



**CHILDREN'S HOPECHEST, INC.
AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report**

December 31, 2011 and 2010

**CHILDREN'S HOPECHEST, INC.
AND AFFILIATES**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Children's HopeChest, Inc. and Affiliates as of December 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Children's HopeChest, Inc. and Affiliates as of December 31, 2011 and 2010, 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
March 30, 2012

**CHILDREN'S HOPECHEST, INC.
AND AFFILIATES**

Consolidated Statements of Financial Position

	December 31,	
	2011	2010
ASSETS:		
Cash and cash equivalents in U.S.	\$ 529,136	\$ 421,413
Cash and cash equivalents held overseas	206,529	240,253
Restricted cash	24,528	47,584
Prepaid expenses and other assets	17,706	28,637
Property held as an investment	215,000	215,000
Fixed assets—net	<u>1,179,344</u>	<u>1,010,246</u>
Total Assets	<u><u>\$ 2,172,243</u></u>	<u><u>\$ 1,963,133</u></u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 46,183	\$ 28,635
Deferred revenue	48,711	64,245
Notes payable	<u>266,950</u>	<u>200,887</u>
	<u><u>361,844</u></u>	<u><u>293,767</u></u>
Net assets:		
Unrestricted:		
Operating	(115,305)	60,053
Equity in fixed assets	<u>1,109,062</u>	<u>1,010,246</u>
	<u><u>993,757</u></u>	<u><u>1,070,299</u></u>
Temporarily restricted	<u>816,642</u>	<u>599,067</u>
	<u><u>1,810,399</u></u>	<u><u>1,669,366</u></u>
Total Liabilities and Net Assets	<u><u>\$ 2,172,243</u></u>	<u><u>\$ 1,963,133</u></u>

See notes to consolidated financial statements

**CHILDREN'S HOPECHEST, INC.
AND AFFILIATES**

Consolidated Statements of Activities

	Year Ended December 31,					
	2011			2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING:						
Support and Revenue:						
Contributions:						
General and grants	\$ 1,256,203	\$ 2,933,734	\$ 4,189,937	\$ 688,466	\$ 2,615,362	\$ 3,303,828
Contributed facilities and services	114,000	-	114,000	176,830	-	176,830
In-kind gifts	245,640	-	245,640	318,640	-	318,640
	1,615,843	2,933,734	4,549,577	1,183,936	2,615,362	3,799,298
Trip income	910,051	-	910,051	782,039	-	782,039
Other income	34,827	-	34,827	12,087	-	12,087
Total Support and Revenue	2,560,721	2,933,734	5,494,455	1,978,062	2,615,362	4,593,424
Net Assets Released:						
Purpose restrictions	2,716,159	(2,716,159)	-	2,581,586	(2,581,586)	-
Expenses:						
Program services	4,446,197	-	4,446,197	3,799,232	-	3,799,232
Supporting activities:						
General and administrative	403,107	-	403,107	359,064	-	359,064
Fundraising	504,118	-	504,118	270,863	-	270,863
	907,225	-	907,225	629,927	-	629,927
Total Expenses	5,353,422	-	5,353,422	4,429,159	-	4,429,159
Change in Net Assets From Operations	(76,542)	217,575	141,033	130,489	33,776	164,265
NON-OPERATING:						
Unrealized loss on property held as an investment	-	-	-	(50,000)	-	(50,000)
Change in Net Assets	(76,542)	217,575	141,033	80,489	33,776	114,265
Net Assets, Beginning of Year	1,070,299	599,067	1,669,366	989,810	565,291	1,555,101
Net Assets, End of Year	\$ 993,757	\$ 816,642	\$ 1,810,399	\$ 1,070,299	\$ 599,067	\$ 1,669,366

