



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

COMBINED FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2009 and 2008

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, 2009 and 2008, 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, 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Colorado Springs, Colorado
May 3, 2010

CHILDREN'S HOPECHEST, INC.

Combined Statements of Financial Position

	December 31,	
	2009	2008
ASSETS:		
Cash and cash equivalents in U.S.	\$ 395,424	\$ 204,146
Cash and cash equivalents held overseas	220,390	241,218
Prepaid expenses and other assets	14,244	57,927
Property held for sale	265,000	265,000
Fixed assets—net	938,496	1,008,778
 Total Assets	 \$ 1,833,554	 \$ 1,777,069
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 29,927	\$ 71,508
Accrued expenses	4,157	11,304
Deferred revenue	40,296	90,086
Line of credit	-	206,250
Note payable	204,073	-
 Total liabilities	 278,453	 379,148
 Net assets:		
Unrestricted:		
Operating	51,314	35,931
Equity in fixed assets	938,496	1,008,778
	989,810	1,044,709
 Temporarily restricted	 565,291	 353,212
 Total net assets	 1,555,101	 1,397,921
 Total Liabilities and Net Assets	 \$ 1,833,554	 \$ 1,777,069

See notes to combined financial statements

CHILDREN'S HOPECHEST, INC.

Combined Statements of Activities

	Year Ended December 31,					
	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions:						
General and grants	\$ 542,203	\$ 1,792,693	\$ 2,334,896	\$ 1,003,040	\$ 1,403,776	\$ 2,406,816
Contributed facilities and services	166,045	-	166,045	233,270	-	233,270
In-kind gifts	243,220	-	243,220	1,250	-	1,250
	951,468	1,792,693	2,744,161	1,237,560	1,403,776	2,641,336
Trip income	598,726	-	598,726	711,665	-	711,665
Other income	18,188	-	18,188	45,781	-	45,781
	1,568,382	1,792,693	3,361,075	1,995,006	1,403,776	3,398,782
NET ASSETS RELEASED:						
Purpose restrictions	1,580,614	(1,580,614)	-	1,442,084	(1,442,084)	-
Time restrictions	-	-	-	10,000	(10,000)	-
	-	-	-	10,000	(10,000)	-
EXPENSES:						
Program services	2,554,871	-	2,554,871	2,898,143	-	2,898,143
Supporting activities:						
General and administrative	417,587	-	417,587	447,575	-	447,575
Fundraising	231,437	-	231,437	271,818	-	271,818
	649,024	-	649,024	719,393	-	719,393
Total expenses	3,203,895	-	3,203,895	3,617,536	-	3,617,536
Change in Net Assets	(54,899)	212,079	157,180	(170,446)	(48,308)	(218,754)
Net Assets, Beginning of Year	1,044,709	353,212	1,397,921	1,215,155	401,520	1,616,675
Net Assets, End of Year	\$ 989,810	\$ 565,291	\$ 1,555,101	\$ 1,044,709	\$ 353,212	\$ 1,397,921

See notes to combined financial statements

CHILDREN'S HOPECHEST, INC.

Combined Statements of Cash Flows

	Year Ended December 31,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 157,180	\$ (218,754)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	76,714	93,153
(Gain) loss on disposal of fixed assets	832	(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	20,828	59,209
Prepaid expenses and other assets	43,683	85,691
Accounts payable	(41,581)	(29,060)
Accrued expenses	(7,147)	10,566
Deferred revenue	(49,790)	(57,701)
Net Cash Provided (Used) by Operating Activities	200,719	(84,926)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	-	68,744
Purchases of fixed assets	(7,264)	(31,905)
Net Cash Provided (Used) by Investing Activities	(7,264)	36,839
CASH FLOWS FROM FINANCING ACTIVITIES:		
Collection of contributions receivable	-	10,000
Proceeds from new borrowings on line of credit	-	37,596
Principal payments on note payable	(2,177)	(104,404)
Net Cash Used by Financing Activities	(2,177)	(56,808)
Change in Cash and Cash Equivalents in U.S.	191,278	(104,895)
Cash and Cash Equivalents in U.S., Beginning of Year	204,146	309,041
Cash and Cash Equivalents in U.S., End of Year	\$ 395,424	\$ 204,146
Supplemental Disclosure:		
Interest paid (none capitalized)	\$ 12,729	\$ 9,638
Line of credit converted into a note payable	\$ 206,250	\$ -

See notes to combined financial statements

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2009 and 2008

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 resounds to God's desire to create a world where every orphan and vulnerable child 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 or local community and also with programs designed for older orphans and vulnerable children to successfully transition into contributing members of their society. CHC currently serves orphans in Russia, Swaziland, Ethiopia and Uganda and will be launching programs in South Africa, India, Guatemala, and Haiti in 2010.

