

# **HOPE INTERNATIONAL**

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

**DECEMBER 31, 2018 AND 2017**

# HOPE INTERNATIONAL

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## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

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

We have audited the accompanying consolidated financial statements of HOPE International (a nonprofit organization) which comprise the consolidated statements of financial position as of December 31, 2018, and the related consolidated statements of activities, changes in net assets without donor restriction, functional expenses 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 Ukraine or Turame Community Finance S.A., subsidiaries, which statements reflect total assets of \$9,339,941, as of December 31, 2018 and total support and revenues of \$3,787,869, for the year then ended. Those statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of HOPE Congo, HOPE Ukraine and Turame Community Finance S.A., which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for HOPE Congo, HOPE Ukraine and Turame Community Finance S.A., prior to these conversion adjustments, is based solely on the report of the other auditors. Those statements were audited by other auditors in accordance with International Auditing Standards, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for HOPE Congo, HOPE Ukraine and Turame Community Finance S.A., is based solely on the report of, and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America performed by, the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

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, 2018, 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 2017 consolidated financial statements, and our report dated May 23, 2018, 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Matters**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental consolidating statement of financial position and consolidating statement of activities, on pages 26 and 27, are presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Tait, Weller & Baker LLP*

**Philadelphia, Pennsylvania  
June 28, 2019**

# HOPE INTERNATIONAL

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2018 And 2017

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents		
Cash held in the US	\$ 256,216	\$ 654,337
Cash held in the field	6,135,712	9,138,221
Contribution receivable	2,639,734	2,878,789
Short-term investments	6,885,850	6,888,761
Microfinance loans receivable, net	18,548,175	18,105,440
Loans receivable, net	353,334	116,666
Interest receivable	138,363	184,280
Other receivables	510,254	186,896
Prepaid expenses and other assets	<u>1,270,505</u>	<u>906,427</u>
<b>Total Current Assets</b>	36,738,143	39,059,817
<b>NONCURRENT ASSETS</b>		
Investments	8,320,982	6,916,519
Property and equipment, net	2,184,248	2,790,583
Other long-term assets	218,473	775,668
Loans receivable, net	<u>130,000</u>	<u>176,667</u>
<b>Total Assets</b>	<u>\$ 47,591,846</u>	<u>\$ 49,719,254</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,663,544	\$ 1,674,755
Interest payable	23,440	58,905
Unearned revenue	1,142,395	1,411,799
Current portion of notes payable	808,626	1,266,159
Client deposits	18,517,954	20,025,585
Security deposits and other liabilities	<u>5,615</u>	<u>4,295</u>
<b>Total Current Liabilities</b>	<u>22,161,574</u>	<u>24,441,498</u>
<b>NOTES PAYABLE</b>	<u>-</u>	<u>150,000</u>
<b>Total Liabilities</b>	<u>22,161,574</u>	<u>24,591,498</u>
<b>NET ASSETS</b>		
Without donor restrictions		
Net assets	17,337,752	18,092,311
Board-designated for endowment and operating reserve	2,883,700	2,586,635
Noncontrolling interest	<u>1,043,906</u>	<u>831,738</u>
<b>Total Net Assets Without Donor Restrictions</b>	21,265,358	21,510,684
Net assets with donor restrictions	<u>4,164,914</u>	<u>3,617,072</u>
<b>Total Net Assets</b>	<u>25,430,272</u>	<u>25,127,756</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 47,591,846</u>	<u>\$ 49,719,254</u>

# HOPE INTERNATIONAL

## CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2018 With Summarized Information For 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2017</u>
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 9,301,366	\$ 6,944,935	\$ 16,246,301	\$ 14,611,568
Special events, net of direct expenses of \$515,761 and \$508,089 for 2018 and 2017	2,368,079	109,916	2,477,995	2,913,381
Investment return designated for current operations	-	86,710	86,710	67,578
Interest income	8,593,483	-	8,593,483	8,959,102
Rental revenue	62,966	-	62,966	59,110
Less expenses (including depreciation)	<u>(37,482)</u>	<u>-</u>	<u>(37,482)</u>	<u>(36,215)</u>
Net rental income	<u>25,484</u>	<u>-</u>	<u>25,484</u>	<u>22,895</u>
Other income	<u>179,130</u>	<u>-</u>	<u>179,130</u>	<u>427,644</u>
<b>Total support and revenue before net assets released from restrictions</b>	20,467,542	7,141,561	27,609,103	27,002,168
Net assets released from restrictions	<u>6,503,944</u>	<u>(6,503,944)</u>	<u>-</u>	<u>-</u>
<b>Total support and revenue</b>	<u>26,971,486</u>	<u>637,617</u>	<u>27,609,103</u>	<u>27,002,168</u>
<b>FUNCTIONAL EXPENSES</b>				
Program services	23,428,091	-	23,428,091	23,181,235
Management and general	1,641,672	-	1,641,672	1,424,125
Fundraising	<u>2,293,274</u>	<u>-</u>	<u>2,293,274</u>	<u>2,078,946</u>
<b>Total expenses</b>	<u>27,363,037</u>	<u>-</u>	<u>27,363,037</u>	<u>26,684,306</u>
<b>Excess of revenues over expenses</b>	<u>(391,551)</u>	<u>637,617</u>	<u>246,066</u>	<u>317,862</u>
<b>OTHER CHANGES</b>				
Investment return in excess (deficit) of amounts designated for current operations	55,008	(89,775)	(34,767)	123,869
Net realized gain on foreign currency transactions	209,021	-	209,021	477,183
(Loss) gain on foreign currency translation	(331,804)	-	(331,804)	93,809
Consideration returned/consideration paid in excess of the fair value of assets acquired	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
<b>Total other changes</b>	<u>(67,775)</u>	<u>(89,775)</u>	<u>(157,550)</u>	<u>894,861</u>
<b>CHANGE IN NET ASSETS BEFORE CONTRIBUTED EQUITY ACQUIRED AND PURCHASE OF EQUITY INTERESTS</b>	(459,326)	547,842	88,516	1,212,723
Equity contribution by noncontrolling shareholder	<u>214,000</u>	<u>-</u>	<u>214,000</u>	<u>60,000</u>
<b>CHANGE IN NET ASSETS</b>	<u>(245,326)</u>	<u>547,842</u>	<u>302,516</u>	<u>1,272,723</u>
<b>NET ASSETS</b>				
Beginning of year	<u>21,510,684</u>	<u>3,617,072</u>	<u>25,127,756</u>	<u>23,855,033</u>
End of year	<u>\$ 21,265,358</u>	<u>\$ 4,164,914</u>	<u>\$ 25,430,272</u>	<u>\$ 25,127,756</u>

