



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

Consolidated Financial Statements

For the Year Ended December 31, 2009



**and
Report Thereon**





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INDEPENDENT AUDITOR'S REPORT

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

CONSULTING

ACCOUNTING

TECHNOLOGY

*Certified Public
Accountants*

We have audited the accompanying consolidated statement of financial position of World Hope International, Inc. and Affiliates (collectively known as WHI) as of December 31, 2009, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended. These consolidated financial statements are the responsibility of WHI's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WHI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WHI as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

RAFFA, P.C.

Washington, DC
August 13, 2010

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2009

ASSETS

Current Assets

Cash and cash equivalents	\$ 322,547
Cash and cash equivalents - field	738,440
Grants and accounts receivable	633,959
Microfinance loans receivable, net of provision for loan losses	1,216,624
Prepaid expenses	181,688
Notes receivable - current portion	100,200
Investments	18,614

Total Current Assets	3,212,072
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Noncurrent Assets

Notes receivable - net of current portion	567,986
Investments	427,015
Property and equipment, net	1,407,131
Deposits and other noncurrent assets	74,095

Total Noncurrent Assets	2,476,227
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TOTAL ASSETS	\$ 5,688,299
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LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable and accrued expenses	\$ 747,305
Notes payable	420,349
Deferred rent abatement	14,056
Microfinance client savings	219,711

Total Current Liabilities	1,401,421
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Noncurrent Liabilities

Deferred rent, net of current portion	81,166
Other noncurrent liabilities	48,455

Total Noncurrent Liabilities	129,621
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TOTAL LIABILITIES	1,531,042
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Net Assets

Unrestricted	565,684
Temporarily restricted	3,481,573
Permanently restricted	110,000

TOTAL NET ASSETS	4,157,257
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TOTAL LIABILITIES AND NET ASSETS	\$ 5,688,299
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The accompanying notes are an integral part of these consolidated financial statements.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Contributions	\$ 3,683,786	\$ 4,857,950	\$ -	\$ 8,541,736
Federal grants and contracts	4,029,996	-	-	4,029,996
State and local grants and contracts	9,338	-	-	9,338
Grants - international sources	-	167,016	-	167,016
Donated goods and services	597,056	220,566	-	817,622
Investment income	45,861	5,409	-	51,270
Program income	1,128,708	91,982	-	1,220,690
Other income	91,219	5,884	-	97,103
Net assets released from restrictions:				
Satisfaction of purpose restrictions	<u>4,958,051</u>	<u>(4,958,051)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND SUPPORT	<u>14,544,015</u>	<u>390,756</u>	<u>-</u>	<u>14,934,771</u>
EXPENSES				
Program Services:				
Community Health/HIV/AIDS Programs	4,706,641	-	-	4,706,641
Hope for Children (Child Sponsorships)	1,548,621	-	-	1,548,621
Hope Corps (teams and volunteers)	1,548,888	-	-	1,548,888
Community/Rural Development	1,176,976	-	-	1,176,976
Microfinance Development	2,160,788	-	-	2,160,788
Anti-Human Trafficking	1,174,364	-	-	1,174,364
Education Initiatives/School Development	562,033	-	-	562,033
Public Awareness and Education	379,537	-	-	379,537
Other Programs	527,793	-	-	527,793
Disaster Response	<u>58,645</u>	<u>-</u>	<u>-</u>	<u>58,645</u>
Total Program Services	13,844,286	-	-	13,844,286
Supporting Services:				
Fundraising	611,489	-	-	611,489
General and administrative	<u>407,670</u>	<u>-</u>	<u>-</u>	<u>407,670</u>
Total Supporting Services	<u>1,019,159</u>	<u>-</u>	<u>-</u>	<u>1,019,159</u>
TOTAL EXPENSES	<u>14,863,445</u>	<u>-</u>	<u>-</u>	<u>14,863,445</u>
CHANGE IN NET ASSETS	<u>(319,430)</u>	<u>390,756</u>	<u>-</u>	<u>71,326</u>
NET ASSETS, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	1,025,808	3,090,817	110,000	4,226,625
Prior Period Adjustment	<u>(140,694)</u>	<u>-</u>	<u>-</u>	<u>(140,694)</u>
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>885,114</u>	<u>3,090,817</u>	<u>110,000</u>	<u>4,085,931</u>
NET ASSETS, END OF YEAR	<u>\$ 565,684</u>	<u>\$ 3,481,573</u>	<u>\$ 110,000</u>	<u>\$ 4,157,257</u>

