



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

**Consolidated Financial Statements and
Supplemental Consolidated Information**

For the Year Ended December 31, 2017

(With Summarized Financial 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, 2017

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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, 2017, 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, 2017, 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

Other Matters

Report on Summarized Comparative Information

We have previously audited WHI's 2016 consolidated financial statements, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated May 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audit consolidated financial statements from which it was derived.

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
April 23, 2018

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2017
(With Summarized Financial Information as of December 31, 2016)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents – headquarters	\$ 566,889	\$ 81,718
Cash and cash equivalents – field offices	484,915	356,321
Cash and cash equivalents – restricted	79,859	96,783
Grants and accounts receivable, net	310,776	246,115
Pledges receivable	416,500	367,750
Prepaid expenses	98,637	97,499
Inventory	245,913	117,055
Total Current Assets	2,203,489	1,363,241
Noncurrent assets		
Investments	621,567	620,539
Property and equipment, net	743,799	1,451,328
Deposits and other noncurrent assets	77,354	76,249
Total Noncurrent Assets	1,442,720	2,148,116
TOTAL ASSETS	\$ 3,646,209	\$ 3,511,357
LIABILITIES AND NET ASSETS		
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 439,563	\$ 280,129
Refundable advances	125,556	-
Line of credit	-	184,000
Deferred rent – current portion	8,779	5,586
Deferred leasehold incentive – current portion	18,673	18,673
Notes payable – current portion	72,894	114,842
Charitable gift annuities – current portion	14,519	14,519
Total Current Liabilities	679,984	617,749
Noncurrent liabilities		
Deferred rent – net of current portion	76,516	85,295
Deferred leasehold incentive – net of current portion	80,917	99,590
Notes payable – net of current portion	254,355	218,738
Charitable gift annuities – net of current portion	35,022	49,032
Total Noncurrent Liabilities	446,810	452,655
TOTAL LIABILITIES	1,126,794	1,070,404
Net Assets		
Unrestricted		
Undesignated	973,809	1,064,413
Noncontrolling interest	141,532	313,573
Total Unrestricted Net Assets	1,115,341	1,377,986
Temporarily restricted	787,094	447,015
Permanently restricted	616,980	615,952
TOTAL NET ASSETS	2,519,415	2,440,953
TOTAL LIABILITIES AND NET ASSETS	\$ 3,646,209	\$ 3,511,357

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, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

	2017			2016 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND SUPPORT				
Contributions	\$ 4,526,224	\$ 1,361,140	\$ -	\$ 5,887,364
In-kind contributions	9,158,005	-	-	9,158,005
International grants	3,793,393	-	-	3,793,393
Federal grants and contracts	708,462	-	-	708,462
Program income	268,239	-	-	268,239
Other income	12,464	-	-	12,464
Investment income	6,171	11,332	1,028	18,531
Net assets released from restrictions:				
Satisfaction of purpose restrictions	1,032,393	(1,032,393)	-	-
TOTAL REVENUE AND SUPPORT	19,505,351	340,079	1,028	19,846,458
EXPENSES				
Program Services:				
Health and nutrition	9,083,064	-	-	9,083,064
Emergency response and other programs	2,847,086	-	-	2,847,086
Clean water wells and sanitation	2,821,057	-	-	2,821,057
Economic development	1,038,847	-	-	1,038,847
Anti-trafficking and gender-based violence	961,285	-	-	961,285
Education and child sponsorship	705,044	-	-	705,044
Public awareness	277,564	-	-	277,564
Total Program Services	17,733,947	-	-	17,733,947
Supporting Services:				
General and administrative	854,990	-	-	854,990
Fundraising	777,059	-	-	777,059
Total Supporting Services	1,632,049	-	-	1,632,049
TOTAL EXPENSES	19,365,996	-	-	19,365,996
Change in net assets from operations	139,355	340,079	1,028	480,462
NONOPERATING ACTIVITIES				
Impairment loss on property and equipment	(402,000)	-	-	(402,000)
CHANGE IN NET ASSETS	(262,645)	340,079	1,028	78,462
Net loss attributable to noncontrolling interest	(172,041)	-	-	(172,041)
CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.	(90,604)	340,079	1,028	250,503
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR	1,064,413	447,015	615,952	2,127,380
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR	973,809	787,094	616,980	2,377,883
NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR	313,573	-	-	332,699
Net losses attributable to noncontrolling interest	(172,041)	-	-	(172,041)
NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR	141,532	-	-	313,573
TOTAL NET ASSETS, END OF YEAR	\$ 1,115,341	\$ 787,094	\$ 616,980	\$ 2,519,415

