



CONSOLIDATED FINANCIAL STATEMENTS
With Independent Auditors' Report

December 31, 2010 and 2009

CHILDREN'S HOPECHEST, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Children's HopeChest, Inc.
Colorado Springs, Colorado

We have audited the accompanying consolidated statements of financial position of Children's HopeChest, Inc. and Fund Nadezhda as of December 31, 2010 and 2009, 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 Fund Nadezhda as of December 31, 2010 and 2009, 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
April 8, 2011

CHILDREN'S HOPECHEST, INC.

Consolidated Statements of Financial Position

	December 31,	
	2010	2009
ASSETS:		
Cash and cash equivalents in U.S.	\$ 421,413	\$ 395,424
Cash and cash equivalents held overseas	240,253	220,390
Restricted cash	47,584	-
Prepaid expenses and other assets	28,637	14,244
Property held for sale	-	265,000
Property held as an investment	215,000	-
Fixed assets-net	1,010,246	938,496
Total Assets	\$ 1,963,133	\$ 1,833,554
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 27,036	\$ 29,927
Accrued expenses	1,599	4,157
Deferred revenue	64,245	40,296
Note payable	200,887	204,073
Total liabilities	293,767	278,453
Net assets:		
Unrestricted:		
Operating	60,053	51,314
Equity in fixed assets	1,010,246	938,496
	1,070,299	989,810
Temporarily restricted	599,067	565,291
Total net assets	1,669,366	1,555,101
Total Liabilities and Net Assets	\$ 1,963,133	\$ 1,833,554

See notes to consolidated financial statements

CHILDREN'S HOPECHEST, INC.

Consolidated Statements of Activities

	Year Ended December 31,					
	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING:						
SUPPORT AND REVENUE:						
Contributions:						
General and grants	\$ 688,466	\$ 2,615,362	\$ 3,303,828	\$ 542,203	\$ 1,792,693	\$ 2,334,896
Contributed facilities and services	176,830	-	176,830	166,045	-	166,045
In-kind gifts	318,640	-	318,640	243,220	-	243,220
	1,183,936	2,615,362	3,799,298	951,468	1,792,693	2,744,161
Trip income	782,039	-	782,039	598,726	-	598,726
Other income	12,087	-	12,087	18,188	-	18,188
	1,978,062	2,615,362	4,593,424	1,568,382	1,792,693	3,361,075
NET ASSETS RELEASED:						
Purpose restrictions	2,581,586	(2,581,586)	-	1,580,614	(1,580,614)	-
EXPENSES:						
Program services	3,799,232	-	3,799,232	2,554,871	-	2,554,871
Supporting activities:						
General and administrative	359,064	-	359,064	417,587	-	417,587
Fundraising	270,863	-	270,863	231,437	-	231,437
	629,927	-	629,927	649,024	-	649,024
Total expenses	4,429,159	-	4,429,159	3,203,895	-	3,203,895
Change in Net Assets From Operations	130,489	33,776	164,265	(54,899)	212,079	157,180
NON-OPERATING:						
Unrealized loss on property held as an investment	(50,000)	-	(50,000)	-	-	-
Change in Net Assets	80,489	33,776	114,265	(54,899)	212,079	157,180
Net Assets, Beginning of Year	989,810	565,291	1,555,101	1,044,709	353,212	1,397,921
Net Assets, End of Year	\$ 1,070,299	\$ 599,067	\$ 1,669,366	\$ 989,810	\$ 565,291	\$ 1,555,101

See notes to consolidated financial statements

CHILDREN'S HOPECHEST, INC.

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 114,265	\$ 157,180
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	68,944	76,714
Loss on disposal of fixed assets	233	832
Unrealized loss on property held as an investment	50,000	-
Changes in operating assets and liabilities:		
Cash and cash equivalents held overseas	(19,863)	20,828
Prepaid expenses and other assets	(14,393)	43,683
Accounts payable	(2,891)	(41,581)
Accrued expenses	(2,558)	(7,147)
Deferred revenue	23,949	(49,790)
Net Cash Provided by Operating Activities	217,686	200,719
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of fixed assets	575	-
Purchases of fixed assets	(141,502)	(7,264)
Net Cash Used by Investing Activities	(140,927)	(7,264)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on note payable	(3,186)	(2,177)
Net Cash Used by Financing Activities	(3,186)	(2,177)
Change in Cash and Cash Equivalents in U.S.	73,573	191,278
Cash and Cash Equivalents in U.S., Beginning of Year	395,424	204,146
Cash and Cash Equivalents in U.S., End of Year	\$ 468,997	\$ 395,424
Supplemental Disclosure:		
Interest paid (none capitalized)	\$ 13,335	\$ 12,729
Line of credit converted into a note payable	\$ -	\$ 206,250
Property held for sale reclassified to held as an investment	\$ 265,000	\$ -

See notes to consolidated financial statements

CHILDREN'S HOPECHEST, INC.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

1. NATURE OF ORGANIZATIONS:

Children's HopeChest, Inc. (CHC) is a nonprofit organization, exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is not a private foundation under Section 509(a) of the Code.

Fund Nadezhda (FN), is an organized entity in Russia. FN falls under the nonprofit umbrella of CHC because all the profits earned are reinvested in the entity or returned to CHC to support it's nonprofit purpose.

