

**FINANCIAL STATEMENTS**

**WORLD HOPE INTERNATIONAL, INC.**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

**WORLD HOPE INTERNATIONAL, INC.**

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**GELMAN, ROSENBERG & FREEDMAN**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
World Hope International, Inc.  
Alexandria, Virginia

We have audited the accompanying statement of financial position of World Hope International, Inc. as of December 31, 2005 and the related statements of activities and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of World Hope International, Inc.'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 World Hope International, Inc. as of December 31, 2005, and its change in net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 28, 2006 on our consideration of World Hope International, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Gelman Rosenberg & Freedman*

April 28, 2006

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**WORLD HOPE INTERNATIONAL, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2005**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 703,502
Cash and cash equivalents – field	301,929
Cash and cash equivalents - restricted	110,000
Accounts receivable and other receivables	791,139
Investments (Note 2)	21,119
Prepaid expenses	<u>90,378</u>

Total current assets 2,018,067

**PROPERTY AND EQUIPMENT**

Land	-
Building and improvements	59,407
Furniture, fixtures, and equipment	68,537
Software	152,341
Less: Accumulated depreciation and amortization	<u>(72,845)</u>

Net property and equipment 207,440

**OTHER ASSETS**

Annuity receivable	65,067
Investment (Note 2)	191,424
Deposits	<u>29,137</u>

Total other assets 285,628

**TOTAL ASSETS** **\$2,511,135**

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 85,514
Other payables	3,777
Accrued expenses	57,491
Other current liabilities	<u>187,860</u>

Total liabilities 334,642

**NET ASSETS**

Unrestricted	27,339
Temporarily restricted (Note 5)	2,039,154
Permanently restricted	<u>110,000</u>

Total net assets 2,176,493

**TOTAL LIABILITIES AND NET ASSETS** **\$2,511,135**

## WORLD HOPE INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE</b>				
Contributions	\$2,037,954	\$ 4,542,861	\$ 36,666	\$6,617,481
Federal grants and contracts	30,000	649,614	-	679,614
Grants – international sources	-	247,963	-	247,963
Donated goods and services – Disaster Relief	790,335	-	-	790,335
Donated goods and services – Other programs	108,103	2,011	-	110,114
Investment income	65,466	3,285	-	68,751
Other income	221,294	-	-	221,294
Net assets released from restrictions (Note 6)	4,928,861	(4,928,861)	-	-
Total revenue	<u>8,182,013</u>	<u>516,873</u>	<u>36,666</u>	<u>8,735,552</u>
<b>EXPENSES</b>				
Program services:				
Community Development	210,136	-	-	210,136
Community Health	796,889	-	-	796,889
Education	689,310	-	-	689,310
Hope Corps (Teams and Volunteers)	605,709	-	-	605,709
Hope for Children (Child Sponsorship)	755,303	-	-	755,303
Hope Enterprise (Economic Development)	892,767	-	-	892,767
Relief	2,134,751	-	-	2,134,751
Anti-Trafficking	350,521	-	-	350,521
Hope Network (At-Risk Families)	25,518	-	-	25,518
Public Awareness and Education	378,588	-	-	378,588
Total program services	<u>6,839,492</u>	<u>-</u>	<u>-</u>	<u>6,839,492</u>
Supporting services:				
Fundraising	251,163	-	-	251,163
General and Administrative	741,348	-	-	741,348
Total supporting services	<u>992,511</u>	<u>-</u>	<u>-</u>	<u>992,511</u>
Total expenses	<u>7,832,003</u>	<u>-</u>	<u>-</u>	<u>7,832,003</u>
Change in net assets	350,010	516,873	36,666	903,549
Net assets at beginning of year, as restated (Note 7)	(322,671)	1,522,281	73,334	1,272,944
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 27,339</u></b>	<b><u>\$ 2,039,154</u></b>	<b><u>\$110,000</u></b>	<b><u>\$2,176,493</u></b>

See accompanying notes to financial statements.