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, 2017

	Program Services							Supporting Services			2017 Total	2016 Total	
	Health and Nutrition	Emergency Response and Other Programs	Clean Water Wells and Sanitation	Economic Development	Anti-Trafficking and Gender- Based Violence	Education and Child Sponsorship	Public Awareness	Total Program Services	General and Administrative	Fundraising			Total Supporting Services
Grants and assistance	\$ 8,334,453	\$ 2,226,906	\$ 2,071,996	\$ 554,089	\$ 257,822	\$ 417,203	\$ 403	\$ 13,862,872	\$ -	\$ 3,676	\$ 3,676	\$ 13,866,548	\$ 7,561,013
Salaries, taxes and benefits – field offices	342,524	235,249	372,697	188,674	290,794	43,980	-	1,473,918	-	19,370	19,370	1,493,288	1,088,522
Salaries, taxes and benefits – headquarters	128,106	140,704	93,280	41,119	212,728	95,050	46,825	757,812	539,721	354,920	894,641	1,652,453	1,530,116
Occupancy	52,551	92,557	51,257	88,170	81,719	29,744	1,644	397,642	14,359	18,000	32,359	430,001	304,757
Office expenses	72,332	67,789	39,377	17,352	34,888	15,585	779	248,102	84,027	19,602	103,629	351,731	297,334
Information technology	27,294	33,751	25,571	10,753	15,673	12,715	3,991	129,748	59,394	13,674	73,068	202,816	140,364
Travel	5,464	26,687	14,079	8,361	6,004	7,202	14,408	82,205	6,264	99,934	106,198	188,403	220,050
Professional fees	1,818	10,783	644	11,400	8,731	66,375	45,029	144,780	69,529	161,794	231,323	376,103	382,972
Depreciation and amortization	102,586	5,910	144,190	96,260	41,262	2,084	331	392,623	3,636	2,687	6,323	398,946	420,245
Other expenses	-	5,471	1,966	18,855	2,701	995	904	30,892	13,197	20,609	33,806	64,698	63,546
Advertising and promotion	8,627	1,112	1,656	2,673	6,821	13,850	162,140	196,879	1,399	51,951	53,350	250,229	368,926
Interest	-	-	-	-	-	-	-	-	37,931	-	37,931	37,931	5,358
Conferences, conventions and meetings	7,309	167	1,867	291	1,350	61	1,110	12,155	5,232	10,842	16,074	28,229	15,712
Insurance	-	-	2,477	850	792	200	-	4,319	20,301	-	20,301	24,620	22,974
TOTAL EXPENSES	\$ 9,083,064	\$ 2,847,086	\$ 2,821,057	\$ 1,038,847	\$ 961,285	\$ 705,044	\$ 277,564	\$ 17,733,947	\$ 854,990	\$ 777,059	\$ 1,632,049	\$ 19,365,996	\$ 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, 2017
Increase (Decrease) in Cash and Cash Equivalents

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 78,462	\$ 32,352
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	398,946	420,245
Impairment loss on property and equipment	402,000	-
Forgiveness of note receivable	-	15,906
Interest and dividends restricted for long-term investment	(1,028)	(1,070)
Changes in assets and liabilities:		
Grants and accounts receivable	(64,661)	(7,327)
Pledges receivable	(48,750)	(317,750)
Prepaid expenses	(1,138)	(18,755)
Inventory	(128,858)	45,661
Deposits and other noncurrent assets	(1,105)	3,315
Accounts payable and accrued expenses	159,434	15,971
Refundable advances	125,556	(76,564)
Charitable gift annuities	(14,010)	(14,520)
Deferred rent and leasehold incentive	(24,259)	(21,141)
NET CASH PROVIDED BY OPERATING ACTIVITIES	880,589	76,323
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(93,417)	(450,989)
Purchases of investments	(12,360)	(9,024)
Proceeds from sales of investments	11,332	8,503
Repayment of notes receivable	-	3,425
NET CASH USED IN INVESTING ACTIVITIES	(94,445)	(448,085)
CASH FLOWS FROM FINANCING ACTIVITIES		
Investment in permanent endowment	1,028	1,070
Proceeds from notes payable	112,065	247,935
Payments of notes payable	(118,396)	(203,883)
Proceeds from line of credit	56,000	184,000
Payments of line of credit	(240,000)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(189,303)	229,122
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	596,841	(142,640)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	534,822	677,462
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,131,663	\$ 534,822
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents – headquarters	\$ 566,889	\$ 81,718
Cash and cash equivalents – field offices	484,915	356,321
Cash and cash equivalents – restricted	79,859	96,783
Total Cash and Cash Equivalents	\$ 1,131,663	\$ 534,822
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 37,931	\$ 5,358

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, 2017

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, 2017

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, 2017, all pledges receivable were 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, 2017, 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 Instruments

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, 2017**

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

Fair Value of Financial Instruments (continued)

As of December 31, 2017, WHI's investments were measured at fair value on a recurring basis (see Note 3).