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

# HOPE INTERNATIONAL

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS

Years Ended December 31, 2018 And 2017

	<u>HOPE</u>	<u>Non-Controlling Interest In Microfinance Entities</u>	<u>Total</u>
Net assets without donor restrictions, December 31, 2016	<u>\$ 20,465,943</u>	<u>\$ 909,892</u>	<u>\$ 21,375,835</u>
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 net assets without donor restrictions	<u>213,003</u>	<u>(78,154)</u>	<u>134,849</u>
Net assets without donor restrictions, December 31, 2017	<u>20,678,946</u>	<u>831,738</u>	<u>21,510,684</u>
Equity contribution by noncontrolling shareholder	-	214,000	214,000
Deficit of revenues over expenses	<u>(457,494)</u>	<u>(1,832)</u>	<u>(459,326)</u>
Change in net assets without donor restrictions	<u>(457,494)</u>	<u>212,168</u>	<u>(245,326)</u>
Net assets without donor restrictions, December 31, 2018	<u>\$ 20,221,452</u>	<u>\$ 1,043,906</u>	<u>\$ 21,265,358</u>

# HOPE INTERNATIONAL

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2018

	<b>Program Services</b>			<b>Management And</b>		
	<b>Overseas Entities</b>	<b>United States Entities</b>	<b>Total</b>	<b>General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 5,572,080	\$ 2,909,430	\$ 8,481,510	\$ 927,530	\$1,196,350	\$10,605,390
Payroll taxes	459,165	271,628	730,793	76,764	94,585	902,142
Employee benefits	511,566	730,211	1,241,777	233,244	309,917	1,784,938
Other staff expenses	458,271	411,920	870,191	120,601	108,894	1,099,686
Insurance	53,233	15,862	69,095	765	346	70,206
Professional services	997,213	651,760	1,648,973	98,687	136,012	1,883,672
Office expenses	2,114,450	232,920	2,347,370	80,413	67,858	2,495,641
Marketing	-	49,819	49,819	1,493	147,611	198,923
Travel	607,544	531,067	1,138,611	12,863	75,198	1,226,672
Finance expenses – interest and fees	734,557	5,261	739,818	66,175	73	806,066
Depreciation	546,816	152,038	698,854	6,333	19,897	725,084
Printing and reproduction	160,567	15,861	176,428	153	108,419	285,000
Loan loss reserve/(recapture), net	663,965	(6,667)	657,298	-	-	657,298
Other expenses	490,519	49,525	540,044	16,626	28,114	584,784
Grants to partners	1,695,894	1,636,898	3,332,792	25	-	3,332,817
Tax benefit, net	<u>704,718</u>	<u>-</u>	<u>704,718</u>	<u>-</u>	<u>-</u>	<u>704,718</u>
	<u>\$15,770,558</u>	<u>\$7,657,533</u>	<u>\$23,428,091</u>	<u>\$1,641,672</u>	<u>\$2,293,274</u>	<u>\$27,363,037</u>

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



# HOPE INTERNATIONAL

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – (Continued)

Year Ended December 31, 2017

	<b>Program Services</b>			<b>Management And</b>		
	<b>Overseas Entities</b>	<b>United States Entities</b>	<b>Total</b>	<b>General</b>	<b>Fundraising</b>	<b>Total</b>
Salaries	\$ 5,859,958	\$ 2,676,285	\$ 8,536,243	\$ 806,787	\$1,074,417	\$10,417,447
Payroll taxes	413,919	240,930	654,849	65,932	85,149	805,930
Employee benefits	475,279	656,703	1,131,982	179,688	234,621	1,546,291
Other staff expenses	367,825	404,379	772,204	89,891	90,969	953,064
Insurance	49,380	3,033	52,413	13,014	449	65,876
Professional services	1,258,000	265,928	1,523,928	34,819	67,824	1,626,571
Office expenses	2,206,657	232,350	2,439,007	68,899	68,326	2,576,232
Marketing	2	40,035	40,037	951	164,232	205,220
Travel	545,019	617,953	1,162,972	26,321	93,317	1,282,610
Finance expenses – interest and fees	869,963	6,575	876,538	62,154	100	938,792
Depreciation	613,903	103,559	717,462	6,480	21,190	745,132
Printing and reproduction	140,460	17,181	157,641	109	84,422	242,172
Loan loss reserve/(recapture), net	1,154,799	353,000	1,507,799	-	-	1,507,799
Other expenses	1,092,827	223,817	1,316,644	67,288	93,738	1,477,670
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>\$7,225,546</u>	<u>\$23,181,235</u>	<u>\$1,424,125</u>	<u>\$2,078,946</u>	<u>\$26,684,306</u>

