



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

**Consolidated Financial Statements and  
Supplemental Information**

*For the Year Ended December 31, 2015*

**and  
Report Thereon**



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

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**For the Year Ended December 31, 2015**

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*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, 2015, 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, 2015, 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 Consolidating 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 of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities, and it 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 consolidating 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Raffa, P.C.*

**Raffa, P.C.**

Washington, DC  
May 4, 2016

**WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**December 31, 2015**

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**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 412,353
Cash and cash equivalents – field offices	150,828
Cash and cash equivalents – restricted	114,281
Grants and accounts receivable, net	238,788
Pledges receivable	50,000
Notes receivable – current portion, net	3,081
Prepaid expenses	78,744
Inventory	<u>162,716</u>

Total Current Assets 1,210,791

**Noncurrent Assets**

Notes receivable – net of current portion	16,250
Investments	620,018
Property and equipment, net	1,420,584
Deposits and other noncurrent assets	<u>79,564</u>

Total Noncurrent Assets 2,136,416

**TOTAL ASSETS** \$ 3,347,207

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts payable and accrued expenses	\$ 279,188
Refundable advances	76,564
Deferred rent – current portion	2,468
Deferred leasehold incentive – current portion	18,673
Note payable – current portion	<u>203,882</u>

Total Current Liabilities 580,775

**Noncurrent Liabilities**

Deferred rent – net of current portion	90,881
Deferred leasehold incentive – net of current portion	118,263
Note payable – net of current portion	85,646
Charitable gift annuities	<u>63,041</u>

Total Noncurrent Liabilities 357,831

**TOTAL LIABILITIES** 938,606

**Net Assets**

Unrestricted	
Undesignated	1,093,965
Noncontrolling interest	<u>332,699</u>

Total Unrestricted Net Assets 1,426,664

Temporarily restricted	367,055
Permanently restricted	<u>614,882</u>

**TOTAL NET ASSETS** 2,408,601

**TOTAL LIABILITIES AND NET ASSETS** \$ 3,347,207

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, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 2,755,757	\$ 2,230,461	\$ -	\$ 4,986,218
In-kind contributions	2,514,751	-	-	2,514,751
International grants	2,139,907	-	-	2,139,907
Federal grants and contracts	443,544	-	-	443,544
Program income	75,447	-	-	75,447
Other income	37,861	-	-	37,861
Investment income, net	10,432	7,970	1,151	19,553
Net assets released from restrictions:				
Satisfaction of time restrictions	92,969	(92,969)	-	-
Satisfaction of purpose restrictions	2,512,974	(2,512,974)	-	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>10,583,642</b>	<b>(367,512)</b>	<b>1,151</b>	<b>10,217,281</b>
<b>EXPENSES</b>				
Program Services:				
Ebola relief and community health	4,150,459	-	-	4,150,459
Volunteer and other initiatives	1,210,351	-	-	1,210,351
Anti-trafficking	1,074,876	-	-	1,074,876
Clean water wells and sanitation	855,712	-	-	855,712
Economic development	823,751	-	-	823,751
Education	775,486	-	-	775,486
Public awareness	379,925	-	-	379,925
Total Program Services	<u>9,270,560</u>	<u>-</u>	<u>-</u>	<u>9,270,560</u>
Supporting Services:				
General and administrative	368,676	-	-	368,676
Fundraising	877,066	-	-	877,066
Total Supporting Services	<u>1,245,742</u>	<u>-</u>	<u>-</u>	<u>1,245,742</u>
<b>TOTAL EXPENSES</b>	<b>10,516,302</b>	<b>-</b>	<b>-</b>	<b>10,516,302</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>67,340</b>	<b>(367,512)</b>	<b>1,151</b>	<b>(299,021)</b>
<b>NONOPERATING ACTIVITIES</b>				
Other than temporary impairment on investments	(446,123)	-	-	(446,123)
<b>TOTAL NONOPERATING ACTIVITIES</b>	<b>(446,123)</b>	<b>-</b>	<b>-</b>	<b>(446,123)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(378,783)</b>	<b>(367,512)</b>	<b>1,151</b>	<b>(745,144)</b>
Net loss attributable to noncontrolling interest	(227,711)	-	-	(227,711)
<b>CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.</b>	<b>(151,072)</b>	<b>(367,512)</b>	<b>1,151</b>	<b>(517,433)</b>
<b>NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR</b>	<b>1,245,037</b>	<b>734,567</b>	<b>613,731</b>	<b>2,593,335</b>
<b>NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR</b>	<b>1,093,965</b>	<b>367,055</b>	<b>614,882</b>	<b>2,075,902</b>
<b>NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR</b>	<b>560,410</b>	<b>-</b>	<b>-</b>	<b>560,410</b>
Net losses attributable to noncontrolling interest	(227,711)	-	-	(227,711)
<b>NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR</b>	<b>332,699</b>	<b>-</b>	<b>-</b>	<b>332,699</b>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<b>\$ 1,426,664</b>	<b>\$ 367,055</b>	<b>\$ 614,882</b>	<b>\$ 2,408,601</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, 2015