Property and Equipment

Office and other equipment, 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 shorter of the lease term or the estimated useful lives of the assets. 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.

Impairment of Long-Lived Assets

Long-lived assets held and used by WHI are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability is performed. WHI reviews long-lived assets to determine if the carrying value exceeds the undiscounted cash flows expected to be derived from the asset. If the carrying value exceeds the cash flows, then the recorded amount of the assets will be reduced to their fair value.

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

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

Transactions in Foreign Currencies (continued)

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 in 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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

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

In-Kind Contributions

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

Measure of Operations

Operating revenue and expenses generally reflect those revenues and expenses that management can influence, and exclude gains and losses and infrequent or unusual transactions unrelated to WHI's ordinary activities, such as the impairment loss on property and equipment.

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, 2017, investments consisted of money market funds totaling \$621,567. These investments relate to two donor-restricted endowment funds, and earnings from those endowments funds, totaling \$12,360 for the year ended December 31, 2017, 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 \$6,171 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, 2017

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, 2017, 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	\$ 621,567	\$ -	\$ 621,567	\$ -
Deposits and other noncurrent assets:				
Annuity receivable	<u>22,419</u>	<u>-</u>	<u>22,419</u>	<u>-</u>
Total Assets	<u>\$ 643,986</u>	<u>\$ -</u>	<u>\$ 643,986</u>	<u>\$ -</u>
Liabilities:				
Charitable gift annuities	<u>\$ 49,541</u>	<u>\$ -</u>	<u>\$ 49,541</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 49,541</u>	<u>\$ -</u>	<u>\$ 49,541</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 shares 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.

4. Property and Equipment and Accumulated Depreciation and Amortization

WHI held the following property and equipment as of December 31, 2017:

Land improvements	\$ 118,195
Buildings and improvements	90,395
Leasehold improvements	225,148
Vehicles	995,510
Office and other equipment	527,640
Software	<u>374,257</u>
Total Property and Equipment	2,331,145
Less: Accumulated Depreciation and Amortization	<u>(1,587,346)</u>
Property and Equipment, Net	<u>\$ 743,799</u>

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

4. Property and Equipment and Accumulated Depreciation and Amortization (continued)

Depreciation and amortization expense amounted to \$398,946 for the year ended December 31, 2017. In addition, an impairment loss of \$402,000 was recorded by First Step to reduce the recorded amount of its property and equipment to its estimated fair value.

5. Line of Credit

WHI has a secured line of credit with its financial institution that has a \$250,000 credit limit. This line of credit expires on October 30, 2018 and has an interest rate equal to the London Interbank Offered Rate Daily Floating Rate plus 3%, which was 4.24% at December 31, 2017. The line of credit is secured by WHI's personal property, including its receivables, inventory and equipment. There was no outstanding balance on this line of credit as of December 31, 2017. Interest expense was approximately \$10,000 for the year ended December 31, 2017.

6. Notes Payable

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%. Total interest expense was approximately \$28,000 for the year ended December 31, 2017.

The outstanding note balance totaled \$327,249 as of December 31, 2017. As of December 31, 2017, the scheduled principal payments on the notes payable were as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2018	\$ 72,894
2019	78,163
2020	83,814
2021	<u>92,378</u>
Total	<u>\$ 327,249</u>

7. Commitments and Risks

Office Leases

In January 2013, World Hope entered into a noncancelable 10-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.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

7. Commitments and Risks (continued)

Office Leases (continued)

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, including its share of building's operating expenses, amounted to \$113,836 for the year ended December 31, 2017, and is included in 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>	
2018	\$ 130,894
2019	134,167
2020	137,521
2021	140,959
2022	144,483
Thereafter	<u>48,556</u>
Total	<u>\$ 736,580</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.

