

HOPE INTERNATIONAL

CONSOLIDATED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2019 AND 2018

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, 2019, 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 or Urwego Bank PLC subsidiaries, which statements reflect total assets of \$27,879,050, as of December 31, 2019 and total support and revenues of \$8,009,314 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 and Urwego Bank PLC, 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 and Urwego Bank PLC, 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 and Urwego Bank PLC, 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, 2019, 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 2018 consolidated financial statements, and our report dated June 28, 2019, 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, 2018, 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 12, 2020**

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2019 And 2018

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents		
Cash held in the US	\$ 915,328	\$ 256,216
Cash held in the field	8,158,976	6,135,712
Contribution receivable	3,067,111	2,639,734
Short-term investments	3,396,849	6,885,850
Microfinance loans receivable, net	21,898,450	18,548,175
Loans receivable, net	290,000	353,334
Interest receivable	182,766	138,363
Other receivables	516,925	510,254
Prepaid expenses and other assets	<u>856,060</u>	<u>1,270,505</u>
Total Current Assets	39,282,465	36,738,143
NONCURRENT ASSETS		
Investments	8,970,950	8,320,982
Property and equipment, net	1,988,214	2,184,248
Other long-term assets	144,032	218,473
Loans receivable, net	<u>60,000</u>	<u>130,000</u>
Total Assets	<u>\$ 50,445,661</u>	<u>\$ 47,591,846</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,623,983	\$ 1,663,544
Interest payable	19,379	23,440
Unearned revenue	748,544	1,142,395
Notes payable	904,497	808,626
Client deposits	18,432,767	18,517,954
Security deposits and other liabilities	<u>5,120</u>	<u>5,615</u>
Total Liabilities	<u>21,734,290</u>	<u>22,161,574</u>
NET ASSETS		
Without donor restrictions		
Net assets	20,069,453	17,337,752
Board-designated for endowment and operating reserve	2,952,179	2,883,700
Noncontrolling interest	<u>1,155,942</u>	<u>1,043,906</u>
Total Net Assets Without Donor Restrictions	24,177,574	21,265,358
Net assets with donor restrictions	<u>4,533,797</u>	<u>4,164,914</u>
Total Net Assets	<u>28,711,371</u>	<u>25,430,272</u>
Total Liabilities and Net Assets	<u>\$ 50,445,661</u>	<u>\$ 47,591,846</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended December 31, 2019 With Summarized Information For 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2018</u>
SUPPORT AND REVENUE				
Contributions	\$ 10,596,574	\$ 5,610,609	\$ 16,207,183	\$ 16,246,301
Special events, net of direct expenses of \$630,510 and \$515,761 for 2019 and 2018	3,277,879	136,703	3,414,582	2,477,995
Investment return designated for current operations	12,477	99,880	112,357	86,710
Interest income	9,284,517	-	9,284,517	8,648,988
Rental revenue	47,788	-	47,788	62,966
Less expenses (including depreciation)	<u>(36,567)</u>	<u>-</u>	<u>(36,567)</u>	<u>(37,482)</u>
Net rental income	<u>11,221</u>	<u>-</u>	<u>11,221</u>	<u>25,484</u>
Other income	<u>187,241</u>	<u>-</u>	<u>187,241</u>	<u>179,130</u>
Total support and revenue before net assets released from restrictions	23,369,909	5,847,192	29,217,101	27,664,608
Net assets released from restrictions	<u>5,863,995</u>	<u>(5,863,995)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>29,233,904</u>	<u>(16,803)</u>	<u>29,217,101</u>	<u>27,664,608</u>
FUNCTIONAL EXPENSES				
Program services	22,416,732	-	22,416,732	23,428,091
Management and general	2,016,267	-	2,016,267	1,641,672
Fundraising	<u>2,307,803</u>	<u>-</u>	<u>2,307,803</u>	<u>2,293,274</u>
Total expenses	<u>26,740,802</u>	<u>-</u>	<u>26,740,802</u>	<u>27,363,037</u>
Excess of revenues over expenses	<u>2,493,102</u>	<u>(16,803)</u>	<u>2,476,299</u>	<u>301,571</u>
OTHER CHANGES				
Investment return in excess (deficit) of amounts designated for current operations	168,485	385,686	554,171	(90,272)
Net realized gain on foreign currency transactions	180,167	-	180,167	209,021
Gain (loss) on foreign currency translation	<u>20,462</u>	<u>-</u>	<u>20,462</u>	<u>(331,804)</u>
Total other changes	<u>369,114</u>	<u>385,686</u>	<u>754,800</u>	<u>(213,055)</u>
CHANGE IN NET ASSETS BEFORE CONTRIBUTED EQUITY ACQUIRED AND PURCHASE OF EQUITY INTERESTS	2,862,216	368,883	3,231,099	88,516
Equity contribution by noncontrolling shareholder	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>214,000</u>
CHANGE IN NET ASSETS	2,912,216	368,883	3,281,099	302,516
NET ASSETS				
Beginning of year	<u>21,265,358</u>	<u>4,164,914</u>	<u>25,430,272</u>	<u>25,127,756</u>
End of year	<u>\$ 24,177,574</u>	<u>\$ 4,533,797</u>	<u>\$ 28,711,371</u>	<u>\$ 25,430,272</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS

Years Ended December 31, 2019 And 2018

	<u>HOPE</u>	<u>Non-Controlling Interest In Microfinance Entities</u>	<u>Total</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	20,221,452	1,043,906	21,265,358
Equity contribution by noncontrolling shareholder	-	50,000	50,000
Excess of revenues over expenses	<u>2,800,180</u>	<u>62,036</u>	<u>2,862,216</u>
Change in net assets without donor restrictions	<u>2,800,180</u>	<u>112,036</u>	<u>2,912,216</u>
Net assets without donor restrictions, December 31, 2019	<u>\$ 23,021,632</u>	<u>\$ 1,155,942</u>	<u>\$ 24,177,574</u>

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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2019

	Program Services			Management And		
	Overseas Entities	United States Entities	Total	General	Fundraising	Total
Salaries	\$ 5,928,268	\$ 3,002,169	\$ 8,930,437	\$ 1,153,458	\$1,203,792	\$ 11,287,687
Payroll taxes	538,879	239,571	778,450	95,436	94,463	968,349
Employee benefits	455,451	709,022	1,164,473	302,785	303,411	1,770,669
Other staff expenses	517,007	451,189	968,196	134,476	92,976	1,195,648
Insurance	48,425	15,587	64,012	3,559	305	67,876
Professional services	679,607	910,703	1,590,310	132,986	93,600	1,816,896
Office expenses	2,307,780	261,923	2,569,703	56,899	72,335	2,698,937
Marketing	-	8,663	8,663	5,450	195,717	209,830
Travel	714,772	565,846	1,280,618	26,485	95,936	1,403,039
Finance expenses – interest and fees	557,970	8,260	566,230	81,323	222	647,775
Depreciation	479,873	127,683	607,556	3,379	8,286	619,221
Printing and reproduction	138,680	4,506	143,186	33	119,479	262,698
Loan loss reserve/(recapture), net	207,766	(33,333)	174,433	-	-	174,433
Other expenses	333,370	34,873	368,243	19,998	27,281	415,522
Grants to partners	1,968,619	1,097,467	3,066,086	-	-	3,066,086
Tax expense, net	136,136	-	136,136	-	-	136,136
	<u>\$15,012,603</u>	<u>\$7,404,129</u>	<u>\$22,416,732</u>	<u>\$2,016,267</u>	<u>\$2,307,803</u>	<u>\$26,740,802</u>

HOPE INTERNATIONAL

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – (Continued)

Year Ended December 31, 2018

	Program Services			Management And		
	Overseas Entities	United States Entities	Total	General	Fundraising	Total
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 expense 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 STATEMENTS OF CASH FLOWS

Years Ended December 31, 2019 And 2018

	<u>2019</u>	<u>2018</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 3,281,099	\$ 302,516
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gain) loss on investments	(456,471)	229,394
Loan loss (recapture) reserve, net	(437,703)	72,939
Depreciation	635,219	741,082
(Gain) loss on disposal of fixed assets	(18,641)	76,433
Contributions restricted for endowment	(7,190)	(667,062)
Equity contribution from noncontrolling shareholder	(50,000)	(214,000)
(Increase) decrease in operating assets		
Contributions receivable	(427,377)	239,055
Interest receivable	(44,403)	45,917
Other receivables	(6,671)	(323,358)
Prepaid expenses and other assets	414,445	(364,078)
Other long-term assets	74,441	557,195
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses	(39,561)	(11,211)
Interest payable	(4,061)	(35,465)
Unearned revenue	(393,851)	(269,404)
Client deposits	(85,187)	(1,507,631)
Security deposits and other liabilities	<u>(495)</u>	<u>1,320</u>
Net cash provided by (used in) operating activities	<u>2,433,593</u>	<u>(1,126,358)</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(441,864)	(253,675)
Proceeds from sale of fixed assets	21,320	42,495
Purchase of investments	(801,114)	(1,841,983)
Proceeds from sale of investments	4,096,618	211,037
Issuance of microfinance loans, net	(2,945,905)	(522,341)
Issuance of notes receivable	-	(300,000)
Repayment of notes receivable	<u>166,667</u>	<u>116,666</u>
Net cash provided by (used in) investing activities	<u>95,722</u>	<u>(2,547,801)</u>
FINANCING ACTIVITIES		
Issuance (repayments) of notes payable, net	95,871	(607,533)
Contributions restricted for endowments	7,190	667,062
Equity contribution from noncontrolling shareholder	<u>50,000</u>	<u>214,000</u>
Net cash provided by financing activities	<u>153,061</u>	<u>273,529</u>
Net increase (decrease) in cash and cash equivalents	2,682,376	(3,400,630)
CASH AND CASH EQUIVALENT		
Beginning of year	<u>6,391,928</u>	<u>9,792,558</u>
End of year	<u>\$ 9,074,304</u>	<u>\$ 6,391,928</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 274,854</u>	<u>\$ 557,598</u>

