



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

CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2015 and 2014

**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 financial statements of Children's HopeChest, Inc. and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, 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, 2015 and 2014, 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.

Prior Period Adjustment

As described in Note 12 to the financial statements, Children's HopeChest identified adjustments pertaining to amounts previously reported as temporarily restricted net assets. Accordingly, the 2014 financial statements now presented have been restated and opening net asset classifications as of January 1, 2014 have been adjusted to correct these errors. Our opinion is not modified with respect to that matter.

Capin Crouse LLP

Colorado Springs, Colorado
June 17, 2016

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

Consolidated Statements of Financial Position

	December 31,	
	2015	2014, restated
ASSETS:		
Cash and cash equivalents in U.S.	\$ 928,215	\$ 731,158
Cash and cash equivalents held overseas	308,447	464,624
Investments	7,598	28,294
Prepaid expenses and other assets	17,947	18,478
Property held as an investment	-	215,000
Fixed assets–net	872,589	1,028,210
 Total Assets	 \$ 2,134,796	 \$ 2,485,764
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 72,295	\$ 19,886
Deferred revenue	56,329	43,633
Note payable	-	187,894
	128,624	251,413
 Net assets:		
Unrestricted:		
Operating	(39,407)	15,179
Equity in fixed assets	872,589	1,028,210
	833,182	1,043,389
Temporarily restricted	1,172,990	1,190,962
	2,006,172	2,234,351
 Total Liabilities and Net Assets	 \$ 2,134,796	 \$ 2,485,764

See notes to consolidated financial statements

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

Consolidated Statements of Activities

	Year Ended December 31,					
	2015			2014, restated		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING:						
Support and Revenue:						
Contributions:						
General and grants	\$ 1,378,545	\$ -	\$ 1,378,545	\$ 1,555,273	\$ -	\$ 1,555,273
Projects	1,553,652	-	1,553,652	1,674,559	123,520	1,798,079
Sponsorships	3,917,081	7,470	3,924,551	3,184,579	13,089	3,197,668
Other income	15,564	-	15,564	41,253	-	41,253
Total Support and Revenue	6,864,842	7,470	6,872,312	6,455,664	136,609	6,592,273
Net Assets Released:						
Purpose restrictions	25,442	(25,442)	-	-	-	-
	25,442	(25,442)	-	-	-	-
Expenses:						
Program services	5,825,122	-	5,825,122	5,145,816	-	5,145,816
Supporting activities:						
General and administrative	616,567	-	616,567	552,409	-	552,409
Fundraising	691,204	-	691,204	613,652	-	613,652
	1,307,771	-	1,307,771	1,166,061	-	1,166,061
Total Expenses	7,132,893	-	7,132,893	6,311,877	-	6,311,877
Change in Net Assets From Operations	(242,609)	(17,972)	(260,581)	143,787	136,609	280,396
NON-OPERATING:						
Gain (loss) on disposal of property	62,892	-	62,892	(4,659)	-	(4,659)
Foreign currency translation and other non-operating income	(19,336)	-	(19,336)	-	-	-
Gain (loss) on investments	(11,154)	-	(11,154)	16,257	-	16,257
	32,402	-	32,402	11,598	-	11,598
Change in Net Assets	(210,207)	(17,972)	(228,179)	155,385	136,609	291,994
Net Assets, Beginning of Year (as previously reported)	1,043,389	1,190,962	2,234,351	725,858	1,216,499	1,942,357
Prior period adjustment	-	-	-	162,146	(162,146)	-
Net Assets, Beginning of Year, as restated	1,043,389	1,190,962	2,234,351	888,004	1,054,353	1,942,357
Net Assets, End of Year	\$ 833,182	\$ 1,172,990	\$ 2,006,172	\$ 1,043,389	\$ 1,190,962	\$ 2,234,351

See notes to consolidated financial statements

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

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (228,179)	\$ 291,994
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	90,146	105,431
Net realized and unrealized losses (gains) on investments	11,154	(16,257)
Gain on sale of property held for investment	(62,892)	-
Loss on disposal of fixed assets	-	4,659
Loss on foreign currency translation adjustment	186,807	-
Changes in operating assets and liabilities:		
Cash and cash equivalents held overseas	156,177	(153,471)
Prepaid expenses and other assets	531	(11,421)
Accounts payable and accrued expenses	52,409	(80,680)
Deferred revenue	12,696	(3,045)
Net Cash Provided by Operating Activities	218,849	137,210
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	9,542	65,381
Proceeds from sale of property held for investment	267,205	-
Proceeds from sale of fixed assets	-	17,151
Purchases of fixed assets	(121,332)	(164,528)
Net Cash Provided (Used) by Investing Activities	155,415	(81,996)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable	(177,207)	(3,784)
Net Cash Used by Financing Activities	(177,207)	(3,784)
Change in Cash and Cash Equivalents in U.S.,	197,057	51,430
Cash and Cash Equivalents in U.S., Beginning of Year	731,158	679,728
Cash and Cash Equivalents in U.S., End of Year	\$ 928,215	\$ 731,158
Supplemental Disclosures:		
Interest paid (none capitalized)	\$ 5,449	\$ 10,170
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, 2015 and 2014

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, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CHC maintains its accounts and prepares its consolidated financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of consolidated 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 in 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. The property was sold during the fiscal year ended December 31, 2015.

