



CHILDREN'S HOPECHEST, INC.

Financial Statements
With Independent Auditors' Report

September 30, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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
March 19, 2021

CHILDREN'S HOPECHEST, INC.

Statements of Financial Position

	September 30,	
	2020	2019
ASSETS:		
Cash and cash equivalents in U.S.	\$ 663,046	\$ 447,928
Cash held overseas	201,723	170,404
Prepaid expenses and other assets	46,918	29,969
Fixed assets—net	138,327	28,371
	<hr/>	<hr/>
Total Assets	\$ 1,050,014	\$ 676,672
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LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	\$ 140,175	\$ 156,118
	<hr/>	<hr/>
Net assets:		
Without donor restrictions	(248,164)	(721,907)
With donor restrictions	1,158,003	1,242,461
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	909,839	520,554
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Total Liabilities and Net Assets	\$ 1,050,014	\$ 676,672
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See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Statements of Activities

	Years Ended September 30,					
	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING:						
Support and Revenue:						
Contributions:						
Sponsorships	\$ 5,292,727	\$ 340,953	\$ 5,633,680	\$ 5,151,257	\$ 444,667	\$ 5,595,924
Projects	897,690	144,101	1,041,791	1,044,608	6,128	1,050,736
Travel	257,323	-	257,323	870,858	124,845	995,703
General and grants	721,256	-	721,256	364,937	-	364,937
Other income	3,944	-	3,944	7,060	-	7,060
Total Support and Revenue	7,172,940	485,054	7,657,994	7,438,720	575,640	8,014,360
Net Assets Released:						
Purpose restrictions	124,845	(124,845)	-	33,491	(33,491)	-
Sponsorship restrictions	444,667	(444,667)	-	378,496	(378,496)	-
	569,512	(569,512)	-	411,987	(411,987)	-
Expenses:						
Program services	6,084,247	-	6,084,247	6,865,677	-	6,865,677
Supporting activities:						
General and administrative	703,366	-	703,366	783,700	-	783,700
Fundraising	448,982	-	448,982	414,319	-	414,319
	1,152,348	-	1,152,348	1,198,019	-	1,198,019
Total Expenses	7,236,595	-	7,236,595	8,063,696	-	8,063,696
Change in Net Assets From Operations	505,857	(84,458)	421,399	(212,989)	163,653	(49,336)
NON-OPERATING:						
Foreign currency translation	(32,114)	-	(32,114)	40,398	-	40,398
Change in Net Assets	473,743	(84,458)	389,285	(172,591)	163,653	(8,938)
Net Assets, Beginning of Year	(721,907)	1,242,461	520,554	(549,316)	1,078,808	529,492
Net Assets, End of Year	\$ (248,164)	\$ 1,158,003	\$ 909,839	\$ (721,907)	\$ 1,242,461	\$ 520,554

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Statements of Functional Expenses

	Year Ended September 30, 2020			
	Program Services	General and Administrative	Fundraising	Total
Grant expenses	\$ 2,960,720	\$ -	\$ -	\$ 2,960,720
Salaries and benefits	1,465,108	442,820	331,104	2,239,032
Travel	383,038	19,682	18,846	421,566
Information technology	304,121	19,170	9,864	333,155
Food and clothing	325,860	-	-	325,860
Office expenses	38,612	172,556	51,112	262,280
Occupancy	198,313	20,830	38,056	257,199
Small equipment and maintenance	158,973	-	-	158,973
Education and materials	128,209	-	-	128,209
Medical supplies and expenses	106,387	-	-	106,387
Depreciation	14,906	28,308	-	43,214
Total expenses	\$ 6,084,247	\$ 703,366	\$ 448,982	\$ 7,236,595
	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	\$ 6,865,677	\$ 783,700	\$ 414,319	\$ 8,063,696

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Statements of Cash Flows

	Year Ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 389,285	\$ (8,938)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	43,214	97,890
Forgiveness of Paycheck Protection Program loan	(333,687)	-
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(16,949)	26,702
Accounts payable and accrued expenses	(15,943)	51,028
Net Cash Provided by Operating Activities	65,920	166,682
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(153,170)	(2,605)
Net Cash Used by Investing Activities	(153,170)	(2,605)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Paycheck Protection Program loan	333,687	-
Net Cash Provided by Financing Activities	333,687	-
Change in Cash and Cash Equivalents in U.S., and Cash Held Overseas	246,437	164,077
Cash and Cash Equivalents in U.S., and Cash Held Overseas, Beginning of Year	618,332	454,255
Cash and Cash Equivalents in U.S., and Cash Held Overseas, End of Year	\$ 864,769	\$ 618,332
CASH AND CASH EQUIVALENTS IN THE U.S., AND CASH HELD OVERSEAS CONSISTS OF:		
Cash and cash equivalents in U.S.	\$ 663,046	\$ 447,928
Cash held overseas	201,723	170,404
Total Cash and Cash Equivalents in the U.S., and Cash Held Overseas	\$ 864,769	\$ 618,332

See notes to financial statements

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

September 30, 2020 and 2019

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.