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

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2009

	Program Services										Supporting Services			
	Community/ Rural Development	Community Health/ HIV/AIDS	Education Initiatives/ School Development	Hope Corps	Hope for Children	Microfinance Development	Disaster Relief	Anti-Human Trafficking	Public Awareness and Education	Other Programs	Total Programs	Management and General	Fundraising	Total
Salaries and related benefits	\$ 265,653	\$ 799,095	\$ 41,375	\$ 152,484	\$ 173,069	\$ 508,362	\$ 15,023	\$ 486,313	\$ 151,366	\$ 461,052	\$ 3,053,792	\$ 753,315	\$ 266,343	\$ 4,073,450
Grants to other organizations	5,777	1,120,258	244,552	-	594,092	36,073	25,210	68,739	-	24,881	2,119,582	-	-	2,119,582
Travel	36,655	168,351	28,828	604,172	22,679	129,354	1,740	74,521	4,860	55,285	1,126,445	42,941	25,668	1,195,054
Child sponsorship	-	1,093	-	-	459,660	-	-	-	-	-	460,753	-	-	460,753
Occupancy	8,436	63,185	30,420	300	553	45,462	-	100,124	-	80,552	329,032	323,255	-	652,287
Donated goods and services	1,881	-	-	220,565	154,802	407,450	2,398	1,445	404	-	788,945	28,677	-	817,622
Orphan and vulnerable children/ victim care expenses	4,300	647,173	5,198	-	-	-	-	49,597	-	3,451	709,719	-	-	709,719
Construction and repairs	388,303	35,318	74,344	-	-	9,413	-	85	-	23,112	530,575	-	-	530,575
Financial fees and expense	2,142	1,482	3,568	30	1,214	320,435	-	5,076	2,373	21,331	357,651	81,574	8,730	447,955
Volunteer activities	61	35,672	10,553	483,449	33	-	-	350	-	-	530,118	-	-	530,118
Vehicle purchase/operations	102,001	220,786	6,051	-	3,767	40,178	736	32,009	-	97,695	503,223	351	177	503,751
Professional fees	-	75,465	7,758	-	3,345	118,302	-	885	55,102	13,582	274,439	131,962	6,315	412,716
Education and training	14,611	139,803	18,874	7,765	187	3,330	-	45,785	6	5,210	235,571	2,560	3,569	241,700
Printing and production/video production	4,903	13,114	1,972	2,790	10,509	10,088	-	6,539	52,398	1,450	103,763	3,011	115,465	222,239
School equipment/supplies/ scholarships	8,568	152,083	32,811	-	40	-	-	-	-	580	194,082	-	-	194,082
Depreciation and amortization	385	10,583	-	5,017	-	-	1,568	-	7,133	7,269	31,955	104,287	8,520	144,762
Office expenses	3,055	30,985	3,626	537	3,364	48,301	16	12,895	87	45,701	148,567	26,730	1,546	176,843
Grants to affiliates	-	43,472	-	-	-	-	-	2,500	-	54,704	100,676	-	-	100,676
Contract labor/temporary staffing	3,883	6,414	4,602	4,750	3,171	2,110	4,500	45,843	14,750	5,851	95,874	-	-	95,874
IT/electronic communications	8,231	29,730	5,159	3,456	679	32,474	130	24,813	24	49,916	154,612	39,335	3,570	197,517
Agricultural inputs/animal husbandry	74,080	83,770	704	-	-	-	-	-	-	1,674	160,228	-	-	160,228
Postage and shipping	32,027	14,132	85	1,657	23,720	1,095	31	2,902	20,397	262	96,308	15,375	30,387	142,070
Conferences and meetings	140	1,881	-	510	914	37,845	139	2,610	-	3,062	47,101	10,296	21,340	78,737
Interest and fees	-	3,949	-	-	-	38,327	-	-	-	852	43,128	53	25	43,206
Equipment purchase, maintenance and repairs	5,187	25,267	2,529	-	514	12,164	-	6,065	-	21,362	73,088	4,964	180	78,232
Media and public awareness	3,496	33,783	855	781	9,451	2,530	-	20,019	8,267	4,205	83,387	259	8,178	91,824
Dues and subscriptions	15,296	-	-	135	-	-	1,080	80	-	3,085	19,676	3,150	-	22,826
Other program expenses	1,044	2,503	6,959	-	-	93	-	9,266	-	382	20,247	-	-	20,247
Relief and medical supplies	-	18,035	600	-	-	-	5,644	-	-	-	24,279	-	-	24,279
Recruiting	241	2,041	-	-	569	-	-	112	-	931	3,894	11,897	-	15,791
Facilities operation costs	-	-	-	-	-	-	-	-	-	25,725	25,725	-	-	25,725
Insurance	-	118	-	-	-	-	285	86	-	973	1,462	9,214	2,508	13,184
Website hosting, design and maintenance	168	-	-	-	-	59	-	1,240	2,444	-	3,911	630	611	5,152
Licenses, permits and taxes	-	-	150	-	-	378	145	-	-	1,136	1,809	4,648	2,454	8,911
Board expenses	-	-	-	-	-	4,214	-	-	-	88	4,302	-	-	4,302
Contributions and gifts	-	-	-	121	129	209	-	186	-	298	943	3,356	394	4,693
Miscellaneous expenses	-	-	-	-	-	-	-	-	-	559	559	1,873	62	2,494
Microfinance loan expenses	-	-	-	-	-	291,224	-	-	-	-	291,224	-	-	291,224
Interbranch transfers	-	-	-	-	-	-	-	-	-	3,045	3,045	-	-	3,045
Indirect Applied	186,452	927,100	30,460	60,369	82,160	61,318	-	174,279	59,926	(491,468)	1,090,596	(1,196,043)	105,447	-
	<u>\$ 1,176,976</u>	<u>\$ 4,706,641</u>	<u>\$ 562,033</u>	<u>\$ 1,548,888</u>	<u>\$ 1,548,621</u>	<u>\$ 2,160,788</u>	<u>\$ 58,645</u>	<u>\$ 1,174,364</u>	<u>\$ 379,537</u>	<u>\$ 527,793</u>	<u>\$ 13,844,286</u>	<u>\$ 407,670</u>	<u>\$ 611,489</u>	<u>\$ 14,863,445</u>

