



**WORLD HOPE INTERNATIONAL, INC.  
AND AFFILIATE**

**Consolidated Financial Statements and  
Supplemental Information**

*For the Year Ended December 31, 2014*

**and  
Report Thereon**



**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**TABLE OF CONTENTS**  
**For the Year Ended December 31, 2014**

---

	<i><b>Page</b></i>
Independent Auditor's Report .....	1-2
Consolidated Financial Statements	
Consolidated Statement of Financial Position .....	3
Consolidated Statement of Activities.....	4
Consolidated Statement of Functional Expenses.....	5
Consolidated Statement of Cash Flows .....	6
Notes to Consolidated Financial Statements .....	7-20
Supplemental Information	
Consolidating Statement of Financial Position .....	21
Consolidating Statement of Activities.....	22



*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
World Hope International, Inc. and Affiliate

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of World Hope International, Inc. and Affiliate (collectively known as WHI), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of World Hope International, Inc. and Affiliate as of December 31, 2014, 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.

**Continued**

## Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in the supplemental schedules is 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.



Raffa, P.C.

Washington, DC  
May 26, 2015

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**December 31, 2014**

---

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 376,951
Cash and cash equivalents – field offices	496,920
Cash and cash equivalents – restricted	132,275
Grants and accounts receivable, net	182,607
Pledges receivable – current portion	50,000
Notes receivable – current portion, net	10,053
Prepaid expenses	70,482
Inventory	<u>90,678</u>

Total Current Assets 1,409,966

**Noncurrent Assets**

Pledges receivable – net of current portion	72,699
Notes receivable – net of current portion	63,086
Investments	1,064,990
Property and equipment, net	1,622,372
Deposits and other noncurrent assets	<u>83,399</u>

Total Noncurrent Assets 2,906,546

TOTAL ASSETS \$ 4,316,512

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable and accrued expenses	\$ 245,225
Deferred leasehold incentive – current portion	18,673
Note payable – current portion	201,552
Line of credit	<u>100,000</u>

Total Current Liabilities 565,450

**Noncurrent Liabilities**

Deferred rent	92,782
Deferred leasehold incentive – net of current portion	136,936
Note payable – net of current portion	289,528
Charitable gift annuities	<u>78,071</u>

Total Noncurrent Liabilities 597,317

TOTAL LIABILITIES 1,162,767

**Net Assets**

Unrestricted	
Undesignated	1,245,037
Noncontrolling interest	<u>560,410</u>

Total Unrestricted Net Assets 1,805,447

Temporarily restricted	734,567
Permanently restricted	<u>613,731</u>

TOTAL NET ASSETS 3,153,745

TOTAL LIABILITIES AND NET ASSETS \$ 4,316,512

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

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**For the Year Ended December 31, 2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 2,278,655	\$ 2,780,806	\$ -	\$ 5,059,461
In-kind contributions	2,235,286	-	-	2,235,286
Grants – international sources	874,876	-	-	874,876
Federal grants and contracts	285,128	-	-	285,128
Program income	68,580	-	-	68,580
Other income	40,954	-	-	40,954
Investment income	12,977	9,084	785	22,846
Net assets released from restrictions:				
Satisfaction of time restrictions	188,217	(188,217)	-	-
Satisfaction of purpose restrictions	2,951,709	(2,951,709)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>8,936,382</b>	<b>(350,036)</b>	<b>785</b>	<b>8,587,131</b>
<b>EXPENSES</b>				
Program Services:				
Ebola relief and community health	2,833,405	-	-	2,833,405
Economic development	1,184,577	-	-	1,184,577
Anti-trafficking	973,163	-	-	973,163
Education	768,674	-	-	768,674
Volunteer and other initiatives	646,853	-	-	646,853
Clean water wells and sanitation	633,047	-	-	633,047
Public awareness	344,116	-	-	344,116
Total Program Services	<u>7,383,835</u>	<u>-</u>	<u>-</u>	<u>7,383,835</u>
Supporting Services:				
General and administrative	489,422	-	-	489,422
Fundraising	526,193	-	-	526,193
Total Supporting Services	<u>1,015,615</u>	<u>-</u>	<u>-</u>	<u>1,015,615</u>
<b>TOTAL EXPENSES</b>	<b>8,399,450</b>	<b>-</b>	<b>-</b>	<b>8,399,450</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>536,932</b>	<b>(350,036)</b>	<b>785</b>	<b>187,681</b>
<b>NONOPERATING ACTIVITIES</b>				
Other than temporary impairment on investments	(83,377)	-	-	(83,377)
<b>TOTAL NONOPERATING ACTIVITIES</b>	<b>(83,377)</b>	<b>-</b>	<b>-</b>	<b>(83,377)</b>
<b>CHANGE IN NET ASSETS</b>	<b>453,555</b>	<b>(350,036)</b>	<b>785</b>	<b>104,304</b>
Net loss attributable to noncontrolling interest	(134,618)	-	-	(134,618)
<b>CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.</b>	<b>588,173</b>	<b>(350,036)</b>	<b>785</b>	<b>238,922</b>
<b>NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR</b>	<b>656,864</b>	<b>1,084,603</b>	<b>612,946</b>	<b>2,354,413</b>
<b>NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR</b>	<b>1,245,037</b>	<b>734,567</b>	<b>613,731</b>	<b>2,593,335</b>
<b>NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR</b>	<b>695,028</b>	<b>-</b>	<b>-</b>	<b>695,028</b>
Net losses attributable to noncontrolling interest	(134,618)	-	-	(134,618)
<b>NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR</b>	<b>560,410</b>	<b>-</b>	<b>-</b>	<b>560,410</b>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 1,805,447</b>	<b>\$ 734,567</b>	<b>\$ 613,731</b>	<b>\$ 3,153,745</b>