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, 2015 and 2014

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, 2015, CHC had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

CHC is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2012.

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. If a restriction is satisfied in the same time period in which the contribution is received, CHC reports the support as unrestricted. All contributions are considered available for unrestricted use unless specifically restricted by the donor. CHC reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. CHC takes an assessment of 20% on all donor restricted income except for donations related to mission trips, where a \$225 per traveler assessment is taken.

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, 2015 and 2014

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, 2015 and 2014, assets maintained by foreign affiliates, which consist of cash and fixed assets netted with related liabilities, totaled \$941,480 and \$1,329,534, respectively. Total support and revenue received from foreign affiliates totaled \$41,947 and \$149,930 for the years ended December 31, 2015 and 2014, 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 \$11,076 and \$16,713 for the years ended December 31, 2015 and 2014, respectively, which is reflected in other income in the consolidated statements of activities. This property was sold during the year ended December 31, 2015.

4. FIXED ASSETS—NET:

Fixed assets—net consist of:

	December 31, 2015		
	United States	Other Countries	Total
Buildings and improvements	\$ -	\$ 857,625	\$ 857,625
Computer equipment and website development	349,276	21,952	371,228
Furniture and equipment	20,593	36,251	56,844
Vehicles	-	66,916	66,916
	369,869	982,744	1,352,613
Accumulated depreciation and amortization	(338,397)	(352,527)	(690,924)
	31,472	630,217	661,689
Software in process	210,900	-	210,900
	\$ 242,372	\$ 630,217	\$ 872,589

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

4. FIXED ASSETS–NET, continued:

	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

Depreciation expense was \$56,311 and \$63,359, for the years ended December 31, 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, amortization expense, related to website development, was \$33,835 and \$42,072, respectively.

During the year ended December 31, 2015, a foreign currency translation adjustment was recorded for Russian fixed assets in order to properly show the value of the assets on the consolidated financial statements in the reporting currency. A total adjustment of \$271,054 was recorded to decrease the value of the fixed assets, which was partially offset by a decrease in accumulated depreciation of \$84,247. The net impact on fixed assets was therefore \$186,607.

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, 2015 and 2014

5. NOTE PAYABLE:

Note payable consists of:

	December 31,	
	2015	2014
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. This was paid off during the year ended December 31, 2015.	\$ -	\$ 187,894

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	December 31,	
	2015	2014, restated
Program support	\$ 1,005,809	\$ 1,031,251
Sponsorship	167,181	159,711
	\$ 1,172,990	\$ 1,190,962

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 2015 and 2014, 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, 2015 and 2014, CHC made employer contributions of \$35,008 and \$28,022, respectively.

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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, 2015 and 2014, was \$80,580 and \$81,480, respectively. Future minimum payments are:

<u>Year Ending December 31,</u>	
2016	\$ 79,870
2017	<u>51,840</u>
	<u><u>\$ 131,710</u></u>

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, 2015 and 2014, CHC incurred \$76,440 for both years, 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 and losses related to property held for investment, exchange rates, and investments during the years ended December 31, 2015 and 2014.

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. Subsequent events after that date have not been evaluated.

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

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

12. PRIOR PERIOD ADJUSTMENT:

During the year ended December 31, 2015, management determined that certain amounts previously reported as temporarily restricted net assets should have been classified as unrestricted net assets. As a result, the 2014 financial statements have been restated to properly reflect these amounts. The impact of this restatement on the financial statements is as follows:

	<u>As Previously Stated</u>	<u>Prior Period Adjustment</u>	<u>As Restated</u>
Unrestricted net assets as of January 1, 2014	\$ 725,858	\$ 162,146	\$ 888,004
Temporarily restricted net assets as of January 1, 2014	\$ 1,216,499	\$ (162,146)	\$ 1,054,353
Unrestricted net assets as of December 31, 2014	\$ 697,027	\$ 346,362	\$ 1,043,389
Temporarily restricted net assets as of December 31, 2014	\$ 1,537,324	\$ (346,362)	\$ 1,190,962
Change in unrestricted net assets for the year ended December 31, 2014	\$ (28,831)	\$ 184,216	\$ 155,385
Change in temporarily restricted net assets for the year ended December 31, 2014	\$ 320,825	\$ (184,216)	\$ 136,609