



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

**Consolidated Financial Statements and
Supplemental Information**

For the Year Ended December 31, 2016

**and
Report Thereon**



WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

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For the Year Ended December 31, 2016

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

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, 2016, 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 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, 2016, 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 9, 2017

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2016

ASSETS

Current assets

Cash and cash equivalents – headquarters	\$ 81,718
Cash and cash equivalents – field offices	356,321
Cash and cash equivalents – restricted	96,783
Grants and accounts receivable, net	246,115
Pledges receivable	367,750
Prepaid expenses	97,499
Inventory	<u>117,055</u>

Total Current Assets	<u>1,363,241</u>
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Noncurrent assets

Investments	620,539
Property and equipment, net	1,451,328
Deposits and other noncurrent assets	<u>76,249</u>

Total Noncurrent Assets	<u>2,148,116</u>
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TOTAL ASSETS	<u><u>\$ 3,511,357</u></u>
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LIABILITIES AND NET ASSETS

Liabilities

Current liabilities

Accounts payable and accrued expenses	\$ 280,129
Line of credit	184,000
Deferred rent – current portion	5,586
Deferred leasehold incentive – current portion	18,673
Notes payable – current portion	114,842
Charitable gift annuities – current portion	<u>14,519</u>

Total Current Liabilities	<u>617,749</u>
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Noncurrent liabilities

Deferred rent – net of current portion	85,295
Deferred leasehold incentive – net of current portion	99,590
Notes payable – net of current portion	218,738
Charitable gift annuities – net of current portion	<u>49,032</u>

Total Noncurrent Liabilities	<u>452,655</u>
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TOTAL LIABILITIES	<u>1,070,404</u>
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Net Assets

Unrestricted

Undesignated	1,064,413
Noncontrolling interest	<u>313,573</u>

Total Unrestricted Net Assets	1,377,986
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Temporarily restricted	447,015
Permanently restricted	<u>615,952</u>

TOTAL NET ASSETS	<u>2,440,953</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,511,357</u></u>
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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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions	\$ 1,892,802	\$ 3,127,849	\$ -	\$ 5,020,651
In-kind contributions	4,501,170	-	-	4,501,170
International grants	2,132,810	-	-	2,132,810
Federal grants and contracts	712,791	-	-	712,791
Program income	52,328	-	-	52,328
Other income	16,906	-	-	16,906
Investment income	8,561	7,954	1,070	17,585
Net assets released from restrictions:				
Satisfaction of purpose restrictions	<u>3,055,843</u>	<u>(3,055,843)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>12,373,211</u>	<u>79,960</u>	<u>1,070</u>	<u>12,454,241</u>
EXPENSES				
Program Services:				
Ebola relief and community health	5,517,143	-	-	5,517,143
Clean water wells and sanitation	1,342,142	-	-	1,342,142
Economic development	1,242,059	-	-	1,242,059
Anti-trafficking	994,265	-	-	994,265
Volunteer and other initiatives	824,329	-	-	824,329
Education	706,742	-	-	706,742
Public awareness	<u>269,756</u>	<u>-</u>	<u>-</u>	<u>269,756</u>
Total Program Services	<u>10,896,436</u>	<u>-</u>	<u>-</u>	<u>10,896,436</u>
Supporting Services:				
General and administrative	665,364	-	-	665,364
Fundraising	<u>860,089</u>	<u>-</u>	<u>-</u>	<u>860,089</u>
Total Supporting Services	<u>1,525,453</u>	<u>-</u>	<u>-</u>	<u>1,525,453</u>
TOTAL EXPENSES	<u>12,421,889</u>	<u>-</u>	<u>-</u>	<u>12,421,889</u>
CHANGE IN NET ASSETS	(48,678)	79,960	1,070	32,352
Net loss attributable to noncontrolling interest	<u>(19,126)</u>	<u>-</u>	<u>-</u>	<u>(19,126)</u>
CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.	(29,552)	79,960	1,070	51,478
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR	<u>1,093,965</u>	<u>367,055</u>	<u>614,882</u>	<u>2,075,902</u>
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR	<u>1,064,413</u>	<u>447,015</u>	<u>615,952</u>	<u>2,127,380</u>
NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR	332,699	-	-	332,699
Net losses attributable to noncontrolling interest	<u>(19,126)</u>	<u>-</u>	<u>-</u>	<u>(19,126)</u>
NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR	<u>313,573</u>	<u>-</u>	<u>-</u>	<u>313,573</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 1,377,986</u>	<u>\$ 447,015</u>	<u>\$ 615,952</u>	<u>\$ 2,440,953</u>

