

TAIT, WELLER & BAKER LLP
Certified Public Accountants

HOPE INTERNATIONAL

*FINANCIAL STATEMENTS
AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS*

APRIL 30, 2006 AND 2005

HOPE INTERNATIONAL

TABLE OF CONTENTS

	<u>Page</u>
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	1
FINANCIAL STATEMENTS	
<i>Statements of Financial Position,</i> April 30, 2006 and 2005	2
<i>Statements of Activities,</i> Years ended April 30, 2006 and 2005	3
<i>Statements of Functional Expenses,</i> Year ended April 30, 2006 (with comparative totals for 2005)	4
<i>Statements of Cash Flows,</i> Years ended April 30, 2006 and 2005	5
<i>Notes to Financial Statements</i>	6

TAIT, WELLER & BAKER LLP

Certified Public Accountants

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**Board of Directors
Hope International
Willow Street, Pennsylvania**

We have audited the accompanying statement of financial position of Hope International as of April 30, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2005 financial statements and, in our report dated July 19, 2005, we expressed an unqualified opinion on those financial statements.

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 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 Hope International as of April 30, 2006, 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.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
June 16, 2006**

HOPE INTERNATIONAL

STATEMENTS OF FINANCIAL POSITION

April 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 805,142	\$ 14,278
Certificate of deposit	81,834	-
Accounts receivable	21,258	15,900
Pledges receivable	-	532,473
Prepaid expenses and other assets	23,274	8,704
Loans receivable	62,051	-
Loans receivable – related party	<u>500,000</u>	<u>-</u>
Total Current Assets	1,493,559	571,355
PROPERTY AND EQUIPMENT, net	1,064,179	1,161,264
MINORITY INTEREST IN NET ASSETS	<u>100,000</u>	<u>-</u>
Total Assets	<u>\$2,657,738</u>	<u>\$1,732,619</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 128,307	\$ 116,073
Security deposits and other liabilities	14,973	15,688
Note payable	-	300,000
Due to related parties	<u>-</u>	<u>64,000</u>
Total Current Liabilities	<u>143,280</u>	<u>495,761</u>
NET ASSETS		
Unrestricted	1,303,566	1,039,953
Temporarily restricted	<u>1,210,892</u>	<u>196,905</u>
Total Net Assets	<u>2,514,458</u>	<u>1,236,858</u>
Total Liabilities and Net Assets	<u>\$2,657,738</u>	<u>\$1,732,619</u>

HOPE INTERNATIONAL

STATEMENTS OF ACTIVITIES

For the Years ended April 30, 2006 and 2005

	2006			2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions	\$1,349,104	\$ 2,230,965	\$3,580,069	\$1,402,086	\$ 449,816	\$1,851,902
Special events, net of direct expenses of \$25,048 and \$1,242 for 2006 and 2005, respectively	127,878	-	127,878	67,228	-	67,228
Interest	15,368	-	15,368	199	-	199
Rental revenue	173,095	-	173,095	153,158	-	153,158
Less expenses	(170,343)	-	(170,343)	(186,539)	-	(186,539)
Net rental income	2,752	-	2,752	(33,381)	-	(33,381)
Other income						
Net gain on sale and disposal of property and equipment	15,815	-	15,815	-	-	-
Other	51	-	51	90	64,131	64,221
Total support and revenue before net assets released from restrictions	<u>1,510,968</u>	<u>2,230,965</u>	<u>3,741,933</u>	<u>1,436,222</u>	<u>513,947</u>	<u>1,950,169</u>
Net assets released from restrictions	<u>1,216,978</u>	<u>(1,216,978)</u>	<u>-</u>	<u>342,042</u>	<u>(342,042)</u>	<u>-</u>
Total support and revenue	<u>2,727,946</u>	<u>1,013,987</u>	<u>3,741,933</u>	<u>1,778,264</u>	<u>171,905</u>	<u>1,950,169</u>
FUNCTIONAL EXPENSES						
Program services	2,015,262	-	2,015,262	1,463,592	-	1,463,592
Management and general	99,354	-	99,354	175,039	-	175,039
Fundraising	283,686	-	283,686	355,810	-	355,810
Total expenses	<u>2,398,302</u>	<u>-</u>	<u>2,398,302</u>	<u>1,994,441</u>	<u>-</u>	<u>1,994,441</u>
CHANGE IN NET ASSETS BEFORE OTHER EXPENSES	329,644	1,013,987	1,343,631	(216,177)	171,905	(44,272)
OTHER EXPENSES						
Uncollected pledges	66,031	-	66,031	-	-	-
CHANGES IN NET ASSETS	263,613	1,013,987	1,277,600	(216,177)	171,905	(44,272)
NET ASSETS						
Beginning of year	1,039,953	196,905	1,236,858	1,256,130	25,000	1,281,130
End of year	<u>\$1,303,566</u>	<u>\$ 1,210,892</u>	<u>\$2,514,458</u>	<u>\$1,039,953</u>	<u>\$ 196,905</u>	<u>\$1,236,858</u>

