



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

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2012 and 2011

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

Table of Contents

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | 1 |
| Financial Statements | |
| Consolidated Statements of Financial Position | 3 |
| Consolidated Statements of Activities | 4 |
| Consolidated Statements of Cash Flows | 5 |
| Notes to Consolidated Financial Statements | 6 |

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Children's HopeChest, Inc. and its Affiliates, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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 its Affiliates as of December 31, 2012 and 2011, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Colorado Springs, Colorado
April 19, 2013

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

Consolidated Statements of Financial Position

| | December 31, | |
|---|---------------------|---------------------|
| | 2012 | 2011 |
| ASSETS: | | |
| Cash and cash equivalents in U.S. | \$ 685,329 | \$ 529,136 |
| Cash and cash equivalents held overseas | 354,189 | 206,529 |
| Restricted cash | 293 | 24,528 |
| Prepaid expenses and other assets | 157,009 | 17,706 |
| Property held as an investment | 215,000 | 215,000 |
| Fixed assets–net | 1,038,974 | 1,179,344 |
| Total Assets | \$ 2,450,794 | \$ 2,172,243 |
| LIABILITIES AND NET ASSETS: | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 58,945 | \$ 46,183 |
| Deferred revenue | 57,557 | 48,711 |
| Notes payable | 213,844 | 266,950 |
| | 330,346 | 361,844 |
| Net assets: | | |
| Unrestricted: | | |
| Operating | 739 | (115,305) |
| Equity in fixed assets | 1,020,736 | 1,109,062 |
| | 1,021,475 | 993,757 |
| Temporarily restricted | 1,098,973 | 816,642 |
| | 2,120,448 | 1,810,399 |
| Total Liabilities and Net Assets | \$ 2,450,794 | \$ 2,172,243 |

See notes to consolidated financial statements

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

Consolidated Statements of Activities

| | Year Ended December 31, | | | | | |
|---|----------------------------|----------------------------|----------------------------|--------------------------|---------------------------|----------------------------|
| | 2012 | | | 2011 | | |
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| OPERATING: | | | | | | |
| Support and Revenue: | | | | | | |
| Contributions: | | | | | | |
| General and grants | \$ 1,388,607 | \$ 1,886,700 | \$ 3,275,307 | \$ 1,256,203 | \$ 1,941,369 | \$ 3,197,572 |
| Sponsorships | - | 2,536,562 | 2,536,562 | - | 1,902,416 | 1,902,416 |
| Contributed facilities and services | - | - | - | 114,000 | - | 114,000 |
| In-kind gifts | 219,000 | - | 219,000 | 245,640 | - | 245,640 |
| Other income | 38,089 | - | 38,089 | 21,689 | - | 21,689 |
| Total Support and Revenue | 1,645,696 | 4,423,262 | 6,068,958 | 1,637,532 | 3,843,785 | 5,481,317 |
| Net Assets Released: | | | | | | |
| Purpose restrictions | 3,335,594 | (3,335,594) | - | 2,988,506 | (2,988,506) | - |
| Administrative assessment | 805,337 | (805,337) | - | 637,704 | (637,704) | - |
| | <u>4,140,931</u> | <u>(4,140,931)</u> | <u>-</u> | <u>3,626,210</u> | <u>(3,626,210)</u> | <u>-</u> |
| Expenses: | | | | | | |
| Program services | 4,972,201 | - | 4,972,201 | 4,446,197 | - | 4,446,197 |
| Supporting activities: | | | | | | |
| General and administrative | 384,525 | - | 384,525 | 403,107 | - | 403,107 |
| Fundraising | 474,805 | - | 474,805 | 504,118 | - | 504,118 |
| | <u>859,330</u> | <u>-</u> | <u>859,330</u> | <u>907,225</u> | <u>-</u> | <u>907,225</u> |
| Total Expenses | 5,831,531 | - | 5,831,531 | 5,353,422 | - | 5,353,422 |
| Change in Net Assets From Operations | (44,904) | 282,331 | 237,427 | (89,680) | 217,575 | 127,895 |
| NON-OPERATING: | | | | | | |
| Gain on disposal of fixed assets | 72,622 | - | 72,622 | 13,138 | - | 13,138 |
| Change in Net Assets | 27,718 | 282,331 | 310,049 | (76,542) | 217,575 | 141,033 |
| Net Assets, Beginning of Year | 993,757 | 816,642 | 1,810,399 | 1,070,299 | 599,067 | 1,669,366 |
| Net Assets, End of Year | <u>\$ 1,021,475</u> | <u>\$ 1,098,973</u> | <u>\$ 2,120,448</u> | <u>\$ 993,757</u> | <u>\$ 816,642</u> | <u>\$ 1,810,399</u> |

