



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

**Consolidated Financial Statements and
Supplementary Information**

*For the Year Ended December 31, 2019
(With Summarized Financial Information for the Year Ended December 31, 2018)*



**and
Report Thereon**



WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

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For the Year Ended December 31, 2019

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of World Hope International, Inc. and Affiliate (collectively known as WHI), which comprise the consolidated statement of financial position as of December 31, 2019, 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.

Continued

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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 2019 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, 2019, 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

Restatement of 2018 Financial Statements and Report on Summarized Comparative Information

We have previously audited WHI's 2018 consolidated financial statements, and in our report dated May 9, 2019, we expressed an unmodified audit opinion on those statements. As discussed in Note 13 to the consolidated financial statements, WHI has restated its 2018 financial statements to adjust contribution revenue and the release and classification of net assets in accordance with accounting principles generally accepted in the United States of America (GAAP). We reported on the consolidated financial statements before the adjustments.

As part of our audit of the 2019 consolidated financial statements, we also audited the adjustments that were applied to restate the 2018 consolidated financial statements as described in Note 13. In our opinion, such adjustments are appropriate and have been properly applied. Our opinion is not modified with respect to that matter.

Except as noted above, in our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, 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 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
June 29, 2020

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2019
(With Summarized Financial Information as of December 31, 2018)

	<u>2019</u>	<u>(As restated) 2018</u>
ASSETS		
Cash and cash equivalents – headquarters	\$ 1,246,563	\$ 358,740
Cash and cash equivalents – field offices	440,830	217,303
Cash and cash equivalents – restricted	46,890	63,392
Grants and accounts receivable, net	141,600	322,356
Pledges receivable	192,508	112,500
Prepaid expenses	79,344	62,856
Inventory	154,925	188,892
Investments	516,000	513,937
Property and equipment, net	180,296	508,153
Deposits and other assets	<u>71,799</u>	<u>63,160</u>
TOTAL ASSETS	<u>\$ 3,070,755</u>	<u>\$ 2,411,289</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 476,200	\$ 528,376
Refundable advances	81,176	164,655
Line of credit	-	250,000
Notes payable	-	251,371
Deferred rent	64,465	76,516
Deferred leasehold incentive	62,244	80,917
Charitable gift annuities	<u>21,521</u>	<u>35,531</u>
TOTAL LIABILITIES	<u>705,606</u>	<u>1,387,366</u>
Net Assets		
Without donor restrictions		
Undesignated	427,938	44,766
Noncontrolling interest	<u>-</u>	<u>111,468</u>
Total Net Assets Without Donor Restrictions	427,938	156,234
With donor restrictions		
	<u>1,937,211</u>	<u>867,689</u>
TOTAL NET ASSETS	<u>2,365,149</u>	<u>1,023,923</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,070,755</u>	<u>\$ 2,411,289</u>

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, 2019
(With Summarized Financial Information for the Year Ended December 31, 2018)