See accompanying notes to financial statements.

HOPE INTERNATIONAL

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year ended April 30, 2006 (with comparative totals for 2005)

	2006					2005	
	Program Services			Management And		Total	Total
	Microfinance	Tomorrow Clubs	Total	General	Fundraising		
Salaries	\$ 452,759	\$ 24,283	\$ 477,042	\$71,347	\$163,827	\$ 712,216	\$ 693,813
Payroll taxes	36,507	1,996	38,503	5,644	12,753	56,900	50,911
Employee benefits	54,130	3,741	57,871	3,769	15,983	77,623	105,457
Other staff expenses	16,638	117	16,755	3,790	1,254	21,799	26,508
Insurance	2,438	138	2,576	2,246	859	5,681	5,709
Professional services	23,900	7,391	31,291	1,240	6,273	38,804	17,648
Office expenses	8,219	-	8,219	4,569	11,150	23,938	36,136
HOPE trips	213,423	-	213,423	-	-	213,423	37,820
Travel	98,492	812	99,304	727	26,958	126,989	85,080
Marketing	684	-	684	100	10,195	10,979	78,482
Radio advertising fees	-	-	-	-	20,488	20,488	21,931
Finance expenses –							
Depreciation, interest, fees	10,954	286	11,240	2,213	2,975	16,428	19,330
Printing and reproduction	750	-	750	3,016	6,930	10,696	1,423
Other expenses	1,067	-	1,067	693	4,041	5,801	15,731
Grants to Partners	<u>829,537</u>	<u>227,000</u>	<u>1,056,537</u>	<u>-</u>	<u>-</u>	<u>1,056,537</u>	<u>798,462</u>
	<u>\$1,749,498</u>	<u>\$265,764</u>	<u>\$2,015,262</u>	<u>\$99,354</u>	<u>\$283,686</u>	<u>\$2,398,302</u>	<u>\$1,994,441</u>

HOPE INTERNATIONAL

STATEMENTS OF CASH FLOWS

For the Years ended April 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$1,277,600	\$ (44,272)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	41,231	41,861
Net gain on sale and disposal of property and equipment	(15,815)	-
Uncollected pledges	66,031	-
(Increase) decrease in operating assets		
Accounts receivable	(5,358)	(12,891)
Pledges receivable	466,442	(532,473)
Prepaid expenses	(14,570)	33,030
Increase (decrease) in operating liabilities		
Accounts payable and accrued expense	12,234	55,233
Security deposits and other liabilities	(715)	(5,478)
Net cash provided by/(used in) operating activities	<u>1,827,080</u>	<u>(464,990)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(10,086)	(35,213)
Proceeds from sale of property	81,755	-
Change in certificate of deposits	(81,834)	-
Issuance of notes receivable	(87,260)	-
Issuance of notes receivable – related parties	(500,000)	-
Repayments of notes receivable	25,209	-
Capital contributions for minority interest	(100,000)	-
Net cash used for investing activities	<u>(672,216)</u>	<u>(35,213)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from/(repayments to) note payable – line of credit	(300,000)	300,000
Advances/(repayments to) from related party	(64,000)	64,000
Net cash provided by/(used in) financing activities	<u>(364,000)</u>	<u>364,000</u>
Net change in cash and cash equivalents	790,864	(136,203)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>14,278</u>	<u>150,481</u>
End of year	<u>\$ 805,142</u>	<u>\$ 14,278</u>
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 7,681</u>	<u>\$ 7,089</u>

