



## CHILDREN'S HOPECHEST, INC.

Financial Statements  
With Independent Auditors' Report

September 30, 2019 and 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 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.

### **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 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 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 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, 2019 and 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.

*Capin Crouse LLP*

Colorado Springs, Colorado  
July 17, 2020

# CHILDREN'S HOPECHEST, INC.

## Statements of Financial Position

	September 30,	
	2019	2018
ASSETS:		
Cash and cash equivalents in U.S.	\$ 447,928	\$ 274,541
Cash held overseas	170,404	179,714
Prepaid expenses and other assets	29,969	56,671
Fixed assets—net	28,371	123,656
Total Assets	<u>\$ 676,672</u>	<u>\$ 634,582</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	<u>\$ 156,118</u>	<u>\$ 105,090</u>
Net assets:		
Without donor restrictions	(721,907)	(549,316)
With donor restrictions	1,242,461	1,078,808
	<u>520,554</u>	<u>529,492</u>
Total Liabilities and Net Assets	<u>\$ 676,672</u>	<u>\$ 634,582</u>

See notes to financial statements

# CHILDREN'S HOPECHEST, INC.

## Statements of Activities

	Years Ended September 30,					
	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING:						
Support and Revenue:						
Contributions:						
Sponsorships	\$ 5,151,257	\$ 444,667	\$ 5,595,924	\$ 4,589,817	\$ 378,496	\$ 4,968,313
Projects	1,044,608	6,128	1,050,736	960,674	-	960,674
Travel	870,858	124,845	995,703	1,006,775	33,491	1,040,266
General and grants	364,937	-	364,937	269,938	-	269,938
Other income	7,060	-	7,060	80,892	-	80,892
Total Support and Revenue	7,438,720	575,640	8,014,360	6,908,096	411,987	7,320,083
Net Assets Released:						
Purpose restrictions	33,491	(33,491)	-	161,050	(161,050)	-
Sponsorship restrictions	378,496	(378,496)	-	608,417	(608,417)	-
	411,987	(411,987)	-	769,467	(769,467)	-
Expenses:						
Program services	6,865,677	-	6,865,677	6,603,862	-	6,603,862
Supporting activities:						
General and administrative	783,700	-	783,700	533,037	-	533,037
Fundraising	414,319	-	414,319	467,044	-	467,044
	1,198,019	-	1,198,019	1,000,081	-	1,000,081
Total Expenses	8,063,696	-	8,063,696	7,603,943	-	7,603,943
Change in Net Assets From Operations	(212,989)	163,653	(49,336)	73,620	(357,480)	(283,860)
NON-OPERATING:						
Foreign currency translation	40,398	-	40,398	97,821	-	97,821
Grant expense for deconsolidation	-	-	-	(810,916)	-	(810,916)
	40,398	-	40,398	(713,095)	-	(713,095)
Change in Net Assets	(172,591)	163,653	(8,938)	(639,475)	(357,480)	(996,955)
Net Assets, Beginning of Year,	(549,316)	1,078,808	529,492	90,159	1,436,288	1,526,447
Net Assets, End of Year	\$ (721,907)	\$ 1,242,461	\$ 520,554	\$ (549,316)	\$ 1,078,808	\$ 529,492

See notes to financial statements

# CHILDREN'S HOPECHEST, INC.

## Statements of Functional Expenses

Year Ended September 30, 2019				
	Program Services	General and Administrative	Fundraising	Total
Grant expenses	\$ 2,875,497	\$ -	\$ -	\$ 2,875,497
Salaries and benefits	1,418,946	406,941	303,466	2,129,353
Travel	929,831	25,146	20,147	975,124
Information technology	471,507	110,873	12,728	595,108
Office expenses	139,277	219,184	42,385	400,846
Food and clothing	369,947	-	-	369,947
Small equipment and maintenance	205,765	-	-	205,765
Education and materials	179,472	-	-	179,472
Occupancy	75,783	20,577	35,593	131,953
Depreciation	96,911	979	-	97,890
Medical supplies and expenses	60,955	-	-	60,955
Professional fees	41,786	-	-	41,786
Total expenses	<u>\$ 6,865,677</u>	<u>\$ 783,700</u>	<u>\$ 414,319</u>	<u>\$ 8,063,696</u>
Year Ended September 30, 2018				
	Program Services	General and Administrative	Fundraising	Total
Operating expenses:				
Grant expenses	\$ 2,599,091	\$ -	\$ -	\$ 2,599,091
Salaries and benefits	1,508,196	280,134	360,907	2,149,237
Travel	985,229	17,378	23,170	1,025,777
Information technology	365,825	18,786	14,247	398,858
Office expenses	141,071	196,479	39,229	376,779
Food and clothing	360,784	-	-	360,784
Education and materials	239,008	-	-	239,008
Small equipment and maintenance	154,004	-	-	154,004
Occupancy	51,731	19,353	29,491	100,575
Depreciation	98,051	907	-	98,958
Medical supplies and expenses	58,665	-	-	58,665
Professional fees	42,207	-	-	42,207
Total operating expenses	<u>6,603,862</u>	<u>533,037</u>	<u>467,044</u>	<u>7,603,943</u>
Nonoperating expense:				
Grant expense for deconsolidation	<u>810,916</u>	<u>-</u>	<u>-</u>	<u>810,916</u>
	<u>\$ 7,414,778</u>	<u>\$ 533,037</u>	<u>\$ 467,044</u>	<u>\$ 8,414,859</u>