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

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2009

Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ 71,326
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	144,762
Loss on disposition of property and equipment	5,644
Change in loan loss provision	46,490
Donated securities	(26,350)
Unrealized and realized gains on investments	(35,057)
Changes in assets and liabilities:	
Grants and accounts receivable	(14,200)
Microfinance loans receivable	341,530
Prepaid expenses	36,444
Deposits and other noncurrent assets	(3,018)
Accounts payable and accrued expenses	217,617
Deferred rent	(14,300)
Microfinance client savings	(176,005)
Other noncurrent liabilities	(3,082)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>591,801</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(380,920)
Issuance of notes receivable	(450,000)
Repayment of notes receivable	59,158
Proceeds from sales of investments	11,566
NET CASH USED IN INVESTING ACTIVITIES	<u>(760,196)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from notes payable net of transaction gains	<u>12,446</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>12,446</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(155,949)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,216,936</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,060,987</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Interest Paid	<u>\$ 19,517</u>
Noncash Investing Transactions:	
Donated securities	<u>\$ 26,350</u>
Reconciliation of Cash and Cash Equivalents:	
Cash and cash equivalents	\$ 322,547
Cash and cash equivalents - field	<u>738,440</u>
Total Cash and Cash Equivalents	<u><u>\$ 1,060,987</u></u>

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

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

1. Organization and Summary of Significant Accounting Policies

Organization

World Hope International, Inc. is a not-for-profit organization incorporated under the Indiana Non-Profit Corporation Act. World Hope International, Inc.'s mission is to alleviate suffering, injustice and poverty. World Hope International, Inc. pursues this mission by identifying and equipping field-based leadership and, with them, implementing responses that are positive and sustainable. These responses address education, community development, human trafficking, microfinance, agriculture, emergency assistance and community health. The consolidated financial statements include the accounts of World Hope International, Inc., but do not include the various foreign locations where World Hope International, Inc. may provide some support but over which it has no legal or direct control.