HOPE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS

April 30, 2006 and 2005

(1) NATURE OF ORGANIZATION

HOPE International (“**HOPE**”) is a global, faith-based, 501(c)(3) non-profit organization focused on poverty alleviation through microeconomic development. HOPE’s vision is to enable sustainable economic development that results in significant and lasting change, temporal and eternal, in the lives of many people living in poverty. HOPE accomplishes this vision through microfinance, making small loans to individual entrepreneurs and small business owners in developing countries, and actively supporting complementary ministries through churches, with a focus on children. HOPE was incorporated in 1996 and the organization currently serves in Afghanistan, China, the Dominican Republic, Haiti, the Democratic Republic of Congo, Moldova, Russia, Rwanda, Sri Lanka, and Ukraine.

HOPE raises funds from several sources to support its programs. The House for HOPE program enlists contractors to construct a home using donated labor and/or materials from subcontractors and suppliers. Upon sale of the home, the net proceeds are donated to HOPE to support its programs. HOPE has also been expanding its relationships with churches, foundations, and individuals. In addition, HOPE offers multiple mission trip opportunities each year and owns and operates several rental properties in Pennsylvania. These sources of funds significantly contribute to HOPE’s work around the world.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of HOPE have been prepared on the accrual basis of accounting.

CASH EQUIVALENTS

HOPE considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

HOPE uses the allowance method to account for uncollectible receivables. This method provides allowances for doubtful receivables equal to the estimated losses that will be incurred in the collection of receivables. At April 30, 2006, HOPE believes all receivables are collectible; therefore, no allowance is necessary.

PROPERTY AND EQUIPMENT

Expenditures greater than \$3,000 for the acquisition of property and greater than \$1,000 for the acquisition of equipment are capitalized at cost, and donated property and equipment are capitalized at fair value. Depreciation is computed on the straight-line method over the estimated useful lives of the assets which range from 3 to 30 years.

HOPE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS – (Continued)

April 30, 2006 and 2005

NET ASSETS

HOPE reports its resources, according to externally (donor) imposed restrictions, in the following net asset categories.

Unrestricted net assets include the revenues and expenses associated with the principal purpose of HOPE.

Temporarily restricted net assets include gifts for which donor-imposed restrictions have not been met.

INCOME TAXES

HOPE is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a).

CONTRIBUTIONS

HOPE records unconditional promises to give (pledges) as a receivable and revenue when the pledge is received, net of the discount to present value of the future cash flows and of uncollectible receivables. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are then classified to unrestricted net assets and reported in the statement of activities as “*net assets released from restrictions.*”

DONATED MATERIALS AND SERVICES

In-kind contributions are reflected as support in the financial statements at their estimated values on the date of donation. Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) specialized skills, are performed by people with those skills, and would otherwise be purchased by HOPE. Volunteers provided services throughout the year that are not recognized as contributions in the financial statements since the criteria for SFAS No. 116 are not met.

FUNCTIONAL EXPENSE ALLOCATION

The costs of providing HOPE’s various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services.

ACCOUNTING ESTIMATES

The preparation of the 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 liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

HOPE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS – (Continued)

April 30, 2006 and 2005

CONCENTRATIONS OF CREDIT RISK

HOPE occasionally maintains cash in banks in excess of federally insured limits. Statement of Financial Accounting Standards No. 105 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in a high quality financial institution.

COMPARATIVE FINANCIAL INFORMATION

The 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with HOPE's financial statements for the year ended April 30, 2005, from which the summarized information was derived.

RECLASSIFICATIONS

Certain account balances in the 2005 financial statements have been reclassified to conform to the 2006 presentation.

(3) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2006</u>	<u>2005</u>
Equipment	\$ 16,592	\$ 19,154
Rental Properties		
Land	315,005	345,005
Buildings	930,195	971,095
Building improvements	<u>70,842</u>	<u>63,343</u>
Total equipment and rental properties	1,332,634	1,398,597
Less: accumulated depreciation	<u>268,455</u>	<u>237,333</u>
Net property and equipment	<u>\$1,064,179</u>	<u>\$1,161,264</u>

Depreciation expense was \$41,231 and \$41,861 for the years ended April 30, 2006 and 2005.