	2019			(As restated)
	Without Donor Restriction	With Donor Restriction	Total	2018 Total
REVENUE AND SUPPORT				
Support:				
In-kind contributions	\$ 12,654,836	\$ -	\$ 12,654,836	\$ 4,472,241
Contributions	5,703,383	1,313,211	7,016,594	5,055,370
International grants	1,530,132	-	1,530,132	2,061,122
Federal grants	150,010	-	150,010	402,188
Revenue:				
Program income	350,332	-	350,332	453,427
Other income	932	-	932	71,794
Investment income	9,839	2,063	11,902	15,770
Net assets released from restrictions:				
Satisfaction of purpose restrictions	245,752	(245,752)	-	-
TOTAL REVENUE AND SUPPORT	20,645,216	1,069,522	21,714,738	12,531,912
EXPENSES				
Program Services:				
Health and nutrition	13,537,387	-	13,537,387	2,383,998
Emergency response and other programs	1,300,339	-	1,300,339	4,804,606
Clean water wells and sanitation	1,095,542	-	1,095,542	1,833,209
Economic development	920,902	-	920,902	884,532
Anti-trafficking and gender-based violence	658,776	-	658,776	996,558
Education and child sponsorship	638,199	-	638,199	858,117
Public awareness	277,243	-	277,243	339,924
Total Program Services	18,428,388	-	18,428,388	12,100,944
Supporting Services:				
General and administrative	1,119,851	-	1,119,851	955,472
Fundraising	825,273	-	825,273	870,988
Total Supporting Services	1,945,124	-	1,945,124	1,826,460
TOTAL EXPENSES	20,373,512	-	20,373,512	13,927,404
Change in net assets from operations	271,704	1,069,522	1,341,226	(1,395,492)
Gain on acquisition of noncontrolling interest	74,888	-	74,888	-
CHANGE IN NET ASSETS	346,592	1,069,522	1,416,114	(1,395,492)
Net loss attributable to noncontrolling interest	(36,580)	-	(36,580)	(30,064)
CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.	383,172	1,069,522	1,452,694	(1,365,428)
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR AS RESTATED	44,766	867,689	912,455	2,277,883
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR	427,938	1,937,211	2,365,149	912,455
NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR	111,468	-	111,468	141,532
Net losses attributable to noncontrolling interest	(36,580)	-	(36,580)	(30,064)
Acquisition of noncontrolling interest by World Hope	(74,888)	-	(74,888)	-
NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR	-	-	-	111,468
TOTAL NET ASSETS, END OF YEAR	\$ 427,938	\$ 1,937,211	\$ 2,365,149	\$ 1,023,923

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, 2019
(With Summarized Financial Information for the Year Ended December 31, 2018)

	Program Services							Supporting Services			2019 Total	2018 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	\$ 13,030,646	\$ 627,246	\$ 623,003	\$ 580,067	\$ 217,941	\$ 327,523	\$ -	\$ 15,406,426	\$ -	\$ -	\$ -	\$ 15,406,426	\$ 8,437,509
Salaries, taxes and benefits – headquarters	50,239	139,914	123,233	47,120	98,076	99,319	83,707	641,608	570,746	452,144	1,022,890	1,664,498	1,672,704
Salaries, taxes and benefits – field offices	326,650	220,617	193,294	148,225	229,258	64,309	-	1,182,353	50	6,329	6,379	1,188,732	1,577,967
Professional fees	12,451	53,300	6,934	7,416	4,588	73,849	2,930	161,468	102,685	134,975	237,660	399,128	457,868
Occupancy	37,244	90,428	18,870	48,668	43,246	33,660	9,078	281,194	26,386	27,937	54,323	335,517	415,908
Office expenses	41,449	62,257	14,425	18,956	27,121	20,143	7,243	191,594	81,296	15,642	96,938	288,532	306,213
Travel	1,820	29,750	6,480	-	12,690	4,497	10,470	65,707	25,658	142,837	168,495	234,202	154,443
Depreciation and amortization	10,096	32,944	91,690	39,413	3,807	1,364	1,962	181,276	22,284	5,802	28,086	209,362	275,188
Information technology	21,384	34,287	7,708	13,824	10,532	3,769	1,066	92,570	82,688	9,345	92,033	184,603	228,212
Advertising and promotion	5,014	5,002	4,309	1,243	530	9,178	158,305	183,581	519	763	1,282	184,863	229,421
Impairment loss on property and equipment	-	-	-	-	-	-	-	-	134,900	-	134,900	134,900	-
Other expenses	367	3,738	1,253	14,432	4,110	584	1,065	25,549	18,441	25,472	43,913	69,462	97,338
Interest	-	-	-	-	-	-	-	-	27,261	-	27,261	27,261	28,904
Conferences, conventions and meetings	1	806	4,343	1,538	6,877	4	1,417	14,986	4,878	4,027	8,905	23,891	32,662
Insurance	26	50	-	-	-	-	-	76	22,059	-	22,059	22,135	13,067
TOTAL EXPENSES	\$ 13,537,387	\$ 1,300,339	\$ 1,095,542	\$ 920,902	\$ 658,776	\$ 638,199	\$ 277,243	\$ 18,428,388	\$ 1,119,851	\$ 825,273	\$ 1,945,124	\$ 20,373,512	\$ 13,927,404

