

CHILDREN'S HOPECHEST, INC.

FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2005 and 2004

CHILDREN'S HOPECHEST, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Children's HopeChest, Inc.
Palmer Lake, Colorado

We have audited the accompanying statements of financial position of Children's HopeChest, Inc. as of December 31, 2005 and 2004, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the ministry's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 the organization'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 audits provide 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 Children's HopeChest, Inc. as of December 31, 2005 and 2004, and the results of its activities and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Capin Crouse LLP

Colorado Springs, Colorado
March 23, 2006

CHILDREN'S HOPECHEST, INC.

Statements of Financial Position

	December 31,	
	2005	2004
ASSETS:		
Cash in U.S.	\$ 213,675	\$ 64,943
Cash held overseas	220,376	110,256
In-kind inventory	12,851	6,101
Prepaid expenses and other assets	6,319	-
Fixed assets—net (Note 3)	709,196	328,418
Total Assets	\$ 1,162,417	\$ 509,718
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 15,905	\$ 48,862
Accrued expenses	2,955	13,193
Deferred revenue	50,210	-
Capital lease obligation (Note 4)	12,936	19,455
Note payable (Note 5)	10,658	15,081
Total liabilities	92,664	96,591
Net assets:		
Unrestricted:		
Equity in fixed assets (Note 3)	685,602	293,882
Operating	98,720	(120,830)
	784,322	173,052
Temporarily restricted (Note 6)	285,431	240,075
Total net assets	1,069,753	413,127
Total Liabilities and Net Assets	\$ 1,162,417	\$ 509,718

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Statements of Activities

	Years Ended December 31,					
	2005			2004		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions:						
General	\$ 687,882	\$ 1,725,937	\$ 2,413,819	\$ 461,923	\$ 1,329,907	\$ 1,791,830
Contributed facilities and services	70,703	-	70,703	58,240	-	58,240
In-kind inventory gifts	-	240,143	240,143	-	4,543	4,543
	<u>758,585</u>	<u>1,966,080</u>	<u>2,724,665</u>	<u>520,163</u>	<u>1,334,450</u>	<u>1,854,613</u>
Trip income	499,706	-	499,706	432,594	-	432,594
Sales	56,610	-	56,610	-	-	-
Other income	1,982	-	1,982	275	-	275
	<u>1,316,883</u>	<u>1,966,080</u>	<u>3,282,963</u>	<u>953,032</u>	<u>1,334,450</u>	<u>2,287,482</u>
RECLASSIFICATIONS:						
Net assets released from purpose restrictions	<u>1,920,724</u>	<u>(1,920,724)</u>	<u>-</u>	<u>1,285,114</u>	<u>(1,285,114)</u>	<u>-</u>
EXPENSES:						
Program services	<u>2,061,426</u>	<u>-</u>	<u>2,061,426</u>	<u>1,661,364</u>	<u>-</u>	<u>1,661,364</u>
Supporting activities:						
General and administrative	332,864	-	332,864	211,217	-	211,217
Fund-raising	232,047	-	232,047	194,472	-	194,472
	<u>564,911</u>	<u>-</u>	<u>564,911</u>	<u>405,689</u>	<u>-</u>	<u>405,689</u>
Total expenses	<u>2,626,337</u>	<u>-</u>	<u>2,626,337</u>	<u>2,067,053</u>	<u>-</u>	<u>2,067,053</u>
Change in Net Assets	611,270	45,356	656,626	171,093	49,336	220,429
Net Assets—Beginning of Year	<u>173,052</u>	<u>240,075</u>	<u>413,127</u>	<u>1,959</u>	<u>190,739</u>	<u>192,698</u>
Net Assets—End of Year	<u>\$ 784,322</u>	<u>\$ 285,431</u>	<u>\$ 1,069,753</u>	<u>\$ 173,052</u>	<u>\$ 240,075</u>	<u>\$ 413,127</u>

