

HOPE INTERNATIONAL

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

DECEMBER 31, 2017 AND 2016

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, 2017 and 2016	3
<i>Consolidated Statement of Activities,</i> Year ended December 31, 2017 with Summarized Information for 2016	4
<i>Consolidated Statements of Changes in Unrestricted Net Assets,</i> Years ended December 31, 2017 and 2016	5
<i>Consolidated Statements of Functional Expenses,</i> Year ended December 31, 2017	6
Year ended December 31, 2016	7
<i>Consolidated Statements of Cash Flows,</i> Years ended December 31, 2017 and 2016	8-9
<i>Notes to Consolidated Financial Statements</i>	10-26
SUPPLEMENTAL INFORMATION	
<i>Consolidating Statement of Financial Position,</i> December 31, 2017 with Summarized Information for 2016	27
<i>Consolidating Statement of Activities,</i> Year ended December 31, 2017 with Summarized Information for 2016	28

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, 2017, 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 \$9,365,457, as of December 31, 2017 and total support and revenues of \$4,186,341, 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, 2017, 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 2016 consolidated financial statements, and our report dated June 26, 2017, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental consolidating statement of financial position and consolidating statement of activities, on pages 27 and 28, are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
May 23, 2018**

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2017 With Summarized Information For 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2016</u>
SUPPORT AND REVENUE					
Contributions	\$ 8,314,561	\$ 4,907,135	\$ 1,389,872	\$ 14,611,568	\$ 14,178,093
Special events, net of direct expenses of \$508,089 and \$485,085 for 2017 and 2016	2,777,584	108,440	27,357	2,913,381	1,982,805
Investment return designated for current operations	-	67,578	-	67,578	50,854
Interest income	8,959,102	-	-	8,959,102	3,432,298
Rental revenue	59,110	-	-	59,110	45,981
Less expenses (including depreciation)	<u>(36,215)</u>	<u>-</u>	<u>-</u>	<u>(36,215)</u>	<u>(35,953)</u>
Net rental income	<u>22,895</u>	<u>-</u>	<u>-</u>	<u>22,895</u>	<u>10,028</u>
Equity interest in income (loss) of microfinance institutions	-	-	-	-	(1,724,361)
Other income	<u>427,644</u>	<u>-</u>	<u>-</u>	<u>427,644</u>	<u>10,941</u>
Total support and revenue before net assets released from restrictions	20,501,786	5,083,153	1,417,229	27,002,168	17,940,658
Net assets released from restrictions	<u>5,426,197</u>	<u>(5,426,197)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>25,927,983</u>	<u>(343,044)</u>	<u>1,417,229</u>	<u>27,002,168</u>	<u>17,940,658</u>
FUNCTIONAL EXPENSES					
Program services	23,181,204	-	-	23,181,204	13,213,131
Management and general	1,424,125	-	-	1,424,125	1,248,897
Fundraising	<u>2,078,977</u>	<u>-</u>	<u>-</u>	<u>2,078,977</u>	<u>1,912,955</u>
Total expenses	<u>26,684,306</u>	<u>-</u>	<u>-</u>	<u>26,684,306</u>	<u>16,374,983</u>
Excess of revenues over expenses	<u>(756,323)</u>	<u>(343,044)</u>	<u>1,417,229</u>	<u>317,862</u>	<u>1,565,675</u>
OTHER CHANGES					
Investment return in excess (deficit) of amounts designated for current operations	60,180	-	63,689	123,869	176,771
Net realized gain on foreign currency transactions	477,183	-	-	477,183	335,601
Loss on foreign currency translation	93,809	-	-	93,809	(626,812)
Consideration returned/consideration paid in excess of the fair value of assets acquired	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>(498,453)</u>
Total other changes	<u>831,172</u>	<u>-</u>	<u>63,689</u>	<u>894,861</u>	<u>(612,893)</u>
CHANGE IN NET ASSETS BEFORE CONTRIBUTED EQUITY ACQUIRED AND PURCHASE OF EQUITY INTERESTS					
	74,849	(343,044)	1,480,918	1,212,723	952,782
Equity contribution by noncontrolling shareholder	60,000	-	-	60,000	-
Noncontrolling interest related to acquisition of microfinance institutions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>836,484</u>
CHANGE IN NET ASSETS	134,849	(343,044)	1,480,918	1,272,723	1,789,266
NET ASSETS					
Beginning 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>
End of year	<u>\$ 21,510,684</u>	<u>\$ 187,839</u>	<u>\$ 3,429,233</u>	<u>\$ 25,127,756</u>	<u>\$ 23,855,033</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, 2017 And 2016