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, 2019
(With Summarized Financial Information for the Year Ended December 31, 2018)

	<u>2019</u>	<u>(As restated) 2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,416,114	\$ (1,395,492)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	209,362	275,188
Impairment loss on property and equipment	134,900	-
Gain on acquisition of noncontrolling interest	(74,888)	-
Interest and dividends restricted for long-term investment	(2,063)	(2,370)
Release of endowment donor restriction	-	110,000
Changes in assets and liabilities:		
Grants and accounts receivable	180,756	(11,580)
Pledges receivable	(80,008)	204,000
Prepaid expenses	(16,488)	35,781
Inventory	33,967	57,021
Deposits and other assets	(8,639)	14,194
Accounts payable and accrued expenses	(52,176)	88,813
Refundable advances	(83,479)	39,099
Deferred rent and leasehold incentive	(30,724)	(27,452)
Charitable gift annuities	(14,010)	(14,010)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>1,612,624</u>	<u>(626,808)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(16,405)	(39,542)
Purchases of investments	(2,063)	(12,794)
Proceeds from sales of investments	-	10,424
NET CASH USED IN INVESTING ACTIVITIES	<u>(18,468)</u>	<u>(41,912)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Investment in permanent endowment	2,063	2,370
Payments of notes payable	(251,371)	(75,878)
Proceeds from line of credit	-	250,000
Payments of line of credit	(250,000)	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(499,308)</u>	<u>176,492</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,094,848	(492,228)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>639,435</u>	<u>1,131,663</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,734,283</u>	<u>\$ 639,435</u>
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents – headquarters	\$ 1,246,563	\$ 358,740
Cash and cash equivalents – field offices	440,830	217,303
Cash and cash equivalents – restricted	46,890	63,392
Total Cash and Cash Equivalents	<u>\$ 1,734,283</u>	<u>\$ 639,435</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 27,261</u>	<u>\$ 28,904</u>
NONCASH FINANCING ACTIVITIES:		
Release of endowment donor restriction	<u>\$ -</u>	<u>\$ 110,000</u>

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

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2019

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. 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 initially had a 65.42% ownership in First Step, while the remaining 34.58% was owned by related parties. In December 2019, World Hope purchased the remaining 34.58% from the related parties.

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. In January 2019, WHSV signed a shareholder agreement for 35% share in TapEffect, a private limited company in Cambodia which was established to enable access to clean piped water for semi-urban, semi-rural and rural households and small and medium enterprises. WHSV has committed to providing capital to Tap Effect of \$300,000, which WHSV paid to TapEffect from January to April 2020. WHSV had no activity for the year ended December 31, 2019.

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.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

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, 2019, 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, 2019, 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.

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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended December 31, 2019

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

Split-Interest Agreements

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

Transactions in Foreign Currencies

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

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

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

Revenue Recognition (continued)

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, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenditures. Revenue from these grants and contracts is recognized as costs are incurred for expenditures in compliance with the specific contract or grant provisions. These revenues are reported as part of federal grants and contracts or international grants on the consolidated statement of activities depending on the source of funds. Direct and indirect expenses incurred but not reimbursed under these grants and contracts are reported as part of grants and accounts receivable, while amounts received prior to incurring qualifying expenditures are reported as refundable advances in the accompanying consolidated statement of financial position. Amounts earned and released in the same year under conditional awards are reported as support without donor restrictions in the accompanying consolidated statement of activities.

Program income primarily consists of mushroom sales in Cambodia. It also includes payments for other services provided. Program income is recognized at the point in time when goods are delivered or services are provided. 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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

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

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 Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. WHI adopted ASU 2014-09 and related amendments on January 1, 2019, using the modified retrospective method and elected to apply the standard only to contracts that were not completed as of that date. The adoption of the standard did not impact the results of operations or change in net assets.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contribution versus an exchange. WHI adopted ASU 2018-08 as of January 1, 2019, and has applied the amendments of this standard on a modified prospective basis and elected to apply the standard only to agreements that were entered into after the effective date. This standard did not result in a material change to the financial statements or the timing of revenue recognition for WHI's contributions.