**WORLD HOPE INTERNATIONAL, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 903,549
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	31,859
Contributions – permanently restricted	(36,666)
Donated securities	(21,119)
Loss on sale of property	19,678
Unrealized gain on investments	(41,424)
(Increase) decrease in:	
Accounts receivable and other receivables	(250,967)
Prepaid expenses	(31,980)
Deposits	(2,499)
Increase (decrease) in:	
Accounts payable	4,951
Other payables	(4,926)
Accrued expenses	(16,517)
Other current liabilities	<u>102,071</u>
Net cash provided by operating activities	<u>656,010</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of property and equipment	(119,715)
Proceeds from sale of property	44,965
Investment in Micro Finance Institute	<u>(150,000)</u>
Net cash used by investing activities	<u>(224,750)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Contributions received for investment in permanently restricted net assets	<u>36,666</u>
Net cash provided by financing activities	<u>36,666</u>
Net increase in cash and cash equivalents	467,926
Cash and cash equivalents at beginning of year, as adjusted	<u>647,505</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$1,115,431</u></b>

**WORLD HOPE INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organization -

World Hope International, Inc. is a not-for-profit organization incorporated under the Indiana Non-Profit Corporation Act. The purpose of the Organization is to mobilize individuals and organizations to exercise their specific gifts and abilities (personally and fiscally) by working in active partnership with persons around the world for the purpose of relief, economic and social development. The financial statements include the accounts of World Hope International, Inc., but do not include the various foreign locations which the Organization may support but over which it has no legal or direct control.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations".

Income taxes -

World Hope International, Inc. is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Cash and cash equivalents -

Cash and cash equivalents include amounts in checking accounts and money market funds.

At times during the year, World Hope International, Inc. maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at market value. Donated investments are recorded at their fair market value as of the date of donation. Realized and unrealized gains and losses are included in investment income in the accompanying Statement of Activities and Change in Net Assets.

Property and equipment -

Property and equipment in excess of \$5,000 are capitalized and stated at cost or the estimated fair market value if donated. Depreciation is recorded on the straight-line method over the assets' useful life, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred.

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of World Hope International, Inc. and include both internally designated and undesignated resources.

WORLD HOPE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
(Continued)

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of World Hope International, Inc. and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by World Hope International, Inc.

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Donor restricted contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions. Contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

In-kind contributions -

In-kind contributions consist of donated assets and professional services. The value of the in-kind contributions is recorded at fair market value as of the date of receipt or the date the services were provided. Donated assets consist of medical supplies, equipment, aid and other items given to certain country programs or to disaster relief. All assets and services that were donated during the year were given directly to the designated country or disaster relief and are reflected as a part of Education, Hope Corps, Hope for Children or Relief.

Use of estimates -

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

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. **INVESTMENTS**

At December 31, 2005, investments consisted of the following:

Equities	\$ 21,119
9% share of Credit Limited (A Microfinance Institute of Cambodia)	<u>191,424</u>
	<u><b>\$212,543</b></u>

**WORLD HOPE INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**3. LEASE COMMITMENT**

On October 21, 2002, World Hope International, Inc. renewed its lease for office space in Springfield, Virginia, beginning August 1, 2003 and expiring July 31, 2005. On October 18, 2005, World Hope International, Inc. entered into a lease for office space in Alexandria, Virginia, beginning November 15, 2005 and expiring December 31, 2011. World Hope International also leases a warehouse in New Orleans which expires July 31, 2006.

In addition, World Hope International, Inc. has various offices overseas.

At December 31, 2005, future minimum payments required under the lease are as follows:

<u>Year Ended December 31,</u>	
2006	\$ 89,902
2007	126,034
2008	129,815
2009	133,710
2010	137,720
Thereafter	<u>141,852</u>
	<b><u>\$759,033</u></b>

Rent expense was \$209,846 during the year ended December 31, 2005.

**4. PENSION PLAN**

World Hope International, Inc. sponsors a defined contribution annuity retirement plan for all employees. Substantially all employees are eligible to participate. For all eligible employees, World Hope International, Inc. contributes twelve percent of their annual compensation. Total retirement expense was \$96,697 at December 31, 2005.