CHC resounds to God's desire to create a world where every orphan and vulnerable child knows Him, experiences the blessing of family, and acquires the skills necessary for independent life. This is carried out by serving orphans while in their institution or local community and also with programs designed for older orphans and vulnerable children to successfully transition into contributing members of their society. CHC currently serves orphans in Russia, Swaziland, Ethiopia, 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, FN is considered a controlled affiliate of CHC. The consolidated financial statements include the consolidated financial sources and activities of CHC and FN. The financial sources and activities related to FN have been identified in Footnote 2. All significant intercompany balances and transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CHC and FN use estimates and assumptions in preparing 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.

CHILDREN'S HOPECHEST, INC.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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, 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. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lower priority. 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. All investments held by CHC are recorded as Level 3 fair value measurement based on the Fair Value Measurement Topic of the FASB ASC. The total unrealized loss included in the consolidated statement of activities for the year ended December 31, 2010, was \$50,000.

FIXED ASSETS—NET

Fixed assets are stated at cost, or if donated, at the estimated fair market value at the date of donation. Items donated with restrictions regarding its use and contributions of cash to acquire fixed assets are reported as restricted support. Absent any donor stipulations, these restrictions expire when the asset is acquired or placed in service, and a reclassification is made from temporarily restricted net assets to unrestricted net assets at that time. Depreciation is recorded using the straight-line method over estimated useful lives of 3-30 years. Fixed assets purchased or donated in the U.S. and overseas exceeding \$1,000 are capitalized.

DEFERRED REVENUE

Deferred revenue consists of trip payments made to CHC for future trips. Revenue will be recognized when the trip occurs.

CLASSES OF NET ASSETS

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

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

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

CHILDREN'S HOPECHEST, INC.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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 statement of activities. As of December 31, 2010, 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. Contributions received after year-end that were postmarked by December 31, 2010, were recorded as contributions and cash rather than contributions receivable. Trip income is recorded as income when the trip occurs. Sales income is recorded when the products are shipped to the customers. Other income is recorded when earned.

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

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 \$6,830 for the year ended December 31, 2010. CHC also recognizes contributed facilities that would need to be purchased if not provided by contribution. Contributed facilities for the years ended December 31, 2010 and 2009 totaled \$170,000 and \$166,045, respectively.

FOREIGN OPERATIONS

In connection with its ministry, CHC maintains fields outside the U.S. As of December 31, 2010 and 2009, assets maintained by FN, which consist of cash and fixed assets netted with related liabilities, totaled \$1,125,977 and \$1,143,245, respectively. Total support and revenue received from FN totaled \$116,140 and \$139,250 for the years ended December 31, 2010 and 2009, 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.

CHILDREN'S HOPECHEST, INC.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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 \$9,732 and \$17,257 for the years ended December 31, 2010 and 2009, respectively, which is reflected in the consolidated statements of activities in other income.

The asset was reclassified in the year ended December 31, 2010, as the asset is not currently listed on the market, and is now reflected as property held as an investment on the consolidated statements of financial position.

4. FIXED ASSETS—NET:

Fixed assets—net consist of:

	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
Vehicles	-	42,252	42,252
Furniture and equipment	37,755	55,864	93,619
	<u>267,489</u>	<u>1,161,611</u>	<u>1,429,100</u>
Accumulated depreciation and amortization	(142,967)	(275,887)	(418,854)
Fixed assets—net	<u>\$ 124,522</u>	<u>\$ 885,724</u>	<u>\$ 1,010,246</u>
	December 31, 2009		
	United States	Other Countries	Total
Buildings and improvements	\$ -	\$ 1,051,046	\$ 1,051,046
Leasehold improvements	23,090	-	23,090
Computer equipment and website development	106,058	12,449	118,507
Vehicles	-	33,172	33,172
Furniture and equipment	31,335	55,864	87,199
	<u>160,483</u>	<u>1,152,531</u>	<u>1,313,014</u>
Accumulated depreciation and amortization	(144,842)	(229,676)	(374,518)
Fixed assets—net	<u>\$ 15,641</u>	<u>\$ 922,855</u>	<u>\$ 938,496</u>

CHILDREN'S HOPECHEST, INC.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

4. FIXED ASSETS–NET, continued:

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.

5. NOTE PAYABLE:

In 2009, CHC converted the LOC into a \$206,250 note payable, monthly principal and interest payments of \$1,405, fixed interest rate of 6.5%, with a lump sum payment due at maturity on April 11, 2012, secured by real property. As of December 31, 2010 and 2009, CHC had an outstanding balance of \$200,887 and \$204,073, respectively.

Future minimum payments are:

<u>Year Ending December 31,</u>	
2011	\$ 3,963
2012	<u>196,924</u>
	<u>\$ 200,887</u>

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Purpose restrictions:		
Program support	\$ 423,730	\$ 435,730
Sponsorship	175,337	126,906
Staff support	-	<u>2,655</u>
	<u>\$ 599,067</u>	<u>\$ 565,291</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 2010 and 2009, 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, 2010 and 2009, CHC made employer contributions of \$21,012 and \$8,250, respectively.

CHILDREN'S HOPECHEST, INC.

Notes to Consolidated Financial Statements

December 31, 2010 and 2009

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, 2010 and 2009, was \$51,764 and \$47,168, respectively. Future minimum payments are:

<u>Year Ending December 31,</u>	
2011	\$ 58,163
2012	55,433
2013	<u>36,800</u>
	<u>\$ 150,396</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 \$4,178 and \$8,046 for the years ended December 31, 2010 and 2009, 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, 2010 and 2009. CHC also entered into a lease agreement during the year ended December 31, 2010 to rent office space from a board member. During the year ended December 31, 2010 CHC incurred \$18,400 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 unrealized loss on property held as an investment during the year ended December 31, 2010.

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.