



CHILDREN'S HOPECHEST
Confidence to fly and a safe place to land

COMBINED FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2008 and 2007

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, 2008, and 2007, 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 auditing standards generally accepted in the United States of America. 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. An audit also includes 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, 2008 and 2007, and the results of its activities and its cash flows for the years then ended in conformity with accounting standards generally accepted in the United States of America.

Capin Crouse LLP

Colorado Springs, Colorado
April 30, 2009

CHILDREN'S HOPECHEST, INC.

Combined Statements of Financial Position

	December 31,	
	2008	2007
ASSETS:		
Cash and cash equivalents in U.S.	\$ 204,146	\$ 309,041
Cash and cash equivalents held overseas	241,218	300,427
Contributions receivable	-	10,000
Prepaid expenses and other assets	57,927	143,618
Property held for sale	265,000	275,000
Fixed assets-net	1,008,778	1,100,740
Total Assets	\$ 1,777,069	\$ 2,138,826
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 71,508	\$ 100,568
Accrued expenses	11,304	738
Deferred revenue	90,086	147,787
Line of credit	206,250	168,654
Notes payable	-	104,404
Total liabilities	379,148	522,151
Net assets:		
Unrestricted:		
Operating	35,931	218,819
Equity in fixed assets	1,008,778	996,336
	1,044,709	1,215,155
Temporarily restricted	353,212	401,520
Total net assets	1,397,921	1,616,675
Total Liabilities and Net Assets	\$ 1,777,069	\$ 2,138,826

See notes to combined financial statements

CHILDREN'S HOPECHEST, INC.

Combined Statements of Activities

	Year Ended December 31,					
	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions:						
General and grants	\$ 1,003,040	\$ 1,403,776	\$ 2,406,816	\$ 1,539,695	\$ 1,735,286	\$ 3,274,981
Contributed facilities and services	233,270	-	233,270	219,431	-	219,431
In-kind gifts	1,250	-	1,250	291,760	-	291,760
	1,237,560	1,403,776	2,641,336	2,050,886	1,735,286	3,786,172
Trip income	711,665	-	711,665	638,070	-	638,070
Sales	-	-	-	10,969	-	10,969
Other income	45,781	-	45,781	21,014	-	21,014
	1,995,006	1,403,776	3,398,782	2,720,939	1,735,286	4,456,225
NET ASSETS RELEASED:						
Purpose restrictions	1,442,084	(1,442,084)	-	1,614,884	(1,614,884)	-
Time restrictions	10,000	(10,000)	-	50,000	(50,000)	-
EXPENSES:						
Program services	2,898,143	-	2,898,143	3,013,913	-	3,013,913
Supporting activities:						
General and administrative	447,575	-	447,575	444,238	-	444,238
Fundraising	271,818	-	271,818	528,971	-	528,971
	719,393	-	719,393	973,209	-	973,209
Total expenses	3,617,536	-	3,617,536	3,987,122	-	3,987,122
Change in Net Assets	(170,446)	(48,308)	(218,754)	398,701	70,402	469,103
Net Assets—Beginning of Year	1,215,155	401,520	1,616,675	816,454	331,118	1,147,572
Net Assets—End of Year	\$ 1,044,709	\$ 353,212	\$ 1,397,921	\$ 1,215,155	\$ 401,520	\$ 1,616,675

See notes to combined financial statements

CHILDREN'S HOPECHEST, INC.

