



CHILDREN'S HOPECHEST, INC.
AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors' Report

September 30, 2017

**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 statement of financial position as of September 30, 2017, and the related consolidated statement of activities and cash flows for the nine-month period 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 audit. We conducted our audit 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 September 30, 2017, and the changes in their net assets and cash flows for the nine-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Colorado Springs, Colorado
April 3, 2018

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

Consolidated Statement of Financial Position

September 30, 2017

ASSETS:

Cash and cash equivalents in U.S.	\$ 463,666
Cash and cash equivalents held overseas	336,163
Prepaid expenses and other assets	55,923
Fixed assets—net	<u>797,042</u>

Total Assets \$ 1,652,794

LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable and accrued expenses	<u>\$ 126,347</u>
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Net assets:

Unrestricted:

Operating	(706,883)
Equity in fixed assets	<u>797,042</u>
	90,159

Temporarily restricted	<u>1,436,288</u>
	<u>1,526,447</u>

Total Liabilities and Net Assets \$ 1,652,794

See notes to consolidated financial statements

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

Consolidated Statement of Activities

Nine-Month Period Ended September 30, 2017

	Unrestricted	Temporarily Restricted	Total
OPERATING:			
Support and Revenue:			
Contributions:			
General and grants	\$ 850,825	\$ -	\$ 850,825
Projects	748,512	-	748,512
Sponsorships	2,879,650	608,417	3,488,067
Other income	7,373	-	7,373
 Total Support and Revenue	 4,486,360	 608,417	 5,094,777
 Net Assets Released:			
Purpose restrictions	295,681	(295,681)	-
Sponsorship restrictions	333,362	(333,362)	-
	629,043	(629,043)	-
 Expenses:			
Program services	4,849,740	-	4,849,740
 Supporting activities:			
General and administrative	814,282	-	814,282
Fundraising	245,919	-	245,919
	1,060,201	-	1,060,201
 Total Expenses	 5,909,941	 -	 5,909,941
 Change in Net Assets From Operations	 (794,538)	 (20,626)	 (815,164)
 NON-OPERATING:			
Loss on disposal of fixed assets	(20,599)	-	(20,599)
Foreign currency translation	97,117	-	97,117
	76,518	-	76,518
 Change in Net Assets	 (718,020)	 (20,626)	 (738,646)
 Net Assets, Beginning of Period,	 808,179	 1,456,914	 2,265,093
 Net Assets, End of Period	 \$ 90,159	 \$ 1,436,288	 \$ 1,526,447

See notes to consolidated financial statements

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

Consolidated Statement of Cash Flows

Nine-Month Period Ended September 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (738,646)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	117,674
Loss on disposal of fixed assets	20,599
Gain on foreign currency translation adjustment	(37,996)
Changes in operating assets and liabilities:	
Cash and cash equivalents held overseas	211,533
Prepaid expenses and other assets	(18,321)
Accounts payable and accrued expenses	54,767
Net Cash Used by Operating Activities	<u>(390,390)</u>
 Change in Cash and Cash Equivalents in U.S.,	 (390,390)
 Cash and Cash Equivalents in U.S., Beginning of Period	 <u>854,056</u>
 Cash and Cash Equivalents in U.S., End of Period	 <u>\$ 463,666</u>

See notes to consolidated financial statements

CHILDREN'S HOPECHEST, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2017

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 (IRC) and comparable state laws. However, CHC is subject to federal income tax on any unrelated business taxable income. In addition CHC is not a private foundation under Section 509(a) of the IRC.

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, schools, and Christian communities. These sponsoring communities are providing help, training, and discipleship to vulnerable children. CHC has active partnerships in Russia, Swaziland, Ethiopia, Uganda, 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), and Restoration Home for Trafficking Victims, (Moldova)
- **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 note 2. All significant intercompany balances and transactions have been eliminated.

CHILDREN'S HOPECHEST, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2017

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, money market accounts, and cash held on hand. 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.

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. CHC capitalizes fixed asset purchases exceeding \$2,000 and expenses lesser amounts in the year purchased.

LINE OF CREDIT

In March 2017, CHC established a line of credit with a financial institution for \$200,000. The line of credit is renewable annually by the lender and matures on March 27, 2018. Interest was 4.00% as of September 30, 2017. The line of credit is unsecured. As of September 30, 2017, there were no outstanding balances on the line of credit and there were no borrowings during the nine-month period ended September 30, 2017.

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 and sponsorships conducted by CHC.

CHILDREN'S HOPECHEST, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

FOREIGN OPERATIONS

In connection with its ministry, CHC maintains field offices outside the U.S. As of September 30, 2017, assets maintained by foreign affiliates, which consist of cash and cash equivalents and fixed assets netted with related liabilities, totaled \$926,740. Total support and revenue received from foreign affiliates totaled \$15,930 for the nine-month period ended September 30, 2017.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting activities have been summarized on a functional basis in the consolidated statement 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.
AND AFFILIATES**

Notes to Consolidated Financial Statements

September 30, 2017

3. FIXED ASSETS–NET:

Fixed assets–net consist of:

	September 30, 2017		
	United States	Other Countries	Total
Buildings and improvements	\$ -	\$ 854,040	\$ 854,040
Computer equipment and website development	334,043	25,163	359,206
Furniture and equipment	7,995	36,404	44,399
Software	268,091	-	268,091
Vehicles	-	111,734	111,734
	610,129	1,027,341	1,637,470
Accumulated depreciation and amortization	(403,664)	(436,764)	(840,428)
	\$ 206,465	\$ 590,577	\$ 797,042

During the nine-month period ended September 30, 2017, 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 \$37,996 was recorded to increase the value of the fixed assets, which was partially offset by an increase in accumulated depreciation of \$6,893. The net impact on the fixed assets was therefore \$31,103.

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.

4. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets, as of September 30, 2017, consist of:

Projects	\$ 827,871
Sponsorship	608,417
	\$ 1,436,288

**CHILDREN'S HOPECHEST, INC.
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Notes to Consolidated Financial Statements

September 30, 2017

5. RETIREMENT PLAN:

CHC sponsors a 401(k) retirement plan and makes contributions into the individual retirement plan on behalf of eligible U.S. employees. During the nine-month period ended September 30, 2017, 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 nine-month period ended September 30, 2017, CHC made employer contributions of \$52,775.

6. COMMITMENTS:

CHC entered into various lease agreements for office space and office equipment. Rent and lease expense on these leases for the nine-month period ended September 30, 2017, was \$63,670. Future minimum payments are:

<u>Nine-Month Period Ending September 30,</u>	
2018	\$ 81,835
2019	82,600
2020	80,645
2021	79,500
2022	79,500
Thereafter	<u>19,875</u>
	<u><u>\$ 423,955</u></u>

7. 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 nine-month period ended September 30, 2017, CHC incurred \$60,570 in rent expense under this lease.

8. 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 the sale of property, exchange rates, and investments during the nine-month period ended September 30, 2017.

9. SUBSEQUENT EVENTS:

Subsequent events were evaluated through April 3, 2018, which is the date the financial statement were available to be issued.