



TO: Children's HopeChest Interested Parties

FROM: Ken Sparks, President & CEO

RE: 2018 Financial Statements and Form 990

We are delighted you are seeking to understand more about Children's HopeChest financial position. Integrity, transparency and trust are core values of our non-profit and a significant proportion of those key values are displayed, demonstrated and earned through the responsible stewarding of the resources God provides to the organization.

Please note that prior to 2018, HopeChest consolidated financials of operating entities in Russia, Uganda and Guatemala. Our 2018 financial reports and filings reflect a major effort to streamline and simplify our accounting practices. The HopeChest Board of Directors approved the 2018 deconsolidation of the financial reporting of operations in Russia, Uganda and Guatemala given the independent organizational status of each of these entities. Each of these operations have independent legal status as an entity in their respective countries.

Much of the reported deficits for 2018 are due to the granting of property, cash and other assets to these independent entities in the deconsolidation process. The effect of these actions can best be seen on the 2018 Balance Sheet and did not have a material impact on our ability to operate as an organization or in our vision to bring hope to those who need it most.

We are grateful for the many individuals and organizations who partner with us and put their trust in our ability to carry out our mission of glorifying God by releasing the potential of orphaned and impoverished children and their communities through partnerships that cultivate two-way transformation.

If you have any questions, please feel free to reach out to either myself, or Ana Brown, our Controller.

In His grip,

A handwritten signature in blue ink that reads "Ken Sparks".

Ken Sparks
President & CEO
Children's HopeChest



Financial Statements
With Independent Auditors' Report

September 30, 2018

CHILDREN'S HOPECHEST, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Children's HopeChest, Inc., which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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.
Palmer Lake, Colorado

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's HopeChest, Inc. as of September 30, 2018, and the changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Children's HopeChest, Inc. has adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in note 2. This has had a material effect on the presentation of the September 30, 2018 financial statements. Our opinion is not modified with respect to this matter.

Capin Crouse LLP

Colorado Springs, Colorado
August 13, 2019

CHILDREN'S HOPECHEST, INC.

Statement of Financial Position

September 30, 2018

ASSETS:

Cash and cash equivalents in U.S.	\$ 274,541
Cash and cash equivalents held overseas	179,714
Prepaid expenses and other assets	56,671
Fixed assets—net	<u>123,656</u>

Total Assets \$ 634,582

LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable and accrued expenses	<u>\$ 105,090</u>
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Net assets:

Without donor restrictions:

Operating	(672,972)
Equity in fixed assets	<u>123,656</u>
	<u>(549,316)</u>

With donor restrictions	<u>1,078,808</u>
	<u>529,492</u>

Total Liabilities and Net Assets \$ 634,582

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Statement of Activities

Year Ended September 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING:			
Support and Revenue:			
Contributions:			
General and grants	\$ 1,310,204	\$ -	\$ 1,310,204
Projects	960,674	-	960,674
Sponsorships	4,589,817	378,496	4,968,313
Other income	80,892	-	80,892
	6,941,587	378,496	7,320,083
 Total Support and Revenue	 6,941,587	 378,496	 7,320,083
 Net Assets Released:			
Purpose restrictions	127,559	(127,559)	-
Sponsorship restrictions	608,417	(608,417)	-
	735,976	(735,976)	-
 Expenses:			
Program services	6,603,862	-	6,603,862
 Supporting activities:			
General and administrative	533,037	-	533,037
Fundraising	467,044	-	467,044
	1,000,081	-	1,000,081
 Total Expenses	 7,603,943	 -	 7,603,943
 Change in Net Assets From Operations	 73,620	 (357,480)	 (283,860)
 NON-OPERATING:			
Grant expense for deconsolidation	(810,916)	-	(810,916)
Foreign currency translation	97,821	-	97,821
	(713,095)	-	(713,095)
 Change in Net Assets	 (639,475)	 (357,480)	 (996,955)
 Net Assets, Beginning of Year,	 90,159	 1,436,288	 1,526,447
 Net Assets, End of Year	 \$ (549,316)	 \$ 1,078,808	 \$ 529,492

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Statement of Functional Expenses

Year Ended September 30, 2018

	Program Services	General and Administrative	Fundraising	Total
Operating expenses:				
Grant expense	\$ 2,599,091	\$ -	\$ -	\$ 2,599,091
Salaries and benefits	1,260,947	280,134	360,907	1,901,988
Travel	929,253	17,378	23,170	969,801
Carepoint supplies	613,530	-	-	613,530
Professional fees	504,633	-	-	504,633
Information technology	365,825	18,786	14,247	398,858
Office expenses	81,644	196,479	39,229	317,352
Depreciation and amortization	98,051	907	-	98,958
Occupancy	40,941	19,353	29,491	89,785
Construction labor	68,717	-	-	68,717
Materials and equipment purchases	41,230	-	-	41,230
Total operating expenses	6,603,862	533,037	467,044	7,603,943
Nonoperating expense:				
Grant expense for deconsolidation	810,916	-	-	810,916
	\$ 7,414,778	\$ 533,037	\$ 467,044	\$ 8,414,859

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Statement of Cash Flows

Year Ended September 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (996,955)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Grant expense for deconsolidation	810,916
Depreciation and amortization	98,958
Changes in operating assets and liabilities:	
Cash and cash equivalents held overseas	(80,039)
Prepaid expenses and other assets	(748)
Accounts payable and accrued expenses	(21,257)
Net Cash Used by Operating Activities	<u>(189,125)</u>
 Change in Cash and Cash Equivalents in U.S.,	 (189,125)
 Cash and Cash Equivalents in U.S., Beginning of Year	 <u>463,666</u>
 Cash and Cash Equivalents in U.S., End of Year	 <u><u>\$ 274,541</u></u>

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

September 30, 2018

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.