The World Hope MicroCapital Fund, LLC (MicroCap), which is a single member limited liability company incorporated in the State of Delaware, was started in late 2006, and represents an important innovation in the way World Hope International, Inc. funds microfinance programs around the world. The purpose of MicroCap is to ensure the success of microfinance institutions (MFIs) by serving as a long-term funding source. MicroCap offers various loan products to MFIs that have proven fiscal responsibility and that are in need of increased loan capital. World Hope International, Inc. has determined that MFI managers make much better decisions on the use of financial resources when they are working with borrowed capital rather than grants. MicroCap helps build the MFIs' credibility by proving the MFIs' ability to handle institutional debt, and preparing them for access to other sources of capital, while at the same time helping the MFIs become self-sufficient financial institutions.

Hope Micro is a wholly owned nongovernmental organization registered in Sierra Leone. Hope Micro was formed to operate World Hope International, Inc.'s microfinance lending program in Sierra Leone, whereby microfinance loans are made directly to individuals who reside in Sierra Leone.

The First Step Economic Opportunity Zone, Inc. (First Step) was incorporated in the State of Delaware in June 2009. This subsidiary was established to assist with the formation and initial operation of a business enterprise zone in Sierra Leone. First Step had no activity for the year ended December 31, 2009, as First Step was waiting for the approval of the Sierra Leone government to operate within Sierra Leone.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

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

Principles of Consolidation

The accompanying consolidated financial statements reflect the activity of World Hope International, Inc., the World Hope MicroCapital Fund, LLC, and Hope Micro (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.

New Accounting Standard

Effective January 1, 2009, WHI adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 105-10, *FASB Codification* (the Codification). The Codification is the single source of authoritative U.S. generally accepted accounting principles (GAAP). Accordingly, references to GAAP have been updated for the appropriate Codification reference.

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. 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.

Notes Receivable

Notes receivable represents loans made by MicroCap to provide long-term sources of funding to the MFIs. WHI records notes receivable when the funds are disbursed. An allowance for loan losses is estimated and recorded based on WHI's historical bad debt experience and management's judgment. Interest income is recognized on the accrual basis. A loan becomes overdue when a scheduled payment is missed.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

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

Investments

Investments consist of cash and cash equivalents held for investment purposes, marketable equity securities and an equity investment in a microfinance institution. Investments are recorded in the accompanying consolidated statement of financial position 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. Marketable equity securities are recorded on the trade date and recorded at fair value, based upon quoted market prices. The equity investment in a microfinance institution is determined based on information provided by the microfinance institution, which approximates fair value.

Fair Value of Financial Instruments

WHI adopted the provisions of the FASB ASC topic *Fair Value Measurements* for financial assets and liabilities measured on a recurring basis. The ASC defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement and, therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances. The three levels of fair value hierarchy are described as follows:

Level 1—is based on unadjusted, quoted market prices in active markets for identical assets or liabilities accessible at the measurement date.

Level 2—is based on inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.

Level 3—is based on unobservable inputs for the asset or liability including the reporting entity's own assumptions in determining fair value.

Effective December 31, 2009, WHI adopted the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, to its equity investment in a microfinance institution. The guidance amends the *Fair Value Measurements* topic and permits, as practical expedient, fair

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

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

Fair Value of Financial Instruments (continued)

value of investments within its scope to be estimated using net asset value or its equivalent. Net asset value, in many instances, will not equal fair value that would be calculated pursuant to the *Fair Value Measurements* topic.

Transactions in Foreign Currencies

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

Property and Equipment

Equipment, vehicles and software are stated at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from three to five years, with no salvage value. Leasehold improvements are stated at cost and are amortized using the straight-line method over the remaining life of the lease. The building and building improvements are recorded at cost and depreciated over 27.5 years. Expenditures for minor repairs and maintenance costs are expensed when incurred. WHI capitalizes all property and equipment purchased with a cost of \$5,000 or more. Program equipment, however, is treated as program materials and expensed in the year purchased. Upon the retirement or disposal of assets, the costs and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in revenue or expenses.

Classification of Net Assets

The net assets of WHI are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of the WHI's operations.
- Temporarily restricted net assets represent amounts are specifically restricted by donors or grantors for various purposes or time periods.
- Permanently restricted net assets represent amounts that include donor-imposed restrictions that stipulate that the resources be maintained in perpetuity and that only the investment earnings on such amounts be used in the manner specified by the donor.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

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

Revenue Recognition

Unrestricted contributions are recognized as revenue in the period received or when unconditional promises are made. Grants receivable represent amounts unconditionally committed by individuals or grantors that have not been received by WHI as of the end of the fiscal year.