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

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2019 And 2018

(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 a branch office in 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. HGIF terminated operations in 2019.

Hope Global Investment ("**HGI**") is incorporated as a limited liability corporation in the state of Delaware. The mission of HGI is to support microenterprise development through offering unsecured notes to accredited investors to leverage lending activities in established microfinance institutions. HGI commenced operations in 2019.

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 programs ("**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 Ukraine is a majority-owned (81.26%) 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 2019, Dignity Builders, a subsidiary of Homes for Hope (**Note 12**), made an equity contribution which increased its noncontrolling interest in HOPE Ukraine. Dignity Builders had a noncontrolling interest in Hope Ukraine of 9.81% and 9.06% as of December 31, 2019 and 2018, respectively. In 2018, Tomorrow Clubs International (**Note 12**), using funds loaned by HA, made an initial equity contribution for a noncontrolling interest of 9.93%. As a result of equity contributions by HI and Dignity Builders in 2019, Tomorrow Clubs International's noncontrolling interest in HOPE Ukraine decreased to 8.93% as of December 31, 2019.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

- (iii) HOPE Russia is a wholly owned microfinance institution registered in Russia as a non-governmental organization. In 2018, HA began the process of ceasing operations in Russia. Operations were terminated in 2019.
- (iv) 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.
- (v) Urwego Bank PLC (**“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.

HOPE had an equity interest in Urwego of 99.64% and 99.67% as of December 31, 2019 and 2018, respectively.
- (vi) 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.
- (vii) 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.
- (viii) 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.
- (ix) 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.
- (x) 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.
- (xi) 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.
- (xii) HOPE Malawi SGP is a wholly owned entity registered in Malawi as a non-governmental organization which provides training and oversight in the creation and execution of savings and credit associations in Malawi. HOPE Malawi commenced operations as a registered non-governmental organization in 2019. Prior to 2019, HOPE Malawi operated as a branch of HI.

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

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

(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 and 730 days delinquent, respectively, or sooner, if in management's judgement, there is no prospect of recovery. These exceptions are based on local regulations.

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

PROPERTY AND EQUIPMENT

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

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 \$2,952,179 and \$2,883,700 of funds for investment as of December 31, 2019 and 2018, respectively (*Note II*). 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 (2016 – 2018) as well as the expected position of HOPE's 2019 tax return and has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

HOPE Congo, DSU, Turame, HOPE Ukraine and Urwego as for-profit entities, as well as HOPE Russia, HOPE Burundi SGP, HOPE Haiti SGP, HOPE Malawi 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.

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.*"

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

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 in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services. Program expenses are allocated to overseas or United States entities. Costs are directly charged to a specific activity when the costs pertain solely to such activity. Certain salaries have been allocated to programs and supporting services based on level of effort attributable to programs and supporting services. In addition, certain other expenses that are attributable to both program and supporting activities are allocated based on the total of direct expenses, allocated salaries and related expenses charged to such functions.

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 one branch office 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 \$10,728,289 and \$10,103,577, including \$21,898,450 and \$18,548,175 of microfinance loans at December 31, 2019 and 2018, respectively.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

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, 2019 with an original loan term greater than one year were approximately \$8,651,645 and \$1,181,424, 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, 2019 and 2018, was an increase and decrease to net assets of \$20,462 and \$331,804, 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, 2018, from which the summarized information was derived.

RECLASSIFICATION

Certain account balances in the 2018 financial statements presentation have been reclassified to conform to the 2019 presentation.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

ADOPTED ACCOUNTING PRONOUNCEMENTS

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. HOPE adopted the new ASU during 2019 however it did not have a material effect on the financial statements.

In May 2014, the FASB issued ASU 2014-09, which established ASC 606, *Revenue from Contracts with Customers* (Topic 606). The core principle of the new standard is that entities should depict the transfer of promised goods or services to its customers in an amount that reflects the consideration to which the entities expect to be entitled in exchange for those goods or services. The new standard provides a five-step analysis for entities to apply in determining the timing, method, and amount of revenue recognition to achieve the core principle. The amendments in ASU 2014-09 became effective beginning January 1, 2019. HOPE adopted the standard and it did not have a material impact on HOPE's financial position or results of operations.

NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

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, 2020. 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 \$3,067,111 and \$2,639,734 at December 31, 2019 and 2018. The pledges receivable as of December 31, 2019 are expected to be collected within one year. The pledges receivable as of December 31, 2018 were all collected within one year.

(4) MICROFINANCE LOANS

HOPE, through wholly owned microfinance institutions operating separately in Ukraine, 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, 2019 and 2018, by location consist of the following:

	<u>2019</u>	<u>2018</u>
Ukraine	\$ 1,514,419	\$ 1,531,896
Republic of Congo	5,383,777	4,723,138
Burundi	1,658,315	1,404,848
Rwanda	<u>14,173,796</u>	<u>12,124,520</u>
	22,730,307	19,784,402
Less: allowance for doubtful accounts	<u>831,857</u>	<u>1,236,227</u>
	<u>\$ 21,898,450</u>	<u>\$ 18,548,175</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

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 \$18,432,767 and \$18,517,954 of client deposits as of December 31, 2019 and 2018 includes voluntary and compulsory savings.

The loan value of microfinance loans that were classified as nonperforming was \$319,382 and \$932,185 at December 31, 2019 and 2018 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, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 1,236,227	\$1,156,621
Provision for loan losses	450,027	807,027
Loans written off	(822,058)	(683,505)
Currency translation adjustment	<u>(32,339)</u>	<u>(43,916)</u>
	<u>\$ 831,857</u>	<u>\$1,236,227</u>

(5) LONG-TERM INVESTMENTS

A summary of investments at December 31, 2019 and 2018 is as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 85,176	\$ 85,176	\$ 354,861	\$ 354,861
Fixed income:				
Domestic certificates of deposit	1,562,926	1,562,926	250,000	250,000
Foreign certificates of deposits	399,759	399,759	1,875,229	1,875,229
Foreign government bonds	1,444,959	1,444,959	2,906,341	2,906,341
Corporate bonds and commercial paper	4,767,957	4,834,526	7,184,797	7,048,532
Municipal bonds	788,030	797,202	-	-
US Treasury bonds	262,032	259,165	500,000	488,163
Equities	381,762	403,073	512,985	502,660
Exchange traded funds	374,615	401,014	154,778	144,267
Mutual funds	1,788,611	1,841,200	1,359,978	1,285,799
Master limited partnerships	55,156	38,799	93,904	50,980
Mortgage receivable	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
	<u>\$ 12,210,983</u>	12,367,799	<u>\$ 15,492,873</u>	15,206,832
Less: short-term		<u>3,396,849</u>		<u>6,885,850</u>
Long-term investment		<u>\$ 8,970,950</u>		<u>\$ 8,320,982</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

Investments are comprised of the following net assets:

	<u>2019</u>	<u>2018</u>
Endowment assets:		
Board-designated for investment and operating reserve	\$ 2,952,179	\$ 2,863,464
Funds to be held in perpetuity	<u>4,399,396</u>	<u>4,006,520</u>
	7,351,575	6,869,984
General investments (short and long-term)	<u>5,016,224</u>	<u>8,336,848</u>
	<u>\$12,367,799</u>	<u>\$15,206,832</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 increases the board-designated endowment, except for 50% of interest and dividends received in cash which are allocated 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 as of year-end. HOPE in conjunction with the investment advisor monitors portfolio performance and the compliance of investment guidelines given to selected investment managers.

The following schedule summarizes total investment return:

	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Dividends and interest	\$153,551	\$199,760	\$353,311
Net realized and unrealized gains	<u>170,665</u>	<u>285,806</u>	<u>456,471</u>
Return on investments	<u>\$324,216</u>	<u>\$485,566</u>	<u>\$809,782</u>

Investment return for 2019 was comprised of the following:

Endowment	\$666,528
General	<u>143,254</u>
	<u>\$809,782</u>

	<u>2018</u>		
	<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	<u>\$ 55,008</u>	<u>\$ (3,065)</u>	<u>\$ 51,943</u>

Investment return for 2018 was comprised of the following:

Endowment	\$ (3,562)
General	<u>55,505</u>
	<u>\$ 51,943</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

(6) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The summary of inputs used to value HOPE’s investments as of December 31, 2019 and 2018, is as follows:

	2019		
	Total	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs
Investments			
Money market funds	\$ 85,176	\$ 85,176	\$ -
Fixed income:			
Domestic certificates of deposits	1,562,926	-	1,562,926
Foreign certificates of deposits	399,759	-	399,759
Foreign government bonds	1,444,959	-	1,444,959
Corporate bonds and commercial paper	4,834,526	-	4,834,526
Municipal bonds	797,202	-	797,202
US Treasury bonds	259,165	-	259,165
Equities	403,073	403,073	-
Exchange traded funds	401,014	401,014	-
Mutual funds	1,841,200	1,841,200	-
Master limited partnership	38,799	38,799	-
Mortgage receivable	300,000	-	300,000
	<u>\$ 12,367,799</u>	<u>\$ 2,769,262</u>	<u>\$ 9,598,537</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

	2018		
	<u>Total</u>	<u>Level 1 Quoted Prices</u>	<u>Level 2 Other Significant Observable Inputs</u>
Investments			
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 and commercial paper	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	300,000	-	300,000
	<u>\$ 15,206,832</u>	<u>\$ 2,338,567</u>	<u>\$ 12,868,265</u>

There were no transfers between Level 1 and 2 for the years ended December 31, 2019 and 2018.

The carrying value of the mortgage receivable approximates fair value.

(7) PROPERTY

Property and equipment as of December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Equipment and computer software	\$ 4,884,299	\$ 4,758,473
Leasehold improvements	1,282,708	1,284,860
Rental properties		
Buildings and improvements	478,759	478,759
Other	<u>66,340</u>	<u>6,112</u>
	6,712,106	6,528,204
Less: accumulated depreciation	<u>4,723,892</u>	<u>4,343,956</u>
	<u>\$ 1,988,214</u>	<u>\$ 2,184,248</u>

Depreciation expense was \$635,219 for the year ended December 31, 2019, of which \$15,998 is included within rental properties expense. Depreciation expense for the year ended December 31, 2018 was \$741,082 of which \$15,998 is included within rental properties.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

(8) LOANS RECEIVABLE

Loans receivable as of December 31, 2019 and 2018 consisted of the following:

<u>BORROWER</u>	<u>TERMS</u>	<u>Interest Rate</u>	<u>2019</u>	<u>2018</u>
Center for Community Transformation (CCT)	Interest free loan due December 2020	0%	\$ 50,000	\$ 50,000
Kaibigang Maaasahan Multi-purpose Coop (KMMC)	Interest free loan due December 2023 with annual payments commencing in June 2020	0%	100,000	100,000
Tomorrow Clubs International	Interest free loan due on demand	0%	200,000	200,000
ROMCOM (Romania)	\$200,000 due September 2019 with quarterly payments commencing in March 2017.	5.40%	-	166,667
			350,000	516,667
	Less: current portion		290,000	353,334
			60,000	163,333
	Less: allowance for doubtful accounts		-	33,333
			<u>\$ 60,000</u>	<u>\$ 130,000</u>

At December 31, 2019, loans receivable maturities were as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2020	\$290,000
2021	20,000
2022	20,000
2023	20,000
	<u>\$350,000</u>

(9) CLIENT DEPOSITS

Client deposits as of December 31, 2019 and 2018 consist of:

	<u>2019</u>	<u>2018</u>
Demand	\$ 17,078,677	\$ 17,132,757
Term	1,354,090	1,385,197
	<u>\$ 18,432,767</u>	<u>\$ 18,517,954</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, 2019 And 2018

(10) NOTES PAYABLE

Notes payable as of December 31, 2019 and 2018 consisted of the following:

LENDER	TERMS	2019	2018
HOPE Advancement Kiva	Unsecured zero interest rate loan due upon demand	\$ 11,636	\$ 119,088
Arise Foundation	Unsecured zero interest rate loan due upon demand	150,000	150,000
Urwego Kiva	Unsecured zero interest rate loan due upon demand.	<u>742,861</u>	<u>539,538</u>
		<u>\$ 904,497</u>	<u>\$ 808,626</u>

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

As of December 31, 2019 and 2018, 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, 2019 and 2018. The interest rate on the line of credit is the financial institution's prime rate minus .5% with a minimum interest rate of 4%. Any outstanding loan and interest are due on demand. The \$950,000 line of credit is subject to renewal annually and there is no expiration date.