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Statements of Cash Flows

	Years Ended December 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 656,626	\$ 220,429
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	33,755	28,335
Loss on disposal of fixed assets	112	-
Contributions restricted for long-term purposes	(409,994)	(289,118)
Changes in operating assets and liabilities:		
Cash held overseas	(110,120)	(26,744)
In-kind inventory	(6,750)	-
Prepaid expenses	(6,319)	-
Accounts payable	(32,957)	(7,625)
Accrued expenses	(10,238)	(4,538)
Deferred revenue	50,210	-
	<u>164,325</u>	<u>(79,261)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	5,000	-
Purchases of fixed assets	(419,645)	(194,868)
	<u>(414,645)</u>	<u>(194,868)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term purposes	409,994	289,118
Proceeds from new borrowings	-	18,639
Principal payments on note payable	(4,423)	(3,558)
Principal payments on capital lease obligation	(6,519)	(1,620)
	<u>399,052</u>	<u>302,579</u>
Net Cash Provided by Financing Activities		
Increase in Cash in U.S.	148,732	28,450
Cash in U.S.—Beginning of Year	64,943	36,493
Cash in U.S.—End of Year	<u>\$ 213,675</u>	<u>\$ 64,943</u>
Supplemental Disclosures:		
Interest paid	<u>\$ 8,077</u>	<u>\$ 6,137</u>
Fixed asset acquired by capital lease	<u>\$ -</u>	<u>\$ 21,075</u>

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

December 31, 2005 and 2004

1. NATURE OF ORGANIZATION:

Children's HopeChest, Inc. (CHC) is a nonprofit organization, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is not a private foundation under Section 509(a)(2) of the Code.

CHC responds to God's desire to create a world where every orphan knows Him, experiences the blessing of family, and acquires the skills necessary for independent life. This is carried out by serving orphans while in their institution and also with programs designed for older orphans to successfully transition into contributing members of their society.

HopeChest humanitarian aid, educational assistance, spiritual encouragement, emotional guidance, medical and dental care, camps, foster care, Family Centers, Independent Living programs, and Ministry Center outreach programs are all designed to meet short and long term needs of orphans.

CHC camp programs, though not as prevalent as in our early years, are used primarily as a tool to meet orphans from new orphanages, and bring them into contact with our international staff members. This provides a foundation for a relationship that extends into our sponsorship program, as well as our older orphan programs. As they have in the past, camps also provide one of the best opportunities to share the good news of God's love through both word and deed.

Institutionalized children often have a difficult time transitioning into normal family settings. Providing foster care and transitional homes are healthy alternatives to institutions. Many orphanages desire to pursue family care programs, but seek HopeChest training and financial support provided by CHC to accomplish this goal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements have been prepared on the accrual basis of accounting. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The significant accounting policies are described as follows:

CASH

Cash and cash equivalents include checking, savings and money market accounts. These accounts may, at times, exceed federally insured limits. CHC has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

December 31, 2005 and 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

IN-KIND INVENTORY

Contributions of in-kind goods consisting of shoes, socks, clothing, food, and medical supplies were received during the years ended December 31, 2005 and 2004, and were recorded at their estimated fair value.

INVENTORY

Inventory consists of books and is stated at the lower of cost or market on a first-in, first-out basis.

FIXED ASSETS–NET

Fixed assets-net are capitalized at cost, or if donated, at fair market value on the date of the gift. CHC capitalizes fixed asset purchases exceeding \$1,000, with lesser amounts expensed in the year purchased. Some assets are held in a foreign country where certain risks exist that may result in a loss of the assets for CHC. However, CHC does not believe it is exposed to any significant risk as a result of these assets. Depreciation is computed on the straight-line basis over the estimated useful lives ranging from 3-30 years. Depreciation expense was \$33,755 and \$28,335 for the years ended December 31, 2005 and 2004, respectively.

DEFERRED REVENUE

Deferred revenue consists of trip payments made to CHC for future trips. Revenue will be recognized when the trip occurs.

CLASSES OF NET ASSETS

The financial statements report amounts separately by the following classes of net assets:

- **Unrestricted** amounts are those currently available for use in CHC's operations and those resources invested in fixed assets.
- **Temporarily restricted** amounts are comprised of donor-restricted contributions for the support of various projects conducted by CHC.

SUPPORT AND REVENUE

Contributions are recorded when made, which may be when cash and other assets are received or unconditionally promised. Contributions restricted by the donor for a specific purpose are recorded as support in the temporarily restricted class of net assets until funds have been expended by CHC for the purpose specified. Upon satisfaction of the restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from purpose restrictions. Trip income is recorded as income when the trip occurs. Sales income is recorded when the products are shipped to the customers. Other income is recorded when earned.