WHI reports gifts of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

In-kind contributions consist of donated assets and professional services. The value of the in-kind contributions is recorded as revenue and expenses at fair market value as of the date of receipt or the date the services were provided. The amount is included in donated goods and services in the accompanying statement of functional expenses based on the functional areas benefited.

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 accounts receivable in the accompanying consolidated statement of financial position.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. Direct costs associated with specific programs are recorded as program expenses. Indirect costs are allocated to specific programs based on the lower of the provisional rate or an estimate of the final actual indirect cost rate. Any variance between the estimate and the final negotiated rate is adjusted in the period when finalized. WHI's current provisional indirect rate is based on modified direct costs, which excludes overhead, donations, in-kind contributions, program-funded vehicle and equipment purchases, all subgrants and sub-agreements. Included in other programs in the accompanying consolidated statement of functional expenses is the costs incurred by WHI to support the activities of the foreign operations. These amounts are allocated based on the programs benefited.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

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

Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Grants and Accounts Receivables

Grants and accounts receivable consisted of the following as of December 31, 2009:

Contributions receivable	\$ 358,135
Federal grants receivable	121,066
Other receivables	<u>154,758</u>
Total grants and accounts receivables	<u>\$ 633,959</u>

All amounts are due within one year and are deemed fully collectible.

3. Microfinance Loans Receivable and Provision for Loan Losses

Microfinance loans receivable include microfinance loans made by Hope Micro. These loans, which carry a uniform interest rate of 3% per month on all loans for all clients, mature at various times over the next year and are disbursed and repaid in the local currency. Microfinance is extremely labor-intensive, which results in higher costs. As such, higher interest rates are charged on these loan products.

Microfinance loans receivable consist of the following and are due within one year as of December 31, 2009:

Loans receivable	\$ 1,313,528
Less: Allowance for loan losses	<u>(96,904)</u>
Net loans receivable	<u>\$ 1,216,624</u>

Interest income and fees earned on the microfinance loans receivable was \$772,455 for the year ended December 31, 2009, which is reported as program income in the accompanying consolidated statement of activities.

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

4. Notes Receivable

Notes receivable represent loans issued by MicroCap to the MFIs and consisted of the following as of December 31, 2009:

Notes receivable issued to Credit Limited, Cambodia (see note 17), through August 2012, interest of 10.75% per annum	\$ 111,846
Notes receivable issued to Credit Limited, Cambodia (see note 17), through February 2014, interest of 4.75% per annum	194,554
Notes receivable issued to LEAP, Liberia, through July 2013, interest of 7.50% per annum	136,786
Notes receivable issued to LEAP, Liberia, through December 2014, interest of 5.75% per annum	<u>225,000</u>
	668,186
Less: Current portion	<u>(100,200)</u>
Long-term portion	<u>\$ 567,986</u>

Interest income earned on notes receivable was \$30,373 for the year ended December 31, 2009.

5. Investments

As of December 31, 2009, investments, at fair value, consisted of the following:

Cash and cash equivalents – endowment fund	\$ 110,000
Equities	18,614
Equity investment in microfinance institution (6% share)	<u>317,015</u>
Total	<u>\$ 445,629</u>

Investment income is summarized as follows for the year ended December 31, 2009:

Interest and dividends	\$ 14,954
Realized loss	(569)
Unrealized gain	<u>35,626</u>
Total	<u>\$ 50,011</u>

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WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

5. Investments (continued)

Investment income in the accompanying consolidated statement of activities also includes \$1,259 of interest income earned on cash and cash equivalents held for operations.

6. Fair Value Measurements

The following table summarizes WHI's assets and liabilities measured at fair value on a recurring basis as of December 31, 2009:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Money market	\$ 110,000	\$ 110,000	\$ -	\$ -
Equities	18,614	18,614	-	-
Equity investment in a microfinance institution	<u>317,015</u>	<u>-</u>	<u>-</u>	<u>317,015</u>
Total investments	445,629	128,614	-	317,015
Deposits and other noncurrent assets:				
Annuity receivable	<u>38,513</u>	<u>-</u>	<u>-</u>	<u>38,513</u>
Total assets	<u>\$ 484,142</u>	<u>\$ 128,614</u>	<u>\$ -</u>	<u>\$ 355,528</u>

WHI used the following methods and significant assumptions to estimate fair value for assets recorded at fair value:

Money market and equities—valued using quoted prices available in an active market.

