



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

**Consolidated Financial Statements and
Supplementary Information**

For the Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

**and
Report Thereon**



WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

TABLE OF CONTENTS
For the Year Ended December 31, 2018

	<i>Page</i>
Independent Auditors' Report.....	1-2
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities and Changes in Net Assets.....	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7-19
Supplementary Information	
Consolidating Schedule of Financial Position.....	20
Consolidating Schedule of Activities and Changes in Net Assets	21

INDEPENDENT AUDITORS' 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, 2018, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated 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.

Auditors' 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 auditors' 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.

Continued

- 1 -

Opinion

In our opinion, the 2018 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, 2018, 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.

Other Matters

Report on Summarized Comparative Information

The 2017 consolidated financial statements of WHI were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose report dated April 23, 2018, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information is presented for purposes of additional analysis, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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.

Marcum LLP

Washington, DC
May 9, 2019

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2018
(With Summarized Financial Information as of December 31, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents – headquarters	\$ 358,740	\$ 566,889
Cash and cash equivalents – field offices	217,303	484,915
Cash and cash equivalents – restricted	63,392	79,859
Grants and accounts receivable, net	322,356	310,776
Pledges receivable	112,500	416,500
Prepaid expenses	62,856	98,637
Inventory	188,892	245,913
Investments	513,937	621,567
Property and equipment, net	508,153	743,799
Deposits and other assets	63,160	77,354
TOTAL ASSETS	\$ 2,411,289	\$ 3,646,209
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 528,376	\$ 439,563
Refundable advances	164,655	125,556
Line of credit	250,000	-
Notes payable	251,371	327,249
Deferred rent	76,516	85,295
Deferred leasehold incentive	80,917	99,590
Charitable gift annuities	35,531	49,541
TOTAL LIABILITIES	1,387,366	1,126,794
Net Assets		
Without donor restrictions		
Undesignated	(136,470)	973,809
Noncontrolling interest	111,468	141,532
Total Net Assets Without Donor Restrictions	(25,002)	1,115,341
With donor restrictions		
	1,048,925	1,404,074
TOTAL NET ASSETS	1,023,923	2,519,415
TOTAL LIABILITIES AND NET ASSETS	\$ 2,411,289	\$ 3,646,209

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

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended December 31, 2018

(With Summarized Financial Information for the Year Ended December 31, 2017)

	2018			2017 Total
	Without Donor Restriction	With Donor Restriction	Total	
REVENUE AND SUPPORT				
Contributions	\$ 4,547,320	\$ 408,050	\$ 4,955,370	\$ 5,887,364
In-kind contributions	4,472,241	-	4,472,241	9,158,005
International grants	2,061,122	-	2,061,122	3,793,393
Federal grants and contracts	402,188	-	402,188	708,462
Program income	453,427	-	453,427	268,239
Other income	71,794	-	71,794	12,464
Investment income	2,976	12,794	15,770	18,531
Net assets released from restrictions:				
Satisfaction of purpose restrictions	775,993	(775,993)	-	-
TOTAL REVENUE AND SUPPORT	12,787,061	(355,149)	12,431,912	19,846,458
EXPENSES				
Program Services:				
Health and nutrition	2,383,998	-	2,383,998	9,083,064
Emergency response and other programs	4,804,606	-	4,804,606	2,847,086
Clean water wells and sanitation	1,833,209	-	1,833,209	2,821,057
Economic development	884,532	-	884,532	1,038,847
Anti-trafficking and gender-based violence	996,558	-	996,558	961,285
Education and child sponsorship	858,117	-	858,117	705,044
Public awareness	339,924	-	339,924	277,564
Total Program Services	12,100,944	-	12,100,944	17,733,947
Supporting Services:				
General and administrative	955,472	-	955,472	854,990
Fundraising	870,988	-	870,988	777,059
Total Supporting Services	1,826,460	-	1,826,460	1,632,049
TOTAL EXPENSES	13,927,404	-	13,927,404	19,365,996
Change in net assets from operations	(1,140,343)	(355,149)	(1,495,492)	480,462
Impairment loss on property and equipment	-	-	-	(402,000)
CHANGE IN NET ASSETS	(1,140,343)	(355,149)	(1,495,492)	78,462
Net loss attributable to noncontrolling interest	(30,064)	-	(30,064)	(172,041)
CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.	(1,110,279)	(355,149)	(1,465,428)	250,503
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR	973,809	1,404,074	2,377,883	2,127,380
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR	(136,470)	1,048,925	912,455	2,377,883
NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR	141,532	-	141,532	313,573
Net losses attributable to noncontrolling interest	(30,064)	-	(30,064)	(172,041)
NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR	111,468	-	111,468	141,532
TOTAL NET ASSETS, END OF YEAR	\$ (25,002)	\$ 1,048,925	\$ 1,023,923	\$ 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, 2018
(With Summarized Financial Information for the Year Ended December 31, 2017)