(11) NET ASSETS

Net assets with donor restrictions are available for the following purposes as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for a specified purpose:		
Programs		
Romania	\$ -	\$ 13,472
Malawi	-	3,762
Zambia	-	4,182
Undesignated	<u>134,401</u>	<u>136,978</u>
	134,401	158,394
Perpetual in nature		
HI Loan Endowment	<u>4,399,396</u>	<u>4,006,520</u>
Total	<u>\$ 4,533,797</u>	<u>\$ 4,164,914</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

During the year ended December 31, 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the following purposes:

	<u>2019</u>	<u>2018</u>
Programs		
Africa Region	\$ 260,285	\$ 33,362
Burundi	931,418	392,819
Dominican Republic	142,426	146,939
East Asia	101,200	40,930
Haiti	378,295	456,650
Malawi	344,912	308,247
Moldova	6,300	6,025
Paraguay	50	23,965
Peru	21,200	24,070
Philippines	1,700	833
Republic of Congo	10,269	135,191
Romania	13,472	86,528
Rwanda	244,339	878,160
South Asia	533,046	198,958
Ukraine	4,450	398,527
Zambia	61,701	37,818
Zimbabwe SGP	33,300	27,985
Other Programs	2,573,674	3,169,592
HOPE Trips	85,693	51,226
Spiritual Integration	800	-
Other	<u>115,465</u>	<u>86,119</u>
	<u>\$ 5,863,995</u>	<u>\$ 6,503,944</u>

Endowment net asset composition by type of fund as of December 31, 2019 and 2018:

	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 4,399,396	\$ 4,399,396
Board-designated for endowment and operating reserve	<u>2,952,179</u>	<u>-</u>	<u>2,952,179</u>
	<u>\$ 2,952,179</u>	<u>\$ 4,399,396</u>	<u>\$ 7,351,575</u>

	<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

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HOPE includes the original value of gifts received with donor stipulations that require them to be held in perpetuity as donor restricted endowment funds. In 2019 and 2018, 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 donors. 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.

Changes in endowment net assets for the year ended December 31, 2019 and 2018:

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,883,700	\$ 4,006,520	\$ 6,890,220
Investment return	180,962	485,566	666,528
Contributions	-	7,190	7,190
Transfers from Board-designated net assets	(100,006)	-	(100,006)
Less: Endowment income designated for current operations	<u>(12,477)</u>	<u>(99,880)</u>	<u>(112,357)</u>
	<u>\$ 2,952,179</u>	<u>\$ 4,399,396</u>	<u>\$ 7,351,575</u>

	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>

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 \$215,692 and \$203,807 of contributions without donor restrictions in 2019 and 2018, respectively. In 2019, HOPE released \$315,698 from its board-designated endowment and operating reserve. In 2018, HOPE also designated \$93,755 as board-designated for endowment and operating reserve.

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

(12) RELATED PARTY TRANSACTIONS

During the years ended December 31, 2019 and 2018, HOPE received \$1,300,000 and \$710,000 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, 2019 and 2018, HOPE provided administrative services to H4H for which HOPE was reimbursed in the amount of \$22,947.

HOPE has a note receivable from Tomorrow Clubs International for \$200,000 as of December 31, 2019 and 2018. Tomorrow Clubs International is related to HOPE because employees of HOPE serve as Board members.

(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 \$242,918 and \$233,247 in 2019 and 2018, respectively.

(14) COMMITMENTS

OPERATING LEASES

HOPE leases various facilities and equipment under operating lease agreements which expire at various dates through fiscal year 2038.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2019:

2020	\$ 740,260
2021	504,641
2022	469,057
2023	414,649
2024	303,844
Thereafter	<u>765,372</u>
Total	<u>\$3,197,823</u>

HOPE INTERNATIONAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

December 31, 2019 And 2018

(15) FINANCIAL ASSETS AND LIQUIDITY RESOURCES

The following table reflects HOPE's financial assets as of December 31, 2019, 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>2019</u>	<u>2018</u>
Financial Assets:		
Cash and cash equivalents	\$ 9,074,304	\$ 6,391,928
Contributions receivable	3,067,111	2,639,734
Short-term investments	3,396,849	6,885,850
Microfinance loans receivable and related interest	22,081,216	18,686,538
Current loans receivable and interest	290,000	353,334
Other receivable	516,925	510,254
Investments – non-current	<u>8,970,950</u>	<u>8,320,982</u>
Total financial assets available	47,397,355	43,788,620
Less:		
Net assets with donor restrictions	4,533,797	4,164,914
Board-designated net assets	<u>2,952,179</u>	<u>2,883,700</u>
Total financial assets available within one year	<u>\$ 39,911,379</u>	<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 \$2,952,179 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.

(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, June 12, 2020, have been evaluated in the preparation of the financial statements and management has determined that there are no subsequent events that would require disclosure or adjustment in the financial statements, except for the matters described below.

HOPE received a donation of land and building in January 2020 valued at \$3,275,000. Effective January 2020, HOPE has leased this land and building for an initial period of 3 years.

