1,696	99,185	101,319
Travel	256,440	366,252	622,692	10,399	88,182	721,273
Finance expenses – interest and fees	113,117	4,070	117,187	54,255	80	171,522
Depreciation	143,398	46,646	190,044	6,424	17,058	213,526
Printing and reproduction	82,221	9,878	92,099	1,078	94,356	187,533
Loan loss reserve/(recapture), net	214,153	(65,000)	149,153	-	-	149,153
Other expenses	334,851	207,758	542,609	53,401	96,691	692,701
Grants to partners	1,262,597	953,063	2,215,660	110,015	-	2,325,675
Taxes	67,981	282	68,263	-	-	68,263
	<u>\$6,798,422</u>	<u>\$6,414,709</u>	<u>\$13,213,131</u>	<u>\$1,248,897</u>	<u>\$1,912,955</u>	<u>\$16,374,983</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – (Continued)

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>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2016 And 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,789,266	\$ 4,411,072
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(80,022)	235,497
Loan loss reserve (recapture), net	(246,413)	8,127
Equity interest in loss of a microfinance institution	1,724,261	176,325
Depreciation	229,254	133,202
Loss on disposal of fixed assets	146,003	708
Contributions restricted for endowment	(254,803)	(205,535)
Equity contribution from noncontrolling shareholder	-	(147,507)
Loss on purchase of microfinance institutions	498,453	-
Minority interest in microfinance institutions purchased	(836,484)	-
(Increase) decrease in operating assets		
Contributions receivable	(958,163)	(108,681)
Prepaid expenses and other assets	(193,640)	(100,121)
Interest receivable	920,339	5,086
Other long term assets	566,898	(13,799)
Other receivables	48,255	(140,388)
Increase (decrease) in operating liabilities		
Unearned revenue	(212,139)	(5,212)
Interest payable	(5,805)	-
Accounts payable and accrued expenses	(273,612)	259,651
Client deposits	(1,099,695)	30,826
Security deposits and other liabilities	<u>34,899</u>	<u>(1,292)</u>
Net cash provided by operating activities	<u>1,796,852</u>	<u>4,537,959</u>
INVESTING ACTIVITIES		
(Designation for) release from endowment	-	(269,020)
Purchase of property, plant and equipment	(378,285)	(218,941)
Purchase/sales of investments, net	(1,135,509)	(3,975,283)
(Issuance) repayment of microfinance loans, net	(1,119,850)	(883,969)
Issuance of notes receivable	(300,000)	(200,000)
Repayment of notes receivable	447,893	344,850
Cash paid for purchase of microfinance institutions, net of cash acquired	4,261,949	-
Purchase of minority interests in net assets	<u>-</u>	<u>(1,031,142)</u>
Net cash (used in) provided by investing activities	<u>1,776,198</u>	<u>(6,233,505)</u>
FINANCING ACTIVITIES		
(Repayments of) proceeds from notes payable, net	(216,678)	(423,615)
Contributions restricted for endowments	254,803	205,535
Equity contribution from noncontrolling shareholder	<u>-</u>	<u>147,507</u>
Net cash (used in) provided by financing activities	<u>38,125</u>	<u>(70,573)</u>
Net (decrease) increase in cash and cash equivalents	3,611,175	(1,766,119)
CASH AND CASH EQUIVALENT		
Beginning of year	<u>4,271,767</u>	<u>6,037,886</u>
End of year	<u>\$ 7,882,942</u>	<u>\$ 4,271,767</u>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2016 And 2015

	<u>2016</u>	<u>2015</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u>32,237</u>	\$ <u>-</u>
Purchase of Microfinance Institutions		
Microfinance loans, net	\$ 15,652,068	\$ -
Other current assets	1,906,079	-
Investments	2,706,437	-
Property, plant & equipment	2,512,007	-
Other assets	763,927	-
Consideration paid in excess of net assets acquired	498,453	-
Client deposits	(20,808,379)	-
Notes payable	(1,835,927)	-
Unearned revenue	(1,808,581)	-
Other liabilities	(1,399,781)	-
Noncontrolling interest related to acquisition of microfinance institutions	(836,484)	-
Pre-acquisition noncontrolling equity interest in net assets	<u>(1,611,768)</u>	<u>-</u>
Cash paid for purchase of microfinance institutions, net of cash acquired	<u>\$ (4,261,949)</u>	<u>\$ -</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 And 2015

(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 has branch offices in Malawi and Rwanda.