	Program Services							Supporting Services			2018 Total	2017 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	\$ 1,778,852	\$ 3,842,836	\$ 1,276,003	\$ 601,795	\$ 380,696	\$ 556,771	\$ 556	\$ 8,437,509	\$ -	\$ -	\$ -	\$ 8,437,509	\$ 13,847,821
Salaries, taxes and benefits – headquarters	84,548	240,145	90,033	13,383	134,474	82,371	110,136	755,090	536,987	380,627	917,614	1,672,704	1,671,180
Salaries, taxes and benefits – field offices	365,127	409,079	272,363	85,939	310,736	81,426	-	1,524,670	-	53,297	53,297	1,577,967	1,493,288
Professional fees	8,196	12,248	709	13,068	2,712	63,315	22,400	122,648	106,472	228,748	335,220	457,868	389,122
Occupancy	46,048	112,486	32,870	77,942	75,811	29,871	4,261	379,289	16,949	19,670	36,619	415,908	430,001
Office expenses	45,784	63,184	23,462	10,395	22,147	20,914	5,490	191,376	105,252	9,585	114,837	306,213	351,731
Depreciation and amortization	17,679	11,865	115,697	57,280	49,855	1,035	792	254,203	18,090	2,895	20,985	275,188	398,946
Advertising and promotion	3,151	344	-	-	436	5,113	178,414	187,458	998	40,965	41,963	229,421	237,210
Information technology	29,573	60,592	6,882	4,523	12,998	13,193	1,409	129,170	89,865	9,177	99,042	228,212	202,816
Travel	45	19,644	11,663	385	638	3,703	11,895	47,973	17,931	88,539	106,470	154,443	188,403
Other expenses	4,995	19,349	1,178	19,706	4,958	349	4,571	55,106	17,664	24,568	42,232	97,338	64,698
Conferences, conventions and meetings	-	12,834	2,349	116	1,097	56	-	16,452	3,293	12,917	16,210	32,662	28,229
Interest	-	-	-	-	-	-	-	-	28,904	-	28,904	28,904	37,931
Insurance	-	-	-	-	-	-	-	-	13,067	-	13,067	13,067	24,620
TOTAL EXPENSES	\$ 2,383,998	\$ 4,804,606	\$ 1,833,209	\$ 884,532	\$ 996,558	\$ 858,117	\$ 339,924	\$ 12,100,944	\$ 955,472	\$ 870,988	\$ 1,826,460	\$ 13,927,404	\$ 19,365,996