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

December 31, 2005 and 2004

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CONTRIBUTED FACILITIES AND SERVICES

CHC received contributed services for design work and videography and contributed rents, which have been recorded when received. For the years ended December 31, 2005 and 2004, contributed services totaled \$52,463 and \$40,000, respectively. Contributed rents for the same periods totaled \$18,240 and \$18,240, respectively.

FOREIGN OPERATIONS

In connection with its ministry, CHC maintains fields in other countries outside the United States. As of December 31, 2005 and 2004, assets in other countries, which consist of cash and fixed assets, totaled \$874,097 and \$376,778, respectively. Total support and revenue received from foreign sources totaled \$34,000 and \$0 for the years ended December 31, 2005 and 2004, respectively.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs, such as depreciation and salaries, have been allocated among the programs services and supporting activities benefited.

RECLASSIFICATION

Certain prior year amounts have been reclassified to conform to current year presentation.

3. FIXED ASSETS—NET:

Fixed assets-net consist of the following:

	December 31, 2005		
	United States	Other Countries	Total
Buildings	\$ -	\$ 656,159	\$ 656,159
Computer equipment	56,571	12,376	68,947
Vehicles	18,639	50,552	69,191
Furniture and equipment	18,982	32,426	51,408
	94,192	751,513	845,705
Accumulated depreciation	(38,717)	(97,792)	(136,509)
Fixed assets—net	<u>\$ 55,475</u>	<u>\$ 653,721</u>	<u>\$ 709,196</u>

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

December 31, 2005 and 2004

3. FIXED ASSETS–NET, continued:

	December 31, 2004		
	United States	Other Countries	Total
Buildings	\$ -	\$ 271,251	\$ 271,251
Computer equipment	68,708	12,376	81,084
Vehicles	18,639	43,976	62,615
Furniture and equipment	18,983	20,275	39,258
	106,330	347,878	454,208
Accumulated depreciation	(44,434)	(81,356)	(125,790)
Fixed assets–net	\$ 61,896	\$ 266,522	\$ 328,418

Equity in fixed assets consists of the following:

	December 31,	
	2005	2004
Fixed assets–net	\$ 709,196	\$ 328,418
Capital lease obligation	(12,936)	(19,455)
Note payable	(10,658)	(15,081)
Equity in fixed assets	\$ 685,602	\$ 293,882

4. CAPITAL LEASE OBLIGATION:

CHC entered into a capital lease for an accounting software system during 2004. The cost of this equipment was \$21,075 for the year ended December 31, 2004. The software had not been placed into service as of December 31, 2005. Therefore, there is no amortization for 2004 or 2005. Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	
2006	\$ 8,025
2007	6,019
	14,044
Amounts representing interest	(1,108)
	\$ 12,936

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

December 31, 2005 and 2004

5. NOTE PAYABLE:

During 2004, CHC converted an auto lease into a note payable of \$18,578, secured by the automobile, monthly payments of \$433, including interest at 5.65%, maturing in 2008. Future maturities of the note payable are as follows:

<u>Years Ending December 31,</u>	
2006	\$ 4,724
2007	4,998
2008	936
	<hr/>
	\$ 10,658
	<hr/> <hr/>

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of the following:

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Program support	\$ 157,029	\$ 169,237
Sponsorship	107,854	62,583
Trips & conferences	20,548	3,296
Staff support	-	4,959
	<hr/>	<hr/>
	\$ 285,431	\$ 240,075
	<hr/> <hr/>	<hr/> <hr/>

7. RETIREMENT PLAN:

CHC uses a SIMPLE IRA plan. CHC makes contributions into the individual retirement plans on behalf of eligible U.S. employees. The amount of the contribution is equal to three percent of the employee's gross salary for 2005 and 2004, respectively. During the years ended December 31, 2005 and 2004, CHC made employer contributions of \$13,902 and \$9,557, respectively.

Effective January 1, 2006, CHC converted its plan to a 401(k) retirement plan.

8. COMMITMENTS:

CHC has a related party month-to-month lease agreement for office space with a board member. Rent expense for the years ended December 31, 2005 and 2004, was \$39,312 and \$37,440, respectively.