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

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
For the Year Ended December 31, 2014

	Program Services							Supporting Services			Total
	Ebola Relief and Community Health	Economic Development	Anti- Trafficking	Education	Volunteer and Other Initiatives	Clean Water Wells and Sanitation	Public Awareness	Total Program Services	General and Administrative	Fundraising	
Grants and assistance	\$ 2,747,755	\$ 399,257	\$ 324,360	\$ 440,956	\$ 182,946	\$ 421,263	\$ 1,217	\$ 4,517,754	\$ -	\$ 562	\$ 4,518,316
Salaries, taxes and benefits – headquarters	155	141,217	107,730	175,898	73,570	95,587	186,315	780,472	215,455	200,020	1,195,947
Salaries, taxes and benefits – field offices	26,598	342,741	259,153	31,171	175,320	63,379	-	898,362	-	-	898,362
Professional fees	194	14,650	7,716	8,196	13,131	1,224	21,407	66,518	169,676	112,643	348,837
Occupancy	2,799	48,520	110,696	48,336	74,109	14,277	10,029	308,766	11,988	12,492	333,246
Office expenses	29,516	31,165	46,359	13,628	40,553	8,089	3,414	172,724	34,359	72,603	279,686
Depreciation and amortization	10,407	102,202	48,318	9,187	19,351	8,668	7,895	206,028	9,436	9,208	224,672
Advertising and promotion	7,197	871	972	8,752	-	-	91,238	109,030	335	74,847	184,212
Other expenses	57	56,119	14,015	1,521	1	365	24	72,102	11,326	980	84,408
Information technology	6,162	22,676	28,850	16,060	28,145	11,763	9,587	123,243	12,225	13,839	149,307
Travel	2	24,495	20,598	14,727	38,168	7,329	12,725	118,044	484	28,288	146,816
Insurance	2,549	493	91	-	1,037	1,096	-	5,266	15,630	-	20,896
Conferences, conventions and meetings	14	171	4,305	237	522	7	265	5,521	1,257	711	7,489
Interest	-	-	-	5	-	-	-	5	7,251	-	7,256
<b>TOTAL EXPENSES</b>	<b>\$ 2,833,405</b>	<b>\$ 1,184,577</b>	<b>\$ 973,163</b>	<b>\$ 768,674</b>	<b>\$ 646,853</b>	<b>\$ 633,047</b>	<b>\$ 344,116</b>	<b>\$ 7,383,835</b>	<b>\$ 489,422</b>	<b>\$ 526,193</b>	<b>\$ 8,399,450</b>

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

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2014**  
**Increase (Decrease) in Cash and Cash Equivalents**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 104,304
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Other than temporary impairment on investments	83,377
Interest and dividends restricted for long-term investment	(785)
Depreciation and amortization	224,672
Loss on disposal of property and equipment	2,477
Discount on pledges receivable	(4,584)
Changes in assets and liabilities:	
Grants and accounts receivable	(149,484)
Pledges receivable	184,601
Prepaid expenses	(9,702)
Deposits and other noncurrent assets	(17,319)
Accounts payable and accrued expenses	(25,380)
Refundable advances	(12,338)
Charitable gift annuities	(15,030)
Deferred rent and leasehold incentive	(7,302)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>357,507</u></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	(541,500)
Proceeds from disposal of property and equipment	21,673
Repayment of notes receivable	38,127
Purchases of investments	(9,869)
Proceeds from sales of investments	8,217
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u><u>(483,352)</u></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Investment in permanent endowment	785
Payments of notes payable	(199,249)
Proceeds from line of credit	100,000
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u><u>(98,464)</u></u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(224,309)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,230,455</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 1,006,146</u></u>
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents	\$ 376,951
Cash and cash equivalents – field offices	496,920
Cash and cash equivalents – restricted	132,275
<b>Total Cash and Cash Equivalents</b>	<u><u>\$ 1,006,146</u></u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>	
Interest paid	<u><u>\$ 7,256</u></u>