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, 2018

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,495,492)	\$ 78,462
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	275,188	398,946
Impairment loss on property and equipment	-	402,000
Interest and dividends restricted for long-term investment	(2,370)	(1,028)
Release of endowment donor restriction	110,000	-
Changes in assets and liabilities:		
Grants and accounts receivable	(11,580)	(64,661)
Pledges receivable	304,000	(48,750)
Prepaid expenses	35,781	(1,138)
Inventory	57,021	(128,858)
Deposits and other assets	14,194	(1,105)
Accounts payable and accrued expenses	88,813	159,434
Refundable advances	39,099	125,556
Deferred rent and leasehold incentive	(27,452)	(24,259)
Charitable gift annuities	(14,010)	(14,010)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(626,808)	880,589
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(39,542)	(93,417)
Purchases of investments	(12,794)	(12,360)
Proceeds from sales of investments	10,424	11,332
NET CASH USED IN INVESTING ACTIVITIES	(41,912)	(94,445)
CASH FLOWS FROM FINANCING ACTIVITIES		
Investment in permanent endowment	2,370	1,028
Proceeds from notes payable	-	112,065
Payments of notes payable	(75,878)	(118,396)
Proceeds from line of credit	250,000	56,000
Payments of line of credit	-	(240,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	176,492	(189,303)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(492,228)	596,841
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,131,663	534,822
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 639,435	\$ 1,131,663
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents – headquarters	\$ 358,740	\$ 566,889
Cash and cash equivalents – field offices	217,303	484,915
Cash and cash equivalents – restricted	63,392	79,859
Total Cash and Cash Equivalents	\$ 639,435	\$ 1,131,663
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 28,904	\$ 37,931
NONCASH FINANCING ACTIVITIES:		
Release of endowment donor restriction	\$ 110,000	\$ -

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, 2018

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 12). First Step was established to help bring ethical foreign direct investment to Sierra Leone. First Step is leveraging the substantial presence and experience of World Hope in Sierra Leone to reduce the risks and costs for international businesses to establish export processing activity in Sierra Leone.

World Hope Social Ventures LLC (WHSV) was incorporated in the State of Delaware in August 2018 as a for-profit social venture entity owned 100% by World Hope. WHSV had no activity for the year ended December 31, 2018.

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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2018

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

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 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, 2018, all pledges receivable were due in less than one year and were deemed by management to be fully collectible.

Inventory

Inventory is valued at net realizable value. As of December 31, 2018, 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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

Fair Value of Financial Instruments (continued)

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

As of December 31, 2018, 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. 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 and with a useful life of more than one year. 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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

Fair Value of Financial Instruments (continued)

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

As of December 31, 2018, 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. 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 and with a useful life of more than one year. 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.

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WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

Transactions in Foreign Currencies

WHI conducts many of its programs through field offices in foreign countries and, accordingly, transacts in the local currencies of those countries. These foreign currency transactions are translated into U.S. dollars using methods that make the rate used in the particular field office as close as possible to reality. Translations are made 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 transaction occurred). The resulting gain or loss is reflected in expenses in the accompanying consolidated statement of activities and changes in net assets. The U.S. dollar is considered the functional and reporting currency of WHI.

Classification of Net Assets

WHI's net assets are reported as follows:

- *Net assets without donor restrictions* represent the portion of expendable funds that are available for any purpose in performing the primary objectives of WHI at the discretion of WHI's management and the Board of Directors (the Board). From time to time, the Board designates a portion of these net assets for specific purposes, which makes them unavailable for use at management's discretion. The Board has not designated net assets without donor restrictions.
- *Net assets with donor restrictions* represent funds that are specifically restricted by donors for use in various programs and/or for specific periods of time. These donor restrictions can be temporary in nature in that they will be met by actions of WHI or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity.

Revenue Recognition

WHI recognizes all unconditional contributed support in the period in which the commitment to give is made. Grants and contributions are considered without donor restriction and are available for operations unless specifically restricted by the donor. WHI reports gifts of cash and other assets as increases in net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying consolidated statement of activities and changes in net assets as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

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

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

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

Revenue Recognition (continued)

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 estimated 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 and changes in net assets 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 Allocation of 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. Expenses directly attributed to specific functional areas of WHI are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas, such as occupancy, office expenses, information technology and depreciation and amortization have been allocated among the various functional areas based on salary allocations.

Estimates

The preparation of 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.

