CHILDREN'S HOPECHEST, INC.

COMBINED FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2007 and 2006

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 combined statements of financial position of Children's HopeChest, Inc. and Fund Nadezhda as of December 31, 2007 and 2006, and the related combined statements of activities and cash flows for the years then ended. These combined financial statements are the responsibility of the ministry's management. Our responsibility is to express an opinion on these combined 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 combined 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 combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Children's HopeChest, Inc. and Fund Nadezhda as of December 31, 2007 and 2006, 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
May 7, 2008

CHILDREN'S HOPECHEST, INC.

Combined Statements of Financial Position

	December 31, 2007	December 31, 2006
ASSETS:		
Cash and cash equivalents in U.S.	$ 309,041	$ 337,930
Cash and cash equivalents held overseas	300,427	79,809
Contributions receivable	10,000	50,000
Prepaid expenses and other assets	143,618	21,563
Investment property (Note 3)	275,000	-
Fixed assets–net (Note 4)	1,100,740	786,249
Total Assets	$ 2,138,826	$ 1,275,551
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	$ 100,568	$ 33,987
Accrued expenses	738	3,089
Deferred revenue	147,787	54,195
Capital lease obligation (Note 5)	-	5,797
Lines of credit (Note 6)	168,654	-
Notes payable (Note 7)	104,404	30,911
Total liabilities	522,151	127,979
Net assets:		
Unrestricted:		
Operating	218,819	66,913
Equity in fixed assets (Note 4)	996,336	749,541
	1,215,155	816,454
Temporarily restricted (Note 8)	401,520	331,118
Total net assets	1,616,675	1,147,572
Total Liabilities and Net Assets	$ 2,138,826	$ 1,275,551

See notes to combined financial statements

CHILDREN'S HOPECHEST, INC.

Combined Statements of Activities

	Years Ended December 31,					
	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions:						
General and grants	$ 1,539,695	$ 1,735,286	$ 3,274,981	$ 1,184,889	$ 1,544,241	$ 2,729,130
Contributed facilities and services	219,431	-	219,431	105,144	-	105,144
In-kind gifts	291,760	-	291,760	-	20,105	20,105
	2,050,886	1,735,286	3,786,172	1,290,033	1,564,346	2,854,379
Trip income	638,070	-	638,070	523,592	-	523,592
Sales	10,969	-	10,969	3,429	-	3,429
Other income	21,014	-	21,014	10,041	-	10,041
Total support and revenue	2,720,939	1,735,286	4,456,225	1,827,095	1,564,346	3,391,441
NET ASSETS RELEASED:						
Purpose restrictions	1,614,884	(1,614,884)	-	1,518,659	(1,518,659)	-
Time restrictions	50,000	(50,000)	-	-	-	-
EXPENSES:						
Program services	3,013,913	-	3,013,913	2,580,616	-	2,580,616
Supporting activities:						
General and administrative	444,238	-	444,238	273,854	-	273,854
Fundraising	528,971	-	528,971	459,152	-	459,152
	973,209	-	973,209	733,006	-	733,006
Total expenses	3,987,122	-	3,987,122	3,313,622	-	3,313,622
Change in Net Assets	398,701	70,402	469,103	32,132	45,687	77,819
Net Assets–Beginning of Year	816,454	331,118	1,147,572	784,322	285,431	1,069,753
Net Assets–End of Year	$ 1,215,155	$ 401,520	$ 1,616,675	$ 816,454	$ 331,118	$ 1,147,572

See notes to combined financial statements

CHILDREN'S HOPECHEST, INC.

Combined Statements of Cash Flows

	Years Ended December 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 469,103	$ 77,819
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Recognition of contributions receivable	(10,000)	(50,000)
Recognition of contributed rental property	(275,000)	-
Depreciation and amortization	84,675	50,981
Loss on disposal of fixed assets	-	3,348
Changes in operating assets and liabilities:		
Cash and cash equivalents held overseas	(220,618)	140,567
In-kind inventory	-	12,851
Prepaid expenses and other assets	(122,055)	(15,244)
Accounts payable	66,581	18,082
Accrued expenses	(2,351)	134
Deferred revenue	93,592	3,985
Net Cash Provided by Operating Activities	83,927	242,523
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	-	5,500
Purchases of fixed assets	(399,166)	(136,882)
Net Cash Used by Investing Activities	(399,166)	(131,382)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collection of contributions receivable	50,000	-
Proceeds from new borrowings	284,151	25,000
Principal payments on notes payable	(42,004)	(4,747)
Principal payments on capital lease obligation	(5,797)	(7,139)
Net Cash Provided by Financing Activities	286,350	13,114
Change in Cash and Cash Equivalents in U.S.	(28,889)	124,255
Cash and Cash Equivalents in U.S.–Beginning of Year	337,930	213,675
Cash and Cash Equivalents in U.S.–End of Year	$ 309,041	$ 337,930
Supplemental Disclosure:		
Interest paid (none capitalized)	9,088	$ 2,910

See notes to combined financial statements

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2007 and 2006

1. NATURE OF ORGANIZATIONS:
   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.

   Fund Nadezhda (FN), is an organized entity in Russia. FN falls under the nonprofit umbrella of CHC because all the profits earned are reinvested in the entity or returned to CHC to support its nonprofit purpose.

   CHC and FN respond 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 and FN 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.