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, 2016

	Program Services							Supporting Services			Total	
	Ebola Relief and Community Health	Clean Water Wells and Sanitation	Economic Development	Anti- Trafficking	Volunteer and Other Initiatives	Education	Public Awareness	Total Program Services	General and Administrative	Fundraising		Total Supporting Services
Grants and assistance	\$ 4,859,541	\$ 896,910	\$ 674,091	\$ 280,151	\$ 460,150	\$ 390,170	\$ -	\$ 7,561,013	\$ -	\$ -	\$ -	\$ 7,561,013
Salaries, taxes and benefits – headquarters	111,524	98,731	107,784	209,573	46,280	145,541	69,616	789,049	384,027	357,040	741,067	1,530,116
Salaries, taxes and benefits – field offices	313,205	148,919	154,860	281,670	144,283	45,585	-	1,088,522	-	-	-	1,088,522
Depreciation and amortization	105,008	122,542	111,190	41,484	12,160	5,180	1,936	399,500	10,229	10,516	20,745	420,245
Professional fees	3,109	738	42,271	1,724	1,133	22,741	1,262	72,978	148,427	161,567	309,994	382,972
Advertising and promotion	3,212	4,771	7,324	14,298	3,483	14,469	182,125	229,682	70	139,174	139,244	368,926
Occupancy	42,868	23,542	37,618	74,646	51,410	33,853	3,307	267,244	18,036	21,593	39,629	306,873
Office expenses	49,914	14,467	44,294	38,862	39,619	19,281	1,194	207,631	46,961	42,820	89,781	297,412
Travel	3,234	19,102	21,040	16,114	29,687	13,493	5,584	108,254	3,608	108,188	111,796	220,050
Information technology	20,262	7,044	19,938	31,752	28,530	11,401	1,232	120,159	7,345	12,860	20,205	140,364
Other expenses	2,270	5,187	20,595	3,686	5,385	1,017	3,293	41,433	16,458	3,461	19,919	61,352
Insurance	-	-	-	-	-	-	-	-	22,974	-	22,974	22,974
Conferences, conventions and meetings	2,996	189	1,054	305	2,209	4,011	207	10,971	1,871	2,870	4,741	15,712
Interest	-	-	-	-	-	-	-	-	5,358	-	5,358	5,358
TOTAL EXPENSES	\$ 5,517,143	\$ 1,342,142	\$ 1,242,059	\$ 994,265	\$ 824,329	\$ 706,742	\$ 269,756	\$ 10,896,436	\$ 665,364	\$ 860,089	\$ 1,525,453	\$ 12,421,889

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, 2016
Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 32,352
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	420,245
Forgiveness of note receivable	15,906
Interest and dividends restricted for long-term investment	(1,070)
Changes in assets and liabilities:	
Grants and accounts receivable	(7,327)
Pledges receivable	(317,750)
Prepaid expenses	(18,755)
Inventory	45,661
Deposits and other noncurrent assets	3,315
Accounts payable and accrued expenses	15,971
Refundable advances	(76,564)
Charitable gift annuities	(14,520)
Deferred rent and leasehold incentive	(21,141)
	<u>76,323</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>76,323</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(450,989)
Purchases of investments	(9,024)
Proceeds from sales of investments	8,503
Repayment of notes receivable	3,425
	<u>(448,085)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(448,085)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Investment in permanent endowment	1,070
Proceeds from notes payable	247,935
Payments of notes payable	(203,883)
Proceeds from line of credit	184,000
	<u>229,122</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>229,122</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(142,640)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>677,462</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 534,822</u></u>
Reconciliation of cash and cash equivalents:	
Cash and cash equivalents – headquarters	\$ 81,718
Cash and cash equivalents – field offices	356,321
Cash and cash equivalents – restricted	96,783
	<u>534,822</u>
Total Cash and Cash Equivalents	<u><u>\$ 534,822</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION	
Interest paid	<u><u>\$ 5,358</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, 2016

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, economic development, education and public awareness. 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 11). 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, 2016**

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, 2016, all pledges receivable are due in less than one year and are deemed by management to be fully collectible.