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 savings and credit associations (“**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 (92.31%) 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 HA and two non-profits based in Uzhgorod and Zaporozhe, Ukraine, which HA 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. In 2016, HOPE made equity contributions that were unmatched by Dignity Builders and decreased the noncontrolling interest to 7.69%.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

- (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.
- (v) Turame Community Finance S.A. (“*Turame*”) is a majority-owned microfinance institution registered in Burundi as a for-profit public limited company and is regulated by the Bank of the Republic of Burundi.

In prior years, HA had a minority interest in Turame and effective July 31, 2016, HA purchased additional equity interest for \$380,422 which increased HA’s ownership in Turame from 25% to 51% (**Note 9**).

- (vi) Urwego Opportunity Bank Ltd. (“*Urwego*”) is a majority-owned microfinance institution registered in Rwanda as a for-profit public limited company and is regulated by the National Bank of Rwanda.

In prior years, HA had a minority interest in Urwego and in December 2016, HA paid \$1,753,021 for an additional equity which increased HA’s ownership in Urwego from 49.24% to 99.24% (**Note 9**).

- (vii) 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.
- (viii) 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.
- (ix) HOPE Haiti SCA is a wholly owned entity registered in Haiti as a non-governmental organization which provides training and oversight in the creation and execution of savings and credit associations in Haiti. HOPE Haiti commenced operations in 2016.
- (x) 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.
- (xi) HOPE Distributed Services Ltd. (“*DSU*”) is a wholly owned entity registered in Rwanda as a for-profit limited company which provides IT support, professional services and consulting to HOPE’s various programs and partners around the region and world. DSU commenced operations in 2016

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

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(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.

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. Urwego and Turame are exceptions to this policy, writing off loans once the loan is 365 days delinquent or sooner, if in management's judgement, there is no prospect of recovery. These exceptions are based on local regulations.

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.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

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 \$2,150,470 and \$1,949,061 of funds for investment as of December 31, 2016 and 2015, respectively (**Note 11**). 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 to be made available to HOPE as an unrestricted contribution to further its mission. 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.

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 (2013 – 2015) as well as the expected position of HOPE's 2016 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, DSU, Turame, HOPE Ukraine and Urwego as for-profit entities, as well as HOPE Russia, HOPE Burundi SCA, HOPE Haiti 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.*"

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

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.

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 five subsidiaries and maintains net assets in four 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 \$10,865,148 and \$5,718,668, including \$21,399,523 and \$4,393,621 of microfinance loans at December 31, 2016 and 2015, respectively.

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

(a) Credit Risk

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

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(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 Urwego and HOPE Ukraine as of December 31, 2016 with an original loan term greater than one year were approximately \$9,383,000 and \$487,000, respectively.

(d) Liquidity Risk

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

FOREIGN CURRENCY TRANSLATION

For HOPE's subsidiary microfinance organizations 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, 2016 and 2015, was a decrease to net assets of \$626,812 and \$481,081 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 \$105,369 and \$483,928 for the years ended December 31, 2016 and 2015, respectively. Political instability in the Democratic Republic of Congo led to currency losses of \$226,703 for the year ended December 31, 2016

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, 2015, from which the summarized information was derived.

RECLASSIFICATION

Certain account balances in the 2015 financial statements presentation have been reclassified to conform to the 2016 presentation.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(3) CONTRIBUTION RECEIVABLE

HOPE had pledges receivable totaling \$2,647,775 and \$1,689,612 at December 31, 2016 and 2015. 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, the Republic of Congo, Burundi and Rwanda 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, 2016 and 2015, by location consist of the following:

	<u>2016</u>	<u>2015</u>
Ukraine	\$ 960,140	\$ 730,608
Republic of Congo	3,971,128	3,122,121
Democratic Republic of Congo	268,122	728,677
Burundi	971,527	-
Rwanda	17,529,946	-
Russia	<u>253</u>	<u>6,459</u>
	23,701,116	4,587,865
Less: allowance for doubtful accounts	<u>2,301,593</u>	<u>194,244</u>
	<u>\$21,399,523</u>	<u>\$4,393,621</u>

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

The microfinance institutions in the Republic of Congo, the Democratic Republic of Congo, Burundi and Rwanda have a compulsory savings component. This savings requirement can be applied towards balances in default. The \$21,197,271 and \$1,488,587 of client deposits as of December 31, 2016 and 2015 includes voluntary and compulsory savings.