	<u>Unrestricted HOPE</u>	<u>Unrestricted – Non-Controlling Interest In Microfinance Entities</u>	<u>Total</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	20,465,943	909,892	21,375,835
Equity contribution by noncontrolling shareholder	-	60,000	60,000
Excess (deficit) of revenues over expenses	<u>213,003</u>	<u>(138,154)</u>	<u>74,849</u>
Change in unrestricted net assets	<u>213,003</u>	<u>(78,154)</u>	<u>134,849</u>
Unrestricted net assets, December 31, 2017	<u>\$ 20,678,946</u>	<u>\$ 831,738</u>	<u>\$ 21,510,684</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

	Program Services			Management And General	Fundraising	Total
	Overseas Entities	United States Entities	Total			
Salaries	\$ 5,844,449	\$ 2,251,405	\$ 8,095,854	\$ 806,787	\$1,074,417	\$ 9,977,058
Payroll taxes	413,534	206,481	620,015	65,932	85,149	771,096
Employee benefits	473,361	566,864	1,040,225	179,688	234,621	1,454,534
Other staff expenses	366,425	392,702	759,127	89,891	90,969	939,987
Insurance	49,380	3,033	52,413	13,014	449	65,876
Professional services	1,258,000	252,120	1,510,120	34,819	67,824	1,612,763
Office expenses	2,206,384	207,099	2,413,483	68,899	68,326	2,550,708
HOPE Trips	-	312,284	312,284	-	31	312,315
Education	19,485	581,092	600,577	-	-	600,577
Marketing	2	1,085	1,087	951	164,232	166,270
Travel	545,019	373,595	918,614	26,321	93,317	1,038,252
Finance expenses – interest and fees	869,963	6,496	876,459	62,154	100	938,713
Depreciation	613,903	103,559	717,462	6,480	21,190	745,132
Printing and reproduction	140,460	11,587	152,047	109	84,422	236,578
Loan loss reserve/(recapture), net	1,154,799	353,000	1,507,799	-	-	1,507,799
Other expenses	1,092,827	219,295	1,312,122	67,288	93,738	1,473,148
Grants to partners	1,361,533	1,383,818	2,745,351	1,792	192	2,747,335
Tax benefit, net	(453,835)	-	(453,835)	-	-	(453,835)
	<u>\$15,955,689</u>	<u>\$7,225,515</u>	<u>\$23,181,204</u>	<u>\$1,424,125</u>	<u>\$2,078,977</u>	<u>\$26,684,306</u>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – (Continued)

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	<u>67,981</u>	<u>282</u>	<u>68,263</u>	<u>-</u>	<u>-</u>	<u>68,263</u>
	<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>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2017 And 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,272,723	\$ 1,789,266
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized loss (gain) on investments	13,653	(80,022)
Loan loss reserve, net	(1,301,972)	(246,413)
Equity interest in loss of a microfinance institution	-	1,724,261
Depreciation	761,130	229,524
Loss on disposal of fixed assets	254,204	145,733
Contributions restricted for endowment	(1,417,229)	(254,803)
Equity contribution from noncontrolling shareholder	(60,000)	-
Loss on purchase of microfinance institutions	-	498,453
Minority interest in microfinance institutions purchased	-	(836,484)
(Increase) decrease in operating assets		
Contributions receivable	(231,014)	(958,163)
Prepaid expenses and other assets	107,702	(193,640)
Interest receivable	(110,810)	920,339
Other long-term assets	(527,760)	566,898
Other receivables	465,868	48,255
Increase (decrease) in operating liabilities		
Unearned revenue	(231,340)	(212,139)
Interest payable	(79,467)	(5,805)
Accounts payable and accrued expenses	(262,117)	(273,612)
Client deposits	(1,171,686)	(1,099,695)
Security deposits and other liabilities	<u>(33,349)</u>	<u>34,899</u>
Net cash (used in) provided by operating activities	<u>(2,551,464)</u>	<u>1,796,852</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(576,780)	(378,285)
Proceeds from sale of fixed assets	90,851	-
Purchase/sales of investments, net	(429,407)	(1,135,509)
Repayment (issuance) of microfinance loans, net	4,439,055	(1,119,850)
Issuance of notes receivable	(50,000)	(300,000)
Repayment of notes receivable	101,504	447,893
Cash paid for purchase of microfinance institutions, net of cash acquired	<u>-</u>	<u>4,261,949</u>
Net cash provided by investing activities	<u>3,575,223</u>	<u>1,776,198</u>
FINANCING ACTIVITIES		
Repayments from notes payable, net	(591,372)	(216,678)
Contributions restricted for endowments	1,417,229	254,803
Equity contribution from noncontrolling shareholder	<u>60,000</u>	<u>-</u>
Net cash provided by financing activities	<u>885,857</u>	<u>38,125</u>
Net increase in cash and cash equivalents	1,909,616	3,611,175
CASH AND CASH EQUIVALENT		
Beginning of year	<u>7,882,942</u>	<u>4,271,767</u>
End of year	<u>\$ 9,792,558</u>	<u>\$ 7,882,942</u>