Inventory

Inventory is stated at the lower of cost or market using the first-in, first-out method. As of December 31, 2016, inventory comprised mostly supplies and small equipment used mainly for the clean water wells and sanitation program.

Investments

Investments consist of money market funds that 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.

Fair Value of Financial Instrument

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurement. 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 measurement, 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 the 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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016**

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

Fair Value of Financial Instrument (continued)

As of December 31, 2016, WHI's investments 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 using either 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.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2016

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

Classification of Net Assets (continued)

- 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 to give 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 includes rental 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 their estimated fair value at the time of the donation to WHI and are included in grants and assistance in the accompanying consolidated statement of functional expenses.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016**

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

In-Kind Contributions (continued)

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. Investments

As of December 31, 2016, investments consisted of money market funds totaling \$620,539. These investments relate to two donor-restricted endowment funds, and earnings from those endowments funds, totaling \$9,024 for the year ended December 31, 2016, are to be used to fund specific donor purposes, to fund operations or to be reinvested in the endowment fund. Investment income reported in the accompanying statement of activities also includes \$8,561 of interest income generated from various operating accounts.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

3. Fair Value Measurement

The following table summarizes WHI's assets and liabilities measured at fair value on a recurring basis as of December 31, 2016, 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>
Assets:				
Investments:				
Money market funds	\$ 620,539	\$ -	\$ 620,539	\$ -
Deposits and other noncurrent assets:				
Annuity receivable	<u>22,419</u>	<u>-</u>	<u>22,419</u>	<u>-</u>
Total Assets	<u>\$ 642,958</u>	<u>\$ -</u>	<u>\$ 642,958</u>	<u>\$ -</u>
Liabilities:				
Charitable gift annuities	<u>\$ 63,551</u>	<u>\$ -</u>	<u>\$ 63,551</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 63,551</u>	<u>\$ -</u>	<u>\$ 63,551</u>	<u>\$ -</u>

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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016**

4. Property and Equipment and Accumulated Depreciation and Amortization

WHI held the following property and equipment as of December 31, 2016:

Land and improvements	\$ 519,067
Buildings and improvements	388,583
Leasehold improvements	225,148
Vehicles	960,910
Office and other equipment	489,598
Software	<u>353,481</u>
Total Property and Equipment	2,936,787
Less: Accumulated Depreciation and Amortization	<u>(1,485,459)</u>
Property and Equipment, Net	<u>\$ 1,451,328</u>

Depreciation and amortization expense amounted to \$420,245 for the year ended December 31, 2016.

5. Line of Credit

In December 2015, WHI opened a secured line of credit with its financial institution that has a \$250,000 credit limit. This line of credit expires on October 30, 2017 and has an interest rate equal to the LIBOR Daily Floating Rate plus 3%, which was 3.75% at December 31, 2016. The line of credit is secured by WHI's personal property, including its receivables, inventory and equipment. WHI borrowed \$184,000 from this line of credit during the year ended December 31, 2016, and \$184,000 was outstanding as of December 31, 2016.

6. Notes Payable

As of December 31, 2016, WHI had an unsecured note payable that is non-interest-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 \$85,645, net of imputed interest of \$397, as of December 31, 2016.

On November 16, 2016, WHI entered into secured note with an investment foundation for an amount up to \$360,000. The loan is secured by \$110,000 of WHI's money market funds, and by deposits owned by three WHI board members, currently held by the investment foundation. Interest payments are due monthly during the draw period, and equal payments of interest and principal commence 30 days after the loan is fully drawn, but no later than six months from agreement date, through November 16, 2021, the note maturity date. Advances on the note are subject to a 1% draw fee and the note bears interest at a rate of 7%. The outstanding note balance totaled \$247,935 as of December 31, 2016.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

6. Notes Payable (continued)

As of December 31, 2016, the scheduled maturities for the notes payable, including the imputed interest payments, were as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2017	\$ 114,842
2018	50,297
2019	53,933
2020	57,831
2021	<u>56,677</u>
Total	<u>\$ 333,580</u>

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 \$110,780 for the year ended December 31, 2016, 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>	
2017	\$ 127,702
2018	130,894
2019	134,167
2020	137,521
2021	140,959
Thereafter	<u>193,039</u>
Total	<u>\$ 864,282</u>

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016**

7. Commitments and Contingencies (continued)

Office Leases (continued)

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 Sierra Coffee Mills Ltd under a noncancelable sublease agreement entered on May 1, 2016. Contractual monthly payments of \$1,250 are due from May 2016 to August 2016, and are \$2,500 per month thereafter. The lease expires December 2017.