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



## WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2014

---

#### 1. Organization and Summary of Significant Accounting Policies

##### **Organization**

World Hope International, Inc. (World Hope) is a not-for-profit organization incorporated under the Indiana Non-Profit Corporation Act. World Hope's mission is to alleviate suffering, injustice and poverty. World Hope pursues this mission by identifying and equipping field-based leadership and, with that leadership, implementing responses that are positive and sustainable. These responses address health, volunteer and other initiatives, anti-trafficking, clean water wells and sanitation initiatives, education, public awareness and economic development. The consolidated financial statements include the accounts of World Hope, but do not include the various foreign locations where World Hope may provide some support but over which it has no legal or direct control.

First Step Economic Opportunity Zone, Inc. (First Step) was incorporated in the State of Delaware in June 2009. World Hope has a 65.42% ownership in First Step. The remaining 34.58% is owned by related parties (see Note 13). First Step was established to help bring ethical foreign direct investment to Sierra Leone. First Step is leveraging the substantial presence and experience of World Hope in Sierra Leone to reduce the risks and costs for international business to establish export processing activity in Sierra Leone.

##### **Principles of Consolidation**

The accompanying consolidated financial statements reflect the activities of World Hope and First Step (collectively known as WHI). The financial statements of the organizations have been consolidated because they are under common control and there is an economic interest. All material intercompany balances and transactions have been eliminated during consolidation.

##### **Basis of Accounting and Presentation**

The accompanying consolidated financial statements of WHI have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

##### **Cash and Cash Equivalents**

WHI considers all highly liquid investments, other than amounts held as part of the short-term or long-term investment portfolios, with purchased maturities of three months or less to be cash equivalents. Cash and cash equivalents include amounts in checking accounts and money market funds. Restricted cash relates to WHI's split-interest agreements.

##### **Pledges Receivable**

Promises to give are recognized as revenue when the donor has made an unconditional promise to contribute funds to WHI in future periods. Promises to give are recorded at their net realizable value if expected to be collected in one year or at their present value if expected to be collected in more than one year. Conditional promises to give are recognized

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2014**

---

1. Organization and Summary of Significant Accounting Policies (continued)

**Pledges Receivable (continued)**

when the conditions on which they depend are substantially met. WHI provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to an allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off.

**Notes Receivable**

Notes receivable represent micro-finance loans issued to provide sources of funding to micro-finance institutions (MFI). Notes receivable are recorded when the funds are disbursed. A loan loss reserve is estimated and recorded based on prior collection experience and management's judgment. Interest income is recognized on the accrual basis. A loan becomes overdue when a scheduled payment is missed.

**Investments**

Investments consist of money market funds and an equity investment in a program-related entity. The money market fund investments are recorded at fair value. Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The equity investment in Africa Felix Juice, LLP (AFJ) is carried at the lower of cost or estimated fair value. In accordance with Accounting Standards Codification (ASC) 325-20, *Cost Method Investments*, WHI performs an impairment analysis of its investment in AFJ if factors are observed that may indicate that a decrease in the value of the investment has occurred that is other than temporary, and if necessary, records an impairment loss to the carrying value of the investment.

**Fair Value of Financial Instruments**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic *Fair Value Measurements and Disclosures* defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby market participant assumptions are developed based on market data obtained from independent sources, or unobservable, whereby market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

The three levels of fair value hierarchy are described as follows:

*Level 1* – Based on unadjusted, quoted market prices in active markets for identical assets or liabilities accessible at the measurement date.

Continued

## WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2014

---

#### 1. Organization and Summary of Significant Accounting Policies (continued)

##### **Fair Value of Financial Instruments (continued)**

*Level 2* – Based on inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

*Level 3* – Based on unobservable inputs for the asset or liability including the reporting entity's own assumptions in determining fair value.

As of December 31, 2014, WHI's investments, with the exception of its equity investment in AFJ and its split-interest agreements, were measured at fair value on a recurring basis.