The loan value of microfinance loans that were classified as nonperforming was \$2,683,106 and \$12,707 at December 31, 2016 and 2015, 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, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	\$ 194,244	\$ 186,117
Acquisition of loans – allowance	2,239,277	-
Provision for loan losses	175,425	81,036
Loans written off	(295,970)	(57,561)
Currency translation adjustment	<u>(11,383)</u>	<u>(15,348)</u>
	<u>\$ 2,301,593</u>	<u>\$ 194,244</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(5) LONG-TERM INVESTMENTS

A summary of investments at December 31, 2016 and 2015 is as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 123,470	\$ 123,470	\$ 49,034	\$ 49,034
Fixed income:				
Foreign certificates of deposits	1,669,095	1,669,095	6,000,724	6,000,724
Foreign government bonds	2,867,203	2,867,203	-	-
Corporate bonds	7,353,936	7,253,341	2,160,838	1,987,938
Preferred securities	491,050	497,214	431,050	456,323
US Treasury bonds	475,000	473,497	538,000	561,743
Equities	198,337	103,660	43,009	30,440
Master limited partnerships	123,923	102,046	133,792	81,356
Mortgage receivable	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
	<u>\$13,602,014</u>	13,389,526	<u>\$9,656,447</u>	9,467,558
Less: board-designated endowment		<u>1,977,470</u>		<u>1,949,061</u>
Long-term investment		<u>\$11,412,056</u>		<u>\$7,518,497</u>

Investments are comprised of the following net assets:

	<u>2016</u>	<u>2015</u>
Unrestricted – funds functioning as endowment funds	\$ 1,977,470	\$ 1,949,061
Unrestricted – general	9,330,765	6,004,274
Permanently restricted endowment funds	<u>2,081,291</u>	<u>1,514,223</u>
	<u>\$13,389,526</u>	<u>\$9,467,558</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.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

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

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Dividends and interest	\$ 45,895	\$50,854	\$ 50,854	\$ 147,603
Net realized and unrealized gains	(19,440)	-	99,462	80,022
Return on investments	26,455	50,854	150,316	227,625
Less: Investment return designated for current operations	-	50,854	-	50,854
Investment return in excess of amounts designated for current operations	<u>\$ 26,455</u>	<u>\$ -</u>	<u>\$ 150,316</u>	<u>\$ 176,771</u>

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

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(7) PROPERTY

Property and equipment as of December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Equipment and computer software	\$ 4,568,136	\$ 648,326
Leasehold improvements	1,579,092	132,947
Rental properties		
Buildings and improvements	478,759	478,759
Other	<u>219,597</u>	<u>83,126</u>
	6,845,582	1,343,158
Less: accumulated depreciation	<u>3,525,596</u>	<u>538,205</u>
	<u>\$ 3,319,988</u>	<u>\$ 804,953</u>

Depreciation expense was \$229,524 for the year ended December 31, 2016, of which \$15,998 is included within rental properties expense. Depreciation expense for the year ended December 31, 2015 was \$133,202 of which \$15,998 and \$1,436 is included within rental properties and education expense.

(8) LOANS RECEIVABLE

Loans receivable as of December 31, 2016 and 2015 consisted of the following:

<u>BORROWER</u>	<u>TERMS</u>	<u>Interest Rate</u>	<u>2016</u>	<u>2015</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
Center for Community Transformation (CCT)	Interest free loan due December 2018	0%	100,000	-
ROMCOM (Romania)	Semi-annual interest payments with various scheduled maturity payments commencing in May 2015 with a final principal and interest payment due May 2017	2%	84,836	252,730
	\$200,000 due November 2016 with quarterly interest payments commencing in February 2016.	2.23%	-	200,000
	\$200,000 due September 2019 with quarterly payments commencing in March 2017.	5.40%	<u>200,000</u>	<u>-</u>
			384,837	532,730
	Less: current portion		<u>101,503</u>	<u>250,891</u>
			283,334	281,839
	Less: allowance for doubtful accounts		<u>197,000</u>	<u>197,000</u>
			<u>\$ 86,834</u>	<u>\$ 84,839</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

At December 31, 2016, loans receivable maturities were as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2017	\$ 101,503
2018	116,667
2019	<u>166,667</u>
	<u>\$ 384,837</u>