**5. TEMPORARILY RESTRICTED NET ASSETS**

At December 31, 2005, temporarily restricted net assets consist of funds designated for the following:

Economic Development	\$ 20,289
Education	569,670
Hope Corps	93,379
Hope for Children	60,451
Relief	850,757
Community Development	107,744
Community Health	<u>336,864</u>
	<b><u>\$2,039,154</u></b>

**WORLD HOPE INTERNATIONAL, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

**6. NET ASSETS RELEASED FROM RESTRICTIONS**

During the year ended December 31, 2005, net assets were released from restrictions as a result of spending funds in accordance with donor restrictions or the passage of time. Following is a summary of net assets released:

In-Country Support	\$ 61,337
Economic Development	804,359
Community Health	608,091
Education	557,492
Hope Corps	495,051
Hope for Children	528,909
Relief	1,366,157
Human-Trafficking	347,861
Hope Network	150
Community Development	158,970
Public Awareness and Education	484
	<u>\$4,928,861</u>

**7. PRIOR PERIOD ADJUSTMENT**

World Hope International, Inc. has determined that the December 31, 2004 net asset balance that was originally reported should have been \$1,272,944. This prior period adjustment resulted in an increase in unrestricted net assets of \$12,438 and a decrease in temporarily restricted net assets of \$6,519. The prior period adjustment was a result of the inclusion of certain field activity.

**8. LINE OF CREDIT**

World Hope International, Inc. has a line of credit with Chevy Chase Bank dated December 21, 2005 in the amount of \$50,000, with the interest rate of the LIBOR Market Index rate plus 2%. The line of credit is collateralized by any property belonging to World Hope International, Inc. As of December 31, 2005, there were no borrowings on the line of credit.

**9. ALLOCATION OF JOINT COSTS**

During 2005, World Hope International conducted activities that included appeals for contributions and incurred joint costs of \$238,454. These activities included direct mail.

Joint costs were allocated as follows:

Public Awareness and Education Program	\$185,716
Fundraising	52,738
	<u>\$238,454</u>



**GELMAN, ROSENBERG & FREEDMAN**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITORS' REPORT ON  
SUPPLEMENTAL FINANCIAL INFORMATION**

To the Board of Directors  
World Hope International, Inc.  
Alexandria, Virginia

Our report on our audit of the basic financial statements of World Hope International, Inc. as of December 31, 2005 appears on page 2. The audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Gelman Rosenberg & Freedman*

April 28, 2006

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**WORLD HOPE INTERNATIONAL, INC.**

**SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>PROGRAM SERVICES</b>						
	<b>Community Development</b>	<b>Community Health</b>	<b>Education</b>	<b>Hope Corps</b>	<b>Hope for Children</b>	<b>Hope Enterprise</b>	<b>Relief</b>
Salaries and related benefits (Note 4)	\$ 39,356	\$ 276,644	\$ 77,574	\$ 78,025	\$ 86,225	\$ 264,453	\$ 70,411
Advertising/public awareness	350	176	-	-	-	-	-
Agricultural inputs	13,817	35,079	1,831	192	-	90,924	32,568
Office supplies/other supplies	1,762	11,028	4,404	1,961	3,741	15,737	15,722
Office equipment/software	7,455	344	27,417	-	-	5,916	-
Other equipment	2,944	53,330	12,595	1,290	6,210	23,494	2,806
Project vehicles	10,366	27,276	4,371	-	3,766	17,475	1,244
Board	-	-	-	-	-	-	-
Bank/credit card/payroll service	233	459	70	-	621	3,722	79
Child sponsorship/orphan care	-	1,811	-	-	488,147	-	-
Contract labor	4,500	3,625	-	-	-	5,875	17,800
Conferences and meetings	-	15,937	240	2,566	708	8,578	60
Construction-schools, wells, etc	93,121	-	390,203	-	-	-	159,775
Dues and subscriptions	-	-	-	-	-	5,800	86
Education and training	347	26,780	1,087	5,413	520	12,376	130
Equipment rental and repairs	103	13,411	145	-	142	10,002	98
Grants	2,000	26,970	50,452	65,535	-	140,370	754,669
Scholarships	-	11,706	24,746	-	1,750	-	500
Relief/medical supplies	250	27,922	-	1,350	-	-	231,712
Insurance	56	944	-	4,685	191	20	2,032
Microfinance Loan Capital/exp	-	-	-	-	-	80,319	-
Postage and delivery/shipping	15	15,914	6,081	1,338	6,092	46	3,391
Printing/reproduction/video production	-	10,293	180	45	10,509	7,093	1,640
Professional fees	-	-	2,583	-	-	2,945	-
Consulting	-	300	3,900	7,000	-	59,644	2,720
Legal	-	-	-	-	-	-	-
Licenses/permits/personal property taxes	-	-	-	-	-	90	-
Rent/utilities	7,723	17,097	22,375	-	9,758	23,471	21,927
Telephone/internet	2,437	13,025	8,216	2,139	1,312	6,750	888
Special events	-	-	-	-	-	-	-
Travel	8,995	102,835	9,487	408,893	18,557	52,331	41,310
Miscellaneous	-	90	(1,869)	-	-	4,075	-
Depreciation	-	543	-	-	-	-	314
Other program expenses	4,690	39,836	12,735	-	582	18,607	2,792
Donated goods and services	-	-	14,815	4,640	99,561	-	760,071
Indirect applied	9,616	63,514	15,672	20,637	16,911	32,654	10,006
<b>TOTAL</b>	<b>\$ 210,136</b>	<b>\$ 796,889</b>	<b>\$ 689,310</b>	<b>\$ 605,709</b>	<b>\$ 755,303</b>	<b>\$ 892,767</b>	<b>\$ 2,134,751</b>