	Program Services							Supporting Services			Total
	Ebola Relief and Community Health	Volunteer and Other Initiatives	Anti-Trafficking	Clean Water Wells and Sanitation	Economic Development	Education	Public Awareness	Total Program Services	General and Administrative	Fundraising	
Grants and assistance	\$ 3,552,808	\$ 845,798	\$ 359,768	\$ 500,283	\$ 206,484	\$ 406,899	\$ 500	\$ 5,872,540	\$ -	\$ -	\$ 5,872,540
Salaries, taxes and benefits – headquarters	107,975	22,246	117,324	98,607	89,308	161,567	170,630	767,657	132,350	347,687	1,247,694
Salaries, taxes and benefits – field offices	242,392	141,506	312,655	123,523	152,792	44,499	-	1,017,367	-	-	1,017,367
Professional fees	2,444	5,638	8,054	7,115	418	16,717	20,001	60,387	141,897	178,946	381,230
Office expenses	99,232	46,553	52,483	14,176	13,870	18,412	4,280	249,006	34,720	82,262	365,988
Depreciation and amortization	83,240	7,329	37,797	61,385	114,611	8,491	7,307	320,160	5,710	15,346	341,216
Advertising and promotion	13,422	4,855	4,927	1,935	2,480	39,437	149,106	216,162	531	120,111	336,804
Occupancy	23,750	49,307	113,235	18,460	13,152	42,132	9,541	269,577	8,254	24,262	302,093
Information technology	19,670	28,325	46,131	18,093	12,875	22,129	11,635	158,858	8,569	27,278	194,705
Travel	3,779	35,864	18,794	10,946	3,552	13,873	6,532	93,340	2,236	69,390	164,966
Other expenses	-	22,230	1,986	1,057	38,917	1,043	328	65,561	9,234	7,028	81,823
Loss on write-off of inventory	-	-	-	-	90,678	-	-	90,678	-	-	90,678
Bad debts	-	-	-	-	58,595	-	-	58,595	-	-	58,595
Loss on disposal of property and equipment	-	-	-	-	25,642	-	-	25,642	-	-	25,642
Insurance	1,656	-	225	-	-	-	-	1,881	19,787	-	21,668
Conferences, conventions and meetings	91	700	1,497	132	377	287	65	3,149	441	4,756	8,346
Interest	-	-	-	-	-	-	-	-	4,947	-	4,947
<b>TOTAL EXPENSES</b>	<b>\$ 4,150,459</b>	<b>\$ 1,210,351</b>	<b>\$ 1,074,876</b>	<b>\$ 855,712</b>	<b>\$ 823,751</b>	<b>\$ 775,486</b>	<b>\$ 379,925</b>	<b>\$ 9,270,560</b>	<b>\$ 368,676</b>	<b>\$ 877,066</b>	<b>\$ 10,516,302</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, 2015**