(9) EQUITY INTEREST IN NET ASSETS

Effective December 15, 2016, HOPE purchased an additional 50% of the outstanding shares of Urwego for \$1,753,021 increasing ownership to 99.24%. HOPE has holdbacks of \$200,000 to secure for any violations of various warranties contained in the agreement (\$157,000) and for the acceptance by the Rwanda tax authority of the 2015 tax return (\$43,000). The holdback for the possible warranty violation will be released on the one year anniversary date subject to the settlement of any claims HOPE files in conjunction with the indemnification clauses within the agreement. The holdback for the tax return acceptance is to be held until five days after the final determination of Urwego's tax liability by the Rwanda Tax Authority for the 2015 tax year. The purchase price exceeded the fair value of the assets by \$559,121 which HOPE has written off in the statement of activities. HOPE's equity interest for the period prior to the acquisition (January 1, 2016 to December 15, 2016) in Urwego was a loss of \$1,717,998.

Effective July 31, 2016, HOPE purchased an additional 26% of the outstanding shares of Turame for \$380,420 increasing ownership to 51%. The fair value of the assets exceeded the purchase prices and as a result, HOPE recorded a gain of \$60,668 on the purchase of Turame. HOPE's equity interest for the period prior to the acquisition (January 1, 2016 to July 31, 2016) in Turame was a loss of \$6,263.

With the ownership of Urwego and Turame exceeding 50%, these entities are consolidated with HOPE in 2016 from the dates of acquisitions.

The following table summarizes revenues and net losses, excluding foreign exchange translation and inter-organization transfers that are eliminated in consolidation, related to the purchase of Turame and Urwego subsequent to the respective acquisition dates, which are included in HOPE's consolidated statement of activities for the year ended December 31, 2016.

	<u>Turame</u>	<u>Urwego</u>
Revenues	\$ 352,498	\$ 567,383
Net loss	\$ (37,365)	\$ (94,365)

As of the years ended December 31, 2015, 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>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

HOPE carried its interest in Urwego and Turame on the equity basis of accounting prior to the 2016 acquisition of additional shares which resulted in a controlling interest. For the year ended December 31, 2015 HOPE's equity interest in the loss of Urwego was \$(230,943). HOPE also contributed an additional \$750,000 in 2015 to maintain HOPE's ownership in Urwego at 49.24%. In 2015, HOPE contributed an additional \$281,142 of equity which increased HOPE's ownership in Turame to 25% and commenced 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.

(10) NOTES PAYABLE

Notes payable as of December 31, 2016 and 2015 consisted of the following:

LENDER	TERMS	2016	2015
HOPE International Kiva	Unsecured zero interest rate loan due upon demand.	\$ 222,270	\$ 287,160
Private Foundation	Unsecured, interest free note payable.	100,000	100,000
Turame Kiva	Unsecured zero interest rate loan due upon demand.	58,415	-
Urwego Kiva	Unsecured zero interest rate loan due upon demand.	461,328	-
OikoCredit	Unsecured, variable interest note due in quarterly installments through April 2021.	1,155,623	-
Other	Various	9,895	-
HOPE Congo Kiva	Unsecured zero interest rate loan due upon demand.	-	1,122
	Less: current portion	2,007,531	388,282
		<u>1,108,711</u>	<u>388,282</u>
		<u>\$ 898,820</u>	<u>\$ -</u>

At December 31, 2016, notes payable maturities were as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2017	\$ 1,108,711
2018	256,805
2019	256,805
2020	256,805
2021	128,405
	<u>\$ 2,007,531</u>

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

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

In accordance with a private placement offering, HGIF had offered unsecured notes (“**HOPE Notes**”). As of December 31, 2016, there is one remaining HOPE Note owed to a private foundation in the amount of \$100,000, which is loaned to a third party microfinance organization. The note has been transferred to HOPE International.

There are financial covenants associated with Urwego’s debt with Oikocredit. The financial covenants are as follows:

- The borrower will maintain a PAR > 30 below 8% (including rescheduled loans)
- The borrower will maintain an OSS > 95% in 2016
- The borrower will maintain a Debt/Equity Ratio below 6

Urwego is in noncompliance of the PAR > 30 below 8% debt covenant as of December 31, 2016 and is currently in discussion with Oikocredit to resolve their noncompliance.

As of December 31, 2016 and 2015, 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, 2016 and 2015. 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 2016 and 2015. 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.