Equity investment in microfinance institution—valued at WHI's estimated percentage of the shareholder's equity based on the audited financial statements of the microfinance institution.

Annuity receivable—the annuity receivable is 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.

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WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

6. Fair Value Measurements (continued)

A roll forward of the fair value measurements using unobservable inputs (Level 3) was as follows as of December 31, 2009:

Balance, January 1, 2009	\$ 319,902
Unrealized gain	<u>35,626</u>
Balance, December 31, 2009	<u>\$ 355,528</u>

The total gains or losses for the year ended December 31, 2009, included in change in net assets due to the change in unrealized gains that relate to assets held were \$35,626 as of December 31, 2009.

7. Property, Equipment, Accumulated Depreciation and Amortization

WHI held the following property and equipment as of December 31, 2009:

Building and improvements	\$ 1,179,383
Software	381,267
Office and other equipment	192,848
Vehicles	78,472
Land	21,232
Furniture and fixture	<u>4,502</u>
	1,857,704
Less: Accumulated depreciation	<u>(455,673)</u>
	1,402,031
Work in process	<u>5,100</u>
Net property and equipment	<u>\$ 1,407,131</u>

Depreciation and amortization expense amounted to \$144,762 for the year ended December 31, 2009.

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WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

8. Notes Payable

At December 31, 2009, Hope Micro's debt consisted of the following:

Notes payable to Cordaid, bears interest at 13% per annum, semi-annual principal and interest payments of \$35,000 through June 2014, secured by property and equipment	\$ 262,706
Unsecured note payable to UNDP, interest free, principle payable in quarterly installments of \$13,137 through May 2012	<u>157,643</u>
Total Notes Payable	<u>\$ 420,349</u>

As of December 31, 2009, Hope Micro was in arrears in making principal payments of \$78,774 under the terms of the notes, and therefore, both notes were in default and could be called by the creditor at the creditor's discretion. Although neither creditor has notified Hope Micro of their intention to call the loans, the notes payable have been classified as current liabilities in the accompanying consolidated statement of financial position because they are callable loans.

Under the terms of the notes payable, prior to default, the combined aggregate amounts of maturities are as follows:

<u>For the Years Ending December 31,</u>	
2010	\$ 190,478
2011	72,248
2012	52,541
2013	52,541
2014	<u>52,541</u>
Total	<u>\$ 420,349</u>

9. Commitments and Contingencies

Office Leases

WHI has a noncancelable lease agreement for its headquarters office space in Alexandria, Virginia that expires March 31, 2013. Under the terms of the lease, WHI is committed to annual rentals, adjusted for defined escalations, and its share of the building operating expenses. WHI has subleased a portion of its headquarters office space through April 30, 2012. Office rent expense for its headquarters amounted to \$292,930 for the year ended December 31,

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WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

9. Commitments and Contingencies (continued)

Office Leases (continued)

2009, which has been recorded as occupancy expense in the accompanying consolidated statement of functional expenses. 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.

As of December 31, 2009, total future minimum lease payments under these leases are as follows:

<u>For the Years Ending December 31,</u>	<u>Total Rent Payments</u>	<u>Sublease Income</u>	<u>Net</u>
2010	\$ 300,086	\$ 64,063	\$ 236,023
2011	307,288	66,976	240,312
2012	314,663	22,544	292,119
2013	<u>79,129</u>	<u>-</u>	<u>79,129</u>
Total	<u>\$ 1,001,166</u>	<u>\$ 153,583</u>	<u>\$ 847,583</u>

Concentration of Credit Risk

WHI's cash and cash equivalents are held at various financial institutions. Although the amount at a given bank, at times, exceeds the amount guaranteed by the Federal Deposit Insurance Corporation (FDIC) and, therefore, bears some risk, WHI has not experienced, nor does it anticipate any losses on its funds. As of December 31, 2009, WHI had cash balances not insured by the FDIC of \$111,883. In addition, WHI also holds cash in bank accounts in foreign countries. As of December 31, 2009, cash held in foreign financial institutions was \$738,440.

Major Grantors

WHI receives a substantial portion of its revenue from federal government grants and contracts, all of which are subject to audit by the government. For the year ended December 31, 2009, WHI earned revenue of \$4,029,996 from the federal government, which was approximately 27% of WHI's total revenue and support. WHI's largest federal grant, which accounts for 75% of total federal grant revenue, will end in September 2010.

