



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

CONSOLIDATED FINANCIAL STATEMENTS  
With Independent Auditors' Report

December 31, 2014 and 2013

**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 Affiliates, which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, 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 Affiliates as of December 31, 2014 and 2013, 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  
June 9, 2015

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

**Consolidated Statements of Financial Position**

	December 31,	
	2014	2013
<b>ASSETS:</b>		
Cash and cash equivalents in U.S.	\$ 731,158	\$ 679,728
Cash and cash equivalents held overseas	464,624	311,153
Investments	28,294	77,418
Prepaid expenses and other assets	18,478	7,057
Property held as an investment	215,000	215,000
Fixed assets–net	1,028,210	1,001,610
 Total Assets	 \$ 2,485,764	 \$ 2,291,966
 <b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 19,886	\$ 100,566
Deferred revenue	43,633	46,678
Notes payable	187,894	202,365
	251,413	349,609
 Net assets:		
Unrestricted:		
Operating	(331,183)	(265,065)
Equity in fixed assets	1,028,210	990,923
	697,027	725,858
Temporarily restricted	1,537,324	1,216,499
	2,234,351	1,942,357
 Total Liabilities and Net Assets	 \$ 2,485,764	 \$ 2,291,966

See notes to consolidated financial statements

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

**Consolidated Statements of Activities**

	Year Ended December 31,					
	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>OPERATING:</b>						
Support and Revenue:						
Contributions:						
General and grants	\$ 605,533	\$ 2,747,819	\$ 3,353,352	\$ 159,419	\$ 3,637,188	\$ 3,796,607
Sponsorships	-	3,197,668	3,197,668	-	2,981,644	2,981,644
In-kind gifts	-	-	-	130,000	-	130,000
Other income	41,253	-	41,253	22,558	-	22,558
<b>Total Support and Revenue</b>	<b>646,786</b>	<b>5,945,487</b>	<b>6,592,273</b>	<b>311,977</b>	<b>6,618,832</b>	<b>6,930,809</b>
Net Assets Released:						
Purpose restrictions	4,675,770	(4,675,770)	-	5,336,980	(5,336,980)	-
Administrative assessment	948,892	(948,892)	-	1,164,326	(1,164,326)	-
	<b>5,624,662</b>	<b>(5,624,662)</b>	<b>-</b>	<b>6,501,306</b>	<b>(6,501,306)</b>	<b>-</b>
Expenses:						
Program services	5,145,816	-	5,145,816	5,729,372	-	5,729,372
Supporting activities:						
General and administrative	552,409	-	552,409	612,327	-	612,327
Fundraising	613,652	-	613,652	585,542	-	585,542
	<b>1,166,061</b>	<b>-</b>	<b>1,166,061</b>	<b>1,197,869</b>	<b>-</b>	<b>1,197,869</b>
<b>Total Expenses</b>	<b>6,311,877</b>	<b>-</b>	<b>6,311,877</b>	<b>6,927,241</b>	<b>-</b>	<b>6,927,241</b>
<b>Change in Net Assets From Operations</b>	<b>(40,429)</b>	<b>320,825</b>	<b>280,396</b>	<b>(113,958)</b>	<b>117,526</b>	<b>3,568</b>
<b>NON-OPERATING:</b>						
Loss on disposal of fixed assets	(4,659)	-	(4,659)	(2,622)	-	(2,622)
Gain (loss) on investments	16,257	-	16,257	(179,037)	-	(179,037)
	<b>11,598</b>	<b>-</b>	<b>11,598</b>	<b>(181,659)</b>	<b>-</b>	<b>(181,659)</b>
<b>Change in Net Assets</b>	<b>(28,831)</b>	<b>320,825</b>	<b>291,994</b>	<b>(295,617)</b>	<b>117,526</b>	<b>(178,091)</b>
<b>Net Assets, Beginning of Year</b>	<b>725,858</b>	<b>1,216,499</b>	<b>1,942,357</b>	<b>1,021,475</b>	<b>1,098,973</b>	<b>2,120,448</b>
<b>Net Assets, End of Year</b>	<b>\$ 697,027</b>	<b>\$ 1,537,324</b>	<b>\$ 2,234,351</b>	<b>\$ 725,858</b>	<b>\$ 1,216,499</b>	<b>\$ 1,942,357</b>

See notes to consolidated financial statements

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

**Consolidated Statements of Cash Flows**

	Year Ended December 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 291,994	\$ (178,091)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	105,431	125,653
Donated stock	-	(222,204)
Net realized and unrealized losses on investments	(16,257)	179,037
(Gain) loss on disposal of fixed assets	4,659	2,622
Changes in operating assets and liabilities:		
Cash and cash equivalents held overseas	(153,471)	43,036
Prepaid expenses and other assets	(11,421)	149,952
Accounts payable and accrued expenses	(80,680)	41,621
Deferred revenue	(3,045)	(10,879)
Net Cash Provided by Operating Activities	137,210	130,747
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	65,381	749
Proceeds from sale of fixed assets	17,151	-
Purchases of fixed assets	(164,528)	(90,911)
Net Cash Used by Investing Activities	(81,996)	(90,162)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on notes payable	(3,784)	(11,479)
Net Cash Used by Financing Activities	(3,784)	(11,479)
Change in Cash and Cash Equivalents in U.S.,	51,430	29,106
Cash and Cash Equivalents in U.S., Beginning of Year	679,728	650,622
Cash and Cash Equivalents in U.S., End of Year	\$ 731,158	\$ 679,728
<b>Supplemental Disclosures:</b>		
Interest paid (none capitalized)	\$ 10,170	\$ 11,464
Elimination of debt and fixed asset	\$ 10,687	\$ -