(11) RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Programs – Microfinance		
Dominican Republic	\$ 4,296	\$ 8,708
Ukraine	2,700	-
Rwanda	27,281	1,672,185
Undesignated	103,858	152,758
Programs – Savings and Credit Associations		
Haiti SCA	-	239
Rwanda SCA	-	45,000
Zambia SCA	-	105,304
Malawi SCA	158,536	-
Burundi SCA	225,000	-
HOPE Trips	-	43,604
Tomorrow Clubs	2,441	8,412
Other	6,771	6,771
	<u>\$ 530,883</u>	<u>\$ 2,042,981</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

Net assets were released from donor restrictions by satisfying the restricted purposes as follows during the year ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Programs – Microfinance		
Democratic Republic of Congo	\$ 216,270	\$ 420,255
Central Asia	-	6,743
Burundi	83,598	208,579
China	232,368	388,683
Dominican Republic	76,251	230,415
Haiti	10,450	18,777
Moldova	68,682	15,067
Philippines	166,631	148,654
Republic of Congo	201,096	780,202
Russia	-	3,051
Rwanda	2,861,902	674,190
Ukraine	364,150	302,632
Romania	13,504	4,502
Programs – Savings and Credit Associations		
Burundi SCA	387,375	595,704
Haiti SCA	484,353	200,064
Rwanda SCA	522,435	528,162
India SCA	336,805	275,240
Zambia SCA	376,881	198,278
Zimbabwe SCA	87,906	41,428
Peru SCA	30,988	26,546
Philippines SCA	26,287	170,818
Malawi SCA	631,735	577,322
Tomorrow Clubs		
Ukraine	110,733	300,151
Russia	7,274	17,729
Moldova	12,188	27,124
Romania	1,560	26,640
Armenia	145,768	18,726
HOPE Trips	224,082	266,846
Education	2,713	159,244
Spiritual Integration	161,750	270,014
Other	<u>277,367</u>	<u>259,856</u>
	<u>\$8,123,102</u>	<u>\$7,161,642</u>

Permanently restricted net assets are available for the following purpose as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
HI Loan Endowment	<u>\$1,948,315</u>	<u>\$1,543,196</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

Endowment net asset composition by type of fund as of December 31, 2016 and 2015:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted endowment funds	\$ -	\$ -	\$ 1,948,315	\$ 1,948,315
Funds functioning as endowment funds	<u>2,150,470</u>	<u>-</u>	<u>-</u>	<u>2,150,470</u>
	<u>\$ 2,150,470</u>	<u>\$ -</u>	<u>\$ 1,948,315</u>	<u>\$ 4,098,785</u>

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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>

Donor restricted endowment funds are comprised of the following as of December 31, 2016 and 2015:

	2016	2015
Investments	\$ 1,801,958	\$ 1,514,223
Cash and cash equivalents	-	25,699
Contribution receivable	<u>146,357</u>	<u>3,274</u>
	<u>\$ 1,948,315</u>	<u>\$ 1,543,196</u>

HOPE classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity as permanently restricted net assets. In 2016 and 2015, 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, 2016 and 2015:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 1,949,061	\$ -	\$ 1,543,196	\$ 3,492,257
Investment return	28,409	50,854	150,316	229,579
Contributions and other	-	-	254,803	254,803
Board-designation	173,000	-	-	173,000
Less: Endowment income designated for current operations	<u>-</u>	<u>(50,854)</u>	<u>-</u>	<u>(50,854)</u>
	<u>\$ 2,150,470</u>	<u>\$ -</u>	<u>\$ 1,948,315</u>	<u>\$ 4,098,785</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

	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: Endowment income designated for current operations	<u>-</u>	<u>52,301</u>	<u>-</u>	<u>52,301</u>
	<u>\$ 1,949,061</u>	<u>\$ -</u>	<u>\$ 1,543,196</u>	<u>\$ 3,492,257</u>

In conjunction with a permanently restricted gift received from a donor, HOPE pledged to contribute 2% of unrestricted contributions as board designated net assets. This practice commenced in 2016 and \$173,000 was added as board designated net assets

(12) RELATED PARTY TRANSACTIONS

During the years ended December 31, 2016 and 2015, HOPE received \$663,248 and \$1,000,000 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, 2016 and 2015, HOPE provided administrative services to H4H for which HOPE was reimbursed in the amount of \$22,947 and \$19,779, respectively.