The aggregate minimum annual rental revenues are \$30,000 for the year ended December 31, 2017.

Foreign Operations

WHI had field offices in Cambodia, Sierra Leone, Azerbaijan, Liberia, Mozambique and Bosnia during the year ended December 31, 2016. WHI maintained 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, 2016, WHI had assets in these countries totaling approximately \$1,788,000, representing approximately 51% 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 \$26,753 for the year ended December 31, 2016, and is included as part of salaries, taxes and benefits in the accompanying consolidated schedule of functional expenses.

9. Temporarily Restricted Net Assets

As of December 31, 2016, temporarily restricted net assets were available as follows:

Clean water wells and sanitation	\$ 417,428
Economic development	25,000
Time-restrictions	<u>4,587</u>
Total Temporarily Restricted Net Assets	<u>\$ 447,015</u>

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

10. Endowment Funds (continued)

Endowment Composition

As of December 31, 2016, WHI's endowment had the following net asset composition:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ 4,587	\$ 615,952	\$ 620,539
Total Endowment Funds	<u>\$ 4,587</u>	<u>\$ 615,952</u>	<u>\$ 620,539</u>

Endowment Activity

Changes in endowment net assets were as follows for the year ended December 31, 2016:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 5,136	\$ 614,882	\$ 620,018
Investment income	7,954	1,070	9,024
Appropriations	<u>(8,503)</u>	<u>-</u>	<u>(8,503)</u>
Endowment net assets, end of year	<u>\$ 4,587</u>	<u>\$ 615,952</u>	<u>\$ 620,539</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

\$ 615,952

Temporarily Restricted Net Assets

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

\$ 4,587

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, 2016.

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, 2016

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, 2016.

First Step is subject to federal and state income taxes. For the year ended December 31, 2016, 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 2035. 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 uncertainty in income taxes for the year ended December 31, 2016, 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, 2016, the statute of limitations for tax years 2013 through 2015 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 uncertainty in income taxes, if any, in income tax expense. As of December 31, 2016, WHI had no accruals for interest and/or penalties.

12. Related Parties

Two of World Hope's board members owned shares of First Step and controlled a combined 34.58% of First Step's shares as of December 31, 2016. 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 9, 2017, 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, 2016

	World Hope International, Inc.	First Step Economic Opportunity Zone, Inc.	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents – headquarters	\$ 80,907	\$ 811	\$ -	\$ 81,718
Cash and cash equivalents – field offices	348,204	8,117	-	356,321
Cash and cash equivalents – restricted	96,783	-	-	96,783
Grants and accounts receivable, net	296,104	17,410	(67,399)	246,115
Pledges receivable	367,750	-	-	367,750
Prepaid expenses	74,564	22,935	-	97,499
Inventory	117,055	-	-	117,055
Total Current Assets	<u>1,381,367</u>	<u>49,273</u>	<u>(67,399)</u>	<u>1,363,241</u>
Noncurrent assets				
Investments	946,015	-	(325,476)	620,539
Property and equipment, net	794,153	657,175	-	1,451,328
Deposits and other noncurrent assets	76,249	-	-	76,249
Total Noncurrent Assets	<u>1,816,417</u>	<u>657,175</u>	<u>(325,476)</u>	<u>2,148,116</u>
TOTAL ASSETS	<u>\$ 3,197,784</u>	<u>\$ 706,448</u>	<u>\$ (392,875)</u>	<u>\$ 3,511,357</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	\$ 280,129	\$ 67,399	\$ (67,399)	\$ 280,129
Line of credit	184,000	-	-	184,000
Deferred rent – current portion	5,586	-	-	5,586
Deferred leasehold incentive – current portion	18,673	-	-	18,673
Notes payable – current portion	114,842	-	-	114,842
Charitable gift annuities – current portion	14,519	-	-	14,519
Total Current Liabilities	<u>617,749</u>	<u>67,399</u>	<u>(67,399)</u>	<u>617,749</u>
Noncurrent liabilities				
Deferred rent – net of current portion	85,295	-	-	85,295
Deferred leasehold incentive – net of current portion	99,590	-	-	99,590
Notes payable – net of current portion	218,738	-	-	218,738
Charitable gift annuities – net of current portion	49,032	-	-	49,032
Total Noncurrent Liabilities	<u>452,655</u>	<u>-</u>	<u>-</u>	<u>452,655</u>
TOTAL LIABILITIES	<u>1,070,404</u>	<u>67,399</u>	<u>(67,399)</u>	<u>1,070,404</u>
Net Assets				
Unrestricted				
Undesignated	1,064,413	-	-	1,064,413
Noncontrolling interest	-	-	313,573	313,573
Total Unrestricted Net Assets	<u>1,064,413</u>	<u>-</u>	<u>313,573</u>	<u>1,377,986</u>
Temporarily restricted	447,015	-	-	447,015
Permanently restricted	615,952	-	-	615,952
Common stock	-	1	(1)	-
Additional paid-in capital	-	3,763,282	(3,763,282)	-
Accumulated deficit	-	(3,124,234)	3,124,234	-
TOTAL NET ASSETS	<u>2,127,380</u>	<u>639,049</u>	<u>(325,476)</u>	<u>2,440,953</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,197,784</u>	<u>\$ 706,448</u>	<u>\$ (392,875)</u>	<u>\$ 3,511,357</u>