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

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)

Year Ended December 31, 2017 And 2016

	<u>2017</u>	<u>2016</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 825,578</u>	<u>\$ 32,237</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>-</u>	<u>(1,611,768)</u>
Cash paid for purchase of microfinance institutions, net of cash acquired	<u>\$ -</u>	<u>\$ (4,261,949)</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 And 2016

(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, Democratic Republic of Congo, the Dominican Republic, East Asia, Haiti, Malawi, Moldova, Peru, Philippines, the Republic of Congo, Romania, Russia, Rwanda, South Asia, 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 group program (“**SGP**”). A description of the type of legal entity and the percentage of HA’s ownership interest in the microfinance entities and SGP 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. During 2017, HOPE management decided to terminate operations and is currently in the process of ceasing operations.
- (iii) HOPE Ukraine is a majority-owned (90.47%) 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 2017, Dignity Builders, a subsidiary of Homes for Hope (**Note 13**), made an equity contribution that increased their noncontrolling interest in HOPE Ukraine to 9.53%. 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, 2017 And 2016

- (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 2017, HOPE made equity contributions that were unmatched increasing their interest to 99.58%. 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 SGP 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 SGP 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 SGP 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, 2017 And 2016

(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.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

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 \$2,586,635 and \$2,150,470 of funds for investment as of December 31, 2017 and 2016, respectively (**Note 12**). 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 (2014 – 2016) as well as the expected position of HOPE's 2017 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 SGP, HOPE Haiti SGP, HOPE Zambia SGP and HOPE Hong Kong as non-governmental organizations, pay taxes in the respective countries in which they are registered.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

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 as 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.

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 six 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 \$11,104,179 and \$10,865,148, including \$18,105,440 and \$21,399,523 of microfinance loans at December 31, 2017 and 2016, respectively.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

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 Urwego and HOPE Ukraine as of December 31, 2017 with an original loan term greater than one year were approximately \$7,280,131 and \$647,610, 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 SGP 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, 2017 and 2016, was an increase and decrease to net assets of \$93,809 and \$626,812 respectively. The loss on foreign currency translation in 2016 was primarily the result of the decline in the currencies of Ukraine and Russia. In addition, 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, 2016, from which the summarized information was derived.

RECLASSIFICATION

Certain account balances in the 2016 financial statements presentation have been reclassified to conform to the 2017 presentation.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(3) CONTRIBUTION RECEIVABLE

HOPE had pledges receivable totaling \$2,878,789 and \$2,647,775 at December 31, 2017 and 2016. 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, 2017 and 2016, by location consist of the following:

	<u>2017</u>	<u>2016</u>
Ukraine	\$ 1,207,697	\$ 960,140
Republic of Congo	4,244,298	3,971,128
Democratic Republic of Congo	-	268,122
Burundi	1,143,046	971,527
Rwanda	12,667,020	17,529,946
Russia	-	253
	<u>19,262,061</u>	<u>23,701,116</u>
Less: allowance for doubtful accounts	<u>1,156,621</u>	<u>2,301,593</u>
	<u>\$ 18,105,440</u>	<u>\$ 21,399,523</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 \$20,025,585 and \$21,197,271 of client deposits as of December 31, 2017 and 2016 includes voluntary and compulsory savings.

