CHILDREN'S HOPECHEST, INC.

FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2006 and 2005

CHILDREN'S HOPECHEST, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Children's HopeChest, Inc.
Colorado Springs, Colorado

We have audited the accompanying statements of financial position of Children's HopeChest, Inc. as of December 31, 2006 and 2005, 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, 2006 and 2005, 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
April 16, 2007

CHILDREN'S HOPECHEST, INC.

Statements of Financial Position

	December 31, 2006	December 31, 2005
ASSETS:		
Cash and cash equivalents in U.S.	$ 337,930	$ 213,675
Cash and cash equivalents held overseas	79,809	220,376
Contributions receivable	50,000	-
In-kind inventory	-	12,851
Prepaid expenses and other assets	21,563	6,319
Fixed assets–net (Note 3)	786,249	709,196
Total Assets	$ 1,275,551	$ 1,162,417
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	$ 33,987	$ 15,905
Accrued expenses	3,089	2,955
Deferred revenue	54,195	50,210
Capital lease obligation (Note 4)	5,797	12,936
Note payable (Note 5)	30,911	10,658
Total liabilities	127,979	92,664
Net assets:		
Unrestricted:		
Equity in fixed assets (Note 3)	749,541	685,602
Operating	66,913	98,720
	816,454	784,322
Temporarily restricted (Note 6)	331,118	285,431
Total net assets	1,147,572	1,069,753
Total Liabilities and Net Assets	$ 1,275,551	$ 1,162,417

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Statements of Activities

	Years Ended December 31,					
	2006			2005		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions:						
General	$ 1,184,889	$ 1,544,241	$ 2,729,130	$ 687,882	$ 1,725,937	$ 2,413,819
Contributed facilities and services	105,144	-	105,144	70,703	-	70,703
In-kind inventory gifts	-	20,105	20,105	-	240,143	240,143
	1,290,033	1,564,346	2,854,379	758,585	1,966,080	2,724,665
Trip income	523,592	-	523,592	499,706	-	499,706
Sales	3,429	-	3,429	56,610	-	56,610
Other income	10,041	-	10,041	1,982	-	1,982
Total support and revenue	1,827,095	1,564,346	3,391,441	1,316,883	1,966,080	3,282,963
RECLASSIFICATIONS:						
Net assets released from purpose restrictions	1,518,659	(1,518,659)	-	1,920,724	(1,920,724)	-
EXPENSES:						
Program services	2,580,616	-	2,580,616	2,061,426	-	2,061,426
Supporting activities:						
General and administrative	273,854	-	273,854	332,864	-	332,864
Fundraising	459,152	-	459,152	232,047	-	232,047
	733,006	-	733,006	564,911	-	564,911
Total expenses	3,313,622	-	3,313,622	2,626,337	-	2,626,337
Change in Net Assets	32,132	45,687	77,819	611,270	45,356	656,626
Net Assets–Beginning of Year	784,322	285,431	1,069,753	173,052	240,075	413,127
Net Assets–End of Year	$ 816,454	$ 331,118	$ 1,147,572	$ 784,322	$ 285,431	$ 1,069,753

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Statements of Cash Flows

	Years Ended December 31, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 77,819	$ 656,626
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Recognition of contributions receivable	(50,000)	-
Depreciation and amortization	50,981	33,755
Loss on disposal of fixed assets	3,348	112
Contributions restricted for long-term purposes	-	(409,994)
Changes in operating assets and liabilities:		
Cash and cash equivalents held overseas	140,567	(110,120)
In-kind inventory	12,851	(6,750)
Prepaid expenses and other assets	(15,244)	(6,319)
Accounts payable	18,082	(32,957)
Accrued expenses	134	(10,238)
Deferred revenue	3,985	50,210
Net Cash Provided by Operating Activities	242,523	164,325
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	5,500	5,000
Purchases of fixed assets	(136,882)	(419,645)
Net Cash Used by Investing Activities	(131,382)	(414,645)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions restricted for long-term purposes	-	409,994
Proceeds from new borrowings	25,000	-
Principal payments on note payable	(4,747)	(4,423)
Principal payments on capital lease obligation	(7,139)	(6,519)
Net Cash Provided by Financing Activities	13,114	399,052
Increase in Cash and Cash Equivalents in U.S.	124,255	148,732
Cash and Cash Equivalents in U.S.–Beginning of Year	213,675	64,943
Cash and Cash Equivalents in U.S.–End of Year	$ 337,930	$ 213,675
Supplemental Disclosure:		
Interest paid (none capitalized)	$ 2,910	$ 8,077

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

December 31, 2006 and 2005

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) 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:
   CHC uses estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements. The significant accounting policies followed are described below.

   CASH AND CASH EQUIVALENTS
   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.

   CONTRIBUTIONS RECEIVABLE
   CHC received two unconditional promises to give which had not been collected as of December 31, 2006, totaling $50,000. The full amount was collected in 2007; accordingly, no allowance for doubtful accounts has been recorded.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

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. Contributions received after year-end that were postmarked by December 31, 2006, were recorded as contributions and cash rather than promises to give. 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.