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

# HOPE INTERNATIONAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31, 2018 And 2017

	<u>2018</u>	<u>2017</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 302,516	\$ 1,272,723
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized loss on investments	229,394	13,653
Loan loss reserve, net	72,939	(1,301,972)
Depreciation	741,082	761,130
Loss on disposal of fixed assets	76,433	254,204
Contributions restricted for endowment	(667,062)	(1,417,229)
Equity contribution from noncontrolling shareholder	(214,000)	(60,000)
(Increase) decrease in operating assets		
Contributions receivable	239,055	(231,014)
Prepaid expenses and other assets	(364,078)	107,702
Interest receivable	45,917	(110,810)
Other long-term assets	557,195	(527,760)
Other receivables	(323,358)	465,868
Increase (decrease) in operating liabilities		
Unearned revenue	(269,404)	(231,340)
Interest payable	(35,465)	(79,467)
Accounts payable and accrued expenses	(11,211)	(262,117)
Client deposits	(1,507,631)	(1,171,686)
Security deposits and other liabilities	<u>1,320</u>	<u>(33,349)</u>
<b>Net cash used in operating activities</b>	<u>(1,126,358)</u>	<u>(2,551,464)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(253,675)	(576,780)
Proceeds from sale of fixed assets	42,495	90,851
Purchase of investments	(19,990,619)	(6,546,455)
Proceeds from sale of investments	18,359,673	6,117,048
Repayment (issuance) of microfinance loans, net	(522,341)	4,439,055
Issuance of notes receivable	(300,000)	(50,000)
Repayment of notes receivable	<u>116,666</u>	<u>101,504</u>
<b>Net cash (used in) provided by investing activities</b>	<u>(2,547,801)</u>	<u>3,575,223</u>
<b>FINANCING ACTIVITIES</b>		
Repayments of notes payable, net	(607,533)	(591,372)
Contributions restricted for endowments	667,062	1,417,229
Equity contribution from noncontrolling shareholder	<u>214,000</u>	<u>60,000</u>
<b>Net cash provided by financing activities</b>	<u>273,529</u>	<u>885,857</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	(3,400,630)	1,909,616
<b>CASH AND CASH EQUIVALENT</b>		
Beginning of year	<u>9,792,558</u>	<u>7,882,942</u>
End of year	<u>\$ 6,391,928</u>	<u>\$ 9,792,558</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 557,598</u>	<u>\$ 825,578</u>

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

# HOPE INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018 And 2017

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### (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, the Dominican Republic, East Asia, Haiti, Malawi, Moldova, Paraguay, 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. During 2018, operations were terminated.
- (iii) HOPE Ukraine is a majority-owned (81.01%) 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.

Dignity Builders, a subsidiary of Homes for Hope (**Note 12**), had a noncontrolling interest in HOPE Ukraine of 9.06% and 9.53% as of December 31, 2018 and 2017, respectively. In 2018, Tomorrow Clubs International, using funds loaned by HA, made an equity contribution for a noncontrolling interest of 9.93%.

# HOPE INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

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- (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 (51%) microfinance institution registered in Burundi as a for-profit public limited company and is regulated by the Bank of the Republic of Burundi.
- (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 2018 and 2017, HOPE made equity contributions that were unmatched which increased their equity interest to 99.67% and 99.58%, respectively.

- (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.
- (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.
- (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.
- (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.
- (xii) HOPE Zimbabwe SGP is a wholly owned entity registered in Zimbabwe as a non-governmental organization which provides training and oversight in the creation and execution of savings and credit associations in Zimbabwe. HOPE Zimbabwe commenced operations in 2018.

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, 2018 And 2017

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### (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, 2018 And 2017

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### **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**

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. All contributions are considered available for unrestricted use, unless specifically restricted by the donor. Accordingly, net assets of HOPE and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions** – Net assets available for use that are not subject to donor-imposed stipulations.

The Board of Directors designated \$2,883,700 and \$2,586,635 of funds for investment as of December 31, 2018 and 2017, respectively (**Note 11**). The investment income on board-designated endowment funds are to be used for operations.

**Net Assets With Donor Restrictions** – Net assets subject to donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed stipulations are perpetual in nature where the donor stipulated that they be maintained in perpetuity by HOPE. Those held in perpetuity include gifts 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 (2015 – 2017) as well as the expected position of HOPE's 2018 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, HOPE Zimbabwe 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, 2018 And 2017

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### **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, net assets with donor restrictions are then classified to net assets without donor restrictions 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 four subsidiaries and maintains net assets in six 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 \$10,103,577 and \$11,104,179, including \$18,548,175 and \$18,105,440 of microfinance loans at December 31, 2018 and 2017, respectively.

# HOPE INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

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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, 2018 with an original loan term greater than one year were approximately \$6,569,307 and \$961,288, 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, 2018 and 2017, was a decrease and increase to net assets of \$331,804 and \$93,809 respectively.

### **PRIOR YEAR INFORMATION**

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with HOPE's audited financial statements for the year ended December 31, 2017, from which the summarized information was derived.

### **RECLASSIFICATION**

Certain account balances in the 2017 financial statements presentation have been reclassified to conform to the 2018 presentation.