Recent Accounting Pronouncement

In August 2016, FASB issued Accounting Standards Update No. 2016-14 (ASU 2016-14) (*Topic 958*): *Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; and requires enhanced disclosures for composition of net assets with and without donor restrictions, liquidity, and the presentation of expenses by both their natural and functional classification.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

2. Investments

As of December 31, 2018, investments consisted of money market funds totaling \$513,937. These investments relate to a donor-restricted endowment fund and earnings from that fund, totaling \$12,794 for the year ended December 31, 2018, were to be used to fund specific donor purposes or to be reinvested in the endowment fund. Investment income reported in the accompanying consolidated statement of activities and changes in net assets also includes \$2,976 of interest income generated from various operating accounts.

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, 2018, 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	\$ 513,937	\$ -	\$ 513,937	\$ -
Deposits and other assets:				
Annuity receivable	<u>22,419</u>	<u>-</u>	<u>22,419</u>	<u>-</u>
Total Assets	<u>\$ 536,356</u>	<u>\$ -</u>	<u>\$ 536,356</u>	<u>\$ -</u>
Liabilities:				
Charitable gift annuities	<u>\$ 35,531</u>	<u>\$ -</u>	<u>\$ 35,531</u>	<u>\$ -</u>
Total Liabilities	<u>\$ 35,531</u>	<u>\$ -</u>	<u>\$ 35,531</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.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

4. Property and Equipment and Accumulated Depreciation and Amortization

WHI held the following property and equipment as of December 31, 2018:

Land and improvements	\$ 298,571
Buildings and improvements	216,479
Leasehold improvements	203,074
Vehicles	975,945
Office and other equipment	522,417
Software	<u>374,257</u>
Total Property and Equipment	2,590,743
Less: Accumulated Depreciation and Amortization	<u>(2,082,590)</u>
Property and Equipment, Net	<u>\$ 508,153</u>

Depreciation and amortization expense amounted to \$275,188 for the year ended December 31, 2018.

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 expired on February 7, 2019. On February 8, 2019, the agreement was modified to extend the maturity date to January 28, 2020. The line of credit has an interest rate equal to the London Interbank Offered Rate Daily Floating Rate plus 3%, which was 5.4% at December 31, 2018. The line of credit is secured by WHI's personal property, including its receivables, inventory and equipment. There was an outstanding balance of \$250,000 on this line of credit as of December 31, 2018. Interest expense was approximately \$7,000 for the year ended December 31, 2018.

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 \$22,000 for the year ended December 31, 2018.

The outstanding note balance totaled \$251,371 as of December 31, 2018. As of December 31, 2018, the scheduled principal payments on the notes payable were as follows:

For the Year Ending December 31,	
<u>2019</u>	\$ 78,163
2020	83,814
2021	<u>89,394</u>
Total	<u>\$ 251,371</u>

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

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.

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 the building's operating expenses, amounted to \$115,410 for the year ended December 31, 2018, 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>	
2019	\$ 134,167
2020	137,521
2021	140,959
2022	144,483
2023	<u>48,556</u>
Total	<u>\$ 605,686</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, 2018. 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 currency devaluations or changes in the political climate. As of December 31, 2018, WHI had assets in these countries totaling approximately \$1,098,000, representing approximately 46% of WHI's total consolidated assets.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

8. Deficit and Management's Plan

WHI had a deficit balance in net assets without donor restrictions as of December 31, 2018. During 2018, WHI was an early responder in Emergency Response projects throughout the globe. During Hurricane Florence, WHI was a first responder expending funds in anticipation that donors would also respond with their generosity. The donor response was not what was required to cover response costs, which resulted in deficit spending and negative net assets without donor restrictions.