##### **Property and Equipment**

Office and other equipment, furniture and fixtures, vehicles and software are stated at cost and are depreciated or amortized on a straight-line basis over the estimated useful lives of the assets, ranging from three to five years, with no salvage value. Leasehold improvements are stated at cost and are amortized using the straight-line method over the remaining life of the lease. Buildings and improvements are recorded at cost and depreciated over 27.5 years. Expenditures for minor repairs and maintenance costs are expensed when incurred. World Hope capitalizes all property and equipment purchased with a cost of \$5,000 or more, while First Step capitalizes all property and equipment purchased with a cost of \$1,000 or more. Upon retirement or disposal of assets, costs and accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is included in revenue or expenses.

##### **Split-Interest Agreements**

WHI's split interest agreements with donors consist of a charitable gift annuity and an annuity receivable. WHI initially records revenue from charitable gift annuity contributions in the year in which the agreement is executed. The amount of the revenue recognized in the first year is the difference between the amount of the assets received and the fair value of the future cash flows expected to be paid to the designated beneficiaries. In succeeding years, revenue is recorded for the reduction in the present value of future cash payments to the beneficiaries. The charitable gift annuity assets are included in restricted cash and cash equivalents and the liabilities are included in charitable gift annuities in the accompanying consolidated statement of financial position.

##### **Transactions in Foreign Currencies**

WHI conducts many of its programs through field offices in foreign countries and, accordingly, transacts in the local currencies of those countries. These foreign currency transactions are translated into U.S. dollars using methods that make the rate used in the particular field office as close as possible to reality. Translations are made either using a monthly weighted average (based on rates for U.S. dollar-local currency conversions through the bank) or the spot rate (using the exact rate obtained at the bank when a check is cashed). The resulting gain or loss is reflected in expenses in the accompanying consolidated statement of activities. The U.S. dollar is considered the functional and reporting currency of WHI.

Continued

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2014**

---

1. Organization and Summary of Significant Accounting Policies (continued)

**Classification of Net Assets**

The net assets of WHI are reported as follows:

- Undesignated, unrestricted net assets represent the portion of expendable funds that are available for support of WHI's operations.
- The noncontrolling interest of unrestricted net assets represents the ownership interest held by related parties in First Step.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various purposes or periods of time.
- Permanently restricted net assets represent amounts that include donor-imposed restrictions that stipulate that the resources be maintained in perpetuity and that only the investment earnings on such amounts be used in the manner specified by the donor.

**Revenue Recognition**

WHI recognizes all unconditional contributed support in the period in which the commitment is made. Grants and contributions are considered unrestricted and are available for operations unless specifically restricted by the donor. WHI reports gifts of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or a purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

WHI has cost-reimbursable grants and contracts with U.S. government agencies and other organizations. Revenue from these grants and contracts is recognized as costs are incurred on the basis of direct costs plus allowable indirect costs. Direct and indirect expenses incurred but not reimbursed under these grants and contracts are reported as part of grants and accounts receivable in the accompanying consolidated statement of financial position.

Program income is recognized when earned and represents interest income on notes receivable, as well as rental and consulting income generated by First Step. Amounts which have not been collected as of year-end are included in grants and accounts receivable in the accompanying consolidated statement of financial position net of any anticipated losses due to uncollectible accounts.

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2014**

---

1. Organization and Summary of Significant Accounting Policies (continued)

**In-Kind Contributions**

In-kind contributions received by WHI consist of clothing, hygiene products, equipment, and drugs and medicines and are recorded as in-kind contributions in the accompanying consolidated statement of activities at the estimated fair value at the time of receipt. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Upon donation to a donee organization, the materials are expensed at the estimated fair value at their time of donation to WHI and are included in grants and assistance in the accompanying consolidated statement of functional expenses.

WHI's programs are also furthered by a substantial number of nonprofessional volunteers who have donated their services to WHI. The value of these services is not reflected in the accompanying consolidated financial statements because they do not meet the criteria for recognition under GAAP.

**Functional Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of functional expenses. Direct costs associated with specific programs are recorded as program expenses. Indirect costs are allocated to specific programs based on salary allocations.

**Estimates**

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Pledges Receivable

Pledges receivable as of December 31, 2014 are deemed fully collectible and are expected to be due as follows:

Due in less than one year	\$ 50,000
Due in one to five years	<u>75,000</u>
Total Pledges Receivable	125,000
Less: Discount to Present Value	<u>(2,301)</u>
Net Pledges Receivable	<u>\$ 122,699</u>

Continued

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

---

3. Notes Receivable

Notes receivable consisted of the following as of December 31, 2014:

Notes receivable issued to Koperasi Harapan Sejahtera, Indonesia, through September 2020, interest of 7.25% per annum	\$ 23,816
Notes receivable issued to Koperasi Harapan Sejahtera, Indonesia, through December 2020, interest of 7.25% per annum	24,674
Notes receivable issued to Koperasi Harapan Sejahtera, Indonesia, through April 2021, interest of 7.25% per annum	<u>24,649</u>
Total	73,139
Less: Current Portion	<u>(10,053)</u>
Long-Term Portion	<u>\$ 63,086</u>

Interest income earned on notes receivable was \$6,561 for the year ended December 31, 2014, and is reported as part of program income in the accompanying consolidated statement of activities.