# HOPE INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

### **NOT-FOR-PROFIT FINANCIAL STATEMENT PRESENTATION**

During 2018, HOPE adopted ASU No. 2016-14 – *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net asset without donor restrictions, liquidity, and expenses by both their natural and functional classification.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 follow:

<u>Net Assets Classifications</u>	<u>ASU 2016-14 Classifications</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total Net Assets</u>
As previously presented:			
Unrestricted	\$21,510,684	\$ -	\$ 21,510,684
Temporarily Restricted	-	187,839	187,839
Permanently Restricted	-	3,429,233	3,429,233
	<u>\$21,510,684</u>	<u>\$3,617,072</u>	<u>\$25,127,756</u>

### **NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update will assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and determining whether a transaction is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2018. The ASU should be applied using a modified prospective basis. HOPE plans to adopt the new ASU at the required implementation date.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 31, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. HOPE plans to adopt the new ASU at the required implementation date.

### **(3) CONTRIBUTION RECEIVABLE**

HOPE had pledges receivable totaling \$2,639,734 and \$2,878,789 at December 31, 2018 and 2017. The total amount is expected to be collected within one year.

# HOPE INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

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### (4) MICROFINANCE LOANS

HOPE, through wholly owned microfinance institutions operating separately in Ukraine, Russia, 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, 2018 and 2017, by location consist of the following:

	<u>2018</u>	<u>2017</u>
Ukraine	\$ 1,531,896	\$ 1,207,697
Republic of Congo	4,723,138	4,244,298
Burundi	1,404,848	1,143,046
Rwanda	<u>12,124,520</u>	<u>12,667,020</u>
	19,784,402	19,262,061
Less: allowance for doubtful accounts	<u>1,236,227</u>	<u>1,156,621</u>
	<u>\$ 18,548,175</u>	<u>\$ 18,105,440</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, Burundi and Rwanda have a compulsory savings component. This savings requirement can be applied towards balances in default. The \$18,517,954 and \$20,025,585 of client deposits as of December 31, 2018 and 2017 includes voluntary and compulsory savings.

The loan value of microfinance loans that were classified as nonperforming was \$932,185 and \$1,058,960 at December 31, 2018 and 2017 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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 1,156,621	\$ 2,301,593
Provision for loan losses	807,027	1,592,296
Loans written off	(683,505)	(2,636,218)
Currency translation adjustment	<u>(43,916)</u>	<u>(101,050)</u>
	<u>\$ 1,236,227</u>	<u>\$ 1,156,621</u>

# HOPE INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

### (5) LONG-TERM INVESTMENTS

A summary of investments at December 31, 2018 and 2017 is as follows:

	<b>2018</b>		<b>2017</b>	
	<b><u>Cost</u></b>	<b><u>Market</u></b>	<b><u>Cost</u></b>	<b><u>Market</u></b>
Money market funds	\$ 355,185	\$ 354,861	\$ 340,198	\$ 340,198
Fixed income:				
Domestic certificates of deposit	250,000	250,000	250,000	250,000
Foreign certificates of deposits	1,875,229	1,875,229	660,422	660,422
Foreign government bonds	2,906,341	2,906,341	2,849,596	2,849,596
Corporate bonds	7,184,473	7,048,532	7,341,983	7,266,988
Municipal bonds	-	-	778,556	774,548
Preferred securities	-	-	444,315	471,852
US Treasury bonds	500,000	488,163	554,240	521,330
Equities	512,985	502,660	243,237	159,471
Exchange traded funds	154,778	144,267	-	-
Mutual funds	1,359,978	1,285,799	109,213	102,258
Master limited partnerships	93,904	50,980	121,622	108,617
Mortgage receivable	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
	<u>\$ 15,492,873</u>	15,206,832	<u>\$ 13,993,382</u>	13,805,280
Less: short-term		<u>6,885,850</u>		<u>6,888,761</u>
Long-term investment		<u>\$ 8,320,982</u>		<u>\$ 6,916,519</u>

Investments are comprised of the following net assets:

	<b><u>2018</u></b>	<b><u>2017</u></b>
Endowment assets:		
Board-designated for investment and operating reserve	\$ 2,863,464	\$ 2,231,761
Funds to be held in perpetuity	<u>4,006,520</u>	<u>3,851,342</u>
	6,869,984	6,083,103
General investments (short and long-term)	<u>8,336,848</u>	<u>7,722,177</u>
	<u>\$ 15,206,832</u>	<u>\$ 13,805,280</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 endowment funds with and without donor restrictions. 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, 2018 And 2017

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

	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Dividends and interest	\$ 107,917	\$ 173,420	\$ 281,337
Net realized and unrealized losses	<u>(52,909)</u>	<u>(176,485)</u>	<u>(229,394)</u>
Return on investments	55,008	(3,065)	51,943
Less: Investment return designated for current operations	<u>-</u>	<u>86,710</u>	<u>86,710</u>
Investment return in excess (deficit) of amounts designated for current operations	<u>\$ 55,008</u>	<u>\$ (89,775)</u>	<u>\$ (34,767)</u>

  

	2017		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Dividends and interest	\$ 69,944	\$ 135,156	\$ 205,100
Net realized and unrealized losses	<u>(9,764)</u>	<u>(3,889)</u>	<u>(13,653)</u>
Return on investments	60,180	131,267	191,447
Less: Investment return designated for current operations	<u>-</u>	<u>67,578</u>	<u>67,578</u>
Investment return in excess of amounts designated for current operations	<u>\$ 60,180</u>	<u>\$ 63,689</u>	<u>\$ 123,869</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.