SUPPORTING SERVICES							
Anti-Trafficking	Hope Network	Public Awareness and Education	Total Program Services	Fundraising	General and Administrative	Total Supporting Services	TOTAL
\$ 121,352	\$ 128	\$ 184,517	\$ 1,198,685	\$ 84,830	\$ 463,866	\$ 548,696	\$ 1,747,381
5,414	-	2,700	8,640	3,091	-	3,091	11,731
809	-	195	175,415	-	-	-	175,415
7,486	-	7,845	69,686	1,109	35,915	37,024	106,710
3,058	-	-	44,190	-	75,906	75,906	120,096
6,429	-	-	109,098	-	5,399	5,399	114,497
14,329	-	-	78,827	-	64,852	64,852	143,679
-	-	-	-	-	21,550	21,550	21,550
-	-	-	5,184	-	32,013	32,013	37,197
-	-	-	489,958	-	-	-	489,958
44,690	-	-	76,490	-	1,589	1,589	78,079
275	-	1,500	29,864	336	4,606	4,942	34,806
40	-	-	643,139	-	-	-	643,139
-	-	-	5,886	790	9,333	10,123	16,009
10,538	356	231	57,778	26	4,839	4,865	62,643
-	-	-	23,901	-	5,092	5,092	28,993
39,725	-	-	1,079,721	-	-	-	1,079,721
-	-	-	38,702	-	-	-	38,702
5,133	-	-	266,367	-	-	-	266,367
36	-	-	7,964	-	10,565	10,565	18,529
-	-	-	80,319	-	-	-	80,319
24	-	33,311	66,212	52,713	12,845	65,558	131,770
-	-	44,590	74,350	60,637	8,399	69,036	143,386
3,784	-	11,406	20,718	5,813	26,106	31,919	52,637
10,867	25,000	-	109,431	1,344	16,053	17,397	126,828
-	-	-	-	-	8,137	8,137	8,137
-	-	-	90	2,615	4,433	7,048	7,138
30,665	-	-	133,016	-	104,740	104,740	237,756
4,728	-	96	39,591	-	22,847	22,847	62,438
-	-	9,321	9,321	1,919	-	1,919	11,240
16,350	-	32,071	690,829	13,502	24,890	38,392	729,221
-	-	2,000	4,296	-	(161)	(161)	4,135
-	-	-	857	-	31,002	31,002	31,859
3,625	-	-	82,867	-	7,983	7,983	90,850
-	-	-	879,087	-	-	-	879,087
21,164	34	48,805	239,013	22,438	(261,451)	(239,013)	-
<b>\$ 350,521</b>	<b>\$ 25,518</b>	<b>\$ 378,588</b>	<b>\$ 6,839,492</b>	<b>\$ 251,163</b>	<b>\$ 741,348</b>	<b>\$ 992,511</b>	<b>\$ 7,832,003</b>