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WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

9. Commitments and Contingencies (continued)

Foreign Operations

WHI has field offices in Haiti, Cambodia, Liberia, Sierra Leone, Azerbaijan, Mozambique, Zambia, Hong Kong, Malawi, South Africa and Bosnia. WHI maintains cash accounts, receivables, fixed assets and other assets in each of these countries. The future of these programs can be adversely affected by a number of potential factors, such as devaluations or changes in the political climate. As of December 31, 2009, WHI had assets in these countries totaling \$3,575,902, representing approximately 63% of WHI's total consolidated assets.

OMB Circular A-133 Audit

WHI has instructed its independent auditors to audit its applicable federal programs for the year ended December 31, 2009, in compliance with Circular A-133 issued by the U.S. Office of Management and Budget (OMB). Until such audit is reviewed and accepted by the contracting or granting agencies, there exists a contingent liability to refund any amounts received in excess of allowable costs. Management believes that any matters arising from the reviews by the federal or pass-through agencies of the independent auditor's reports for fiscal year 2009 will not have a material effect on WHI's financial position as of December 31, 2009, or its results of operations for the year then ended.

Provisional Indirect Cost Rates

Billings under cost-reimbursable government contracts and grants are calculated using provisional rates that permit recovery of indirect costs. These rates are subject to audit by the U.S. Agency for International Development (USAID), WHI's cognizant agency. The audit results in the negotiation and determination of the final indirect cost rates, which may create a liability for indirect cost recovery for amounts billed in excess of the actual rates, or may allow for additional billings for unbilled indirect costs. USAID audits costs related to U.S. government contracts and grants in accordance with Circular A-122, issued by the OMB. USAID has yet to audit the costs and indirect cost rates for the year ended December 31, 2009. Management believes that cost disallowances, if any, arising from USAID's audit for the year ended December 31, 2009, will not have a material effect on WHI's financial position as of December 31, 2009, or the results of operations for the year then ended.

10. Pension Plan

WHI sponsors a defined contribution annuity retirement plan for all employees. Substantially all employees are eligible to participate. For all eligible employees, WHI contributes 12% of their annual compensation. Pension expense totaled \$180,519 for the year ended December 31, 2009.

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WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

11. Temporarily Restricted Net Assets

As of December 31, 2009, temporarily restricted net assets are available for use in the following programs:

Microfinance Development	\$ 1,134,922
Microcapital Fund	673,720
Community/Rural Development	603,942
Hope Corps (teams and volunteers)	256,988
Education Initiatives/School Development	233,957
Disaster Response	150,478
Hope for Children (child sponsorship)	136,207
Community Health/HIV/AIDS Program	118,056
Anti-Human Trafficking	108,222
Special Projects	61,271
Other Projects	<u>3,810</u>
Total	<u>\$ 3,481,573</u>

12. Endowment Funds

Permanently restricted net assets of \$110,000 consist of a donor-restricted endowment fund, the income from which is to only be used for the Bible college scholarship project in Mozambique. 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 and Spending Policy

WHI has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) to not limit spending from the endowment fund to “interest and dividends” earned, but to allow WHI to elect to spend a portion of the overall value of the fund after considering the factors listed below, keeping in mind the permanent duration of the fund. To date, WHI has not made such an election and has instead taken a very prudent and conservative approach and pursued a spending policy to not 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.

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

12. Endowment Funds (continued)

Interpretation of Relevant Law and Spending Policy (continued)

Section 55-268.14.A of the Virginia UPMIFA statute eliminates the concept of historic dollar value and instead provides that an institution may adopt a spending policy that will preserve the purchasing power of the “principal” while distributing as “income” a reasonable amount in light of investment performance and general economic conditions. The statute lists a number of factors to be considered in adopting a spending policy:

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

As of December 31, 2009, WHI’s endowment had the following net asset composition:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted	\$ -	\$ 110,000	\$ 110,000
Total Endowment Funds	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 110,000</u>

Changes in endowment net assets were as follows for the year ended December 31, 2009:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 110,000	\$ 110,000
Interest income	4,123	-	4,123
Appropriations	<u>(4,123)</u>	<u>-</u>	<u>(4,123)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 110,000</u>	<u>\$ 110,000</u>

Continued

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

12. Endowment Funds (continued)

Interpretation of Relevant Law and Spending Policy (continued)

Permanently restricted net assets as of December 31, 2009:

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA

\$ 110,000

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, 2009.