Combined Statements of Cash Flows

	Year Ended December 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (218,754)	\$ 469,103
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Recognition of contributions receivable	-	(10,000)
Recognition of contributed rental property	-	(275,000)
Depreciation and amortization	93,153	84,675
(Gain) loss on disposal of fixed assets	(38,030)	-
Change in market value of property held for sale	10,000	-
Changes in operating assets and liabilities:		
Cash and cash equivalents held overseas	59,209	(220,618)
Prepaid expenses and other assets	85,691	(122,055)
Accounts payable	(29,060)	66,581
Accrued expenses	10,566	(2,351)
Deferred revenue	(57,701)	93,592
Net Cash Provided (Used) by Operating Activities	(84,926)	83,927
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	68,744	-
Purchases of fixed assets	(31,905)	(399,166)
Net Cash Provided (Used) by Investing Activities	36,839	(399,166)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collection of contributions receivable	10,000	50,000
Proceeds from new borrowings on line of credit	37,596	284,151
Principal payments on notes payable	(104,404)	(42,004)
Principal payments on capital lease obligation	-	(5,797)
Net Cash Provided (Used) by Financing Activities	(56,808)	286,350
Change in Cash and Cash Equivalents in U.S.	(104,895)	(28,889)
Cash and Cash Equivalents in U.S.—Beginning of Year	309,041	337,930
Cash and Cash Equivalents in U.S.—End of Year	\$ 204,146	\$ 309,041
Supplemental Disclosure:		
Interest paid (none capitalized)	\$ 9,638	\$ 9,088

See notes to combined financial statements

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2008 and 2007

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. CHC currently serves orphans in Russia and Swaziland and will be launching programs in Ethiopia and Uganda in 2009.

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.

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 combined financial statements in accordance with accounting principles generally accepted in the United States of America. 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.

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2008 and 2007

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.

FIXED ASSETS—NET

Fixed assets are stated at cost, or if donated, at the estimated fair market value at the date of donation. Items donated with restrictions regarding its use and contributions of cash to acquire fixed assets are reported as restricted support. Absent any donor stipulations, these restrictions expire when the asset is acquired or placed in service, and a reclassification is made from temporarily restricted net assets to unrestricted net assets at that time. Depreciation is recorded using the straight-line method over estimated useful lives of 3-30 years. Fixed assets purchased or donated in the U.S. and overseas exceeding \$1,000 are capitalized.

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 by class of net assets:

Unrestricted amounts are those currently available for use in 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.

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 combined statements of activities as net assets released. Contributions received after year-end that were postmarked by December 31, 2008, 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.

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2008 and 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE, continued

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

CONTRIBUTED FACILITIES AND SERVICES

CHC recognizes 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 professional services. For the years ended December 31, 2008 and 2007, contributed services from a related party totaled \$30,000 and \$15,000, respectively. CHC also recognizes contributed facilities that would need to be purchased if not provided by contribution. Contributed facilities for the same periods totaled \$203,270 and \$204,431, respectively.

FOREIGN OPERATIONS

In connection with its ministry, CHC maintains fields outside the U.S. As of December 31, 2008 and 2007, assets maintained by FN, which consist of cash and fixed assets netted with related liabilities, totaled \$1,205,352 and \$1,209,536, respectively. Total support and revenue received from FN totaled \$133,820 and \$133,661 for the years ended December 31, 2008 and 2007, respectively.

FUNCTIONAL ALLOCATION OF EXPENSES

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

3. PROPERTY HELD FOR SALE:

During the year ended December 31, 2007, CHC was donated a duplex. The property was valued at fair market value, based on a recent appraisal. The property generated rental income of \$16,208 and \$14,300 for the years ended December 31, 2008 and 2007, respectively, which is reflected in the combined statements of activities in other income. CHC is not depreciating this asset as it is being held for sale. CHC also has two lease agreements that expire in May of 2009 and January of 2010, and expect to collect approximately \$14,000 during 2009 related to these lease agreements.

Effective January 1, 2008, the CHC and FN adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 has been applied prospectively from January 1, 2008. SFAS No. 157, Fair Value Measurements, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2008 and 2007

3. PROPERTY HELD FOR SALE, continued:

This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. CHC and FN uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, CHC and FN measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Property held for sale is reported initially at the purchase price and then is adjusted to fair value based on comparable data of similar properties and appraisals, which are Level 2 inputs established under SFAS 157. Level 3 inputs are used only when Level 1 inputs are not available. CHC and FN did not have any investments valued with Level 3 inputs as of or for the year ended December 31, 2008.