(13) RETIREMENT PLAN

HOPE had a 403(b) plan that was a deferred salary arrangement under section 403(b) of the Internal Revenue Code. As of June 1, 2016, HOPE changed its retirement plan to a 401(k) plan under section 401(k) of the Internal Revenue Code. The 403(b) plan was officially closed as of December 31, 2016 after all assets were liquidated and transferred to the new plan. Under the plans, participating U.S. employees may defer a portion of their pre-tax earnings, up to the IRS annual contribution limits. For 2016 and 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. HOPE’s matching contributions to the plans were \$189,764 and \$173,726 in 2016 and 2015, 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 75% and 61% of operating expenses as of December 31, 2016 and 2015, 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.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(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, 2016 and 2015. As is evident through the 2016 and 2015 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, 2016, assets consisted principally of cash. Net microfinance loans receivable were \$942,888 and \$721,389 (68% and 69% of total assets) in HOPE Ukraine as of December 31, 2016 and 2015, 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, July 26, 2017, have been evaluated in the preparation of the financial statements.

SUPPLEMENTAL INFORMATION

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2016 With Summarized Information As Of December 31, 2015

	HOPE ADVANCEMENT										Eliminating Entries	Consolidated	2015	
	(a) HOPE International	HGIF	HOPE Advancement	HOPE Congo	HOPE DRC	Turame	HOPE Ukraine	Urwego	(b) SCA	(c) Other				
CURRENT ASSETS														
Cash and cash equivalents – US	\$ 994,434	\$ 22,061	\$ 648	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,017,143	\$ 1,967,714
Cash and cash equivalents – field	365,853	-	-	123,826	336,457	610,913	385,776	4,624,651	207,279	211,044	-	-	6,865,799	2,304,053
Contribution receivable	2,647,775	-	-	-	-	-	-	-	-	-	-	-	2,647,775	1,689,612
Microfinance loans receivable, net	-	-	-	3,871,850	185,522	933,760	942,888	15,465,250	-	253	-	-	21,399,523	4,393,621
Loans receivable	(7,163)	108,666	-	-	-	-	-	-	-	-	-	-	101,503	250,891
Interest receivable	270	3,600	-	-	-	2,154	12,242	55,204	-	-	-	-	73,470	11,745
Other receivables	1,257,717	-	234	19,482	2,022	59	-	527,001	11,760	11,014	(1,176,525)	-	652,764	192,855
Prepaid expenses and other assets	469,178	-	-	30,690	4,558	7,004	10,430	480,489	11,780	-	-	-	1,014,129	404,638
Total Current Assets	<u>5,728,064</u>	<u>134,327</u>	<u>882</u>	<u>4,045,848</u>	<u>528,559</u>	<u>1,553,890</u>	<u>1,351,336</u>	<u>21,152,595</u>	<u>230,819</u>	<u>222,311</u>	<u>(1,176,525)</u>	<u>33,772,106</u>	<u>11,215,129</u>	
NONCURRENT ASSETS														
Investments –														
board-designated endowment	1,977,470	-	-	-	-	-	-	-	-	-	-	-	1,977,470	1,949,061
Investments	6,875,757	-	-	804,218	400,720	444,158	-	2,887,203	-	-	-	-	11,412,056	7,518,497