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 the donor-restricted endowment spending. Currently, WHI does not have a spending policy. Spending is in accordance with any donor-imposed restrictions.

13. Donated Facilities, Services and Materials

WHI records all donated facilities, services and materials at the fair market value at the date of donation. The value of the donated facilities, services and materials included in the accompanying consolidated statements of activities and functional expenses are as follows for the year ended December 31, 2009:

Pro bono legal services	\$ 413,868
Contributed professional services	220,565
Contributed materials	150,000
Contributed management services and expenses	25,989
Donated facilities	<u>7,200</u>
Total	<u>\$ 817,622</u>

The majority of donated materials consist of school supplies and hygiene items for Hope for Children's "Christmas Gift Packs" program. These gift packs are generally distributed in different countries each year, mostly where WHI operates its Hope for Children Child Sponsorship program. Other donated materials consist of medical supplies, equipment, aid and

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WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

13. Donated Facilities, Services and Materials (continued)

other items given to certain country programs or for disaster relief. All assets and services that were donated during the year were given directly to the program or designated country or disaster relief and are primarily reflected as a part of Hope Corps, Hope for Children and Microfinance Development on the accompanying consolidated statement of functional expenses.

14. Restricted Cash and Cash Equivalents

Included in cash and cash equivalents in the accompanying consolidated statement of financial position is \$328,495 of cash to meet the restrictions of the charitable gift annuity program and the microfinance client savings.

15. Joint Cost Allocation

During the year ended December 31, 2009, WHI conducted direct mail campaigns that incurred joint costs of \$449,082.

Joint costs were allocated as follows:

Public awareness and education program	\$ 266,695
Fundraising	<u>182,387</u>
Total	<u>\$ 449,082</u>

16. Income Taxes

World Hope International, Inc. is exempt from payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. MicoCap is a single member limited liability company. All financial transactions of MicroCap are reported on World Hope International Inc.'s tax return. No provision for income taxes is required for the year ended December 31, 2009, as WHI had no net unrelated business income.

Effective January 1, 2009, WHI adopted the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's

WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

16. Income Taxes (continued)

financial statements and prescribe a threshold of “more likely than not” for recognition and derecognition of tax positions taken or expected to be taken in a tax return. WHI performed an evaluation of uncertain tax positions for the year ended December 31, 2009, and determined that there were no matters that would require recognition in the financial statements or which may have any affect on its tax-exempt status. For the year ended December 31, 2009, the statute of limitations for tax years 2006 through 2008 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which WHI files tax returns.

17. Related Party

As of December 31, 2009, WHI had a 6% equity investment in Credit Limited, Cambodia. As part of its lending program to MFIs, WHI has notes receivable outstanding of \$306,400 from Credit Cambodia, Limited. Interest income earned on this related party note receivable was \$20,597 during the year ended December 31, 2009.

18. Prior Period Adjustment

During the year ended December 31, 2009, WHI restated its net asset balances to correct the overstatement of investment income in the prior year as a result of a change in the percentage of ownership on its investment in a microfinance institution. It came to light that WHI’s ownership interest had been diluted from 9% to 6% in September 2008. As a result, unrestricted net assets as of January 1, 2009, were decreased by \$140,694 to reflect the decrease in WHI’s investment percentage.

19. Subsequent Events

On March 24, 2010, WHI signed a note payable for \$3,000,000. This note is payable in five installments of principal and interest, with the final payment due on March 28, 2013. Interest on unpaid principal is accrues at 4% per annum.

On June 16, 2010, WHI signed a note payable from another source for \$1,500,000. This note is payable in five installments of principal and interest, with a final payment due on June 16, 2013. Interest on unpaid principal accrues at 4% per annum.

WHI mainly borrowed these funds in order to make some important strategic infrastructure and operational investments.

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WORLD HOPE INTERNATIONAL, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

19. Subsequent Events (continued)

In preparing these consolidated financial statements, WHI has evaluated events and transactions for potential recognition or disclosure through August 13, 2010, the date the financial statements were available to be issued. There were no other subsequent events identified through August 13, 2010, required to be disclosed in the consolidated financial statements.