See notes to consolidated financial statements

**CHILDREN'S HOPECHEST, INC.
AND AFFILIATES**

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 141,033	\$ 114,265
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	105,153	68,944
(Gain) loss on disposal of fixed assets	(13,138)	233
Unrealized loss on property held as an investment	-	50,000
Changes in operating assets and liabilities:		
Cash and cash equivalents held overseas	33,724	(19,863)
Prepaid expenses and other assets	10,931	(14,393)
Accounts payable and accrued expenses	17,548	(5,449)
Deferred revenue	(15,534)	23,949
Net Cash Provided by Operating Activities	<u>279,717</u>	<u>217,686</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	50,542	575
Purchases of fixed assets	(41,655)	(141,502)
Net Cash Used by Investing Activities	<u>8,887</u>	<u>(140,927)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(203,937)	(3,186)
Net Cash Provided (Used) by Financing Activities	<u>(203,937)</u>	<u>(3,186)</u>
Change in Cash and Cash Equivalents in U.S.	84,667	73,573
Cash and Cash Equivalents in U.S. and Restricted Cash, Beginning of Year	<u>468,997</u>	<u>395,424</u>
Cash and Cash Equivalents in U.S. and Restricted Cash, End of Year	<u>\$ 553,664</u>	<u>\$ 468,997</u>
Supplemental Disclosures:		
Interest paid (none capitalized)	\$ 14,709	\$ 13,335
Purchases of fixed assets through proceeds from notes payable	<u>\$ 270,000</u>	<u>\$ -</u>
Property held for sale reclassified to held as an investment	<u>\$ -</u>	<u>\$ 265,000</u>

See notes to consolidated financial statements

CHILDREN'S HOPECHEST, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

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 is an organized entity in Russia, Children's HopeChest Ethiopia is an organized entity in Ethiopia, Children's HopeChest Uganda is an organized entity in Uganda, and Children's HopeChest Guatemala is an organized entity in Guatemala. These entities (collectively, foreign affiliates) fall under the nonprofit umbrella of CHC because all the profits earned are reinvested in the foreign affiliates 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 vulnerable children in Russia, Swaziland, Ethiopia, Uganda, South Africa, India, Guatemala, and Haiti.

HopeChest humanitarian aid, educational assistance, nutritional assistance, spiritual encouragement, emotional guidance, medical and dental care, Young Mothers programs, 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 CONSOLIDATION

Due to the board of directors composition and influence of control by CHC, foreign affiliates are considered to be controlled affiliates of CHC. The consolidated financial statements include the consolidated financial sources and activities of CHC and foreign affiliates. The financial sources and activities related to foreign affiliates have been identified in Footnote 2. All significant intercompany balances and transactions have been eliminated.

CHILDREN'S HOPECHEST, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CHC and foreign affiliates use estimates and assumptions in preparing consolidated 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 consolidated financial statements. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

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.

RESTRICTED CASH

Restricted cash consists of a grant received from an organization and is restricted for the use of expenses for South Africa. The organization specified the amounts needed to be held in a separate bank account and is included in temporarily restricted net assets at December 31, 2011 and 2010.

FAIR VALUE MEASUREMENTS

The Fair Value Measurement Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. CHC uses appropriate valuation techniques based on the variable inputs to measure fair value. For the property held for investment, CHC used comparative values for similar properties, which is Level 3 on the Fair Value Measurement Topic of the FASB ASC. For the year ended December 31, 2011, there was no change in value on the property held for investment. The total unrealized loss, included in the consolidated statements of activities, for the year ended December 31, 2010, was \$50,000.

FIXED ASSETS

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.

CHILDREN'S HOPECHEST, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS

The consolidated financial statements report amounts by class of net assets:

Unrestricted net assets are those currently available for use in operations and those resources invested in fixed assets.

Temporarily restricted net assets are comprised of donor-restricted contributions for the support of various projects conducted by CHC.

UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the consolidated statements of activities. As of December 31, 2011, CHC had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

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 consolidated statements of activities as net assets released. 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 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 \$0 and \$6,830 for the years ended December 31, 2011 and 2010, respectively. CHC also recognizes contributed facilities that would need to be purchased if not provided by contribution. Contributed facilities for the years ended December 31, 2011 and 2010, totaled \$114,000 and \$170,000, respectively.

**CHILDREN'S HOPECHEST, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

FOREIGN OPERATIONS

In connection with its ministry, CHC maintains fields outside the U.S. As of December 31, 2011 and 2010, assets maintained by foreign affiliates, which consist of cash and fixed assets netted with related liabilities, totaled \$1,203,776 and \$1,125,977, respectively. Total support and revenue received from foreign affiliates totaled \$136,543 and \$116,140 for the years ended December 31, 2011 and 2010, respectively.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting activities have been summarized on a functional basis in the consolidated 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 AS AN INVESTMENT:

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 \$19,842 and \$9,732 for the years ended December 31, 2011 and 2010, respectively, which is reflected in other income in the consolidated statements of activities.

