CAPINCROUSE LLP

MANAGEMENT LETTER

July 17, 2020

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

In planning and performing our audit of the financial statements of Children's HopeChest, Inc. (CHC) for the year ended September 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered CHC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of CHC's internal control. Accordingly, we do not express an opinion on the effectiveness of CHC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Professional standards define a material weakness and a significant deficiency as follows:

> A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.
>
> A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our comments concerning internal control and other significant matters are presented as follows:

- Current Year Other Matters
- Status of Prior Year Comments–Other Matters
- Audit Committee Matters

2435 Research Parkway, Suite 200
Colorado Springs, CO 80920
719.528.6225
capincrouse.com

This communication is intended solely for the information and use of management, the board of directors, and others within CHC and is not intended to be and should not be used by anyone other than these specified parties.

CHC's written responses to the deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements; accordingly, we express no opinion on them.

We will be pleased to further discuss these matters with you and want to express our sincere appreciation to the staff for the cooperation and assistance received during the audit engagement and for the opportunity to serve Children's HopeChest, Inc.

Sincerely yours,

Capin Crouse LLP

CAPIN CROUSE LLP

CURRENT YEAR OTHER MATTERS

Cash Disbursements

The controller's permissions within CHC's accounting system are not set up in a way that prevents checks from being processed by her alone. Due to this, she has access to create a check payment within the system and print the check without the need for an approval by another person. While the president performs a review of the disbursement activity as part of his monthly processes, it is still imperative for the proper controls to be in place within the accounting system.

We recommend that the CHC remove the controller's access from to the check stock. Alternatively, CHC could adjust user permissions for the controller within the accounting system, which would require a review to take place for each of her check disbursements before she can print a check.

Management Response

Controller access to check stock has been removed as of Dec 8, 2019. Check stock is stored in a locking safe with only the Accounting Manager and CEO having the key/combination to gain access.

Bank Reconciliations

During the prior year audit, we noted that bank reconciliations were not always performed timely. In the current year audit, the reconciliations are being performed timely, but the controller has not been documenting her review of them. **We recommend** that all bank reconciliations continue to be reviewed in detail on a monthly basis, and that their approval is documented by the controller.

Management Response

Controller has developed and initiated electronically initialing the pdf bank reconciliations as part of the regular and timely review.

Grant Agreements

CHC does not have formal grant agreements written and signed between itself and its international partners. **We recommend** that grant agreements be drafted and signed with all international partners that are not consolidated within CHC's financial statements.

Management Response

Management is consulting with legal counsel in the development of formal written grant agreements for international partners whose financials are not consolidated within CHC's financial statements.

CURRENT YEAR OTHER MATTERS, continued

Operating Deficit

CHC has a deficit in net assets without donor restrictions of $721,907 and $549,316, as of September 30, 2019 and 2018, respectively. This deficit is partially the result of lower than expected donations during recent months, and primarily a result of a deconsolidation of foreign entities and their related assets. CHC's liquid operating net assets were not sufficient to cover these losses, therefore, management has essentially internally borrowed funds from net assets with donor restrictions during recent years in order to continue operations and avoid external borrowing.

We recommend that CHC continue to closely monitor operating results and make any adjustment necessary to ensure the deficit can be eliminated within a reasonable time period.

Management Response

Management is aware of the operating deficit initially originating from the change from calendar year to fiscal year, and the subsequent impact the deconsolidation of foreign entities and their related assets had. Management has dedicated financial resources to improving technologies to further improve operating results with the expectation of achieving long-term efficiencies to lower operating costs in future years. Management continues to monitor the operating deficit and has adopted a proactive budgetary approach to accelerate the elimination of this deficit for future years.

STATUS OF PRIOR YEAR COMMENTS–OTHER MATTERS

Cash Disbursements

This issue was not fully resolved in 2019. See the current year status in the Current Year Other Matters section of this letter.

Bank Reconciliations

This issue was not fully resolved in 2019. See the current year status in the Current Year Other Matters section of this letter.

Operating Deficit

This issue was not fully resolved in 2019. See the current year status in the Current Year Other Matters section of this letter.

AUDIT COMMITTEE MATTERS

The following information about our audit, as required by professional standards, is considered to be significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.

Auditors' Responsibility under U.S. Generally Accepted Auditing Standards

As independent auditors of the financial statements, we are responsible for:

- Performing the audit in accordance with U.S. generally accepted auditing standards.
- Designing the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.
- Forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of those charged with governance, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

An audit of financial statements 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 CHC's internal control over financial reporting.

Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is the risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

Independence

Under professional standards, including Rule 101 of the American Institute of Certified Public Accountants' Code of Professional Conduct and its interpretations and rulings, we are required to communicate all relationships between CapinCrouse LLP and the board that, in our professional judgment, may reasonably be thought to bear on independence.

We are not aware of any relationships or services that would jeopardize this condition. We affirm our objectivity and independence in performing our audit services in conformity with professional standards.

Qualitative Aspects of Accounting Practices

Accounting policies–Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used are described in Note 2 to the financial statements.

Changes in accounting policies–CHC adopted Accounting Standards Update (ASU) 2016-18, as described in Note 2 to the financial statements. The application of existing policies was not changed during the year.

AUDIT COMMITTEE MATTERS, continued

Qualitative Aspects of Accounting Practices, continued

Recently issued pronouncements–The following pronouncements have been issued by the Financial Accounting Standards Board (FASB). The following are the most significant to not-for-profit organizations. As certain pronouncements could have a significant impact on future financial statements, we encourage management to begin considering the impact.