The loan value of microfinance loans that were classified as nonperforming was \$1,058,960 and \$2,683,106 at December 31, 2017 and 2016, 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, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 2,301,593	\$ 194,244
Acquisition of loans – allowance	-	2,239,277
Provision for loan losses	1,592,296	175,425
Loans written off	(2,636,218)	(295,970)
Currency translation adjustment	<u>(101,050)</u>	<u>(11,383)</u>
	<u>\$ 1,156,621</u>	<u>\$ 2,301,593</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(5) LONG-TERM INVESTMENTS

A summary of investments at December 31, 2017 and 2016 is as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 340,198	\$ 340,198	\$ 123,470	\$ 123,470
Fixed income:				
Domestic certificates of deposit	250,000	250,000	-	-
Foreign certificates of deposits	660,422	660,422	1,669,095	1,669,095
Foreign government bonds	2,849,596	2,849,596	2,867,203	2,867,203
Corporate bonds	7,341,983	7,266,988	7,353,936	7,253,341
Municipal bonds	778,556	774,548	-	-
Preferred securities	444,315	471,852	491,050	497,214
US Treasury bonds	554,240	521,330	475,000	473,497
Equities	243,237	159,471	198,337	103,660
Mutual funds	109,213	102,258	-	-
Master limited partnerships	121,622	108,617	123,923	102,046
Mortgage receivable	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
	<u>\$13,993,382</u>	13,805,280	<u>\$13,602,014</u>	13,389,526
Less: board-designated endowment		<u>2,231,761</u>		<u>1,977,470</u>
Long-term investment		<u>\$11,573,519</u>		<u>\$11,412,056</u>

Investments are comprised of the following net assets:

	<u>2017</u>	<u>2016</u>
Unrestricted – board-designated for endowment and operating reserve	\$ 2,231,761	\$ 1,977,470
Unrestricted – general	7,722,177	9,610,098
Permanently restricted endowment funds	<u>3,851,342</u>	<u>1,801,958</u>
	<u>\$13,805,280</u>	<u>\$13,389,526</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, 2017 And 2016

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

	2017			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Dividends and interest	\$ 69,944	\$67,578	\$ 67,578	\$205,100
Net realized and unrealized gains	<u>(9,764)</u>	<u>-</u>	<u>(3,889)</u>	<u>(13,653)</u>
Return on investments	60,180	67,578	63,689	191,447
Less: Investment return designated for current operations	<u>-</u>	<u>67,578</u>	<u>-</u>	<u>67,578</u>
Investment return in excess of amounts designated for current operations	<u>\$ 60,180</u>	<u>\$ -</u>	<u>\$ 63,689</u>	<u>\$ 123,869</u>

	2016			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Dividends and interest	\$ 45,895	\$50,854	\$ 50,854	\$147,603
Net realized and unrealized gains	<u>(19,440)</u>	<u>-</u>	<u>99,462</u>	<u>80,022</u>
Return on investments	26,455	50,854	150,316	227,625
Less: Investment return designated for current operations	<u>-</u>	<u>50,854</u>	<u>-</u>	<u>50,854</u>
Investment return in excess of amounts designated for current operations	<u>\$ 26,455</u>	<u>\$ -</u>	<u>\$ 150,316</u>	<u>\$ 176,771</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, 2017 And 2016

(7) PROPERTY

Property and equipment as of December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Equipment and computer software	\$ 4,733,116	\$ 4,568,136
Leasehold improvements	1,298,072	1,579,092
Rental properties		
Buildings and improvements	478,759	478,759
Other	<u>107,360</u>	<u>219,597</u>
	6,617,307	6,845,584
Less: accumulated depreciation	<u>3,826,724</u>	<u>3,525,596</u>
	<u>\$ 2,790,583</u>	<u>\$ 3,319,988</u>

Depreciation expense was \$761,130 for the year ended December 31, 2017, of which \$15,998 is included within rental properties expense. Depreciation expense for the year ended December 31, 2016 was \$229,524 of which \$15,998 is included within rental properties.

(8) LOANS RECEIVABLE

Loans receivable as of December 31, 2017 and 2016 consisted of the following:

<u>BORROWER</u>	<u>TERMS</u>	<u>Interest Rate</u>	<u>2017</u>	<u>2016</u>
Center for Community Transformation (CCT)	Interest free loan due December 2018	0%	\$ 100,000	\$ 100,000
	Interest free loan due December 2020	0%	50,000	-
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%	-	84,837
	\$200,000 due September 2019 with quarterly payments commencing in March 2017.	5.40%	<u>183,333</u>	<u>200,000</u>
			333,333	384,837
	Less: current portion		<u>116,666</u>	<u>101,503</u>
	Less: allowance for doubtful accounts		216,667	283,334
			<u>40,000</u>	<u>197,000</u>
			<u>\$ 176,667</u>	<u>\$ 86,334</u>

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

<u>Year Ending December 31,</u>	<u>Amounts</u>
2018	\$ 116,666
2019	166,667
2020	<u>50,000</u>
	<u>\$ 333,333</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(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'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. In conjunction with the purchase, HOPE had holdbacks of \$200,000 to secure any violations of warranties contained in the agreement. During 2017, the seller released their claim to the holdbacks of \$200,000 and the revenue associated with the release is reflected in other changes in the consolidated statement of activities. As a result of contributions made by HOPE during 2017, HOPE's equity interest increased to 99.58%.