4. FIXED ASSETS—NET:

Fixed assets-net consist of:

	December 31, 2008		
	United	Other	Total
	States	Countries	
Buildings and improvements	\$ -	\$ 1,051,046	\$ 1,051,046
Leasehold improvements	23,090	-	23,090
Computer equipment and website development	106,311	12,449	118,760
Vehicles	-	33,172	33,172
Furniture and equipment	31,335	50,842	82,177
	160,736	1,147,509	1,308,245
Accumulated depreciation and amortization	(116,092)	(183,375)	(299,467)
Fixed assets—net	<u>\$ 44,644</u>	<u>\$ 964,134</u>	<u>\$ 1,008,778</u>

	December 31, 2007		
	United	Other	Total
	States	Countries	
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	<u>\$ 88,134</u>	<u>\$ 1,012,606</u>	<u>\$ 1,100,740</u>

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2008 and 2007

4. FIXED ASSETS—NET, continued:

Equity in fixed assets consists of the following:

	December 31,	
	2008	2007
Fixed assets—net	\$ 1,008,778	\$ 1,100,740
Note payable	-	(104,404)
Equity in fixed assets	<u>\$ 1,008,778</u>	<u>\$ 996,336</u>

Management has reviewed the assets in other countries and, in its opinion, determined they are under the control and ownership of CHC or meet the requirements for combination as set forth by the American Institute of Certified Public Accountants Statement of Position (SOP) 94-3, Reporting of Related Entities by Not-for-Profit Organizations. While such items are recognized as assets of CHC, it should be noted that the political situation in many other countries is subject to rapid change. Therefore, the reader should be aware that while CHC believes the assets are properly stated at the date of this report, subsequent changes could occur that would adversely affect the realizable value of the assets in other countries. In addition, it should be understood the carrying value of the assets in other countries may not be representative of the amount that could be realized should the assets be sold.

5. LINE OF CREDIT:

CHC has a line of credit (LOC) with a financial institution. This is a \$206,250 LOC that matures on April 11, 2009, with an annual renewal option. This LOC has an adjustable rate (tied to prime) with a rate of 5.0% at December 31, 2008. As of December 31, 2008 and 2007, CHC has an outstanding balance of \$206,250 and \$168,654, respectively. This LOC is secured by real property. CHC is currently in the process of renewing the LOC or considering other available financing options.

6. 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 during the year ended December 31, 2008.

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2008 and 2007

7. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	December 31,	
	2008	2007
Purpose restrictions:		
Program support	\$ 286,815	\$ 350,742
Sponsorship	66,397	34,240
Staff support	-	6,538
	<u>353,212</u>	<u>391,520</u>
Time restrictions:		
Contributions receivable	-	10,000
	<u>-</u>	<u>10,000</u>
	<u>\$ 353,212</u>	<u>\$ 401,520</u>

8. 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 2008 and 2007, CHC matched employee contributions 100% up to 3% of the employee's gross salary and 50% on the next 2% of the employee's gross salary. During the years ended December 31, 2008 and 2007, CHC made employer contributions of \$10,182 and \$16,382, respectively.

9. 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, 2008 and 2007, was \$73,934 and \$43,464, respectively. Future minimum payments are as follows:

<u>Year Ending December 31,</u>	
2009	\$ 22,473
2010	3,640
2011	2,963
2012	233
	<u>233</u>
	<u>\$ 29,309</u>

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2008 and 2007

10. TRANSACTIONS WITH RELATED PARTIES:

During the year ended December 31, 2008, CHC entered into an agreement with the President and Chief Operating Officer to market and sell coffee. CHC received \$1.50 for every pound sold and recognized gross receipts of \$6,371 for the year ended December 31, 2008, which is reflected in the combined statement of activities. The revenue generated has potential unrelated business income taxes associated with it. CHC has not determined the unrelated business income tax implications for the year ended December 31, 2008, since any potential tax liability is considered immaterial to the combined financial statements. CHC also recognized contributed services that require specialized skills from a related party, for the years ended December 31, 2008 and 2007, as previously described in Note 2.