Property and equipment, net	647,570	-	-	143,612	41,194	66,215	16,175	2,283,283	121,308	631	-	-	3,319,988	804,953
Other long-term assets	-	-	-	30,123	40,213	18,498	-	159,074	-	-	-	-	247,908	50,879
Loans receivable	-	86,334	-	-	-	-	-	-	-	-	-	-	86,334	84,839
Investment in subsidiary	220,423	-	9,381,422	-	-	-	-	-	-	-	(9,601,845)	-	-	-
Noncontrolling interest in net assets	-	-	-	-	-	-	-	-	-	-	-	-	-	3,323,600
Total Assets	<u>\$15,449,284</u>	<u>\$220,661</u>	<u>\$9,382,304</u>	<u>\$5,023,801</u>	<u>\$1,010,686</u>	<u>\$2,082,761</u>	<u>\$1,367,511</u>	<u>\$26,482,155</u>	<u>\$352,127</u>	<u>\$222,942</u>	<u>\$(10,778,370)</u>	<u>\$50,815,862</u>	<u>\$24,946,958</u>	
CURRENT LIABILITIES														
Accounts payable and accrued expenses	\$ 516,375	\$ 238	\$ 200,000	\$ 149,457	\$ 150,450	\$ 197,804	\$ 12,018	\$ 706,284	\$ 28,529	\$308,987	\$ (333,270)	\$ 1,936,872	\$ 954,880	
Interest Payable	-	-	-	-	-	-	-	138,372	-	-	-	138,372	-	
Unearned revenue	-	-	-	-	-	-	54,871	1,588,268	-	-	-	1,643,139	46,697	
Current portion of notes payable	322,270	-	843,255	-	-	58,415	-	728,026	-	-	(843,255)	1,108,711	388,282	
Client deposits	-	-	-	1,416,958	65,704	218,613	-	19,495,996	-	-	-	21,197,271	1,488,587	
Security deposits and other liabilities	4,545	-	-	-	-	-	-	33,099	-	-	-	37,644	2,745	
Total Current Liabilities	<u>843,190</u>	<u>238</u>	<u>1,043,255</u>	<u>1,566,415</u>	<u>216,154</u>	<u>474,832</u>	<u>66,889</u>	<u>22,690,045</u>	<u>28,529</u>	<u>308,987</u>	<u>(1,176,525)</u>	<u>26,062,009</u>	<u>2,881,191</u>	
NOTES PAYABLE	-	-	-	-	-	-	-	898,820	-	-	-	898,820	-	
Total Liabilities	<u>843,190</u>	<u>238</u>	<u>1,043,255</u>	<u>1,566,415</u>	<u>216,154</u>	<u>474,832</u>	<u>66,889</u>	<u>23,588,865</u>	<u>28,529</u>	<u>308,987</u>	<u>(1,176,525)</u>	<u>26,960,829</u>	<u>2,881,191</u>	
NET ASSETS														
Unrestricted														
Operations	9,976,426	220,423	8,339,049	3,457,386	794,532	820,044	1,200,604	2,871,301	323,598	(86,045)	(9,601,845)	18,315,473	16,430,863	
Board-designated for endowment	2,150,470	-	-	-	-	-	-	-	-	-	-	2,150,470	1,949,061	
Noncontrolling interest	-	-	-	-	-	787,885	100,018	21,989	-	-	-	909,892	99,666	
Temporarily restricted	530,883	-	-	-	-	-	-	-	-	-	-	530,883	2,042,981	
Permanently restricted	1,948,315	-	-	-	-	-	-	-	-	-	-	1,948,315	1,543,196	
Total Net Assets	<u>14,606,094</u>	<u>220,423</u>	<u>8,339,049</u>	<u>3,457,386</u>	<u>794,532</u>	<u>1,607,929</u>	<u>1,300,622</u>	<u>2,893,290</u>	<u>323,598</u>	<u>(86,045)</u>	<u>(9,601,845)</u>	<u>23,855,033</u>	<u>22,065,767</u>	
Total Liabilities and Net Assets	<u>\$15,449,284</u>	<u>\$220,661</u>	<u>\$9,382,304</u>	<u>\$5,023,801</u>	<u>\$1,010,686</u>	<u>\$2,082,761</u>	<u>\$1,367,511</u>	<u>\$26,482,155</u>	<u>\$352,127</u>	<u>\$222,942</u>	<u>\$(10,778,370)</u>	<u>\$50,815,862</u>	<u>\$24,946,958</u>	

(a) Includes assets, liabilities and net assets of Higher Impact Properties, Rwanda SCA and Malawi SCA.

(b) Includes assets, liabilities and net assets of Burundi SCA, Haiti SCA and Zambia SCA.

(c) Includes assets, liabilities and net assets of Hong Kong, DSU Kigali and HOPE Russia.