   PRINCIPLES OF COMBINATION

   Due to the Board of Directors composition and influence of control by CHC, FN is considered a controlled affiliate of CHC. The combined financial statements include the combined financial sources and activities of CHC and FN. The financial sources and activities related to FN have been identified in Footnote 2. All significant intercompany balances and transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:
   CHC and FN use estimates and assumptions in preparing financial statements in accordance with U.S. generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of any contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the combined financial statements. The significant accounting policies followed are described below to enhance the usefulness of the combined financial statements to the reader.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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

In 2007, CHC received an unconditional promise to give of $10,000 and a conditional match for revenues earned by CHC of $50,000. Neither had been collected as of December 31, 2007. Based on the economic and financial circumstances, the collection of the conditional matching gift is uncertain and management established a 100% allowance of $50,000 as of December 31, 2007. The full amount of the other receivable was collected in 2008.

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 combined 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 and amounts restricted for contributions receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 2007, were recorded as contributions and cash rather than contributions receivable. 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.

In-kind gifts are recorded when received at the estimated fair value at date of gift.

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, 2007 and 2006, contributed services totaled $15,000 and $45,000, respectively. Contributed facilities for the same periods totaled $204,431 and $50,640, respectively.

FOREIGN OPERATIONS

In connection with its ministry, CHC maintains fields in other countries outside the U.S. As of December 31, 2007 and 2006, assets maintained by FN, which consist of cash and fixed assets netted with related liabilities, totaled $1,209,536 and $829,164, respectively. Total support and revenue received from FN totaled $133,661 and $30,883 for the years ended December 31, 2007 and 2006, 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. INVESTMENT PROPERTY:

During the year ended December 31, 2007, CHC was donated a duplex, reflected as an in-kind gift contribution on the combined statements of activities. The property was valued at fair market value, based on a recent appraisal. The property generated rental income of $14,300 for the year ended December 31, 2007, which is reflected in the statements of activities in other income. CHC is not depreciating this asset as it is being held for investment purposes. CHC also has two lease agreements that expire in May of 2008, and expect to collect approximately $8,000 during 2008, related to these lease agreements.

4. FIXED ASSETS–NET:

Fixed assets-net consist of the following:

	December 31, 2007		
	United States	Other Countries	Total
Buildings and improvements	$ -	$ 1,052,891	$ 1,052,891
Leasehold improvements	23,090	-	23,090
Computer equipment and website development	105,788	12,449	118,237
Vehicles	18,640	48,548	67,188
Furniture and equipment	28,486	50,842	79,328
	176,004	1,164,730	1,340,734
Accumulated depreciation and amortization	(87,870)	(152,124)	(239,994)
Fixed assets–net	$ 88,134	$ 1,012,606	$ 1,100,740

	December 31, 2006		
	United States	Other Countries	Total
Buildings and improvements	$ -	$ 757,679	$ 757,679
Leasehold improvements	-	-	-
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

Equity in fixed assets consists of the following:

	December 31,	
	2007	2006
Fixed assets–net	$ 1,100,740	$ 786,249
Capital lease obligation	-	(5,797)
Note payable	(104,404)	(30,911)
Equity in fixed assets	$ 996,336	$ 749,541

5. CAPITAL LEASE OBLIGATION:

Capital lease obligation consists of an accounting software system lease agreement entered into in 2004, with monthly payments of $669. Lease was paid in full during the year ended December 31, 2007. Included in fixed assets - net are the following assets under capital lease:

	December 31, 2007	December 31, 2006
Computer software	$ 21,075	$ 21,075
Accumulated amortization	(14,050)	(7,025)
	$ 7,025	$ 14,050

6. LINES OF CREDIT:

CHC has two lines of credit (LOC) with a financial institution. There is a $60,000 LOC that matures on March 21, 2008 with an annual renewal option. This line of credit bears interest at a rate tied to prime. As of December 31, 2007 and 2006, CHC has outstanding debt of $0 and $25,000, respectively. There is also a $206,250 LOC that matures on April 11, 2008 with an annual renewal option. This LOC has an adjustable rate (tied to prime) with a rate of 7.25% at December 31, 2007. As of December 31, 2007 and 2006, CHC has outstanding balance of $168,654 and $0, respectively. This LOC is secured by real property.

7. NOTES PAYABLE:

As of December 31, 2007, CHC and FN had term debt for a vehicle and short term financing for real property held in FN. All the debt related to these notes was paid in full subsequent to December 31, 2007.

8. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of the following:

	December 31, 2007	December 31, 2006
Purpose restrictions:		
Program support	$ 350,742	$ 236,264
Trips and conferences	-	26,286
Sponsorship	34,240	11,953
Staff support	6,538	6,615
	391,520	281,118
Time restrictions:		
Contributions receivable	10,000	50,000
	$ 401,520	$ 331,118

9. RETIREMENT PLAN:

CHC sponsors a 401(k) retirement plan and makes contributions into the individual retirement plan on behalf of eligible U.S. employees. In 2007 and 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. During the years ended December 31, 2007 and 2006, CHC made employer contributions of $16,382 and $17,949, respectively.

10. COMMITMENTS:

CHC entered into various lease agreements for office space and office equipment. Rent and lease expense on these leases for the years ended December 31, 2007 and 2006, was $43,464 and $41,663, respectively. Future minimum payments are as follows:

Years Ending December 31,		
2008	$	44,230
2009		30,700
2010		3,640
2011		2,963
2012		233
	$	81,766

11. 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 organization'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, 2007. Management does not anticipate this pronouncement will have a significant impact on CHC and FN.

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, 2008. The effects of SFAS No. 157 have not been determined.