The ending balances of notes receivable are individually evaluated for impairment. A loan loss reserve is established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Loan balances are written off only when they are deemed to be permanently uncollectible. The credit quality indicator for notes receivable is determined by repayment status and delinquency status. As of December 31, 2014, all of WHI's notes receivable were in current payment status.

4. Investments

As of December 31, 2014, investments consisted of the following:

Money market funds – endowment funds and earnings	\$ 618,867
Equity investment in Africa Felix Juice, LLP (27% share)	<u>446,123</u>
Total	<u>\$ 1,064,990</u>

Investment income primarily consisted of interest and dividend income and totaled \$22,846 for the year ended December 31, 2014.

During 2014, a new investor purchased shares in AFJ at a valuation per share which was less than the carrying value of First Step's investment in AFJ. As a result, WHI's management performed an impairment valuation on its investment in AFJ and recorded an impairment loss totaling \$83,377 for the year ended December 31, 2014.

Continued

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

5. Fair Value Measurements

The following table summarizes WHI's assets and liabilities measured at fair value on a recurring basis as of December 31, 2014, aggregated by the fair value hierarchy level with which those measurements were made:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets:</b>				
Investments:				
Money market funds	\$ 618,867	\$ 618,867	\$ -	\$ -
Deposits and other noncurrent assets:				
Annuity receivable	<u>31,415</u>	<u>-</u>	<u>31,415</u>	<u>-</u>
<b>Total Assets</b>	<b><u>\$ 650,282</u></b>	<b><u>\$ 618,867</u></b>	<b><u>\$ 31,415</u></b>	<b><u>\$ -</u></b>
<b>Liabilities:</b>				
Charitable gift annuities	<u>\$ 93,100</u>	<u>\$ -</u>	<u>\$ 93,100</u>	<u>\$ -</u>
<b>Total Liabilities</b>	<b><u>\$ 93,100</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 93,100</u></b>	<b><u>\$ -</u></b>

WHI used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

*Money market funds* – Valued at the quoted market price of the fund which represents the net asset value of the share held by the fund at year-end.

*Annuity receivable and charitable gift annuity* – Revalued annually by calculating the present value based on the current appraised value of the investments, the donor's life expectancy and a discount rate.

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2014**

---

6. Property and Equipment and Accumulated Depreciation and Amortization

WHI held the following property and equipment as of December 31, 2014:

Land and improvements	\$ 519,067
Buildings and improvements	388,583
Software	301,110
Vehicles	614,184
Leasehold improvements	244,766
Office and other equipment	222,599
Furniture and fixture	<u>27,867</u>
Total Property and Equipment	2,318,176
Less: Accumulated Depreciation and Amortization	<u>(721,446)</u>
	1,596,730
Construction in progress	<u>25,642</u>
Property and Equipment, Net	<u><u>\$ 1,622,372</u></u>

Depreciation and amortization expense amounted to \$224,672 for the year ended December 31, 2014.

7. Notes Payable

As of December 31, 2014, WHI had an unsecured note payable that is noninterest-bearing and carries an imputed interest rate of 1.15%. The note is due in 60 monthly installments of \$17,208 starting June 1, 2012. The balance due on the note payable was \$491,080 as of December 31, 2014.

As of December 31, 2014, the scheduled maturities, including the imputed interest payments, are as follows:

For the Year Ending <u>December 31,</u>	
2015	\$ 206,500
2016	206,500
2017	<u>86,040</u>
Total	499,040
Less: Imputed Interest	<u>(7,960)</u>
Total	<u><u>\$ 491,080</u></u>

Interest expense for this note payable totaled \$7,256 for the year ended December 31, 2014.

Continued



**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

---

8. Commitments and Contingencies

**Office Leases**

In January 2013, World Hope entered into a noncancelable ten-year lease agreement for its headquarters office space, commencing on May 1, 2013 and expiring on April 30, 2023. Under the terms of the lease, WHI is committed to annual rentals, adjusted for defined escalations of 2.5% annually, and its share of the building's operating expenses. As an inducement to this lease, the landlord provided WHI with a leasehold construction allowance of \$186,730.

Under GAAP, lease incentives and all rental payments, including fixed rent increases, are amortized over the life of the lease on a straight-line basis as a reduction to rent expense. The difference between the GAAP rent expense and the required lease payment is reflected as deferred rent liability in the accompanying consolidated statement of financial position.