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2016 With Summarized Information For 2015

	HOPE ADVANCEMENT										Eliminating Entries	Consolidated	2015
	(a) HOPE International	HGIF	HOPE Advancement	HOPE Congo	HOPE DRC	Turame	HOPE Ukraine	Urwego	(b) SCA	(c) Other			
SUPPORT AND REVENUE													
Contributions (includes \$324,608 of in-kind support)	\$ 15,347,813	\$ 105,000	\$ 5,135,249	\$ 555,717	\$ 355,333	\$ 2,000	\$ 390,313	\$ 839,455	\$ 1,165,086	\$ 64,347	\$ (9,782,220)	\$ 14,178,093	\$ 15,571,377
Special events, net of direct expenses of \$482,992	1,978,572	-	-	-	-	-	-	-	-	4,233	-	1,982,805	1,904,710
Investment return designated for current operations	50,854	-	-	-	-	-	-	-	-	-	-	50,854	52,301
Interest income	45,019	5,144	-	1,689,314	466,896	337,152	458,972	418,250	-	11,551	-	3,432,298	2,416,625
Rental revenue	45,981	-	-	-	-	-	-	-	-	-	-	45,981	44,068
Less expenses (including depreciation)	(35,953)	-	-	-	-	-	-	-	-	-	-	(35,953)	(36,566)
Net rental income	10,028	-	-	-	-	-	-	-	-	-	-	10,028	7,502
Equity interest in income of microfinance institutions	109,501	-	(3,438,815)	-	-	-	-	-	-	-	1,604,953	(1,724,361)	(176,325)
Other income	10,941	-	-	-	-	-	-	-	-	-	-	10,941	84
Total support and revenue	17,552,728	110,144	1,696,434	2,245,031	822,229	339,152	849,285	1,257,705	1,165,086	80,131	(8,177,267)	17,940,658	19,776,274
FUNCTIONAL EXPENSES													
Program services	14,364,759	320	399	1,672,576	987,399	384,942	459,901	661,754	1,073,513	200,964	(6,593,396)	13,213,131	12,008,416
Management and general	1,215,250	324	383	-	-	-	-	-	-	33,105	(165)	1,248,897	1,057,069
Fundraising	1,840,937	-	-	-	-	-	-	-	-	72,018	-	1,912,955	1,841,101
Total expenses	17,420,946	644	782	1,672,576	987,399	384,942	459,901	661,754	1,073,513	306,087	(6,593,561)	16,374,983	14,906,586
OTHER CHANGES													
Investment return in excess (deficit) of amounts designated for operations	\$ 176,771	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 176,771	\$ (194,883)
Gain/(loss) on foreign currency transactions	69,658	-	-	(8,345)	228,311	(1,575)	15,991	23,683	7,897	(19)	-	335,601	69,841
Gain (loss) on foreign currency translation	(26,399)	-	(569,970)	(105,326)	(226,703)	(40,148)	(125,923)	(114,145)	(10,643)	22,475	569,970	(626,812)	(481,081)
Consideration paid in excess of fair value of assets, net	-	-	(498,453)	-	-	-	-	-	-	-	-	(498,453)	-
Total other changes	220,030	-	(1,068,423)	(113,671)	1,608	(41,723)	(109,932)	(90,462)	(2,746)	22,456	569,970	(612,893)	(606,123)
CHANGE IN NET ASSETS BEFORE CONTRIBUTED EQUITY AND PURCHASE DISTRIBUTION OF EQUITY INTERESTS													
	351,812	109,500	627,229	458,784	(163,562)	(87,513)	279,452	505,486	88,827	(203,500)	(1,013,736)	952,782	4,263,565
Equity contribution by noncontrolling shareholder	-	-	-	-	-	-	-	-	-	-	-	-	147,507
Noncontrolling interest related to acquisition of microfinance institutions	-	-	-	-	-	1,695,442	-	2,387,801	-	-	(3,246,759)	836,484	-
CHANGE IN NET ASSETS	351,812	109,500	627,229	458,784	(163,562)	1,607,929	279,452	2,893,290	88,827	(203,500)	(4,260,495)	1,789,266	4,411,072
NET ASSETS													
Beginning of year	14,254,282	110,923	7,711,820	2,998,602	958,094	-	1,021,170	-	234,771	117,455	(5,341,350)	22,065,767	17,654,695
End of year	\$ 14,606,094	\$ 220,423	\$ 8,339,049	\$ 3,457,386	\$ 794,532	\$ 1,607,929	\$ 1,300,622	\$ 2,893,290	\$ 323,598	\$ (86,045)	\$ (9,601,845)	\$ 23,855,033	\$ 22,065,767

(a) Includes assets, liabilities and net assets of Higher Impact Properties, Rwanda SCA and Malawi SCA.

(b) Includes assets, liabilities and net assets of Burundi SCA, Haiti SCA and Zambia SCA.

(c) Includes assets, liabilities and net assets of Hong Kong, DSU Kigali and HOPE Russia.