Foreign Operations

WHI had field offices in Cambodia, Sierra Leone, Azerbaijan, Liberia, the Philippines, Mozambique and Bosnia during the year ended December 31, 2017. 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, 2017, WHI had assets in these countries totaling approximately \$1,667,000, representing approximately 46% of WHI's total consolidated assets.

Concentration of Credit Risks

WHI maintains its cash and cash equivalents in various bank deposit accounts that, at times, exceed federally insured limits and, therefore, bear some risk. The amount in excess of the limit guaranteed by federal agencies was approximately \$310,000 as of December 31, 2017. WHI has not experienced, nor does it anticipate, any loss of funds.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

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 \$39,119 for the year ended December 31, 2017, 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, 2017, temporarily restricted net assets were available as follows:

Clean water wells and sanitation	\$ 611,929
Health and nutrition	160,016
Economic development	10,562
Time-restriction	<u>4,587</u>
Total Temporarily Restricted Net Assets	<u>\$ 787,094</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 prescribed by the statute, 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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

10. Endowment Funds (continued)

Interpretation of Relevant Law (continued)

The statute lists a number of factors to be considered in adopting a spending policy:

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

Endowment Composition

As of December 31, 2017, WHI's endowment had the following net asset composition:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	\$ 4,587	\$ 616,980	\$ 621,567
Total Endowment Funds	\$ 4,587	\$ 616,980	\$ 621,567

Endowment Activity

Changes in endowment net assets were as follows for the year ended December 31, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,587	\$ 615,952	\$ 620,539
Investment income	11,332	1,028	12,360
Appropriations	(11,332)	-	(11,332)
Endowment Net, Assets, End of Year	\$ 4,587	\$ 616,980	\$ 612,567

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

\$ 616,980

Temporarily Restricted Net Assets

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

\$ 4,587

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017**

10. Endowment Funds (continued)

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, 2017.

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.

11. 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, 2017. World Hope and those board members of World Hope together own 100% of First Step.

12. Income Taxes

World Hope is exempt from payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes was required for the year ended December 31, 2017. First Step is subject to federal and state income taxes. For the year ended December 31, 2017, 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 2036. 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, 2017, 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, 2017, the statute of limitations for tax years 2014 through 2016 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, 2017, WHI had no accruals for interest and/or penalties.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2017

13. Prior Year Summarized Comparative Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with WHI's consolidated financial statements for the year ended December 31, 2016, from which the summarized information was derived.

14. Reclassification

Certain 2016 amounts have been reclassified to conform to 2017 financial statement presentation.

15. Subsequent Events

In preparing these consolidated financial statements, WHI has evaluated events and transactions for potential recognition or disclosure through April 23, 2018, 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, 2017

	World Hope International, Inc.	First Step Economic Opportunity Zone, Inc.	Eliminations	Total
ASSETS				
Current assets				
Cash and cash equivalents – headquarters	\$ 566,393	\$ 496	\$ -	\$ 566,889
Cash and cash equivalents – field offices	483,646	1,269	-	484,915
Cash and cash equivalents – restricted	79,859	-	-	79,859
Grants and accounts receivable, net	403,738	20,410	(113,372)	310,776
Pledges receivable	416,500	-	-	416,500
Prepaid expenses	75,701	22,936	-	98,637
Inventory	245,913	-	-	245,913
Total Current Assets	<u>2,271,750</u>	<u>45,111</u>	<u>(113,372)</u>	<u>2,203,489</u>
Noncurrent assets				
Investments	621,567	-	-	621,567
Property and equipment, net	534,006	209,793	-	743,799
Deposits and other noncurrent assets	77,354	-	-	77,354
Total Noncurrent Assets	<u>1,232,927</u>	<u>209,793</u>	<u>-</u>	<u>1,442,720</u>
TOTAL ASSETS	<u><u>\$ 3,504,677</u></u>	<u><u>\$ 254,904</u></u>	<u><u>\$ (113,372)</u></u>	<u><u>\$ 3,646,209</u></u>
LIABILITIES AND NET ASSETS				
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	\$ 439,563	\$ 113,372	\$ (113,372)	\$ 439,563
Refundable advances	125,556	-	-	125,556
Deferred rent – current portion	8,779	-	-	8,779
Deferred leasehold incentive – current portion	18,673	-	-	18,673
Notes payable – current portion	72,894	-	-	72,894
Charitable gift annuities – current portion	14,519	-	-	14,519
Total Current Liabilities	<u>679,984</u>	<u>113,372</u>	<u>(113,372)</u>	<u>679,984</u>
Noncurrent liabilities				
Deferred rent – net of current portion	76,516	-	-	76,516
Deferred leasehold incentive – net of current portion	80,917	-	-	80,917
Notes payable – net of current portion	254,355	-	-	254,355
Charitable gift annuities – net of current portion	35,022	-	-	35,022
Total Noncurrent Liabilities	<u>446,810</u>	<u>-</u>	<u>-</u>	<u>446,810</u>
TOTAL LIABILITIES	<u>1,126,794</u>	<u>113,372</u>	<u>(113,372)</u>	<u>1,126,794</u>
Net Assets				
Unrestricted				
Undesignated	973,809	-	-	973,809
Noncontrolling interest	-	-	141,532	141,532
Total Unrestricted Net Assets	<u>973,809</u>	<u>-</u>	<u>141,532</u>	<u>1,115,341</u>
Temporarily restricted	787,094	-	-	787,094
Permanently restricted	616,980	-	-	616,980
Common stock	-	1	(1)	-
Additional paid-in capital	-	3,763,282	(3,763,282)	-
Accumulated deficit	-	(3,621,751)	3,621,751	-
TOTAL NET ASSETS	<u>2,377,883</u>	<u>141,532</u>	<u>-</u>	<u>2,519,415</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,504,677</u></u>	<u><u>\$ 254,904</u></u>	<u><u>\$ (113,372)</u></u>	<u><u>\$ 3,646,209</u></u>