**Increase (Decrease) in Cash and Cash Equivalents**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ (745,144)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Other than temporary impairment on investments	446,123
Depreciation and amortization	341,216
Loss on write-off on inventory	90,678
Donated property and equipment	(53,875)
Bad debts	58,595
Loss on disposal of property and equipment	25,642
Interest and dividends restricted for long-term investment	(1,151)
Discount on pledges receivable	(2,301)
Changes in assets and liabilities:	
Grants and accounts receivable	(76,551)
Pledges receivable	75,000
Prepaid expenses	(8,262)
Inventory	(162,716)
Deposits and other noncurrent assets	3,835
Accounts payable and accrued expenses	1,962
Refundable advances	76,564
Charitable gift annuities	(15,029)
Deferred rent and leasehold incentive	(18,106)
	<u>36,480</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of property and equipment	(79,195)
Repayment of notes receivable	15,583
Purchases of investments	(1,151)
	<u>(64,763)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Investment in permanent endowment	1,151
Payments of notes payable	(201,552)
Payments of line of credit	(100,000)
	<u>(300,401)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	
	(328,684)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,006,146</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 677,462</u>
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents	\$ 412,353
Cash and cash equivalents – field offices	150,828
Cash and cash equivalents – restricted	114,281
	<u>\$ 677,462</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>	
Interest paid	<u>\$ 4,947</u>
<b>NONCASH TRANSACTIONS</b>	
Additions to property and equipment not yet paid	<u>\$ 32,000</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, 2015

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#### 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 12). 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 when the

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2015**

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

**Pledges Receivable (continued)**

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. As of December 31, 2015, WHI had a \$50,000 pledge receivable which was due in less than one year and which management deemed to be fully collectible.

**Notes Receivable**

Notes receivable represent micro-finance loans issued to provide sources of funding to micro-finance institutions. 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.

**Inventory**

Inventory is stated at the lower of cost or market using the first-in, first-out (FIFO) method. As of December 31, 2015, inventory comprised mostly of supplies and equipment used mainly for the wells program.

**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 Financial Accounting Standards Board (FASB) 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**

FASB ASC Topic 820, *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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2015**

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

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

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.

*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, 2015, 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.

## WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2015

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

##### **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.

##### **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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2015**

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

**Revenue Recognition (continued)**

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.

**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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2015**

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2. Notes Receivable

Notes receivable consisted of the following as of December 31, 2015:

Notes receivable issued to Koperasi Harapan Sejahtera, Indonesia, through April 2021, interest of 7.25% per annum	\$ 19,331
Less: Current Portion	<u>(3,081)</u>
Long-Term Portion	<u>\$ 16,250</u>

Interest income earned on notes receivable was \$4,648 for the year ended December 31, 2015, 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. For the year ended December 31, 2015, WHI wrote off \$38,225 of uncollectible notes receivable.

3. Investments

As of December 31, 2015, investments consisted of money market funds totaling \$620,018. These investments are related to two donor-restricted endowment funds and earnings from the funds, totaling \$9,121, which is to be used to fund specific donor purposes, to fund operations, or to be reinvested in the fund.

Due to the Ebola crisis in Sierra Leone, AFJ suspended its operations and defaulted on a loan from a member of World Hope's Board of Directors, who is also a shareholder of First Step. As AFJ is not deemed a going concern without additional equity capital, WHI's management performed an impairment valuation on its investment in AFJ and recorded an impairment loss for the full amount of its investment in AFJ totaling \$446,123 for the year ended December 31, 2015.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2015**

4. Fair Value Measurements

The following table summarizes WHI's assets and liabilities measured at fair value on a recurring basis as of December 31, 2015, 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	\$ 620,018	\$ -	\$ 620,018	\$ -
Deposits and other noncurrent assets:				
Annuity receivable	<u>29,293</u>	<u>-</u>	<u>29,293</u>	<u>-</u>
<b>Total Assets</b>	<b><u>\$ 649,311</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 649,311</u></b>	<b><u>\$ -</u></b>
<b>Liabilities:</b>				
Charitable gift annuities	<u>\$ 78,071</u>	<u>\$ -</u>	<u>\$ 78,071</u>	<u>\$ -</u>
<b>Total Liabilities</b>	<b><u>\$ 78,071</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 78,071</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* – These are subject to certain restrictions and generally have no established trading market. Fair value is determined based on the net asset value of the share held by the fund at year-end.