Children's HopeChest Ethiopia (CHC Ethiopia) is registered to do business in Ethiopia. CHC Ethiopia falls under the nonprofit umbrella and the operations of CHC. As of October 1, 2017, CHC deconsolidated three foreign entities previously consolidated into its financial statements. CHC relinquished control of two of these entities to the local governing boards, and the third entity established its own board that is not controlled by CHC. This resulted in a total grant expense to these entities in the amount of \$810,916 which is reported as an expense on the statement of activities.

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)

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.

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

September 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include checking, savings, money market accounts, and cash held on hand. 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 net assets with donor restrictions to net assets without donor restrictions at that time. Depreciation is recorded using the straight-line method over estimated useful lives of 3-5 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 bank for \$200,000. The line of credit is renewable annually by the lender and matured on March 27, 2019. Interest was 5.25% as of September 30, 2018. The line of credit is unsecured. As of September 30, 2018, there were no outstanding balances on the line of credit and there were no borrowings during the fiscal year ended September 30, 2018. Subsequent to the year ended September 30, 2018, the line of credit was renewed with a maturity date of March 27, 2020.

CLASSES OF NET ASSETS

The financial statements report amounts by class of net assets:

Net assets without donor restrictions are those currently available for use in operations and those resources invested in fixed assets.

Net assets with donor restrictions are comprised of donor-restricted contributions for the support of various projects and sponsorships conducted by CHC.

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

September 30, 2018

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 support with donor restrictions if they are received with donor stipulations that limit the use of the donated amounts. Upon satisfaction of the restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. All contributions are considered to be without donor restrictions unless specifically restricted by the donor or grantor. If a restriction is satisfied in the same time period in which the contribution is received, CHC reports the support as without donor restrictions. CHC reports gifts of property and equipment as support without donor restrictions 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, 2018, assets maintained by CHC Ethiopia, which consist of cash and cash equivalents and fixed assets, totaled \$235,831.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting activities have been summarized on a functional basis in the statement of activities. The financial statements present various categories of expenses that are attributable to more than one program or supporting function. CHC performs its allocation of such expenses based on time and effort expended on behalf of the supported program activities, space occupied or shared services utilized by the supported program activities, and purpose of the expenses.

CHANGE IN ACCOUNTING PRINCIPLE

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. CHC adopted the provisions of this new standard during the year ended September 30, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added including liquidity and the availability of resources (note 3), and disclosures related to the functional allocation of expenses were expanded (note 2, above). Adoption of this standard had no effect on the change in net assets by class of net assets or in total.

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

September 30, 2018

3. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects CHC's financial assets reduced by amounts not available for general use within one year, as of September 30, 2018:

Financial assets:	
Cash and cash equivalents in U.S.	\$ 274,541
Cash and cash equivalents held overseas	179,714
Financial assets, at year-end	<u>454,255</u>
Less those unavailable for general expenditure within one year, due to:	
Donor imposed restricted as to purpose and use	<u>(283,046)</u>
Financial assets available within one year to meet cash needs for general expenditures	<u>\$ 171,209</u>

CHC structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Management monitors cash flows closely through board meetings and detailed financial analysis. As more fully described in note 2, CHC also has a line of credit in the amount of \$200,000, which it could draw upon in the event of an unanticipated liquidity need.

4. FIXED ASSETS–NET:

Fixed assets–net as of September 30, 2018 consist of:

Computer equipment and website development	\$ 334,043
Software	268,091
Foreign vehicles	56,117
Furniture and equipment	7,995
	<u>666,246</u>
Accumulated depreciation and amortization	<u>(542,590)</u>
	<u>\$ 123,656</u>

5. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets, as of September 30, 2018, consist of:

Projects	\$ 700,312
Sponsorship	378,496
	<u>1,078,808</u>

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

September 30, 2018

6. 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 year ended September 30, 2018, 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 year ended September 30, 2018, CHC made employer contributions of \$75,341.

7. COMMITMENTS:

CHC entered into various lease agreements for office space and office equipment. Rent and lease expense on these leases for the year ended September 30, 2018, was \$81,835. Future minimum payments are:

<u>September 30,</u>	
2019	\$ 82,600
2020	80,645
2021	79,500
2022	79,500
2023	19,875
	<hr/>
	\$ 342,120
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8. 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 year ended September 30, 2018, CHC incurred \$78,735 in rent expense under this lease.

During the year ended September 30, 2019, CHC shared one common member of its board of directors with the three boards of the deconsolidated entities mentioned in footnote #1. CHC granted approximately \$1,840,000 collectively to these organizations during the year ended September 30, 2018.

9. OPERATING AND NON-OPERATING ACTIVITIES:

The activity of CHC has been reported in the 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 exchange rates and deconsolidation grant expenses during the year ended September 30, 2018.

10. SUBSEQUENT EVENTS:

Subsequent events were evaluated through August 13, 2019, which is the date the financial statements were available to be issued.

Effective October 1st, 2019, CHC increased its sponsorship rate from \$38 per child to \$45 per child.