HopeChest humanitarian aid, educational assistance, nutritional 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 and vulnerable children.

Orphan and vulnerable children often have a difficult time transitioning into high functioning young adults. Providing foster care and transitional homes are healthy mediums to continue to support the children and assist in the development of healthy life skills.

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, 2009 and 2008

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, 2009, 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.

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2009 and 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 in the amount of \$30,000 for the year ended December 31, 2008. CHC also recognizes contributed facilities that would need to be purchased if not provided by contribution. Contributed facilities for the years ended December 31, 2009 and 2008 totaled \$166,045 and \$203,270, respectively.

FOREIGN OPERATIONS

In connection with its ministry, CHC maintains fields outside the U.S. As of December 31, 2009 and 2008, assets maintained by FN, which consist of cash and fixed assets netted with related liabilities, totaled \$1,143,245 and \$1,205,352, respectively. Total support and revenue received from FN totaled \$139,250 and \$133,820 for the years ended December 31, 2009 and 2008, 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.

RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 2009, CHC adopted the new provisions of the Income Tax topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). These provisions clarify the accounting for uncertainty in tax positions and prescribe guidance related to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The tax benefit from an uncertain tax position is only recognized in the statement of financial position if the tax position is more likely than not to be sustained upon an examination, based on the technical merits of the position. Interest and penalties, if any, are included in expenses in the statement of activities. As of December 31, 2009, CHC had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

3. PROPERTY HELD FOR SALE:

During the year ended December 31, 2007, CHC was donated a duplex. The property is valued at lower of cost or fair market value. The property generated rental income of \$17,257 and \$16,208 for the years ended December 31, 2009 and 2008, 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.

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2009 and 2008

4. FIXED ASSETS–NET:

Fixed assets–net consist of:

	December 31, 2009		
	United States	Other Countries	Total
Buildings and improvements	\$ -	\$ 1,051,046	\$ 1,051,046
Leasehold improvements	23,090	-	23,090
Computer equipment and website development	106,058	12,449	118,507
Vehicles	-	33,172	33,172
Furniture and equipment	31,335	55,864	87,199
	160,483	1,152,531	1,313,014
Accumulated depreciation and amortization	(144,842)	(229,676)	(374,518)
Fixed assets–net	\$ 15,641	\$ 922,855	\$ 938,496

	December 31, 2008		
	United States	Other Countries	Total
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	\$ 44,644	\$ 964,134	\$ 1,008,778

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, 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.

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2009 and 2008

5. LINE OF CREDIT:

CHC had a line of credit (LOC) with a financial institution. This was a \$206,250 LOC that was converted into a term debt agreement during the year ended December 31, 2009.

6. NOTE PAYABLE:

In 2009, CHC converted the LOC into a \$206,250 note payable, monthly principal and interest payments of \$1,405, fixed interest rate of 6.5%, with a lump sum payment due at maturity on April 11, 2012, secured by real property. As of December 31, 2009, CHC has an outstanding balance of \$204,073.

Future minimum payments are:

<u>Year Ending December 31,</u>	
2010	\$ 3,715
2011	3,963
2012	<u>196,395</u>
	<u>\$ 204,073</u>

7. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Purpose restrictions:		
Program support	\$ 435,730	\$ 286,815
Sponsorship	126,906	66,397
Staff support	<u>2,655</u>	<u>-</u>
	<u>\$ 565,291</u>	<u>\$ 353,212</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 2009 and 2008, 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, 2009 and 2008, CHC made employer contributions of \$8,250 and \$10,182, respectively.

CHILDREN'S HOPECHEST, INC.

Notes to Combined Financial Statements

December 31, 2009 and 2008

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, 2009 and 2008, was \$47,168 and \$73,934, respectively. Future minimum payments are:

<u>Year Ending December 31,</u>	
2010	\$ 21,973
2011	2,963
2012	<u>233</u>
	<u>\$ 25,169</u>

10. TRANSACTIONS WITH RELATED PARTIES:

During the year ended December 31, 2008, CHC entered into a verbal agreement with a company owned by the President and Chief Operating Officer to market and sell coffee. The Company donated to CHC \$1.50 for every pound sold and recognized gross receipts of \$8,046 and \$6,371 for the years ended December 31, 2009 and 2008, respectively, which is reflected in the combined statement of activities. CHC has determined the contributions given have no potential unrelated business income taxes associated with them for the years ended December 31, 2009 and 2008. CHC also recognized contributed services that require specialized skills from a related party, for the years ended December 31, 2008 as previously described in Note 2.

11. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. No subsequent events or disclosures were identified. Subsequent events after that date have not been evaluated.