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

# HOPE INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

### December 31, 2018 And 2017

The summary of inputs used to value HOPE's investments as of December 31, 2018 and 2017, is as follows:

	2018		
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>
<b>Investments</b>			
Money market funds	\$ 354,861	\$ 354,861	\$ -
Fixed income:			
Domestic certificates of deposits	250,000	-	250,000
Foreign certificates of deposits	1,875,229	-	1,875,229
Foreign government bonds	2,906,341	-	2,906,341
Corporate bonds	7,048,532	-	7,048,532
US Treasury bonds	488,163	-	488,163
Equities	502,660	502,660	-
Exchange traded funds	144,267	144,267	-
Mutual funds	1,285,799	1,285,799	-
Master limited partnership	50,980	50,980	-
Mortgage receivable	<u>300,000</u>	<u>-</u>	<u>300,000</u>
	<u>\$ 15,206,832</u>	<u>\$ 2,338,567</u>	<u>\$ 12,868,265</u>
	2017		
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>
<b>Investments</b>			
Money market funds	\$ 340,198	\$ 340,198	\$ -
Fixed income:			
Domestic certificates of deposits	250,000	-	250,000
Foreign certificates of deposits	660,422	-	660,422
Foreign government bonds	2,849,596	-	2,849,596
Corporate bonds	7,266,988	-	7,266,988
Municipal bonds	774,548	-	774,548
Preferred securities	471,852	-	471,852
US Treasury bonds	521,330	-	521,330
Equities	159,471	159,471	-
Mutual funds	102,258	102,258	-
Master limited partnership	108,617	108,617	-
Mortgage receivable	<u>300,000</u>	<u>-</u>	<u>300,000</u>
	<u>\$ 13,805,280</u>	<u>\$ 710,544</u>	<u>\$ 13,094,736</u>

There were no transfers between Level 1 and 2 for the years ended December 31, 2018 and 2017.

The carrying value of the mortgage receivable approximates fair value.

# HOPE INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

### (7) PROPERTY

Property and equipment as of December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Equipment and computer software	\$ 4,758,473	\$ 4,733,116
Leasehold improvements	1,284,860	1,298,072
Rental properties		
Buildings and improvements	478,759	478,759
Other	<u>6,112</u>	<u>107,360</u>
	6,528,204	6,617,307
Less: accumulated depreciation	<u>4,343,956</u>	<u>3,826,724</u>
	<u>\$ 2,184,248</u>	<u>\$ 2,790,583</u>

Depreciation expense was \$741,082 for the year ended December 31, 2018, of which \$15,998 is included within rental properties expense. Depreciation expense for the year ended December 31, 2017 was \$761,130 of which \$15,998 is included within rental properties.

### (8) LOANS RECEIVABLE

Loans receivable as of December 31, 2018 and 2017 consisted of the following:

<u>BORROWER</u>	<u>TERMS</u>	<u>Interest Rate</u>	<u>2018</u>	<u>2017</u>
<b>Center for Community Transformation (CCT)</b>	Interest free loan due December 2018	0%	\$ -	\$ 100,000
	Interest free loan due December 2020	0%	50,000	50,000
<b>Kaibigang Maaasahan Multi-purpose Coop (KMMC)</b>	Interest free loan due December 2023 with annual payments commencing in December 2019	0%	100,000	-
<b>Tomorrow Clubs International</b>	Interest free loan due on demand	0%	200,000	
<b>ROMCOM (Romania)</b>	\$200,000 due September 2019 with quarterly payments commencing in March 2017.	5.40%	<u>166,667</u>	<u>183,333</u>
			516,667	333,333
	Less: current portion		<u>353,334</u>	<u>116,666</u>
			163,333	216,667
	Less: allowance for doubtful accounts		<u>33,333</u>	<u>40,000</u>
			<u>\$ 130,000</u>	<u>\$ 176,667</u>

At December 31, 2018, loans receivable maturities were as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2019	\$386,667
2020	70,000
2021	20,000
2022	20,000
2023	<u>20,000</u>
	<u>\$516,667</u>

# HOPE INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

### (9) CLIENT DEPOSITS

Client deposits as of December 31, 2018 and 2017 consist of:

	<u>2018</u>	<u>2017</u>
Demand	\$ 17,132,757	\$ 16,785,322
Term	<u>1,385,197</u>	<u>3,240,263</u>
	<u>\$ 18,517,954</u>	<u>\$ 20,025,585</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%.

### (10) NOTES PAYABLE

Notes payable as of December 31, 2018 and 2017 consisted of the following:

<u>LENDER</u>	<u>TERMS</u>	<u>2018</u>	<u>2017</u>
<b>HOPE Advancement</b> Kiva	Unsecured zero interest rate loan due upon demand	\$ 119,088	\$ 224,321
Arise Foundation	Unsecured zero interest rate loan	150,000	150,000
<b>Turame</b> Kiva	Unsecured zero interest rate loan due upon demand.	-	9,346
<b>Urwego</b> Kiva	Unsecured zero interest rate loan due upon demand.	<u>539,538</u>	<u>1,032,492</u>
	Less: current portion	808,626 <u>808,626</u> \$ -	1,416,159 <u>1,266,159</u> <u>\$ 150,000</u>

At December 31, 2018, notes payable maturities were as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2019	<u>\$808,626</u>

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

As of December 31, 2018 and 2017, 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, 2018 and 2017. 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 2018 and 2017. 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, 2018 And 2017

### (11) NET ASSETS

Net assets with donor restrictions are available for the following purposes as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for a specified purpose:		
Programs – Microfinance		
Romania	\$ 13,472	\$ -
Undesignated	136,978	88,924
Programs – Savings Group Program		
Malawi SGP	3,762	98,915
Zambia SGP	<u>4,182</u>	<u>-</u>
	158,394	187,839
Perpetual in nature		
HI Loan Endowment	<u>4,006,520</u>	<u>3,429,233</u>
Total	<u>\$ 4,164,914</u>	<u>\$ 3,617,072</u>

During the year ended December 31, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the following purposes:

	<u>2018</u>	<u>2017</u>
Programs – Microfinance		
Democratic Republic of Congo	\$ -	\$ 150,655
Burundi	64,555	66,705
Dominican Republic	209,046	55,909
East Asia	261,272	113,497
Haiti	58	300
Moldova	13,539	31,684
Paraguay	23,965	-
Philippines	15,848	13,249
Republic of Congo	243,919	187,566
Rwanda	894,097	252,752
Ukraine	467,968	182,944
Romania	90,367	3,044
Programs – Savings Group Program		
Burundi SGP	882,693	719,231
Haiti SGP	465,340	192,331
Rwanda SGP	1,041,367	652,142
South Asia SGP	456,727	671,388
Zambia SGP	249,478	502,702
Zimbabwe SGP	138,634	111,824
Peru SGP	26,809	123,981
Philippines SGP	56,692	22,869
Malawi SGP	524,642	882,697
Tomorrow Clubs		
Russia	-	2,441
HOPE Trips	51,226	152,094
Education	60,097	101,290
Spiritual Integration	-	97,599
Other	<u>265,605</u>	<u>135,303</u>
	<u>\$ 6,503,944</u>	<u>\$ 5,426,197</u>



# HOPE INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2018 And 2017

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Endowment net asset composition by type of fund as of December 31, 2018 and 2017:

	<b>2018</b>		
	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total</u></b>
Donor restricted endowment funds	\$ -	\$ 4,006,520	\$ 4,006,520
Board-designated for endowment and operating reserve	<u>2,883,700</u>	<u>-</u>	<u>2,883,700</u>
	<u>\$ 2,883,700</u>	<u>\$ 4,006,520</u>	<u>\$ 6,890,220</u>

  

	<b>2017</b>		
	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total</u></b>
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>2,586,635</u>
	<u>\$ 2,586,635</u>	<u>\$ 3,429,233</u>	<u>\$ 6,015,868</u>

During 2017, HOPE received a bequest from an estate which a donor 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. A settlement was reached during 2018 and the reserve was recognized as a contribution.

HOPE classifies the original value of gifts received with donor stipulations that require them to be held in perpetuity. In 2018 and 2017, interest and dividends earned on donor restricted endowment funds which are paid in cash are allocated 50% to donor restricted purposes that are temporary in nature and 50% to be held in perpetuity as stipulated by the donor. In addition, realized and unrealized gains and losses are to be classified as donor restricted in perpetuity. HOPE's Board may also designate certain revenues without restrictions to function as endowment funds; such revenues are classified within net assets without restrictions as board-designated for endowment and operating reserve.

# HOPE INTERNATIONAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

### December 31, 2018 And 2017

Changes in endowment net assets for the year ended December 31, 2018 and 2017:

	2018		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,586,635	\$ 3,429,233	\$ 6,015,868
Investment return	(497)	(3,065)	(3,562)
Contributions	-	667,062	667,062
Transfers to Board-designated net assets	297,562	-	297,562
Less: Endowment income designated for current operations	<u>-</u>	<u>(86,710)</u>	<u>(86,710)</u>
	<u>\$ 2,883,700</u>	<u>\$ 4,006,520</u>	<u>\$ 6,890,220</u>

  

	2017		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,150,470	\$ 1,948,315	\$ 4,098,785
Investment return	32,348	131,267	163,615
Contributions	-	1,417,229	1,417,229
Transfers to Board-designated net assets	403,817	-	403,817
Less: Endowment income designated for current operations	<u>-</u>	<u>(67,578)</u>	<u>(67,578)</u>
	<u>\$ 2,586,635</u>	<u>\$ 3,429,233</u>	<u>\$ 6,015,868</u>

In conjunction with an endowment gift received from a donor, HOPE pledged to contribute 2% of contributions without donor restrictions as board designated net assets. In accordance with this practice, HOPE Board-designated \$203,807 and \$182,000 of contributions without donor restrictions in 2018 and 2017, respectively. In 2018 and 2017, HOPE also designated \$93,755 and \$221,817, respectively as board-designated for endowment and operating reserve.

### (12) RELATED PARTY TRANSACTIONS

During the years ended December 31, 2018 and 2017, HOPE received \$710,000 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, 2018 and 2017, 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, 2018 And 2017

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### (13) RETIREMENT PLAN

HOPE has a 401(k) plan that was a deferred salary arrangement under section 401(k) of the Internal Revenue Code. Under the plan, participating U.S. employees may defer a portion of their pre-tax earnings, up to the IRS annual contribution limits. 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 plan were \$233,247 and \$210,667 in 2018 and 2017, respectively.

### (14) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects HOPE's financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions or internal board designations.

	<u>2018</u>
Financial Assets:	
Cash and cash equivalents	\$ 6,391,928
Contributions receivable	2,639,734
Short-term investments	6,885,850
Microfinance loans receivable and related interest	18,683,539
Current loans receivable and interest	356,333
Other receivable	510,254
Investments – non-current	<u>8,320,982</u>
Total financial assets available	43,788,620
Less:	
Net assets with donor restrictions	(4,164,914)
Board-designated net assets	<u>(2,883,700)</u>
Total financial assets available within one year	<u>\$ 36,740,006</u>

As part of HOPE's liquidity management, it has a practice to structure its financial assets to be available as its general expenditure, liabilities and other obligations come due. HOPE has board-designated endowment and operating reserves in the amount of \$2,883,700 which could be made available, if necessary, with Board approval. In addition, HOPE maintains a line of credit with a bank in the amount of \$950,000 which can be drawn upon if needed.