Effective July 31, 2016, HOPE purchased an additional 26% of the outstanding shares of Turame for \$380,420 increasing ownership to 51%. HOPE's equity interest for the period prior to the acquisition (January 1, 2016 to July 31, 2016) in Turame was a loss of \$6,363.

The consideration paid for these additional shares of Urwego and Turame exceed the fair value of the assets acquired by \$498,453, which was written-off by HOPE in the Statement of Activities. 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 were 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)

(10) CLIENT DEPOSITS

Client deposits as of December 31, 2017 and 2016 consist of:

	<u>2017</u>	<u>2016</u>
Demand	\$ 16,785,322	\$ 16,970,978
Term	<u>3,240,263</u>	<u>4,226,293</u>
	<u>\$ 20,025,585</u>	<u>\$ 21,197,271</u>

Demand deposits consist of both interest and non-interest bearing accounts. The interest rates are variable based on the client account balance maintained. Interest rates range from 0% on the lowest deposit balances to 9% on higher account balances. Term deposits are between 2 months to 1 year in duration and have interest rates ranging from 3% to 10%.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(11) NOTES PAYABLE

Notes payable as of December 31, 2017 and 2016 consisted of the following:

LENDER	TERMS	2017	2016
HOPE International Kiva	Unsecured zero interest rate loan due upon demand.	\$ -	\$ 222,270
Private Foundation	Unsecured, interest free note payable.	-	100,000
HOPE Advancement Kiva	Unsecured zero interest rate loan due upon demand	224,321	-
Arise Foundation	Unsecured zero interest rate loan	150,000	-
Turame Kiva	Unsecured zero interest rate loan due upon demand.	9,346	58,415
Urwego Kiva	Unsecured zero interest rate loan due upon demand.	1,032,492	461,328
OikoCredit	Unsecured, variable interest note due in quarterly installments through April 2021.	-	1,155,623
Other	Various	<u>-</u>	<u>9,895</u>
	Less: current portion	1,416,159 <u>1,266,159</u>	2,007,531 <u>1,108,711</u>
		<u>\$ 150,000</u>	<u>\$ 898,820</u>

At December 31, 2017, notes payable maturities were as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2018	\$ 1,266,159
2019	<u>150,000</u>
	<u>\$ 1,416,159</u>

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

As of December 31, 2016, HOPE had one loan outstanding to a private foundation in the amount of \$100,000 which was loaned to a third-party microfinance organization. The note was paid in full during 2017.

As of December 31, 2017 and 2016, 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, 2017 and 2016. 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 2017 and 2016. 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.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(12) RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets are available for the following purposes as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Programs – Microfinance		
Dominican Republic	\$ -	\$ 4,296
Ukraine	-	2,700
Rwanda	-	27,281
Undesignated	88,924	103,858
Programs – Savings Group Program		
Malawi SGP	98,915	158,536
Burundi SGP	-	225,000
Tomorrow Clubs	-	2,441
Other	-	6,771
	<u>\$ 187,839</u>	<u>\$ 530,883</u>

Net assets were released from donor restrictions by satisfying the restricted purposes as follows during the year ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Programs – Microfinance		
Democratic Republic of Congo	\$ 150,655	\$ 216,270
Burundi	66,705	83,598
Dominican Republic	55,909	76,251
East Asia	113,497	232,368
Haiti	300	10,450
Moldova	31,684	68,682
Philippines	13,249	166,631
Republic of Congo	187,566	201,096
Rwanda	252,752	2,861,902
Ukraine	182,944	364,150
Romania	3,044	13,504
Programs – Savings Group Program		
Burundi SGP	719,231	387,375
Haiti SGP	192,331	484,353
Rwanda SGP	652,142	522,435
South Asia SGP	671,388	336,805
Zambia SGP	502,702	376,881
Zimbabwe SGP	111,824	87,906
Peru SGP	123,981	30,988
Philippines SGP	22,869	26,287
Malawi SGP	882,697	631,735
Tomorrow Clubs		
Ukraine	-	110,733
Russia	2,441	7,274
Moldova	-	12,188
Romania	-	1,560
Armenia	-	145,768
HOPE Trips	152,094	224,082
Education	101,290	2,713
Spiritual Integration	97,599	161,750
Other	135,303	277,367
	<u>\$ 5,426,197</u>	<u>\$ 8,123,102</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