CHC is registered to do business in Ethiopia as Children's HopeChest Ethiopia (CHC Ethiopia). CHC Ethiopia is a field office of CHC, and not being a separate legal entity, it falls under the nonprofit umbrella of CHC and its activities are controlled by CHC's board of directors through management.

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 years ended September 30, 2020 and 2019, 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, 2020 and 2019

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. As of September 30, 2020 and 2019, cash and cash equivalents on deposit were in excess of the federally insured limits by approximately \$401,000 and \$89,000, respectively. 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.

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 statements 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.

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

September 30, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

FOREIGN OPERATIONS

In connection with its ministry, CHC maintains field offices outside the U.S. As of September 30, 2020 and 2019, assets maintained by CHC Ethiopia, which consist of cash and fixed assets, totaled \$257,840 and \$226,521, respectively.

Management has reviewed the assets of CHC Ethiopia and has determined that they are under the control and ownership of CHC. While such items are recognized as assets of CHC, it should be noted that the political situation in Ethiopia 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 Ethiopia. In addition, it should be understood that the carrying value of the assets in Ethiopia may not be representative of the amount that would be realized.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting activities have been summarized on a functional basis in the statements 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 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. CHC adopted the recipient provisions of this new standard during the year ended September 30, 2020. This new standard provides guidance on determining whether a transaction should be accounted for as an exchange transaction or a contribution and whether a contribution should be recorded as conditional or unconditional. The provider portions will be adopted during the year ending September 30, 2021. Adoption of this standard had no effect on change in net assets or net assets in total.

RECLASSIFICATION

Certain amounts on the statement of functional expenses for the year ended September 30, 2019 were reclassified. The allocation of natural classifications were altered in order to better represent the use of program expenditures. The functional allocation did not change as a result of this reclassification.

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

September 30, 2020 and 2019

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,	
	2020	2019
Financial assets:		
Cash and cash equivalents in U.S.	\$ 663,046	\$ 447,928
Cash held overseas	201,723	170,404
Financial assets, at year-end	864,769	618,332
Less those unavailable for general expenditure within one year, due to:		
Project funds not expected to be used within one year	(310,997)	(312,998)
Financial assets available within one year to meet cash needs for general expenditures	\$ 553,772	\$ 305,334

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,	
	2020	2019
Computer equipment and website development	\$ 336,648	\$ 336,648
Software	421,360	268,091
Foreign vehicles	56,117	56,117
Furniture and equipment	7,995	7,995
	822,120	668,851
Accumulated depreciation and amortization	(683,793)	(640,480)
	\$ 138,327	\$ 28,371

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

September 30, 2020 and 2019

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% as of September 30, 2020 and 2019. The line of credit is unsecured. As of September 30, 2020 and 2019, there were no outstanding balances on the line of credit and there were no borrowings during the fiscal years ended September 30, 2020 and 2019.

6. NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions consist of:

	September 30,	
	2020	2019
Projects	\$ 817,050	\$ 797,794
Sponsorship	340,953	444,667
	<u>\$ 1,158,003</u>	<u>\$ 1,242,461</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, 2020 and 2019, 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, 2020 and 2019, CHC made employer contributions of \$63,530 and \$63,724, 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, 2020 and 2019, was \$82,600 and \$82,600, respectively. Future minimum payments are:

<u>Year Ending September 30,</u>	
2021	\$ 80,980
2022	79,500
2023	19,875
	<u>\$ 180,355</u>

CHILDREN'S HOPECHEST, INC.

Notes to Financial Statements

September 30, 2020 and 2019

9. TRANSACTIONS WITH RELATED PARTIES:

CHC entered into a lease agreement during the year ended December 31, 2010 to rent office space from a former board member. This individual rotated off of the board of directors on September 30, 2019. During the year ended September 30, 2019, CHC incurred \$79,500, in rent expense under this lease.

One of CHC's board members also serves on the board of entities receiving grants of approximately \$2,169,000 and \$2,085,000, collectively to these organizations during the years ended September 30, 2020 and 2019, 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 during the years ended September 30, 2020 and 2019.

11. RISKS AND UNCERTAINTIES:

In March 2020, the World Health Organization declared the outbreak of the coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. COVID-19 has caused a severe negative impact on the world economy and has contributed to significant volatility in financial markets. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of CHC for future periods. Management is carefully monitoring the situation and evaluating its options as circumstances evolve.

CHC received a Paycheck Protection Program (PPP) loan of \$333,687 funded by the Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). PPP loans are considered conditional contributions, with a right-of return in the form of an obligation to be repaid if a barrier to entitlement is not met. The barrier is that PPP loan funds must be used to maintain compensation costs and employee head count, and other qualifying expenses (mortgage interest, rent, and utilities) incurred following receipt of the funds. As all of the conditions were met by September 30, 2020, the full amount funded of \$333,687 was recognized as a contribution without donor restrictions in the statements of activities for the year ended September 30, 2020. Subsequent to September 30, 2020, CHC has received official notice that their loan has been fully forgiven.

12. SUBSEQUENT EVENTS:

Subsequent events were evaluated through March 19, 2021, which is the date the financial statements were available to be issued.