Office rent expense for its headquarters amounted to \$105,915 for the year ended December 31, 2014, and is included as part of occupancy expense in the accompanying consolidated statement of functional expenses.

Total future minimum lease payments under the lease are as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2015	\$ 121,549
2016	124,584
2017	127,702
2018	130,894
2019	134,167
Thereafter	<u>471,519</u>
Total	<u>\$ 1,110,415</u>

WHI also leases office space in various countries under short-term lease agreements that allow for cancellation with minimal cost and at WHI's discretion.

**Facility Lease**

First Step leases space to a related party tenant, AFJ, under a noncancelable operating lease agreement expiring in 2026. Contractual monthly payments were reduced to \$2,000 effective July 1, 2013.

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2014**

---

8. Commitments and Contingencies (continued)

**Facility Lease (continued)**

The aggregate minimum annual rental revenues are as follows:

<u>For the Year Ending December 31,</u>	
2015	\$ 24,000
2016	24,000
2017	24,000
2018	24,000
2019	24,000
Thereafter	<u>156,000</u>
Total	<u>\$ 276,000</u>

**Foreign Operations**

WHI has or had field offices in Cambodia, Sierra Leone, Azerbaijan, Mozambique and Bosnia during the year ended December 31, 2014. WHI maintains cash, accounts receivable, fixed assets and other assets in each of these countries. The future of these programs can be adversely affected by a number of potential factors, such as devaluations or changes in the political climate. As of December 31, 2014, WHI had assets in these countries totaling approximately \$2,708,000, representing approximately 63% of WHI's total consolidated assets.

9. Pension Plan

WHI sponsors a defined contribution annuity retirement plan for all employees. If an employee is eligible to participate in the plan and elects to participate, WHI contributes 4% of the participating employee's annual compensation to the plan. Pension expense totaled \$21,278 for the year ended December 31, 2014, and is included as part of salaries, taxes and benefits in the accompanying consolidated schedule of functional expenses.

10. Temporarily Restricted Net Assets

As of December 31, 2014, temporarily restricted net assets are available for use in the following programs:

Clean water wells and sanitation	\$ 383,678
Education	189,466
Health, volunteer and other initiatives	122,734
Economic development	33,553
Time restricted	<u>5,136</u>
Total	<u>\$ 734,567</u>

Continued

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

---

11. Endowment Funds

Permanently restricted net assets consist of two donor-restricted endowment funds. The income from the funds is to be used to fund specific donor purposes, to fund operations, or to be reinvested in the fund. As required by GAAP, net assets associated with donor-restricted funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

WHI has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) not to limit spending from the endowment fund to “interest and dividends” earned, but to allow WHI to elect to spend a portion of the overall value of the fund after considering the factors listed below, keeping in mind the permanent duration of the fund. To date, WHI has not made such an election and has instead taken a very prudent and conservative approach. WHI has pursued a spending policy not to release more than the interest and dividend income annually on the original value of the gifts donated to start the permanent endowment and the original value of subsequent gifts to the permanent endowment. The realized and unrealized gains and losses, if any, are included in the temporarily restricted net assets of the endowment portfolio.

Section 55-268.14(A) of the Virginia UPMIFA eliminates the concept of historical dollar value and instead provides that an institution may adopt a spending policy that will preserve the purchasing power of the “principal” while distributing as “income” a reasonable amount in light of investment performance and general economic conditions. The statute lists a number of factors to be considered in adopting a spending policy:

- The duration and preservation of the fund.
- The purposes of WHI and the donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of WHI.
- The investment policies of WHI.

**Endowment Composition**

As of December 31, 2014, WHI’s endowment had the following net asset composition:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ 5,136	\$ 613,731	\$ 618,867
Total Endowment Funds	<u>\$ 5,136</u>	<u>\$ 613,731</u>	<u>\$ 618,867</u>

Continued

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2014**

11. Endowment Funds (continued)

**Endowment Activity**

Changes in endowment net assets were as follows for the year ended December 31, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,269	\$ 612,946	\$ 617,215
Investment income	9,084	785	9,869
Appropriations	(8,217)	-	(8,217)
Endowment net assets, end of year	\$ 5,136	\$ 613,731	\$ 618,867

**Permanently Restricted Net Assets**

The portion of perpetual endowment funds that is required to be retained permanently, either by explicit donor stipulation or by UPMIFA

\$ 613,731

**Temporarily Restricted Net Assets**

The portion of perpetual endowment funds subject to a time restriction under UPMIFA:

With purpose restrictions	\$ -
Without purpose restrictions	5,136

Total Endowment Funds Classified as Temporarily  
Restricted Net Assets

\$ 5,136

**Funds with Deficiencies**

From time to time, the fair value of assets associated with an individual donor-restricted endowment fund may fall below the level that the donor or UPMIFA requires WHI to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2014.