*Annuity receivable and charitable gift annuities* – These are 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.

Effective January 1, 2015, WHI transferred its money market funds from Level 1 to Level 2 based upon a reassessment of the underlying observable inputs for valuing the investment.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2015**

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5. Property and Equipment and Accumulated Depreciation and Amortization

WHI held the following property and equipment as of December 31, 2015:

Land and improvements	\$ 519,067
Buildings and improvements	388,583
Software	301,110
Vehicles	712,366
Leasehold improvements	225,148
Office and other equipment	309,106
Furniture and fixture	<u>27,867</u>
Total Property and Equipment	2,483,247
Less: Accumulated Depreciation and Amortization	<u>(1,062,663)</u>
Property and Equipment, Net	<u>\$ 1,420,584</u>

Depreciation and amortization expense amounted to \$341,216 for the year ended December 31, 2015.

6. Notes Payable

As of December 31, 2015, 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 \$289,528 as of December 31, 2015.

As of December 31, 2015, the scheduled maturities, including the imputed interest payments, were as follows:

For the Year Ending December 31,	
2016	\$ 206,500
2017	<u>86,540</u>
Total	292,540
Less: Imputed Interest	<u>(3,512)</u>
Total	<u>\$ 289,528</u>

Interest expense for this note payable totaled \$4,947 for the year ended December 31, 2015.

Continued



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
For the Year Ended December 31, 2015**

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7. 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 World Hope's headquarters amounted to \$112,245 for the year ended December 31, 2015, 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 December 31,</u>	
2016	\$ 124,584
2017	127,702
2018	130,894
2019	134,167
2020	137,521
Thereafter	<u>333,998</u>
Total	<u>\$ 988,866</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, 2015**

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7. Commitments and Contingencies (continued)

**Facility Lease (continued)**

The future aggregate minimum annual rental revenues are as follows:

<u>For the Year Ending December 31,</u>	
2016	\$ 24,000
2017	24,000
2018	24,000
2019	24,000
2020	24,000
Thereafter	<u>132,000</u>
Total	<u>\$ 252,000</u>

**Concentration of Credit Risk**

WHI maintains its cash and cash equivalents with certain commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$250,000 per depositor per institution. As of December 31, 2015, WHI exceeded the maximum limit insured by the FDIC by approximately \$167,000. WHI monitors the creditworthiness of these institutions and has not experienced any credit losses on its cash and cash equivalents.

**Foreign Operations**

WHI has or had field offices in Cambodia, Sierra Leone, Azerbaijan, Liberia, Mozambique and Bosnia during the year ended December 31, 2015. 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, 2015, WHI had assets in these countries totaling approximately \$1,656,000, representing approximately 49% of WHI's total consolidated assets.

8. 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 \$18,351 for the year ended December 31, 2015, and is included as part of salaries, taxes and benefits in the accompanying consolidated schedule of functional expenses.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2015**

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9. Temporarily Restricted Net Assets

As of December 31, 2015, temporarily restricted net assets were available for use in the following programs:

Clean water wells and sanitation	\$ 361,919
Time-restricted	<u>5,136</u>
Total	<u>\$ 367,055</u>

10. 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.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2015**

10. Endowment Funds (continued)

**Endowment Composition**

As of December 31, 2015, WHI's endowment had the following net asset composition:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ 5,136	\$ 614,882	\$ 620,018
Total Endowment Funds	<u>\$ 5,136</u>	<u>\$ 614,882</u>	<u>\$ 620,018</u>

**Endowment Activity**

Changes in endowment net assets were as follows for the year ended December 31, 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,136	\$ 613,731	\$ 618,867
Investment income	7,970	1,151	9,121
Appropriations	<u>(7,970)</u>	<u>-</u>	<u>(7,970)</u>
Endowment net assets, end of year	<u>\$ 5,136</u>	<u>\$ 614,882</u>	<u>\$ 620,018</u>

**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

\$ 614,882

**Temporarily Restricted Net Assets**

The portion of perpetual endowment funds subject to a time restriction under UPMIFA, without purpose restrictions

\$ 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, 2015.