Permanently restricted net assets are available for the following purpose as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
HI Loan Endowment	\$3,429,233	\$1,948,315

Endowment net asset composition by type of fund as of December 31, 2017 and 2016:

	<u>2017</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ -	\$ 3,429,233	\$ 3,429,233
Board-designated for endowment and operating reserve	<u>2,586,635</u>	<u>-</u>	<u>-</u>	<u>2,586,635</u>
	<u>\$2,586,635</u>	<u>\$ -</u>	<u>\$ 3,429,233</u>	<u>\$ 6,015,868</u>

	<u>2016</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ -	\$ 1,948,315	\$ 1,948,315
Board-designated for endowment and operating reserve	<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>

Donor restricted endowment funds are comprised of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Investments	\$ 3,851,342	\$ 1,801,958
Cash and cash equivalents	145,086	-
Reserve	(567,195)	-
Contribution receivable	<u>-</u>	<u>146,357</u>
	<u>\$ 3,429,233</u>	<u>\$ 1,948,315</u>

During 2017, HOPE received a bequest from an estate which is permanently restricted for endowment. In connection with this estate a beneficiary is contesting the distribution of certain proceeds to HOPE. As a result, HOPE has established a reserve against the contribution of \$567,195.

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 2017 and 2016, 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 board-designated for endowment and operating reserve.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

Changes in endowment net assets for the year ended December 31, 2017 and 2016:

	2017			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
Endowment net assets, beginning of year	\$ 2,150,470	\$ -	\$ 1,948,315	\$ 4,098,785
Investment return	32,348	67,578	63,689	163,615
Contributions and other	-	-	1,417,229	1,417,229
Board-designation	403,817	-	-	403,817
Less: Endowment income designated for current operations	-	(67,578)	-	(67,578)
	<u>\$ 2,586,635</u>	<u>\$ -</u>	<u>\$ 3,429,233</u>	<u>\$ 6,015,868</u>

	2016			<u>Total</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	
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	-	(50,854)	-	(50,854)
	<u>\$ 2,150,470</u>	<u>\$ -</u>	<u>\$ 1,948,315</u>	<u>\$ 4,098,785</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 in 2017 and 2016 HOPE added \$182,000 and \$173,000, respectively, to board designated net assets in connection with the pledge. In 2017, HOPE also designated \$221,817 as board-designated for endowment and operating reserve.

(13) RELATED PARTY TRANSACTIONS

During the years ended December 31, 2017 and 2016, HOPE received \$1,000,000 and \$663,248 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, 2017 and 2016, HOPE provided administrative services to H4H for which HOPE was reimbursed in the amount of \$22,947.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(14) 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. HOPE matches 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 \$210,667 and \$189,764 in 2017 and 2016, respectively.

(15) CONTINGENCIES

HOPE is currently in the process of finalizing the dispute in taxes for HOPE DRC owed to the federal taxing agency, Directorate General Taxes. Management believes that the ultimate outcome of the disputed taxes will not have a material adverse effect on the financial position.

(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 23, 2018, have been evaluated in the preparation of the financial statements.

SUPPLEMENTAL INFORMATION

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2017 With Summarized Information As Of December 31, 2016