Management is currently evaluating the recent ramifications of the COVID-19 virus and its impact on the economy as well as HOPE's operations and has concluded that while it is reasonably possible that the virus could have a negative effect on HOPE's financial position and results of its operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SUPPLEMENTAL INFORMATION

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2019 With Summarized Information As Of December 31, 2018

	HOPE ADVANCEMENT										Eliminating Entries	Consolidated	2018
	(a) HOPE International	HGIF	HOPE Advancement	HGI	HOPE Congo	Turame	HOPE Ukraine	Urwego	(b) SGP	(c) Other			
CURRENT ASSETS													
Cash and cash equivalents – US	\$ 733,735	\$ -	\$ 180,593	\$ 1,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 915,328	\$ 256,216
Cash and cash equivalents – field	122,517	-	-	-	559,737	1,136,632	936,809	4,728,153	521,978	153,150	-	8,158,976	6,135,712
Contribution receivable	3,067,111	-	-	-	-	-	-	-	-	-	-	3,067,111	2,639,734
Short-term investments	2,997,090	-	-	-	-	-	150,000	249,759	-	-	-	3,396,849	6,885,850
Microfinance loans receivable, net	-	-	(318,000)	-	5,232,441	1,626,120	1,457,509	13,900,380	-	-	-	21,898,450	18,548,175
Loans receivable, net	-	-	290,000	-	-	-	-	-	-	-	-	290,000	353,334
Interest receivable	-	-	-	-	20,312	-	26,668	135,786	-	-	-	182,766	138,363
Other receivables	202,151	-	(600)	-	15,719	40,251	(402)	345,029	36,969	77,909	(200,101)	516,925	510,254
Prepaid expenses and other assets	706,415	-	-	4,000	9,749	689	30,450	81,622	15,843	7,292	-	856,060	1,270,505
Total Current Assets	7,829,019	-	151,993	5,000	5,837,958	2,803,692	2,601,034	19,440,729	574,790	238,351	(200,101)	39,282,465	36,738,143
NONCURRENT ASSETS													
Investments	7,525,991	-	-	-	-	-	-	1,444,959	-	-	-	8,970,950	8,320,982
Property and equipment, net	639,932	-	-	-	200,089	50,378	98,562	850,233	139,602	9,418	-	1,988,214	2,184,248
Other long-term assets	19,661	-	-	-	103,838	17,504	-	1,244	1,414	371	-	144,032	218,473
Loans receivable	-	-	2,785,532	-	-	-	-	-	-	-	(2,725,532)	60,000	130,000
Investment in subsidiary	-	-	9,391,275	-	-	-	-	-	-	-	(9,391,275)	-	-
Total Assets	\$16,014,603	\$ -	\$12,328,800	\$ 5,000	\$6,141,885	\$2,871,574	\$2,699,596	\$21,737,165	\$715,806	\$ 248,140	\$ (12,316,908)	\$50,445,661	\$47,591,846
CURRENT LIABILITIES													
Accounts payable and accrued expenses	\$ 614,924	\$ -	\$ 5,494	\$ 5,756	\$ 355,747	\$ 119,923	\$ 32,716	\$ 461,195	\$ 97,211	\$ 131,118	\$ (200,101)	\$ 1,623,983	\$ 1,663,544
Interest Payable	-	-	-	-	-	-	-	19,379	-	-	-	19,379	23,440
Unearned revenue	-	-	-	-	-	-	58,621	689,923	-	-	-	748,544	1,142,395
Current portion of notes payable	-	-	161,636	-	1,656,761	1,068,770	-	742,862	-	-	(2,725,532)	904,497	808,626
Client deposits	-	-	-	-	1,796,342	347,313	-	16,289,112	-	-	-	18,432,767	18,517,954
Security deposits and other liabilities	5,120	-	-	-	-	-	-	-	-	-	-	5,120	5,615
Total Liabilities	620,044	-	167,130	5,756	3,808,850	1,536,006	91,337	18,202,471	97,211	131,118	(2,925,633)	21,734,290	22,161,574
NET ASSETS													
Without donor restrictions													
Operations	7,908,583	-	12,161,670	(756)	2,333,035	681,139	2,119,471	3,521,969	618,595	117,022	(9,391,275)	20,069,453	17,337,752
Board-designated for endowment and operating reserve	2,952,179	-	-	-	-	-	-	-	-	-	-	2,952,179	2,883,700
Noncontrolling interest	-	-	-	-	-	654,429	488,788	12,725	-	-	-	1,155,942	1,043,906
With donor restrictions	4,533,797	-	-	-	-	-	-	-	-	-	-	4,533,797	4,164,914
Total Net Assets	15,394,559	-	12,161,670	(756)	2,333,035	1,335,568	2,608,259	3,534,694	618,595	117,022	(9,391,275)	28,711,371	25,430,272
Total Liabilities and Net Assets	\$16,014,603	\$ -	\$12,328,800	\$ 5,000	\$6,141,885	\$2,871,574	\$2,699,596	\$21,737,165	\$715,806	\$ 248,140	\$ (12,316,908)	\$50,445,661	\$47,591,846