See notes to consolidated financial statements

# CHILDREN'S HOPECHEST, INC. AND AFFILIATES

## Notes to Consolidated Financial Statements

December 31, 2014 and 2013

### 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 \$38/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, 2014 and 2013

### 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 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.

#### 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. CHC's investments consist of shares of common stock consumer goods. The investments are reported at fair value based on quoted prices in active markets for identical assets, which is Level 1 of the fair value hierarchy. For the property held for investment, CHC used comparative values for similar properties, which is Level 3 of the fair value hierarchy. For the years ended December 31, 2014 and 2013, 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.

#### 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, 2014 and 2013

### 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, 2014, 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, 2013, 2012, and 2011 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 statements of activities as net assets released from restrictions. All contributions are considered available for unrestricted use unless specifically restricted by the donor.

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

#### FOREIGN OPERATIONS

In connection with its ministry, CHC maintains fields outside the U.S. As of December 31, 2014 and 2013, assets maintained by foreign affiliates, which consist of cash and fixed assets netted with related liabilities, totaled \$1,329,534 and \$1,206,651, respectively. Total support and revenue received from foreign affiliates totaled \$149,930 and \$146,503 for the years ended December 31, 2014 and 2013, respectively.

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

**Notes to Consolidated Financial Statements**

December 31, 2014 and 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

**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 \$16,713 and \$13,855 for the years ended December 31, 2014 and 2013, respectively, which is reflected in other income in the consolidated statements of activities.

4. FIXED ASSETS–NET:

Fixed assets–net consist of:

	December 31, 2014		
	United States	Other Countries	Total
Buildings and improvements	\$ -	\$ 1,111,452	\$ 1,111,452
Computer equipment and website development	337,943	28,449	366,392
Furniture and equipment	20,593	46,980	67,573
Vehicles	-	66,916	66,916
	358,536	1,253,797	1,612,333
Accumulated depreciation and amortization	(296,136)	(388,887)	(685,023)
	62,400	864,910	927,310
Software in process	100,900	-	100,900
	\$ 163,300	\$ 864,910	\$ 1,028,210

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

**Notes to Consolidated Financial Statements**

December 31, 2014 and 2013

4. FIXED ASSETS–NET, continued:

	December 31, 2013		
	United States	Other Countries	Total
Buildings and improvements	\$ -	\$ 1,142,050	\$ 1,142,050
Computer equipment and website development	320,369	28,449	348,818
Furniture and equipment	31,154	54,864	86,018
Vehicles	20,593	21,916	42,509
	372,116	1,247,279	1,619,395
Accumulated depreciation and amortization	(266,004)	(351,781)	(617,785)
	\$ 106,112	\$ 895,498	\$ 1,001,610

Equity in fixed assets consists of:

	December 31,	
	2014	2013
Fixed assets–net	\$ 1,028,210	\$ 1,001,610
Less related notes payable	-	(10,687)
	\$ 1,028,210	\$ 990,923

Depreciation expense was \$63,359 and \$61,117, for the years ended December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, amortization expense, related to website development, was \$42,072 and \$64,536, 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, 2014 and 2013

5. NOTES PAYABLE:

Notes payable consist of:

	December 31,	
	2014	2013
A note payable, with monthly principal and interest payments of \$1,187, a fixed interest rate of 5.25%, a lump sum payment due at maturity on June 11, 2022, and secured by property held as an investment.	\$ 187,894	\$ 191,678
A note payable with a financial institution that was secured by assets specifically identified by the financial institution. This note was transferred to a former employee during the year ended December 31, 2014.	-	10,687
	\$ 187,894	\$ 202,365

Future minimum payments are:

<u>Year Ending December 31,</u>	
2015	\$ 4,514
2016	4,757
2017	5,013
2018	5,282
2019	5,567
Thereafter	162,761
	\$ 187,894

CHC was in compliance with all financial and reporting covenants at December 31, 2014 and 2013.

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

**Notes to Consolidated Financial Statements**

December 31, 2014 and 2013

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	December 31,	
	2014	2013
Sponsorship	\$ 1,316,246	\$ 1,037,100
Program support	221,078	179,399
	\$ 1,537,324	\$ 1,216,499

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 2014 and 2013, 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, 2014 and 2013, CHC made employer contributions of \$28,022 and \$32,252, 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, 2014 and 2013, was \$81,480 and \$80,310, respectively. Future minimum payments are:

<u>Year Ending December 31,</u>	
2015	\$ 81,480
2016	78,990
2017	50,960
	\$ 211,430

9. TRANSACTIONS WITH RELATED PARTIES:

CHC 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, 2014 and 2013, CHC incurred \$76,440 and \$75,270, respectively, in rent expense under this lease.

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

**Notes to Consolidated Financial Statements**

December 31, 2014 and 2013

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 and losses related to fixed assets and investments during the years ended December 31, 2014 and 2013.

11. SUBSEQUENT EVENTS:

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