	HOPE ADVANCEMENT										Eliminating Entries	Consolidated	2016	
	(a) HOPE International	HGIF	HOPE Advancement	HOPE Congo	HOPE DRC	Turame	HOPE Ukraine	Urwego	(b) SGP	(c) Other				
CURRENT ASSETS														
Cash and cash equivalents – US	\$ 627,238	\$ 25,885	\$ 1,214	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 654,337	\$ 1,017,143
Cash and cash equivalents – field	139,398	-	-	691,983	79,781	577,763	466,394	6,771,704	204,508	206,690	-	-	9,138,221	6,865,799
Contribution receivable	2,878,789	-	-	-	-	-	-	-	-	-	-	-	2,878,789	2,647,775
Microfinance loans receivable, net	-	-	(318,000)	3,943,579	-	1,101,347	1,191,889	12,186,625	-	-	-	-	18,105,440	21,399,523
Loans receivable	100,000	16,666	-	-	-	-	-	-	-	-	-	-	116,666	101,503
Interest receivable	-	3,300	-	(1,302)	-	-	14,406	167,876	-	-	-	-	184,280	73,470
Other receivables	222,766	22,962	73,755	14,922	355	415	-	472,059	10,375	13,697	(644,410)	-	186,896	652,764
Prepaid expenses and other assets	283,532	-	-	51,210	2,264	8,470	16,566	531,784	7,299	5,302	-	-	906,427	1,014,129
Total Current Assets	4,251,723	68,813	(243,031)	4,700,392	82,400	1,687,995	1,689,255	20,130,048	222,182	225,689	(644,410)	32,171,056	33,772,106	
NONCURRENT ASSETS														
Investments –														
board-designated endowment	2,231,761	-	-	-	-	-	-	-	-	-	-	-	2,231,761	1,977,470
Investments	8,063,502	-	-	639,912	-	-	-	2,870,105	-	-	-	-	11,573,519	11,412,056
Property and equipment, net	896,877	-	-	261,283	10,233	57,710	21,278	1,438,697	94,489	10,016	-	-	2,790,583	3,319,988
Other long-term assets	-	-	-	166,131	31,053	18,161	(346)	560,264	-	405	-	-	775,668	247,908
Loans receivable	50,000	126,667	-	-	-	-	-	-	-	-	-	-	176,667	86,334
Investment in subsidiary	195,337	-	9,800,346	-	-	-	-	-	-	-	(9,995,683)	-	-	-
Total Assets	\$15,689,200	\$195,480	\$ 9,557,315	\$ 5,767,718	\$ 123,686	\$ 1,763,866	\$ 1,710,187	\$24,999,114	\$316,671	\$236,110	\$ (10,640,093)	\$49,719,254	\$50,815,862	
CURRENT LIABILITIES														
Accounts payable and accrued expenses	\$ 571,844	\$ 143	\$ 37	\$ 456,493	\$ 69,264	\$ 141,522	\$ 22,323	\$ 652,038	\$ 61,418	\$344,083	\$ (644,410)	\$ 1,674,755	\$ 1,936,872	
Interest Payable	-	-	-	-	-	-	-	58,905	-	-	-	58,905	138,372	
Unearned revenue	-	-	-	-	-	-	65,559	1,346,240	-	-	-	1,411,799	1,643,139	
Current portion of notes payable	-	-	224,321	-	-	9,346	-	1,032,492	-	-	-	1,266,159	1,108,711	
Client deposits	-	-	-	1,527,088	6,778	262,853	-	18,228,866	-	-	-	20,025,585	21,197,271	
Security deposits and other liabilities	4,295	-	-	-	-	-	-	-	-	-	-	4,295	37,644	
Total Current Liabilities	576,139	143	224,358	1,983,581	76,042	413,721	87,882	21,318,541	61,418	344,083	(644,410)	24,441,498	26,062,009	
NOTES PAYABLE	-	-	150,000	-	-	-	-	-	-	-	-	150,000	898,820	
Total Liabilities	576,139	143	374,358	1,983,581	76,042	413,721	87,882	21,318,541	61,418	344,083	(644,410)	24,591,498	26,960,829	
NET ASSETS														
Unrestricted														
Operations	8,909,354	195,337	9,182,957	3,784,137	47,644	688,574	1,467,699	3,665,012	255,253	(107,973)	(9,995,683)	18,092,311	18,315,473	
Board-designated for endowment and operating reserve	2,586,635	-	-	-	-	-	-	-	-	-	-	2,586,635	2,150,470	
Noncontrolling interest	-	-	-	-	-	661,571	154,606	15,561	-	-	-	831,738	909,892	
Temporarily restricted	187,839	-	-	-	-	-	-	-	-	-	-	187,839	530,883	
Permanently restricted	3,429,233	-	-	-	-	-	-	-	-	-	-	3,429,233	1,948,315	
Total Net Assets	15,113,061	195,337	9,182,957	3,784,137	47,644	1,350,145	1,622,305	3,680,573	255,253	(107,973)	(9,995,683)	25,127,756	23,855,033	
Total Liabilities and Net Assets	\$15,689,200	\$195,480	\$ 9,557,315	\$ 5,767,718	\$ 123,686	\$ 1,763,866	\$ 1,710,187	\$24,999,114	\$316,671	\$236,110	\$ (10,640,093)	\$49,719,254	\$50,815,862	

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

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

(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, 2017 With Summarized Information For 2016