**Investment Objectives and Spending Policy**

Endowment funds are invested in money market funds to protect the corpus of the gift and to ensure that there is a continuous annual stream of interest income to fund endowment spending. Currently, WHI does not have a spending policy. Spending is in accordance with the terms of the donor agreement and limited by the amount of investment income generated on an annual basis.

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

---

12. Income Taxes

World Hope is exempt from payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes was required for the year ended December 31, 2014.

First Step is subject to federal and state income taxes. For the year ended December 31, 2014, First Step had a net operating loss and has a cumulative net operating loss carryforward from prior years that is available to offset taxable income through 2033. No deferred tax asset has been recorded related to the net operating loss carryforwards as management believes that the future taxable income required to realize the deferred tax asset is uncertain at this time.

WHI follows the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic *Income Taxes*. These provisions provide consistent guidance for accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. WHI performed an evaluation of uncertain tax positions for the year ended December 31, 2014, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of December 31, 2014, the statute of limitations for tax years 2011 through 2013 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which WHI files tax returns. It is WHI's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2014, WHI had no accruals for interest and/or penalties.

13. Related Parties

Two of World Hope's board members own shares of First Step and control a combined 34.58% of First Step's shares as of December 31, 2014. World Hope and those board members of World Hope together own 100% of First Step.

As of December 31, 2014, First Step had a 27% equity investment in AFJ (see Note 4). In addition, First Step is committed to lease facilities in its enterprise zone to AFJ (see Note 8).

In 2014, a World Hope board member provided a \$250,000 line of credit to WHI to be used for working capital required to fund cost-reimbursable government grants. The line of credit is secured by the receivables from the government grants that were prefunded against the line of credit and is due 30 days after the final payment from the cost-reimbursable government grants. As of December 31, 2014, WHI had a \$100,000 outstanding balance due on this line of credit.

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2014**

---

14. Subsequent Events

In preparing these consolidated financial statements, WHI has evaluated events and transactions for potential recognition or disclosure through May 26, 2015, the date the consolidated financial statements were available to be issued. There were no subsequent events identified required to be recognized or disclosed in the consolidated financial statements.

**SUPPLEMENTAL INFORMATION**

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**  
**December 31, 2014**

	World Hope International, Inc.	First Step Economic Opportunity Zone, Inc.	Eliminations	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 374,486	\$ 2,465	\$ -	\$ 376,951
Cash and cash equivalents – field offices	491,702	5,218	-	496,920
Cash and cash equivalents – restricted	132,275	-	-	132,275
Grants and accounts receivable, net	229,353	24,827	(71,573)	182,607
Pledges receivable – current portion	50,000	-	-	50,000
Notes receivable – current portion, net	10,053	-	-	10,053
Prepaid expenses	49,429	21,053	-	70,482
Inventory	-	90,678	-	90,678
Total Current Assets	<u>1,337,298</u>	<u>144,241</u>	<u>(71,573)</u>	<u>1,409,966</u>
<b>Noncurrent Assets</b>				
Pledges receivable – net of current portion	72,699	-	-	72,699
Notes receivable – net of current portion	63,086	-	-	63,086
Investments	1,351,319	446,123	(732,452)	1,064,990
Property and equipment, net	831,662	790,710	-	1,622,372
Deposits and other noncurrent assets	83,399	-	-	83,399
Total Noncurrent Assets	<u>2,402,165</u>	<u>1,236,833</u>	<u>(732,452)</u>	<u>2,906,546</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,739,463</u></u>	<u><u>\$ 1,381,074</u></u>	<u><u>\$ (804,025)</u></u>	<u><u>\$ 4,316,512</u></u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	\$ 228,586	\$ 88,212	(71,573)	\$ 245,225
Deferred leasehold incentive – current portion	18,673	-	-	18,673
Note payable – current portion	201,552	-	-	201,552
Line of credit	100,000	-	-	100,000
Total Current Liabilities	<u>548,811</u>	<u>88,212</u>	<u>(71,573)</u>	<u>565,450</u>
<b>Noncurrent Liabilities</b>				
Deferred rent	92,782	-	-	92,782
Deferred leasehold incentive – net of current portion	136,936	-	-	136,936
Note payable – net of current portion	289,528	-	-	289,528
Charitable gift annuities	78,071	-	-	78,071
Total Noncurrent Liabilities	<u>597,317</u>	<u>-</u>	<u>-</u>	<u>597,317</u>
<b>TOTAL LIABILITIES</b>	<u>1,146,128</u>	<u>88,212</u>	<u>(71,573)</u>	<u>1,162,767</u>
<b>Net Assets</b>				
<b>Unrestricted</b>				
Undesignated	1,245,037	-	-	1,245,037
Noncontrolling interest	-	-	560,410	560,410
Total Unrestricted Net Assets	<u>1,245,037</u>	<u>-</u>	<u>560,410</u>	<u>1,805,447</u>
Temporarily restricted	734,567	-	-	734,567
Permanently restricted	613,731	-	-	613,731
Common stock	-	1	(1)	-
Additional paid-in capital	-	3,498,287	(3,498,287)	-
Accumulated deficit	-	(2,205,426)	2,205,426	-
<b>TOTAL NET ASSETS</b>	<u>2,593,335</u>	<u>1,292,862</u>	<u>(732,452)</u>	<u>3,153,745</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 3,739,463</u></u>	<u><u>\$ 1,381,074</u></u>	<u><u>\$ (804,025)</u></u>	<u><u>\$ 4,316,512</u></u>