4. FIXED ASSETS–NET:

Fixed assets–net consist of:

	December 31, 2011		
	United States	Other Countries	Total
Buildings and improvements	\$ -	\$ 1,244,656	\$ 1,244,656
Computer equipment and website development	243,025	12,449	255,474
Furniture and equipment	27,167	54,864	82,031
Vehicles	31,153	9,080	40,233
	301,345	1,321,049	1,622,394
Accumulated depreciation and amortization	(164,086)	(278,964)	(443,050)
	<u>\$ 137,259</u>	<u>\$ 1,042,085</u>	<u>\$ 1,179,344</u>

**CHILDREN'S HOPECHEST, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

4. FIXED ASSETS–NET, continued:

	December 31, 2010		
	United States	Other Countries	Total
Buildings and improvements	\$ -	\$ 1,051,046	\$ 1,051,046
Computer equipment and website development	229,734	12,449	242,183
Furniture and equipment	37,755	55,864	93,619
Vehicles	-	42,252	42,252
	<u>267,489</u>	<u>1,161,611</u>	<u>1,429,100</u>
Accumulated depreciation and amortization	(142,967)	(275,887)	(418,854)
	<u>\$ 124,522</u>	<u>\$ 885,724</u>	<u>\$ 1,010,246</u>

Equity in fixed assets consists of:

	December 31,	
	2011	2010
Fixed assets–net	\$ 1,179,344	\$ 1,010,246
Less related notes payable	(70,282)	-
	<u>\$ 1,109,062</u>	<u>\$ 1,010,246</u>

Depreciation expense was \$59,775 and \$59,036, for the years ended December 31, 2011 and 2010, respectively. For the years ended December 31, 2011 and 2010, amortization expense, related to website development, was \$45,378 and \$9,908, respectively.

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 consolidation 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.
AND AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

5. NOTES PAYABLE:

Notes payable consist of:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
A note payable, with monthly principal and interest payments of \$1,405, a fixed interest rate of 6.5%, a lump sum payment due at maturity of April 11, 2012, and secured by property held as an investment.	\$ 196,668	\$ 200,887
A note payable for a foreign affiliate for assets acquired, with an original principal balance of \$240,000, un-secured, non-interest bearing, and is to be paid off during the year ending December 31, 2012. Interest was not imputed due to immateriality.	44,838	-
A note payable with a financial institution, with monthly principal and interest payments of \$692, a fixed interest rate of 5%, has a maturity date of April 19, 2015, and is secured by assets specifically identified by the financial institution.	25,444	-
	<u>\$ 266,950</u>	<u>\$ 200,887</u>

Future minimum payments are:

<u>Year Ending December 31,</u>	
2012	\$ 248,703
2013	7,565
2014	7,962
2015	2,720
	<u>\$ 266,950</u>

CHC was in compliance with all financial and reporting covenants at December 31, 2011.

**CHILDREN'S HOPECHEST, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Sponsorship	\$ 571,402	\$ 175,337
Program support	<u>245,240</u>	<u>423,730</u>
	<u><u>\$ 816,642</u></u>	<u><u>\$ 599,067</u></u>

7. 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 2011 and 2010, 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, 2011 and 2010, CHC made employer contributions of \$25,736 and \$21,012, respectively.

8. 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, 2011 and 2010, was \$61,115 and \$51,764, respectively. Future minimum payments are:

<u>Year Ending December 31,</u>	
2012	\$ 60,240
2013	41,840
2014	5,040
2015	5,040
2016	<u>2,550</u>
	<u><u>\$ 114,710</u></u>

9. 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 \$4,097 and \$4,178 for the years ended December 31, 2011 and 2010, respectively, which is reflected in the consolidated statements of activities. CHC has determined the contributions given have no potential unrelated business income taxes associated with them for the years ended December 31, 2011 and 2010. CHC also entered into a lease agreement during the year ended December 31, 2010 to rent office space from a board member. During the years ended December 31, 2011 and 2010, CHC incurred \$56,176 and \$18,400, respectively, in rent expense under this lease.

**CHILDREN'S HOPECHEST, INC.
AND AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2011 and 2010

10. OPERATING AND NON-OPERATING ACTIVITIES:

The activity of CHC has been reported in the consolidated statements of activities in the following two categories: operating and non-operating. Operating includes the core activities of the organization. Non-operating includes all other activities that are not recurring and normally carried on in the course of CHC's operations, consisting of the unrealized loss on property held as an investment during the year ended December 31, 2010. There was no non-operating activity during the year ended December 31, 2011.

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.