### (15) SUBSEQUENT EVENTS

Subsequent events after the date of the statement of financial position through the date that the financial statements were available for issuance, June 28, 2019, have been evaluated in the preparation of the financial statements and management has determined that there are no subsequent events that would required disclosure or adjustment in the financial statements.

## **SUPPLEMENTAL INFORMATION**

# HOPE INTERNATIONAL

## CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2018 With Summarized Information As Of December 31, 2017

	HOPE ADVANCEMENT													
	(a) HOPE International	HGIF	HOPE Advancement	HOPE Congo	HOPE DRC	Turame	HOPE Ukraine	Urwego	(b) SGP	(c) Other	Eliminating Entries	Consolidated	2017	
CURRENT ASSETS														
Cash and cash equivalents – US	\$ 247,793	\$ 2,720	\$ 5,703	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 256,216	\$ 654,337	
Cash and cash equivalents – field	122,223	-	-	61,157	-	673,220	489,869	4,196,792	446,147	146,304	-	6,135,712	9,138,221	
Contribution receivable	2,625,673	-	-	-	-	-	-	-	-	14,061	-	2,639,734	2,878,789	
Short-term investments	3,305,279	-	-	523,662	-	-	-	3,056,909	-	-	-	6,885,850	6,888,761	
Microfinance loans receivable, net	-	-	(318,000)	4,149,152	-	1,378,958	1,498,728	11,839,337	-	-	-	18,548,175	18,105,440	
Loans receivable, net	-	-	1,087,955	-	-	-	-	-	-	-	(734,621)	353,334	116,666	
Interest receivable	-	-	3,000	13,212	-	-	17,862	104,289	-	-	-	138,363	184,280	
Other receivables	769,366	-	(5,452)	15,941	-	1,654	-	339,030	34,850	17,506	(662,641)	510,254	186,896	
Prepaid expenses and other assets	714,150	-	-	22,561	-	11,566	12,592	494,335	8,575	6,726	-	1,270,505	906,427	
Total Current Assets	7,784,484	2,720	773,206	4,785,685	-	2,065,398	2,019,051	20,030,692	489,572	184,597	(1,397,262)	36,738,143	39,059,817	
NONCURRENT ASSETS														
Investments	7,119,982	-	-	-	-	-	-	1,201,000	-	-	-	8,320,982	6,916,519	
Property and equipment, net	809,124	-	-	191,764	-	46,845	62,488	979,437	87,090	7,500	-	2,184,248	2,790,583	
Other long-term assets	-	-	-	151,066	-	17,743	(99)	47,903	1,471	389	-	218,473	775,668	
Loans receivable	-	-	130,000	-	-	-	-	-	-	-	-	130,000	176,667	
Investment in subsidiary	2,720	-	8,644,088	-	-	-	-	-	-	-	(8,646,808)	-	-	
Total Assets	\$15,716,310	\$ 2,720	\$ 9,547,294	\$ 5,128,515	\$ -	\$ 2,129,986	\$ 2,081,440	\$22,259,032	\$578,133	\$ 192,486	\$ (10,044,070)	\$47,591,846	\$49,719,254	
CURRENT LIABILITIES														
Accounts payable and accrued expenses	\$ 602,497	\$ -	\$ 36	\$ 610,441	\$ -	\$ 118,920	\$ 31,585	\$ 585,793	\$ 92,982	\$ 283,931	\$ (662,641)	\$ 1,663,544	\$ 1,674,755	
Interest Payable	-	-	-	-	-	-	-	23,440	-	-	-	23,440	58,905	
Unearned revenue	-	-	-	-	-	-	80,098	1,062,297	-	-	-	1,142,395	1,411,799	
Current portion of notes payable	-	-	269,088	322,576	-	412,045	-	539,538	-	-	(734,621)	808,626	1,266,159	
Client deposits	-	-	-	1,546,779	-	254,166	-	16,717,009	-	-	-	18,517,954	20,025,585	
Security deposits and other liabilities	5,615	-	-	-	-	-	-	-	-	-	-	5,615	4,295	
Total Current Liabilities	608,112	-	269,124	2,479,796	-	785,131	111,683	18,928,077	92,982	283,931	(1,397,262)	22,161,574	24,441,498	
NOTES PAYABLE	-	-	-	-	-	-	-	-	-	-	-	-	150,000	
Total Liabilities	608,112	-	269,124	2,479,796	-	785,131	111,683	18,928,077	92,982	283,931	(1,397,262)	22,161,574	24,591,498	
NET ASSETS														
Without donor restrictions														
Operations	8,059,584	2,720	9,278,170	2,648,719	-	685,875	1,595,700	3,320,086	485,151	(91,445)	(8,646,808)	17,337,752	18,092,311	
Board-designated for endowment and operating reserve	2,883,700	-	-	-	-	-	-	-	-	-	-	2,883,700	2,586,635	
Noncontrolling interest	-	-	-	-	-	658,980	374,057	10,869	-	-	-	1,043,906	831,738	
With donor restrictions	4,164,914	-	-	-	-	-	-	-	-	-	-	4,164,914	3,617,072	
Total Net Assets	15,108,198	2,720	9,278,170	2,648,719	-	1,344,855	1,969,757	3,330,955	485,151	(91,445)	(8,646,808)	25,430,272	25,127,756	
Total Liabilities and Net Assets	\$15,716,310	\$ 2,720	\$ 9,547,294	\$ 5,128,515	\$ -	\$ 2,129,986	\$ 2,081,440	\$22,259,032	\$578,133	\$ 192,486	\$ (10,044,070)	\$47,591,846	\$49,719,254	

(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, Zambia SGP and Zimbabwe 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, 2018 With Summarized Information For 2017