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

CONSOLIDATING STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	<u>World Hope International, Inc.</u>	<u>First Step Economic Opportunity Zone, Inc.</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions	\$ 5,887,364	\$ -	\$ -	\$ 5,887,364
In-kind contributions	9,158,005	-	-	9,158,005
International grants	3,793,393	-	-	3,793,393
Federal grants and contracts	708,462	-	-	708,462
Program income	232,789	35,450	-	268,239
Other income	12,464	1,004	(1,004)	12,464
Investment income (loss), net	<u>(306,945)</u>	<u>-</u>	<u>325,476</u>	<u>18,531</u>
TOTAL REVENUE AND SUPPORT	<u>19,485,532</u>	<u>36,454</u>	<u>324,472</u>	<u>19,846,458</u>
EXPENSES				
Program Services:				
Health and nutrition	9,083,064	-	-	9,083,064
Emergency response and other programs	2,847,086	-	-	2,847,086
Clean water wells and sanitation	2,821,057	-	-	2,821,057
Economic development	907,880	131,971	(1,004)	1,038,847
Anti-trafficking and gender-based violence	961,285	-	-	961,285
Education and child sponsorship	705,044	-	-	705,044
Public awareness	<u>277,564</u>	<u>-</u>	<u>-</u>	<u>277,564</u>
Total Program Services	<u>17,602,980</u>	<u>131,971</u>	<u>(1,004)</u>	<u>17,733,947</u>
Supporting Services:				
General and administrative	854,990	-	-	854,990
Fundraising	<u>777,059</u>	<u>-</u>	<u>-</u>	<u>777,059</u>
Total Supporting Services	<u>1,632,049</u>	<u>-</u>	<u>-</u>	<u>1,632,049</u>
TOTAL EXPENSES	<u>19,235,029</u>	<u>131,971</u>	<u>(1,004)</u>	<u>19,365,996</u>
Change in net assets from operations	250,503	(95,517)	325,476	480,462
NONOPERATING ACTIVITIES				
Impairment loss on property and equipment	<u>-</u>	<u>(402,000)</u>	<u>-</u>	<u>(402,000)</u>
CHANGE IN NET ASSETS	250,503	(497,517)	325,476	78,462
Net loss attributable to noncontrolling interest	<u>-</u>	<u>-</u>	<u>(172,041)</u>	<u>(172,041)</u>
CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.	250,503	(497,517)	497,517	250,503
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR	<u>2,127,380</u>	<u>(587,022)</u>	<u>587,022</u>	<u>2,127,380</u>
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR	<u>2,377,883</u>	<u>(1,084,539)</u>	<u>1,084,539</u>	<u>2,377,883</u>
NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR	-	1,226,071	(912,498)	313,573
Net losses attributable to noncontrolling interest	<u>-</u>	<u>-</u>	<u>(172,041)</u>	<u>(172,041)</u>
NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR	<u>-</u>	<u>1,226,071</u>	<u>(1,084,539)</u>	<u>141,532</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 2,377,883</u>	<u>\$ 141,532</u>	<u>\$ -</u>	<u>\$ 2,519,415</u>