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

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

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

HOPE INTERNATIONAL

CONSOLIDATING STATEMENT OF ACTIVITIES

For The Year Ended December 31, 2019 With Summarized Information For 2018

	HOPE ADVANCEMENT											Consolidated	2018
	(a) HOPE International	HGIF	HOPE Advancement	HGI	HOPE Congo	Turame	HOPE Ukraine	Urwego	(b) SGP	(c) Other	Eliminating Entries		
SUPPORT AND REVENUE													
Contributions	\$ 16,441,307	\$ -	\$ 6,085,369	\$ -	\$ -	\$ -	\$ 293,451	\$ 1,323,459	\$ 3,059,533	\$ 350,426	\$(11,346,362)	\$ 16,207,183	\$ 16,246,301
Special events, net of direct expenses	3,418,380	-	-	-	-	-	-	-	-	(3,798)	-	3,414,582	2,477,995
Investment return designated for current operations	112,357	-	-	-	-	-	-	-	-	-	-	112,357	86,710
Interest income	146,541	8	5,729	-	2,632,268	948,195	829,001	4,720,777	157	1,841	-	9,284,517	8,648,988
Rental revenue	47,788	-	-	-	-	-	-	-	-	-	-	47,788	62,966
Less expenses (including depreciation)	(36,567)	-	-	-	-	-	-	-	-	-	-	(36,567)	(37,482)
Net rental income	11,221	-	-	-	-	-	-	-	-	-	-	11,221	25,484
Equity interest in income of microfinance institutions	(2,721)	-	(3,231,115)	-	-	-	-	-	-	-	3,233,836	-	-
Other income	95,117	-	-	-	123	4,759	2,421	82,636	328	442,189	(440,332)	187,241	179,130
Total support and revenue	20,222,202	8	2,859,983	-	2,632,391	952,954	1,124,873	6,126,872	3,060,018	790,658	(8,552,858)	29,217,101	27,664,608
FUNCTIONAL EXPENSES													
Program services	16,235,715	2,609	(33,335)	-	2,898,052	909,456	883,379	5,919,415	2,893,682	500,374	(7,792,615)	22,416,732	23,428,091
Management and general	2,001,667	119	1,437	756	-	-	-	-	-	38,288	(26,000)	2,016,267	1,641,672
Fundraising	2,253,719	-	-	-	-	-	-	-	-	54,084	-	2,307,803	2,293,274
Total expenses	20,491,101	2,728	(31,898)	756	2,898,052	909,456	883,379	5,919,415	2,893,682	592,746	(7,818,615)	26,740,802	27,363,037
Excess (deficit) of revenues over expenses	(268,899)	(2,720)	2,891,881	(756)	(265,661)	43,498	241,494	207,457	166,336	197,912	(734,243)	2,476,299	301,571
OTHER CHANGES													
Investment return in excess (deficit) of amounts designated for operations	\$ 554,171	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 554,171	\$ (90,272)
Gain/(loss) on foreign currency transactions	13,933	-	-	-	-	(48)	(13,605)	158,893	13,294	7,700	-	180,167	209,021
Gain (loss) on foreign currency translation	(12,844)	-	(7,835)	-	(50,023)	(52,737)	360,613	(162,611)	(46,186)	2,855	(10,770)	20,462	(331,804)
Loss on disposal of microfinance assets	-	-	(546)	-	-	-	-	-	-	-	546	-	-
Total other changes	555,260	-	(8,381)	-	(50,023)	(52,785)	347,008	(3,718)	(32,892)	10,555	(10,224)	754,800	(213,055)
CHANGE IN NET ASSETS BEFORE CONTRIBUTED EQUITY ACQUIRED AND PURCHASE OF EQUITY INTERESTS	286,361	(2,720)	2,883,500	(756)	(315,684)	(9,287)	588,502	203,739	133,444	208,467	(744,467)	3,231,099	88,516
Equity contribution by noncontrolling Shareholder	-	-	-	-	-	-	50,000	-	-	-	-	50,000	214,000
CHANGE IN NET ASSETS	286,361	(2,720)	2,883,500	(756)	(315,684)	(9,287)	638,502	203,739	133,444	208,467	(744,467)	3,281,099	302,516
NET ASSETS													
Beginning of year	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
End of year	\$15,394,559	\$ -	\$12,161,670	\$ (756)	\$ 2,333,035	\$ 1,335,568	\$ 2,608,259	\$ 3,534,694	\$ 618,595	\$ 117,022	\$ (9,391,275)	\$28,711,371	\$25,430,272

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

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

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