	HOPE ADVANCEMENT										Eliminating Entries	Consolidated	2017
	(a) HOPE International	HGIF	HOPE Advancement	HOPE Congo	HOPE DRC	Turame	HOPE Ukraine	Urwego	(b) SGP	(c) Other			
<b>SUPPORT AND REVENUE</b>													
Contributions	\$ 17,357,599	\$ -	\$ 4,283,881	\$ -	\$ (3,694)	\$ 3,956	\$ 91,068	\$ 1,626,460	\$ 2,114,445	\$ 157,538	\$ (9,384,952)	\$ 16,246,301	\$ 14,611,568
Special events, net of direct expenses	2,436,663	-	-	-	-	-	-	-	-	41,332	-	2,477,995	2,913,381
Investment return designated for current operations	86,710	-	-	-	-	-	-	-	-	-	-	86,710	67,578
Interest income	19,654	6,425	3,000	2,241,736	-	828,668	701,044	4,790,106	-	2,850	-	8,593,483	8,959,102
Rental revenue	62,966	-	-	-	-	-	-	-	-	-	-	62,966	59,110
Less expenses (including depreciation)	(37,482)	-	-	-	-	-	-	-	-	-	-	(37,482)	(36,215)
Net rental income	25,484	-	-	-	-	-	-	-	-	-	-	25,484	22,895
Equity interest in income of microfinance institutions	(192,615)	-	(3,801,543)	-	-	-	-	-	-	-	3,994,158	-	-
Other income	44,988	-	-	248	601	14,892	1,281	121,128	606	448,213	(452,827)	179,130	427,644
<b>Total support and revenue</b>	<b>19,778,483</b>	<b>6,425</b>	<b>485,338</b>	<b>2,241,984</b>	<b>(3,093)</b>	<b>847,516</b>	<b>793,393</b>	<b>6,537,694</b>	<b>2,115,051</b>	<b>649,933</b>	<b>(5,843,621)</b>	<b>27,609,103</b>	<b>27,002,168</b>
<b>FUNCTIONAL EXPENSES</b>													
Program services	15,911,795	198,758	33,331	3,223,147	44,294	820,358	667,548	6,915,364	1,853,135	542,882	(6,782,521)	23,428,091	23,181,235
Management and general	1,604,742	284	988	-	-	-	-	-	-	35,658	-	1,641,672	1,424,125
Fundraising	2,243,930	-	-	-	-	-	-	-	-	49,344	-	2,293,274	2,078,946
<b>Total expenses</b>	<b>19,760,467</b>	<b>199,042</b>	<b>34,319</b>	<b>3,223,147</b>	<b>44,294</b>	<b>820,358</b>	<b>667,548</b>	<b>6,915,364</b>	<b>1,853,135</b>	<b>627,884</b>	<b>(6,782,521)</b>	<b>27,363,037</b>	<b>26,684,306</b>
<b>OTHER CHANGES</b>													
Investment return in (deficit) excess of amounts designated for operations	\$ (34,767)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (34,767)	\$ 123,869
Gain/(loss) on foreign currency transactions	22,667	-	-	519	188	(687)	(11,267)	162,987	29,913	4,701	-	209,021	477,183
Gain (loss) on foreign currency translation	(10,779)	-	(308,606)	(154,774)	(445)	(31,761)	18,874	(134,935)	(61,931)	(10,222)	362,775	(331,804)	93,809
Loss on disposal of microfinance assets	-	-	(47,200)	-	-	-	-	-	-	-	47,200	-	-
Consideration returned/consideration paid in excess of the fair value of assets acquired	-	-	-	-	-	-	-	-	-	-	-	-	200,000
<b>Total other changes</b>	<b>(22,879)</b>	<b>-</b>	<b>(355,806)</b>	<b>(154,255)</b>	<b>(257)</b>	<b>(32,448)</b>	<b>7,607</b>	<b>28,052</b>	<b>(32,018)</b>	<b>(5,521)</b>	<b>409,975</b>	<b>(157,550)</b>	<b>894,861</b>
<b>CHANGE IN NET ASSETS BEFORE CONTRIBUTED EQUITY ACQUIRED AND PURCHASE OF EQUITY INTERESTS</b>	<b>(4,863)</b>	<b>(192,617)</b>	<b>95,213</b>	<b>(1,135,418)</b>	<b>(47,644)</b>	<b>(5,290)</b>	<b>133,452</b>	<b>(349,618)</b>	<b>229,898</b>	<b>16,528</b>	<b>1,348,875</b>	<b>88,516</b>	<b>1,212,723</b>
Equity contribution by noncontrolling Shareholder	-	-	-	-	-	-	214,000	-	-	-	-	214,000	60,000
<b>CHANGE IN NET ASSETS</b>	<b>(4,863)</b>	<b>(192,617)</b>	<b>95,213</b>	<b>(1,135,418)</b>	<b>(47,644)</b>	<b>(5,290)</b>	<b>347,452</b>	<b>(349,618)</b>	<b>229,898</b>	<b>16,528</b>	<b>1,348,875</b>	<b>302,516</b>	<b>1,272,723</b>
<b>NET ASSETS</b>													
Beginning 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
<b>End of year</b>	<b>\$ 15,108,198</b>	<b>\$ 2,720</b>	<b>\$ 9,278,170</b>	<b>\$ 2,648,719</b>	<b>\$ -</b>	<b>\$ 1,344,855</b>	<b>\$ 1,969,757</b>	<b>\$ 3,330,955</b>	<b>\$ 485,151</b>	<b>\$ (91,445)</b>	<b>\$ (8,646,808)</b>	<b>\$ 25,430,272</b>	<b>\$ 25,127,756</b>

(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, Zambia SGP and Zimbabwe SGP.

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