The Board of Directors held a special meeting in January 2019 to review 2018's financial performance and to discuss strategy regarding emergency response efforts and other program deficit spending. The outcome was a directive to the staff that any expenditures that are expected to exceed budget must be reported to the Board of Directors with a plan of how the excess costs will be offset against budget reductions in other planned spending. Furthermore, the staff is expected to maintain year-to-date surpluses throughout the fiscal year by ensuring that program initiatives are fully funded before investing in relief and development efforts. WHI is also working on digitizing its global procurement process with encumbrance for greater controls over the disbursement process. This is expected to be operational by the fourth quarter of 2019. To improve its fundraising efforts, WHI hired a seasoned Chief Development Officer in 2018 to restructure the development team and bring best practices to its fundraising efforts.

9. Net Assets With Donor Restrictions

As of December 31, 2018, net assets with donor restrictions were available as follows:

Subject to expenditure for specified purposes:	
Clean water wells and sanitation	\$ 181,234
Education	119,775
Health and nutrition	102,013
Economic development	100,696
Anti-trafficking	<u>31,270</u>
	534,988
Subject to restriction in perpetuity and appropriation:	
Investment in perpetuity (including cumulative earnings of \$4,587), which, once appropriated, is expendable to support WHI operations	<u>513,937</u>
Total Net Assets With Donor Restrictions	<u>\$ 1,048,925</u>

10. Endowment Funds

WHI's endowment consists of a donor-restricted endowment fund. The income from the fund is to be used 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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

10. Endowment Funds (continued)

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.

The statute lists the following 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 Activities

Changes in endowment net assets were as follows for the year ended December 31, 2018:

Endowment net assets, beginning of the year	\$ 621,567
Donor release	(110,000)
Investment income, net	12,794
Appropriations	<u>(10,424)</u>
Endowment Net Assets, End of Year	<u>\$ 513,937</u>

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, 2018.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

10. Endowment Funds (continued)

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. Availability of Resources and Liquidity

WHI regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. WHI's financial assets available within one year of the consolidated statement of financial position date for general expenditures at December 31, 2018, were as follows:

Cash and cash equivalents	\$ 576,043
Grants and accounts receivable, net	322,356
Pledges receivable	<u>112,500</u>
Total Financial Assets Available Within One Year	1,010,899
Less:	
Amounts unavailable for general expenditures within one year due to donor's purpose restriction	<u>(534,988)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 475,911</u>

WHI has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of WHI throughout the year. This is done through monitoring and reviewing WHI's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of WHI's cash flow related to WHI's various funding sources and is, therefore, able to ensure that there is cash available to meet current liquidity needs.

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, 2018. World Hope and those board members of World Hope together own 100% of First Step.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018**

13. 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 \$38,815 for the year ended December 31, 2018, and is included as part of salaries, taxes and benefits in the accompanying consolidated schedule of functional expenses.

14. 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, 2018. First Step is subject to federal and state income taxes. For the year ended December 31, 2018, 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, 2018, 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, 2018, the statute of limitations for tax years 2015 through 2017 remained open with the U.S. federal jurisdiction or the various states and local jurisdictions in which WHI files tax returns, however, there are currently no audits for any tax periods in progress. It is WHI's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in interest or income tax expense. As of December 31, 2018, WHI had no accruals for interest and/or penalties.

15. 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, 2017, from which the summarized information was derived.

16. Reclassification

Certain 2017 amounts have been reclassified to conform to the 2018 financial statement presentation.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

17. Subsequent Events

In preparing these consolidated financial statements, WHI has evaluated events and transactions for potential recognition or disclosure through May 9, 2019, the date the consolidated financial statements were available to be issued. Other than the renewal of the line of credit discussed in Note 5, there were no subsequent events identified required to be recognized or disclosed in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
December 31, 2018