2. Investments

As of December 31, 2019, investments consisted of money market accounts totaling \$516,000. These investments relate to a donor-restricted endowment fund and earnings from that fund, totaling \$2,063 for the year ended December 31, 2019, 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 \$4,870 in realized gain on the sale of contributed stock and \$4,969 of interest income generated from various operating accounts.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

3. Property and Equipment and Accumulated Depreciation and Amortization

WHI held the following property and equipment as of December 31, 2019:

Land	\$	9,400
Leasehold improvements		219,580
Vehicles		976,337
Office and other equipment		522,416
Software		<u>374,257</u>
Total Property and Equipment		2,101,990
Less: Accumulated Depreciation and Amortization		<u>(1,921,694)</u>
Property and Equipment, Net		<u>\$ 180,296</u>

Depreciation and amortization expense amounted to \$209,362 for the year ended December 31, 2019. In addition, an impairment loss of \$134,900 was recorded by First Step to reduce the recorded amount of its property and equipment to its estimated recoverable value.

4. 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 January 28, 2020, and was renewed in January 2020 to extend the maturity date to January 28 2021. The line of credit has an interest rate equal to the London Interbank Offered Rate Daily Floating Rate plus 3%, which was 4.54% at December 31, 2019. 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, 2019. Interest expense was approximately \$12,700 for the year ended December 31, 2019.

5. Notes Payable

On November 16, 2016, WHI entered into secured note with an investment foundation for an amount up to \$360,000. The loan was 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 \$14,600 for the year ended December 31, 2019. In November 2019, this note was paid in full.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

6. 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 \$100,953 for the year ended December 31, 2019, 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 December 31,</u>	
2020	\$ 137,521
2021	140,959
2022	144,483
2023	<u>48,556</u>
Total	<u>\$ 471,519</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, Haiti, Azerbaijan, Liberia, the Philippines and Bosnia during the year ended December 31, 2019. 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, 2019, WHI had assets in these countries totaling approximately \$838,000, representing approximately 27% of WHI's total consolidated assets.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

7. Net Assets With Donor Restrictions

As of December 31, 2019, net assets with donor restrictions were available as follows:

Subject to expenditure for specified purposes:	
Emergency response and other	\$ 830,228
Economic development	374,690
Education	216,293
Subject to restriction in perpetuity and appropriation:	
Investment in perpetuity (including cumulative earnings of \$6,650), which, once appropriated, is expendable to support WHI operations	516,000
Total Net Assets With Donor Restrictions	\$ 1,937,211

8. 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.

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.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2019**

8. Endowment Funds (continued)

Interpretation of Relevant Law (continued)

- 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, 2019:

Endowment net assets, beginning of the year	\$ 513,937
Investment income, net	<u>2,063</u>
Endowment Net Assets, End of Year	<u>\$ 516,000</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. WHI has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. There were no such deficiencies as of December 31, 2019.

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. Except as noted above, WHI does not have an overall 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.

9. 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, 2019, were as follows:

Cash and cash equivalents	\$ 1,687,393
Grants and accounts receivable, net	141,600
Pledges receivable	<u>192,508</u>
Total Financial Assets Available Within One Year	2,021,501

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

9. Availability of Resources and Liquidity (continued)

(continued)

Less:

Amounts unavailable for general expenditures within one year
due to donors' purpose restriction \$ (1,421,211)

Financial Assets Available to Meet
General Expenditures Within One Year \$ 600,290

WHI has various sources of liquidity at its disposal, including cash and cash equivalents and receivables, 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.

10. 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 \$38,007 for the year ended December 31, 2019, and is included as part of salaries, taxes and benefits in the accompanying consolidated statement of functional expenses.