See notes to consolidated financial statements

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

Consolidated Statements of Cash Flows

| | Year Ended December 31, | |
|--|-------------------------|------------|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 310,049 | \$ 141,033 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation and amortization | 121,804 | 105,153 |
| Gain on disposal of fixed assets | (72,622) | (13,138) |
| Changes in operating assets and liabilities: | | |
| Cash and cash equivalents held overseas | (147,660) | 33,724 |
| Prepaid expenses and other assets | (139,303) | 10,931 |
| Accounts payable and accrued expenses | 12,762 | 17,548 |
| Deferred revenue | 8,846 | (15,534) |
| Net Cash Provided by Operating Activities | 93,876 | 279,717 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of fixed assets | 154,451 | 50,542 |
| Purchases of fixed assets | (63,263) | (41,655) |
| Net Cash Provided by Investing Activities | 91,188 | 8,887 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on notes payable | (53,106) | (203,937) |
| Net Cash Used by Financing Activities | (53,106) | (203,937) |
| Change in Cash and Cash Equivalents in U.S. and Restricted Cash, Beginning of Year | 131,958 | 84,667 |
| Cash and Cash Equivalents in U.S. and Restricted Cash, Beginning of Year | 553,664 | 468,997 |
| Cash and Cash Equivalents in U.S. and Restricted Cash, End of Year | \$ 685,622 | \$ 553,664 |
| Supplemental Disclosures: | | |
| Interest paid (none capitalized) | \$ 13,026 | \$ 14,709 |
| Purchases of fixed assets through proceeds from notes payable | \$ - | \$ 270,000 |

See notes to consolidated financial statements

CHILDREN'S HOPECHEST, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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 helps highly vulnerable children overcome abandonment, poverty, and violence. CHC partners with churches, businesses and Christian communities. These sponsoring communities are providing help, training, and discipleship to vulnerable children. CHC has active partnerships in Russia, Swaziland, South Africa, Ethiopia, Uganda, Haiti, Guatemala, Moldova, India, and the United States.

Funding for these partnerships comes, in part, from a monthly child sponsorship program. Individual child sponsors provide a \$34/month donation, write letters, and pray for their sponsored child. This funding provides for direct survival needs such as food, water, clothing and basic medical care. It also helps fund educational support, voluntary Christian discipleship, and emotional guidance.

CHC also provides both capital project development and ongoing program support to help children develop opportunity, life skills, and independent adult life. Those programs include:

- **Transitional Living & Life Skills Programs:** Family Centers & Independent Living Programs (Russia), the Youth Development Project (Ethiopia), Restoration Home for Trafficking Victims, (Moldova) and the Joel Home (U.S.)
- **Community Programs:** Ministry Centers (Russia), Young Mothers Program (Russia).
- **Education:** Swaziland Leadership Academy (Swaziland), and Good Samaritan School (India)

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, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CHC maintains its accounts and prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of any contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. Actual results could differ from the estimates. The significant accounting policies followed are described below to enhance the usefulness of the 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, 2012 and 2011.

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 years ended December 31, 2012 and 2011, there was no change in value on the property held for investment.

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.

CHILDREN'S HOPECHEST, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 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, 2012, CHC had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

CHC's federal Return of Organization Exempt from Income Tax Form 990 for the years ended December 31, 2011, 2010, and 2009 are subject to examination by the IRS, generally for three years after they were filed.