Depreciation expense of \$36,669 and \$36,040 is included in rental properties expense for the years ended April 30, 2006 and 2005.

HOPE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS – (Continued)

April 30, 2006 and 2005

(4) NOTE PAYABLE

As of April 30, 2006, HOPE has a line of credit of \$300,000 with a financial institution. There was no outstanding balance under the line of credit as of April 30, 2006. As of April 30, 2005, HOPE had a demand note payable in the amount of \$300,000 under this line of credit. The interest rate was based on the financial institution's prime rate. This note was secured by certain rental properties owned by HOPE.

(5) RESTRICTIONS OF NET ASSETS

Temporarily restricted net assets are available for the following purposes as of April 30, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Microfinance program –		
Congo	\$ 115,000	\$ -
Moldova	58,644	-
Russia	100,020	-
Rwanda	399,610	-
Sri Lanka	188,694	196,905
Ukraine	300,000	-
Other countries	<u>48,924</u>	<u>-</u>
	<u>\$1,210,892</u>	<u>\$196,905</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows for the year ended April 30, 2006:

Microfinancial Program	
Congo	\$ 340,639
Moldova	21,017
Russia	151,080
Rwanda	100,440
Sri Lanka	146,942
Other countries	<u>456,860</u>
	<u>\$1,216,978</u>

(6) RELATED PARTY TRANSACTIONS

A company, in which the Chairman of the Board of Directors of HOPE is President, received a loan of \$500,000 from HOPE. The loan is payable on demand with a stated interest rate of 4.00% per annum. As of April 30, 2005, the same company provided a loan of \$64,000 to HOPE, which is reflected as Due from Related Party in the statement of financial position. The loan was repaid in 2006.

During the years ended April 30, 2006 and 2005, HOPE also received contributions of \$936,676 and \$540,466, respectively, from this company and related entities.

HOPE INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS – (Continued)

April 30, 2006 and 2005

(7) MINORITY INTEREST IN A MICROFINANCE INSTITUTION

On April 26, 2006, HOPE purchased 527 shares or approximately a 6% ownership interest in URWEGO Community Savings Bank, a microfinance institution (MFI), in Rwanda for \$100,000. HOPE has committed to purchase approximately \$500,000 of URWEGO Community Savings Bank stock in the aggregate. At April 30, 2006, HOPE investment is carried at its cost of \$100,000 which is approximately its share of the underlying net assets.

(8) RETIREMENT PLAN

HOPE sponsors a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan provides for elective employee deferrals with no contribution made by the Organization.

(9) CONTRIBUTIONS TO PARTNERS

HOPE provides grants to affiliated organizations in the Ukraine (“*HOPE Ukraine*”), the Democratic Republic of Congo (“*HOPE DRC*”), China (“*HOPE China*”) and Russia (“*HOPE Russia*”). These affiliated organizations provide microenterprise loans to individual borrowers to enable families to start or expand small businesses. As lending institutions, these affiliated organizations are governed by the banking regulations of the respective countries. As such, HOPE does not include the financial activity of these affiliated organizations in their financial statements.

Grants provided to these affiliates are as follows:

	<u>2006</u>	<u>2005</u>
Microfinance:		
Ukraine	\$150,000	\$220,000
Democratic Republic of Congo	279,304	245,858
China	54,771	70,004
Russia	<u>90,209</u>	<u>-</u>
Total microfinance grants – affiliates	<u>574,284</u>	<u>535,862</u>
Children’s Ministry:		
Ukraine	210,000	231,600
Dominican Republic	<u>17,000</u>	<u>-</u>
Total children ministry grants – affiliates	<u>227,000</u>	<u>231,600</u>
Total grants – affiliates	<u>\$801,284</u>	<u>\$767,462</u>

Net assets of these affiliated organizations amounted to approximately \$3.0 million at April 30, 2006. Total outstanding loans of the microenterprise program totaled approximately \$4.2 million and \$2.1 million at April 30, 2006 and 2005, respectively.

Additionally HOPE contributed \$255,253 and \$31,000 in fiscal years 2006 and 2005, respectively, to non-affiliated organizations under their microenterprise programs.