See notes to financial statements

# CHILDREN'S HOPECHEST, INC.

## Statements of Cash Flows

	Year Ended September 30,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (8,938)	\$ (996,955)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Grant expense for deconsolidation	-	810,916
Depreciation	97,890	98,958
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	26,702	(748)
Accounts payable and accrued expenses	51,028	(21,257)
Net Cash Provided (Used) by Operating Activities	<u>166,682</u>	<u>(109,086)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	<u>(2,605)</u>	<u>-</u>
Net Cash Used by Investing Activities	<u>(2,605)</u>	<u>-</u>
Change in Cash and Cash Equivalents in U.S., and Cash Held Overseas	164,077	(109,086)
Cash and Cash Equivalents in U.S., and Cash Held Overseas, Beginning of Year	<u>454,255</u>	<u>563,341</u>
Cash and Cash Equivalents in U.S., and Cash Held Overseas, End of Year	<u>\$ 618,332</u>	<u>\$ 454,255</u>

See notes to financial statements



# CHILDREN'S HOPECHEST, INC.

## Notes to Financial Statements

September 30, 2019 and 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, Board of Directors, 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 for the year ended September 30, 2018.

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 \$45/month donation during the year ended September 30, 2019 and a \$38/month donation during the year ended September 30, 2018, 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)

# CHILDREN'S HOPECHEST, INC.

## Notes to Financial Statements

September 30, 2019 and 2018

### 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.

#### 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.

#### 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, 2019 and 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, 2019 and 2018, assets maintained by CHC Ethiopia, which consist of cash and fixed assets, totaled \$226,521 and \$235,831, respectively.

#### 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. 2016-18, *Statement of Cash Flows (Topic 230)–Restricted Cash*. CHC adopted the provisions of this new standard during the year ended September 30, 2019. This resulted in a retrospective application for the year ended September 30, 2018. Adoption of this standard had no effect on the change in net assets.

# CHILDREN'S HOPECHEST, INC.

## Notes to Financial Statements

September 30, 2019 and 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:

	September 30,	
	2019	2018
Financial assets:		
Cash and cash equivalents in U.S.	\$ 447,928	\$ 274,541
Cash held overseas	170,404	179,714
Financial assets, at year-end	<u>618,332</u>	<u>454,255</u>
Less those unavailable for general expenditure within one year, due to:		
Project funds not expected to be used within one year	<u>(312,998)</u>	<u>(283,046)</u>
Financial assets available within one year to meet cash needs for general expenditures	<u>\$ 305,334</u>	<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 5, 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 consist of:

	September 30,	
	2019	2018
Computer equipment and website development	\$ 336,648	\$ 334,043
Software	268,091	268,091
Foreign vehicles	56,117	56,117
Furniture and equipment	<u>7,995</u>	<u>7,995</u>
	668,851	666,246
Accumulated depreciation and amortization	<u>(640,480)</u>	<u>(542,590)</u>
	<u>\$ 28,371</u>	<u>\$ 123,656</u>

# CHILDREN'S HOPECHEST, INC.

## Notes to Financial Statements

September 30, 2019 and 2018

5. LINE OF CREDIT:

In March 2017, CHC established a line of credit with a bank for \$200,000. This line of credit was renewed in March 2020 and now matures in March 2021. The interest rate was 6.50% and 5.25% as of September 30, 2019 and 2018, respectively. The line of credit is unsecured. As of September 30, 2019 and 2018, there were no outstanding balances on the line of credit and there were no borrowings during the fiscal years ended September 30, 2019 and 2018.

6. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consist of:

	September 30,	
	2019	2018
Projects	\$ 797,794	\$ 700,312
Sponsorship	444,667	378,496
	<u>\$ 1,242,461</u>	<u>\$ 1,078,808</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. During the years ended September 30, 2019 and 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 years ended September 30, 2019 and 2018, CHC made employer contributions of \$64,692 and \$75,341, respectively.

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 September 30, 2019 and 2018, was \$82,600 and \$81,835, respectively. Future minimum payments are:

<u>September 30,</u>	
2020	\$ 81,860
2021	79,500
2022	79,500
2023	19,875
	<u>\$ 260,735</u>

# **CHILDREN'S HOPECHEST, INC.**

## **Notes to Financial Statements**

September 30, 2019 and 2018

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 September 30, 2019 and 2018, CHC incurred \$79,500 and \$78,735, respectively, in rent expense under this lease.

During the year ended September 30, 2019 and 2018, CHC shared one common member of its board of directors with the three boards of the deconsolidated entities mentioned in Note 1. CHC granted approximately \$2,085,000 and \$1,840,000, collectively to these organizations during the years ended September 30, 2019 and 2018, respectively.

10. 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 years ended September 30, 2019 and 2018.

11. SUBSEQUENT EVENTS:

In January 2020, the World Health Organization has declared the outbreak of a novel coronavirus as a "Public Health Emergency of International Concern," ultimately classifying the resulting COVID-19 as a pandemic. Federal, state and local governments have mandated various restrictions, including travel restrictions, restrictions on public gatherings, stay at home advisories and quarantining of people who may have been exposed to the virus.

The duration of disruption and related impact cannot be reasonably estimated at this time. CHC is monitoring donation income and program receipts and mission critical expenditures. Expenditures are being reduced as necessary. Management believes that CHC has sufficient reserves and liquidity to fund ongoing essential ministries through this time of uncertainty. We believe the mission of CHC will not change. We continue to see a day when every life is saturated and transformed by the hope of the Gospel.

Subsequent events were evaluated through July 17, 2020, which is the date the financial statements were available to be issued.