Effective for Fiscal Year (FY) 2020:

- ASU 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost & Net Periodic Postretirement Benefit Cost
  - The amendments in this Update apply to all employers, including not-for-profit entities that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715.
  - Requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period.
  - The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented
  - Only the service cost component is eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory or a self-constructed asset)
  - Effective for years beginning after December 15, 2018
  - Early implementation is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance and a retrospective approach is required.

Effective for FY 2021:

- ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made
  - The new provisions should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance (e.g., Topic 606, Revenue from Contracts with Customers) and (2) determining whether a contribution is conditional.
  - The amendments should be applied only to the portion of revenue or expense that has not yet been recognized before the effective date in accordance with current guidance. No prior-period results should be restated.
  - Early implementation is permitted and a modified retrospective approach is required.

Effective for FY 2022:

- ASU 2016-02, Leases:
  - The ASU will require organizations that lease assets to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by the leases. A lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months.
  - The accounting by organizations that own the assets leased by the lessee (lessor accounting) will remain largely unchanged.
  - Early implementation is permitted and a modified retrospective approach is required.

Significant and unusual transactions–Under professional standards, we are required to inform you about transactions we noted that were both significant and unusual, or transactions for which there is a lack of authoritative guidance or consensus. We noted no such transactions entered into by CHC during the year.

AUDIT COMMITTEE MATTERS, continued

Qualitative Aspects of Accounting Practices, continued

Uncorrected misstatements–There were no uncorrected misstatements identified during the audit.

Material corrected misstatements–There were no material corrected misstatements identified during the audit.

Other corrected misstatements–There were no other corrected misstatements identified during the audit.

Accounting estimates–Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Issues concerning significant estimates made by management include:
- Management's identification of significant accounting estimates
- Management's process for making significant accounting estimates
- Risks of material misstatement
- Indicators of possible management bias
- Disclosure of estimation uncertainty in the financial statements

The most significant estimates include:
- Depreciation of property and equipment
- Allocation of expenses on a functional basis

We reviewed the process and basis for management's judgments and estimates impacting key accounting and financial reporting areas and concluded they are reasonable in relation to the financial statements taken as a whole.

Financial statements disclosures and related matters–We considered issues involved and related judgments made, in formulating sensitive financial statements disclosures and believe they are presented with overall neutrality, consistency, and clarity.

Representations requested from management–A copy of the letter containing representations requested from management is attached.

Significant Difficulties Encountered During the Audit
We are pleased to report that there were no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management
Professional standards define disagreements with management, whether or not resolved to our satisfaction, as a matter concerning financial accounting, reporting, or auditing that could be significant to the financial statements or the independent auditors' report.

We are pleased to report that no such disagreements arose during the course of our audit.

AUDIT COMMITTEE MATTERS, continued

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts.

To our knowledge, there were no such consultations with other accountants.

Significant Issues Discussed with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the independent auditors. However, any discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

CHILDREN'S HOPECHEST

July 17, 2020

Capin Crouse LLP
2435 Research Parkway, Suite 200
Colorado Springs, CO 80920

This representation letter is provided in connection with your audit of the financial statements of Children's HopeChest, Inc. (CHC), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of the above date, the following representations made to you during your audit.

Financial Statements

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 23, 2019, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.

2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.

3) We acknowledge our responsibility for 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.

4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6) Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with U.S. GAAP.

7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

8) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to CHC's accounts.

9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

10) Significant estimates and material concentrations have been appropriately disclosed in accordance with U.S. GAAP.

11) Guarantees, whether written or oral, under which CHC is contingently liable, have been properly recorded or disclosed in accordance with U.S. GAAP.

1) In regard to the financial statement drafting and 990 preparation services performed by you, we have—

- Assumed all management responsibilities.
- Designated Ana Brown, who has suitable skill, knowledge, or experience to oversee the services.
- Evaluated the adequacy and results of the services performed.
- Accepted responsibility for the results of the services.

Information Provided

12) We have provided you with:

    a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

    b) Additional information that you have requested from us for the purpose of the audit.

    c) Unrestricted access to persons within CHC from whom you determined it necessary to obtain audit evidence.

    d) Minutes of the meetings of the governing board or summaries of actions of recent meetings for which minutes have not yet been prepared.

13) All material transactions have been recorded in the accounting records and are reflected in the financial statements.

14) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

15) We have no knowledge of any fraud or suspected fraud that affects CHC and involves:

    a) Management,

    b) Employees who have significant roles in internal control, or

    c) Others where the fraud could have a material effect on the financial statements.

16) We have no knowledge of any allegations of fraud or suspected fraud affecting CHC's financial statements communicated by employees, former employees, grantors, regulators, or others.

17) We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

18) We are not aware of any pending or threatened litigation, claims, or assessments or un-asserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.

19) We have disclosed to you the identity of CHC's related parties and all the related-party relationships and transactions of which we are aware.

20) CHC has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

21) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us.

22) Children's HopeChest, Inc. is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize CHC's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date, with the exception of FinCEN 114 filings.

23) We acknowledge our responsibility for presenting the financial statements in accordance with U.S. GAAP, and we believe the financial statements, including their form and content, are fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the financial statements have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

24) We have developed processes and controls to identify and evaluate whether conditions or events exist that raise substantial doubt about CHC's ability to continue as a going concern. We have performed this assessment and there are no material uncertainties that may cast significant doubt about CHC's ability to continue as a going concern through one year after the financial statement issuance date. Specifically, we have reviewed going concern considerations surrounding the COVID-19 pandemic, and do not believe that this pandemic impacts our ability to continue as a going concern through one year after the financial statement issuance date.

FOR CHILDREN'S HOPECHEST, INC.:

Signature: Ken Sparks

Name (printed): Ken Sparks

Title: CEO & President

Signature: Ana Brown

Name (printed): Ana Brown

Title: Controller