11. Income Taxes

World Hope is exempt from payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes was required for the year ended December 31, 2019. First Step is subject to federal and state income taxes. For the year ended December 31, 2019, First Step had a net operating loss and has a cumulative net operating loss carryforwards from prior years that is available to offset taxable income through 2037. 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*. WHI performed an evaluation of uncertainty in income taxes for the year ended December 31, 2019, 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, 2019, the statute of limitations 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 pending or 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, 2019, WHI had no accruals for interest and/or penalties.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

12. Related Party Transactions

Two of World Hope's board members owned shares of First Step and controlled a combined 34.58% of First Step's shares. On December 20, 2019, World Hope purchased the shares held by the two board members at a price of \$0.01 per share and as a result, World Hope now owns 100% of First Step. World Hope recognized a gain of \$74,888 from this transaction as World Hope purchased the First Step shares for less than the carrying value of the noncontrolled interest at the transaction date.

13. Prior Period Adjustments

WHI restated its net asset balances to increase net assets without donor restrictions and decrease net assets with donor restrictions by \$181,236 as of December 31, 2018. This adjustment consisted of contributions from donors in prior years that were either incorrectly restricted for a particular purpose or had been under-released from net assets with donor restrictions. In addition, WHI also corrected an understatement of contributions revenue during the year ended December 31, 2018, and an overstatement of the beginning net assets as of January 1, 2018, amounting to \$100,000.

14. 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, 2018, from which the summarized information was derived.

15. Subsequent Events

In preparing these consolidated financial statements, WHI has evaluated events and transactions for potential recognition or disclosure through June 29, 2020, the date the consolidated financial statements were available to be issued.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic that, until now, continues to spread throughout the United States and around the world. In 2019, WHI increased both its revenues and net assets, and as a result, increased its 2020 budgeted expenditures, including hiring for new employee positions, based on further projected revenue growth for 2020. As a result of the uncertainties caused by COVID-19, WHI has reduced its 2020 revenue projections after recent discussions with its Board of Directors and donors, and has reassessed the sustainability of its newly created employee positions. The receipt of its Paycheck Protection Program (PPP) funding, as discussed below, has allowed WHI to defer any decisions regarding those new employee positions until later in 2020 when revenue projections can be refined.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended December 31, 2019

15. Subsequent Events (continued)

On May 1, 2020, WHI entered into a Small Business Administration loan with its financial institution under PPP for the amount of \$290,903. The loan will mature on May 1, 2022, with a fixed interest rate of 1% per annum. Monthly payments of principal and interest will commence on December 1, 2020, and continue through the maturity date. The loan amount, or some portion thereof, may be eligible for forgiveness pursuant to the grant provisions of the PPP.

Other than the investment in TapEffect discussed in Note 1, the renewal of the line of credit discussed in Note 4 and the matters discussed above, 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, 2019

	World Hope International, Inc.	First Step Economic Opportunity Zone, Inc.	Eliminations	Total
ASSETS				
Cash and cash equivalents – headquarters	\$ 1,246,427	\$ 136	\$ -	\$ 1,246,563
Cash and cash equivalents – field offices	435,283	5,547	-	440,830
Cash and cash equivalents – restricted	46,890	-	-	46,890
Grants and accounts receivable	141,600	-	-	141,600
Pledges receivable	192,508	-	-	192,508
Prepaid expenses	79,344	-	-	79,344
Inventory	154,925	-	-	154,925
Investments	521,683	-	(5,683)	516,000
Property and equipment, net	180,296	-	-	180,296
Deposits and other assets	71,799	-	-	71,799
TOTAL ASSETS	\$ 3,070,755	\$ 5,683	\$ (5,683)	\$ 3,070,755
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable and accrued expenses	\$ 476,200	\$ -	\$ -	\$ 476,200
Refundable advances	81,176	-	-	81,176
Deferred rent	64,465	-	-	64,465
Deferred leasehold incentive	62,244	-	-	62,244
Charitable gift annuities	21,521	-	-	21,521
TOTAL LIABILITIES	705,606	-	-	705,606
Net Assets				
Without donor restrictions				
Undesignated	427,938	-	-	427,938
Total Net Assets Without Donor Restrictions	427,938	-	-	427,938
With donor restrictions				
Common stock	-	1	(1)	-
Additional paid-in capital	-	3,763,283	(3,763,283)	-
Accumulated deficit	-	(3,757,601)	3,757,601	-
TOTAL NET ASSETS	2,365,149	5,683	(5,683)	2,365,149
TOTAL LIABILITIES AND NET ASSETS	\$ 3,070,755	\$ 5,683	\$ (5,683)	\$ 3,070,755