CONTRIBUTED FACILITIES AND SERVICES
CHC recognizes contributed facilities and contributed services that require specialized skills, are provided by individuals or corporations possessing those skills, and would typically need to be purchased if not provided by contribution. These services are recorded at their estimated fair market value as of the date of service. CHC received contributed services for design work and other professional fees. For the years ended December 31, 2006 and 2005, contributed services totaled $45,000 and $52,463, respectively. Contributed facilities for the same periods totaled $50,640 and $18,240, respectively.

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, 2006 and 2005, and were recorded at their estimated fair value. In-kind inventory consists of books at December 31, 2005, and is stated at the lower of cost or market on a first-in, first-out basis.

FOREIGN OPERATIONS
In connection with its ministry, CHC maintains fields in other countries outside the United States. As of December 31, 2006 and 2005, assets in other countries, which consist of cash and fixed assets, totaled $829,164 and $874,097, respectively. Total support and revenue received from foreign sources totaled $30,883 and $34,000 for the years ended December 31, 2006 and 2005, 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.

3. FIXED ASSETS–NET:
Fixed assets-net consist of the following:

	December 31, 2006		
	United States	Other Countries	Total
Buildings and improvements	$ -	$ 757,679	$ 757,679
Computer equipment and website development	46,113	9,766	55,879
Vehicles	18,639	48,548	67,187
Furniture and equipment	21,377	39,446	60,823
	86,129	855,439	941,568
Accumulated depreciation and amortization	(49,235)	(106,084)	(155,319)
Fixed assets–net	$ 36,894	$ 749,355	$ 786,249

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

December 31, 2006 and 2005

3. FIXED ASSETS–NET, continued:

	December 31, 2005		
	United States	Other Countries	Total
Buildings and improvements	$ -	$ 656,159	$ 656,159
Computer equipment and website development	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 and amortization	(38,717)	(97,792)	(136,509)
Fixed assets–net	$ 55,475	$ 653,721	$ 709,196

Equity in fixed assets consists of the following:

	December 31,	
	2006	2005
Fixed assets–net	$ 786,249	$ 709,196
Capital lease obligation	(5,797)	(12,936)
Note payable	(30,911)	(10,658)
Equity in fixed assets	$ 749,541	$ 685,602

4. CAPITAL LEASE OBLIGATION:

Capital lease obligation consists of an accounting software system lease agreement entered into in 2004, with monthly payments of $669, until September 2007. Included in fixed assets - net are the following assets under capital lease:

	December 31,	
	2006	2005
Computer software and website development	$ 21,075	$ 21,075
Accumulated amortization	(7,025)	-
	$ 14,050	$ 21,075

Future minimum capital lease payments are $6,016 for the year ending December 31, 2007. Of this amount, $219 represents interest.

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

December 31, 2006 and 2005

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.

CHC also has a $60,000 line of credit with a financial institution that matures on March 21, 2007. The line of credit bears interest at a rate tied to prime (8.25% at December 31, 2006). As of December 31, 2006, CHC has outstanding debt of $25,000 on the line of credit. Subsequent to December 31, 2006, $15,000 was paid on this debt, reducing the current outstanding debt under a renewed line of credit to $10,000.

Future maturities are as follows:

Years Ending December 31,	
2007	$ 30,201
2008	710
	$ 30,911

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of the following:

	December 31,	
	2006	2005
Purpose restriction:		
Program support	$ 236,264	$ 157,029
Trips and conferences	26,286	20,548
Sponsorship	11,953	107,854
Staff support	6,615	-
	281,118	285,431
Time restriction:		
Contributions receivable	50,000	-
	$ 331,118	$ 285,431

7. RETIREMENT PLAN:

CHC converted from a SIMPLE IRA plan to a 401(k) plan in January 2006. CHC makes contributions into the individual retirement plans on behalf of eligible U.S. employees. In 2006, CHC matched employee contributions 100% up to 3% of the employee's gross salary, and they matched employee contributions 50% on the next 2% of the employee's gross salary. In 2005, the amount of the contribution was equal to 3% of the employee's gross salary. During the years ended December 31, 2006 and 2005, CHC made employer contributions of $17,949 and $13,902, respectively.

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

December 31, 2006 and 2005

8. COMMITMENTS:

During 2006, CHC entered into lease agreements for office space and office equipment. Prior to these agreements, CHC had a related party month-to-month lease agreement for office space with a board member. Rent expense on these leases for the years ended December 31, 2006 and 2005, was $41,663 and $39,312, respectively. Future minimum payments are as follows:

Years Ending December 31,		
2007	$	43,298
2008		43,298
2009		29,768
2010		2,708
2011		2,257
	$	121,329

9. NEW ACCOUNTING PRONOUNCEMENTS:

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes.* FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 will be effective for fiscal years beginning after December 15, 2006. Management does not anticipate this pronouncement will have a significant impact on CHC.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* . SFAS No. 157 defines fair value, establishes a framework for measuring fair value with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 will be effective for fiscal years beginning after November 15, 2007. The effects of SFAS No. 157 have not been determined.