	HOPE ADVANCEMENT										Eliminating Entries	Consolidated	2016
	(a) HOPE International	HGIF	HOPE Advancement	HOPE Congo	HOPE DRC	Turame	HOPE Ukraine	Urwego	(b) SGP	(c) Other			
SUPPORT AND REVENUE													
Contributions	\$ 15,242,395	\$ -	\$ 3,691,124	\$ 296,920	\$ 31,976	\$ -	\$ 295,007	\$ 2,677,244	\$ 1,369,263	\$ 80,544	\$ (9,072,905)	\$ 14,611,568	\$ 14,178,093
Special events, net of direct expenses	2,851,473	-	-	-	-	-	-	-	-	61,908	-	2,913,381	1,982,805
Investment return designated for current operations	67,578	-	-	-	-	-	-	-	-	-	-	67,578	50,854
Interest income	5,169	10,451	-	2,152,587	183,691	673,363	539,207	5,387,198	-	7,436	-	8,959,102	3,432,298
Rental revenue	59,110	-	-	-	-	-	-	-	-	-	-	59,110	45,981
Less expenses (including depreciation)	(36,215)	-	-	-	-	-	-	-	-	-	-	(36,215)	(35,953)
Net rental income	22,895	-	-	-	-	-	-	-	-	-	-	22,895	10,028
Equity interest in income of microfinance institutions	(25,086)	-	(3,240,552)	-	-	-	-	-	-	-	3,265,638	-	(1,724,361)
Other income	216,766	-	325,000	470	4,179	7,170	1,771	197,096	-	361,784	(686,592)	427,644	10,941
Total support and revenue	18,381,190	10,451	775,572	2,449,977	219,846	680,533	835,985	8,261,538	1,369,263	511,672	(6,493,859)	27,002,168	17,940,658
FUNCTIONAL EXPENSES													
Program services	14,245,066	35,050	318,773	2,606,458	963,623	882,720	530,933	7,635,478	1,433,317	441,306	(5,911,520)	23,181,204	13,213,131
Management and general	1,377,313	487	639	-	-	-	-	-	-	47,376	(1,690)	1,424,125	1,248,897
Fundraising	2,023,388	-	-	-	-	-	-	-	-	55,589	-	2,078,977	1,912,955
Total expenses	17,645,767	35,537	319,412	2,606,458	963,623	882,720	530,933	7,635,478	1,433,317	544,271	(5,913,210)	26,684,306	16,374,983
OTHER CHANGES													
Investment return in excess (deficit) of amounts designated for operations	\$ 123,869	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 123,869	\$ 176,771
Gain/(loss) on foreign currency transactions	19,999	-	-	10,929	156,559	11,658	11,101	264,221	1,845	871	-	477,183	335,601
Gain (loss) on foreign currency translation	(359,352)	-	497,844	472,303	(159,670)	(67,255)	(54,470)	(102,998)	(6,136)	9,800	(136,257)	93,809	(626,812)
Gain (loss) on disposal of microfinance assets	(12,972)	-	(310,096)	-	-	-	-	-	-	-	323,068	-	-
Consideration returned/consideration paid in excess of the fair value of assets acquired	-	-	200,000	-	-	-	-	-	-	-	-	200,000	(498,453)
Total other changes	(228,456)	-	387,748	483,232	(3,111)	(55,597)	(43,369)	161,223	(4,291)	10,671	186,811	894,861	(612,893)
CHANGE IN NET ASSETS BEFORE CONTRIBUTED EQUITY AND PURCHASE DISTRIBUTION OF EQUITY INTERESTS	506,967	(25,086)	843,908	326,751	(746,888)	(257,784)	261,683	787,283	(68,345)	(21,928)	(393,838)	1,212,723	952,782
Equity contribution by noncontrolling shareholder	-	-	-	-	-	-	60,000	-	-	-	-	60,000	-
Noncontrolling interest related to acquisition of microfinance institutions	-	-	-	-	-	-	-	-	-	-	-	-	836,484
CHANGE IN NET ASSETS	506,967	(25,086)	843,908	326,751	(746,888)	(257,784)	321,683	787,283	(68,345)	(21,928)	(393,838)	1,272,723	1,789,266
NET ASSETS													
Beginning 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
End of year	\$ 15,113,061	\$ 195,337	\$ 9,182,957	\$ 3,784,137	\$ 47,644	\$ 1,350,145	\$ 1,622,305	\$ 3,680,573	\$ 255,253	\$ (107,973)	\$ (9,995,683)	\$ 25,127,756	\$ 23,855,033

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

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

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