See independent auditor's 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, 2019

	World Hope International, Inc.	First Step Economic Opportunity Zone, Inc.	Eliminations	Total
REVENUE AND SUPPORT				
Support:				
In-kind contributions	\$ 12,654,836	\$ -	\$ -	\$ 12,654,836
Contributions	7,016,594	-	-	7,016,594
International grants	1,530,132	-	-	1,530,132
Federal grants	150,010	-	-	150,010
Revenue:				
Program income	325,512	24,820	-	350,332
Other income	932	70,501	(70,501)	932
Investment income (loss), net	(57,303)	-	69,205	11,902
TOTAL REVENUE AND SUPPORT	<u>21,620,713</u>	<u>95,321</u>	<u>(1,296)</u>	<u>21,714,738</u>
EXPENSES				
Program Services:				
Health and nutrition	13,537,387	-	-	13,537,387
Emergency response and other programs	1,300,339	-	-	1,300,339
Clean water wells and sanitation	1,095,542	-	-	1,095,542
Economic development	854,696	66,206	-	920,902
Anti-trafficking and gender-based violence	658,776	-	-	658,776
Education and child sponsorship	638,199	-	-	638,199
Public awareness	277,243	-	-	277,243
Total Program Services	<u>18,362,182</u>	<u>66,206</u>	<u>-</u>	<u>18,428,388</u>
Supporting Services:				
General and administrative	1,055,452	134,900	(70,501)	1,119,851
Fundraising	825,273	-	-	825,273
Total Supporting Services	<u>1,880,725</u>	<u>134,900</u>	<u>(70,501)</u>	<u>1,945,124</u>
TOTAL EXPENSES	<u>20,242,907</u>	<u>201,106</u>	<u>(70,501)</u>	<u>20,373,512</u>
Change in net assets from operations	1,377,806	(105,785)	69,205	1,341,226
Gain on acquisition of noncontrolling interest	74,888	-	-	74,888
CHANGE IN NET ASSETS	<u>1,452,694</u>	<u>(105,785)</u>	<u>69,205</u>	<u>1,416,114</u>
Net loss attributable to noncontrolling interest	-	-	(36,580)	(36,580)
CHANGE IN NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC.	<u>1,452,694</u>	<u>(105,785)</u>	<u>105,785</u>	<u>1,452,694</u>
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., BEGINNING OF YEAR	<u>912,455</u>	<u>(1,114,603)</u>	<u>1,114,603</u>	<u>912,455</u>
NET ASSETS ATTRIBUTABLE TO WORLD HOPE INTERNATIONAL, INC., END OF YEAR	<u>2,365,149</u>	<u>(1,220,388)</u>	<u>1,220,388</u>	<u>2,365,149</u>
NONCONTROLLING INTEREST IN NET ASSETS, BEGINNING OF YEAR	-	1,226,071	(1,114,603)	111,468
Net losses attributable to noncontrolling interest	-	-	(36,580)	(36,580)
Acquisition of noncontrolling interest	-	-	(74,888)	(74,888)
NONCONTROLLING INTEREST IN NET ASSETS, END OF YEAR	<u>-</u>	<u>1,226,071</u>	<u>(1,226,071)</u>	<u>-</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 2,365,149</u>	<u>\$ 5,683</u>	<u>\$ (5,683)</u>	<u>\$ 2,365,149</u>

See independent auditor's report on supplementary information.