**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.

Continued

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2015**

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11. 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, 2015.

First Step is subject to federal and state income taxes. For the year ended December 31, 2015, 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 2034. 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 FASB ASC Topic 740, *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, 2015, 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, 2015, the statute of limitations for tax years 2012 through 2014 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, 2015, WHI had no accruals for interest and/or penalties.

12. 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, 2015. World Hope and those board members of World Hope together own 100% of First Step.

13. Subsequent Events

In preparing these consolidated financial statements, WHI has evaluated events and transactions for potential recognition or disclosure through May 4, 2016, 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, 2015**

	World Hope International, Inc.	First Step Economic Opportunity Zone, Inc.	Eliminations	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 411,093	\$ 1,260	\$ -	\$ 412,353
Cash and cash equivalents – field offices	147,831	2,997	-	150,828
Cash and cash equivalents – restricted	114,281	-	-	114,281
Grants and accounts receivable, net	275,614	17,410	(54,236)	238,788
Pledges receivable	50,000	-	-	50,000
Notes receivable – current portion, net	3,081	-	-	3,081
Prepaid expenses	57,589	21,155	-	78,744
Inventory	162,716	-	-	162,716
Total Current Assets	<u>1,222,205</u>	<u>42,822</u>	<u>(54,236)</u>	<u>1,210,791</u>
<b>Noncurrent Assets</b>				
Notes receivable – net of current portion	16,250	-	-	16,250
Investments	981,678	-	(361,660)	620,018
Property and equipment, net	714,838	705,746	-	1,420,584
Deposits and other noncurrent assets	79,564	-	-	79,564
Total Noncurrent Assets	<u>1,792,330</u>	<u>705,746</u>	<u>(361,660)</u>	<u>2,136,416</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,014,535</u></u>	<u><u>\$ 748,568</u></u>	<u><u>\$ (415,896)</u></u>	<u><u>\$ 3,347,207</u></u>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	\$ 279,215	\$ 54,209	(54,236)	\$ 279,188
Refundable advances	76,564	-	-	76,564
Deferred rent – current portion	2,468	-	-	2,468
Deferred leasehold incentive – current portion	18,673	-	-	18,673
Note payable – current portion	203,882	-	-	203,882
Total Current Liabilities	<u>580,802</u>	<u>54,209</u>	<u>(54,236)</u>	<u>580,775</u>
<b>Noncurrent Liabilities</b>				
Deferred rent – net of current portion	90,881	-	-	90,881
Deferred leasehold incentive – net of current portion	118,263	-	-	118,263
Note payable – net of current portion	85,646	-	-	85,646
Charitable gift annuities	63,041	-	-	63,041
Total Noncurrent Liabilities	<u>357,831</u>	<u>-</u>	<u>-</u>	<u>357,831</u>
<b>TOTAL LIABILITIES</b>	<u>938,633</u>	<u>54,209</u>	<u>(54,236)</u>	<u>938,606</u>
<b>Net Assets</b>				
<b>Unrestricted</b>				
Undesignated	1,093,965	-	-	1,093,965
Noncontrolling interest	-	-	332,699	332,699
Total Unrestricted Net Assets	<u>1,093,965</u>	<u>-</u>	<u>332,699</u>	<u>1,426,664</u>
Temporarily restricted	367,055	-	-	367,055
Permanently restricted	614,882	-	-	614,882
Common stock	-	1	(1)	-
Additional paid-in capital	-	3,763,282	(3,763,282)	-
Accumulated deficit	-	(3,068,924)	3,068,924	-
<b>TOTAL NET ASSETS</b>	<u>2,075,902</u>	<u>694,359</u>	<u>(361,660)</u>	<u>2,408,601</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 3,014,535</u></u>	<u><u>\$ 748,568</u></u>	<u><u>\$ (415,896)</u></u>	<u><u>\$ 3,347,207</u></u>