**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**

**CONSOLIDATING STATEMENT OF ACTIVITIES**

**For the Year Ended December 31, 2014**

	<u>World Hope International, Inc.</u>	<u>First Step Economic Opportunity Zone, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 5,059,461	\$ -	\$ -	\$ 5,059,461
In-kind contributions	2,235,286	-	-	2,235,286
Grants – international sources	874,876	-	-	874,876
Federal grants and contracts	285,128	-	-	285,128
Program income	38,554	30,026	-	68,580
Other income	35,422	5,532	-	40,954
Investment income (loss)	<u>(231,677)</u>	<u>-</u>	<u>254,523</u>	<u>22,846</u>
<b>TOTAL REVENUE AND SUPPORT</b>	<u>8,297,050</u>	<u>35,558</u>	<u>254,523</u>	<u>8,587,131</u>
<b>EXPENSES</b>				
<b>Program Services:</b>				
Ebola relief and community health	2,833,405	-	-	2,833,405
Economic development	843,255	341,322	-	1,184,577
Anti-trafficking	973,163	-	-	973,163
Education	768,674	-	-	768,674
Volunteer and other initiatives	646,853	-	-	646,853
Clean water wells and sanitation	633,047	-	-	633,047
Public awareness	<u>344,116</u>	<u>-</u>	<u>-</u>	<u>344,116</u>
<b>Total Program Services</b>	<u>7,042,513</u>	<u>341,322</u>	<u>-</u>	<u>7,383,835</u>
<b>Supporting Services:</b>				
General and administrative	489,422	-	-	489,422
Fundraising	<u>526,193</u>	<u>-</u>	<u>-</u>	<u>526,193</u>
<b>Total Supporting Services</b>	<u>1,015,615</u>	<u>-</u>	<u>-</u>	<u>1,015,615</u>
<b>TOTAL EXPENSES</b>	<u>8,058,128</u>	<u>341,322</u>	<u>-</u>	<u>8,399,450</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<u>238,922</u>	<u>(305,764)</u>	<u>254,523</u>	<u>187,681</u>
<b>NONOPERATING ACTIVITIES</b>				
Other than temporary impairment on investments	<u>-</u>	<u>(83,377)</u>	<u>-</u>	<u>(83,377)</u>
<b>TOTAL NONOPERATING ACTIVITIES</b>	<u>-</u>	<u>(83,377)</u>	<u>-</u>	<u>(83,377)</u>
<b>CHANGE IN NET ASSETS</b>	238,922	(389,141)	254,523	104,304
Additional paid-in capital	-	204,995	(204,995)	-
Net loss attributable to noncontrolling interest	<u>-</u>	<u>-</u>	<u>(134,618)</u>	<u>(134,618)</u>
<b>CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.</b>	238,922	(184,146)	184,146	238,922
<b>NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR</b>	<u>2,354,413</u>	<u>250,937</u>	<u>(250,937)</u>	<u>2,354,413</u>
<b>NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR</b>	<u>2,593,335</u>	<u>66,791</u>	<u>(66,791)</u>	<u>2,593,335</u>
<b>NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR</b>	-	1,226,071	(531,043)	695,028
Net losses attributable to noncontrolling interest	<u>-</u>	<u>-</u>	<u>(134,618)</u>	<u>(134,618)</u>
<b>NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR</b>	<u>-</u>	<u>1,226,071</u>	<u>(665,661)</u>	<u>560,410</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 2,593,335</u>	<u>\$ 1,292,862</u>	<u>\$ (732,452)</u>	<u>\$ 3,153,745</u>