	World Hope International, Inc.	First Step Economic Opportunity Zone, Inc.	Eliminations	Total
ASSETS				
Cash and cash equivalents – headquarters	\$ 358,604	\$ 136	\$ -	\$ 358,740
Cash and cash equivalents – field offices	206,976	10,327	-	217,303
Cash and cash equivalents – restricted	63,392	-	-	63,392
Grants and accounts receivable, net	392,857	-	(70,501)	322,356
Pledges receivable	112,500	-	-	112,500
Prepaid expenses	62,856	-	-	62,856
Inventory	188,892	-	-	188,892
Investments	513,937	-	-	513,937
Property and equipment, net	336,647	171,506	-	508,153
Deposits and other assets	63,160	-	-	63,160
	<u>\$ 2,299,821</u>	<u>\$ 181,969</u>	<u>\$ (70,501)</u>	<u>\$ 2,411,289</u>
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 528,376	\$ 70,501	\$ (70,501)	\$ 528,376
Refundable advances	164,655	-	-	164,655
Line of credit	250,000	-	-	250,000
Notes payable	251,371	-	-	251,371
Deferred rent	76,516	-	-	76,516
Deferred leasehold incentive	80,917	-	-	80,917
Charitable gift annuities	35,531	-	-	35,531
	<u>1,387,366</u>	<u>70,501</u>	<u>(70,501)</u>	<u>1,387,366</u>
Net Assets				
Without donor restrictions				
Undesignated	(136,470)	-	-	(136,470)
Noncontrolling interest	-	-	111,468	111,468
Total Net Assets Without Donor Restrictions	(136,470)	-	111,468	(25,002)
With donor restrictions				
Common stock	-	1	(1)	-
Additional paid-in capital	-	3,763,283	(3,763,283)	-
Accumulated deficit	-	(3,651,816)	3,651,816	-
	<u>912,455</u>	<u>111,468</u>	<u>-</u>	<u>1,023,923</u>
TOTAL NET ASSETS	<u>912,455</u>	<u>111,468</u>	<u>-</u>	<u>1,023,923</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,299,821</u>	<u>\$ 181,969</u>	<u>\$ (70,501)</u>	<u>\$ 2,411,289</u>

See independent auditors' report on supplementary information.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2018

	World Hope International, Inc.	First Step Economic Opportunity Zone, Inc.	Eliminations	Total
REVENUE AND SUPPORT				
Contributions	\$ 4,955,370	\$ -	\$ -	\$ 4,955,370
In-kind contributions	4,472,241	-	-	4,472,241
International grants	2,061,122	-	-	2,061,122
Federal grants and contracts	402,188	-	-	402,188
Program income	428,965	24,462	-	453,427
Other income	71,794	56,875	(56,875)	71,794
Investment income (loss), net	(41,105)	-	56,875	15,770
TOTAL REVENUE AND SUPPORT	12,350,575	81,337	-	12,431,912
EXPENSES				
Program Services:				
Health and nutrition	2,383,998	-	-	2,383,998
Emergency response and other programs	4,804,606	-	-	4,804,606
Clean water wells and sanitation	1,833,209	-	-	1,833,209
Economic development	773,130	111,401	-	884,531
Anti-trafficking and gender-based violence	996,559	-	-	996,559
Education and child sponsorship	858,117	-	-	858,117
Public awareness	339,924	-	-	339,924
Total Program Services	11,989,543	111,401	-	12,100,944
Supporting Services:				
General and administrative	955,472	-	-	955,472
Fundraising	870,988	-	-	870,988
Total Supporting Services	1,826,460	-	-	1,826,460
TOTAL EXPENSES	13,816,003	111,401	-	13,927,404
CHANGE IN NET ASSETS	(1,465,428)	(30,064)	-	(1,495,492)
Net loss attributable to noncontrolling interest	-	-	(30,064)	(30,064)
CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.	(1,465,428)	(30,064)	30,064	(1,465,428)
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR	2,377,883	(1,084,539)	1,084,539	2,377,883
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR	912,455	(1,114,603)	1,114,603	912,455
NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR	-	1,226,071	(1,084,539)	141,532
Net losses attributable to noncontrolling interest	-	-	(30,064)	(30,064)
NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR	-	1,226,071	(1,114,603)	111,468
TOTAL NET ASSETS, END OF YEAR	\$ 912,455	\$ 111,468	\$ -	\$ 1,023,923

See independent auditors' report on supplementary information.