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

**CONSOLIDATING STATEMENT OF ACTIVITIES**

**For the Year Ended December 31, 2015**

	<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	\$ 4,986,218	\$ -	\$ -	\$ 4,986,218
In-kind contributions	2,514,751	-	-	2,514,751
International grants	2,139,907	-	-	2,139,907
Federal grants and contracts	443,544	-	-	443,544
Program income	44,856	30,591	-	75,447
Other income	26,404	11,457	-	37,861
Investment income (loss), net	<u>(411,239)</u>	<u>-</u>	<u>430,792</u>	<u>19,553</u>
<b>TOTAL REVENUE AND SUPPORT</b>	<u>9,744,441</u>	<u>42,048</u>	<u>430,792</u>	<u>10,217,281</u>
<b>EXPENSES</b>				
<b>Program Services:</b>				
Ebola relief and community health	4,150,459	-	-	4,150,459
Volunteer and other initiatives	1,210,351	-	-	1,210,351
Anti-trafficking	1,074,876	-	-	1,074,876
Clean water wells and sanitation	855,712	-	-	855,712
Economic development	569,323	254,428	-	823,751
Education	775,486	-	-	775,486
Public awareness	<u>379,925</u>	<u>-</u>	<u>-</u>	<u>379,925</u>
<b>Total Program Services</b>	<u>9,016,132</u>	<u>254,428</u>	<u>-</u>	<u>9,270,560</u>
<b>Supporting Services:</b>				
General and administrative	368,676	-	-	368,676
Fundraising	<u>877,066</u>	<u>-</u>	<u>-</u>	<u>877,066</u>
<b>Total Supporting Services</b>	<u>1,245,742</u>	<u>-</u>	<u>-</u>	<u>1,245,742</u>
<b>TOTAL EXPENSES</b>	<u>10,261,874</u>	<u>254,428</u>	<u>-</u>	<u>10,516,302</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<u>(517,433)</u>	<u>(212,380)</u>	<u>430,792</u>	<u>(299,021)</u>
<b>NONOPERATING ACTIVITIES</b>				
Other than temporary impairment on investments	<u>-</u>	<u>(446,123)</u>	<u>-</u>	<u>(446,123)</u>
<b>TOTAL NONOPERATING ACTIVITIES</b>	<u>-</u>	<u>(446,123)</u>	<u>-</u>	<u>(446,123)</u>
<b>CHANGE IN NET ASSETS</b>	<u>(517,433)</u>	<u>(658,503)</u>	<u>430,792</u>	<u>(745,144)</u>
Additional paid-in capital	-	60,000	(60,000)	-
Net loss attributable to noncontrolling interest	<u>-</u>	<u>-</u>	<u>(227,711)</u>	<u>(227,711)</u>
<b>CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.</b>	<u>(517,433)</u>	<u>(598,503)</u>	<u>598,503</u>	<u>(517,433)</u>
<b>NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR</b>	<u>2,593,335</u>	<u>66,791</u>	<u>(66,791)</u>	<u>2,593,335</u>
<b>NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR</b>	<u>2,075,902</u>	<u>(531,712)</u>	<u>531,712</u>	<u>2,075,902</u>
<b>NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR</b>	-	1,226,071	(665,661)	560,410
Net losses attributable to noncontrolling interest	<u>-</u>	<u>-</u>	<u>(227,711)</u>	<u>(227,711)</u>
<b>NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR</b>	<u>-</u>	<u>1,226,071</u>	<u>(893,372)</u>	<u>332,699</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 2,075,902</u>	<u>\$ 694,359</u>	<u>\$ (361,660)</u>	<u>\$ 2,408,601</u>