SUPPORT AND REVENUE

Contributions are recorded when made, which may be when cash and other assets are received or unconditionally promised. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated amounts. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. All contributions are considered available for unrestricted use unless specifically restricted by the donor. 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.
AND AFFILIATES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011, assets maintained by foreign affiliates, which consist of cash and fixed assets netted with related liabilities, totaled \$1,289,708 and \$1,203,776, respectively. Total support and revenue received from foreign affiliates totaled \$130,325 and \$136,543 for the years ended December 31, 2012 and 2011, 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.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with current year presentation.

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 \$18,313 and \$19,842 for the years ended December 31, 2012 and 2011, respectively, which is reflected in other income in the consolidated statements of activities.

4. FIXED ASSETS—NET:

Fixed assets—net consist of:

| | December 31, 2012 | | |
|--|-------------------|--------------------|--------------|
| | United States | Other Countries | Total |
| Buildings and improvements | \$ - | \$ 1,142,805 | \$ 1,142,805 |
| Computer equipment and website development | 279,298 | 28,449 | 307,747 |
| Furniture and equipment | 28,309 | 54,864 | 83,173 |
| Vehicles | 31,154 | 14,957 | 46,111 |
| | 338,761 | 1,241,075 | 1,579,836 |
| Accumulated depreciation and amortization | (235,306) | (305,556) | (540,862) |
| | \$ 103,455 | \$ 935,519 | \$ 1,038,974 |

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

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

4. FIXED ASSETS–NET, continued:

| | 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) |
| | \$ 137,259 | \$ 1,042,085 | \$ 1,179,344 |

Equity in fixed assets consists of:

| | December 31, | |
|----------------------------|--------------|--------------|
| | 2012 | 2011 |
| Fixed assets–net | \$ 1,038,974 | \$ 1,179,344 |
| Less related notes payable | (18,238) | (70,282) |
| | \$ 1,020,736 | \$ 1,109,062 |

Depreciation expense was \$70,634 and \$59,775, for the years ended December 31, 2012 and 2011, respectively. For the years ended December 31, 2012 and 2011, amortization expense, related to website development, was \$51,170 and \$45,378, 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, 2012 and 2011

5. NOTES PAYABLE:

Notes payable consist of:

| | December 31, | |
|--|--------------|------------|
| | 2012 | 2011 |
| A note payable, with monthly principal and interest payments of \$2,439, a fixed interest rate of 5.25%, a lump sum payment due at maturity on June 10, 2017, and secured by property held as an investment. | \$ 195,606 | \$ 196,668 |
| A note payable for a foreign affiliate for assets acquired, with an original principal balance of \$240,000, un-secured, non-interest bearing, and was 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. | 18,238 | 25,444 |
| | \$ 213,844 | \$ 266,950 |

Future minimum payments are:

| Year Ending December 31, | |
|--------------------------|------------|
| 2013 | \$ 10,144 |
| 2014 | 10,363 |
| 2015 | 10,594 |
| 2016 | 5,013 |
| 2017 | 177,730 |
| | \$ 213,844 |

CHC was in compliance with all financial and reporting covenants at December 31, 2012.

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

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

| | December 31, | |
|-----------------|--------------|------------|
| | 2012 | 2011 |
| Sponsorship | \$ 978,160 | \$ 571,402 |
| Program support | 120,813 | 245,240 |
| | \$ 1,098,973 | \$ 816,642 |

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 2012 and 2011, 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, 2012 and 2011, CHC made employer contributions of \$28,501 and \$25,736, 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, 2012 and 2011, was \$69,995 and \$61,115, respectively. Future minimum payments are:

| Year Ending December 31, | |
|--------------------------|------------|
| 2013 | \$ 80,310 |
| 2014 | 81,480 |
| 2015 | 81,480 |
| 2016 | 78,990 |
| 2017 | 50,960 |
| | \$ 373,220 |

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

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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 former chief operating officer to market and sell coffee. The company donated to CHC \$1.50 for every pound sold and recognized gross receipts of \$0 and \$4,097 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011. 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, 2012 and 2011, CHC incurred \$57,600 and \$56,176, respectively, in rent expense under this lease.

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 gains related to the sale of fixed assets during the years ended December 31, 2012 and 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.