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	<u>World Hope International, Inc.</u>	<u>First Step Economic Opportunity Zone, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions	\$ 5,020,651	\$ -	\$ -	\$ 5,020,651
In-kind contributions	4,501,170	-	-	4,501,170
International grants	2,132,810	-	-	2,132,810
Federal grants and contracts	712,791	-	-	712,791
Program income	36,334	15,994	-	52,328
Other income	16,906	-	-	16,906
Investment income (loss), net	<u>(18,599)</u>	<u>-</u>	<u>36,184</u>	<u>17,585</u>
TOTAL REVENUE AND SUPPORT	<u>12,402,063</u>	<u>15,994</u>	<u>36,184</u>	<u>12,454,241</u>
EXPENSES				
Program Services:				
Ebola relief and community health	5,517,143	-	-	5,517,143
Clean water wells and sanitation	1,342,142	-	-	1,342,142
Economic development	1,170,755	71,304	-	1,242,059
Anti-trafficking	994,265	-	-	994,265
Volunteer and other initiatives	824,329	-	-	824,329
Education	706,742	-	-	706,742
Public awareness	<u>269,756</u>	<u>-</u>	<u>-</u>	<u>269,756</u>
Total Program Services	<u>10,825,132</u>	<u>71,304</u>	<u>-</u>	<u>10,896,436</u>
Supporting Services:				
General and administrative	665,364	-	-	665,364
Fundraising	<u>860,089</u>	<u>-</u>	<u>-</u>	<u>860,089</u>
Total Supporting Services	<u>1,525,453</u>	<u>-</u>	<u>-</u>	<u>1,525,453</u>
TOTAL EXPENSES	<u>12,350,585</u>	<u>71,304</u>	<u>-</u>	<u>12,421,889</u>
Change in net assets from operations	<u>51,478</u>	<u>(55,310)</u>	<u>36,184</u>	<u>32,352</u>
CHANGE IN NET ASSETS	<u>51,478</u>	<u>(55,310)</u>	<u>36,184</u>	<u>32,352</u>
Net loss attributable to noncontrolling interest	<u>-</u>	<u>-</u>	<u>(19,126)</u>	<u>(19,126)</u>
CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.	<u>51,478</u>	<u>(55,310)</u>	<u>55,310</u>	<u>51,478</u>
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR	<u>2,075,902</u>	<u>(531,712)</u>	<u>531,712</u>	<u>2,075,902</u>
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR	<u>2,127,380</u>	<u>(587,022)</u>	<u>587,022</u>	<u>2,127,380</u>
NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR	<u>-</u>	<u>1,226,071</u>	<u>(893,372)</u>	<u>332,699</u>
Net losses attributable to noncontrolling interest	<u>-</u>	<u>-</u>	<u>(19,126)</u>	<u>(19,126)</u>
NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR	<u>-</u>	<u>1,226,071</u>	<u>(912,498)</u>	<u>313,573</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 2,127,380</u>	<u>\$ 639,049</u>	<u>\$ (325,476)</u>	<u>\$ 2,440,953</u>