



CHILDREN'S HOPECHEST, INC.  
AND AFFILIATES

Consolidated Financial Statements  
With Independent Auditors' Report

December 31, 2016 and 2015

**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 statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years 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 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 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 December 31, 2016 and 2015, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Prior Period Adjustment***

As described in note 10 to the consolidated financial statements, Children's HopeChest identified adjustments pertaining to amounts previously reported as unrestricted net assets and deferred revenue. Accordingly, the 2015 financial statements now presented have been restated and opening net asset classifications as of January 1, 2015 have been adjusted to correct these errors. Our opinion is not modified with respect to that matter.

*Capin Crause LLP*

Colorado Springs, Colorado  
June 30, 2017

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

**Consolidated Statements of Financial Position**

	December 31,	
	2016	2015, restated
<b>ASSETS:</b>		
Cash and cash equivalents in U.S.	\$ 854,056	\$ 928,215
Cash and cash equivalents held overseas	547,696	308,447
Investments	-	7,598
Prepaid expenses and other assets	37,602	17,947
Fixed assets—net	897,319	872,589
Total Assets	\$ 2,336,673	\$ 2,134,796
<b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 71,580	\$ 72,295
Net assets:		
Unrestricted:		
Operating	(89,140)	(121,935)
Equity in fixed assets	897,319	872,589
	808,179	750,654
Temporarily restricted	1,456,914	1,311,847
	2,265,093	2,062,501
Total Liabilities and Net Assets	\$ 2,336,673	\$ 2,134,796

See notes to consolidated financial statements

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

**Consolidated Statements of Activities**

	Year Ended December 31,					
	2016			2015, restated		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>OPERATING:</b>						
<b>Support and Revenue:</b>						
<b>Contributions:</b>						
General and grants	\$ 1,751,945	\$ -	\$ 1,751,945	\$ 1,434,874	\$ -	\$ 1,434,874
Projects	294,106	1,123,552	1,417,658	538,984	1,014,668	1,553,652
Sponsorships	4,061,620	333,362	4,394,982	3,627,372	297,179	3,924,551
Other income (loss)	(3,211)	-	(3,211)	15,564	-	15,564
<b>Total Support and Revenue</b>	<b>6,104,460</b>	<b>1,456,914</b>	<b>7,561,374</b>	<b>5,616,794</b>	<b>1,311,847</b>	<b>6,928,641</b>
<b>Net Assets Released:</b>						
Purpose restrictions	1,014,668	(1,014,668)	-	1,074,884	(1,074,884)	-
Sponsorship restrictions	297,179	(297,179)	-	159,711	(159,711)	-
	<u>1,311,847</u>	<u>(1,311,847)</u>	<u>-</u>	<u>1,234,595</u>	<u>(1,234,595)</u>	<u>-</u>
<b>Expenses:</b>						
Program services	5,896,325	-	5,896,325	5,825,122	-	5,825,122
<b>Supporting activities:</b>						
General and administrative	1,043,316	-	1,043,316	616,567	-	616,567
Fundraising	470,731	-	470,731	691,204	-	691,204
	<u>1,514,047</u>	<u>-</u>	<u>1,514,047</u>	<u>1,307,771</u>	<u>-</u>	<u>1,307,771</u>
<b>Total Expenses</b>	<b>7,410,372</b>	<b>-</b>	<b>7,410,372</b>	<b>7,132,893</b>	<b>-</b>	<b>7,132,893</b>
<b>Change in Net Assets From Operations</b>	<b>5,935</b>	<b>145,067</b>	<b>151,002</b>	<b>(281,504)</b>	<b>77,252</b>	<b>(204,252)</b>
<b>NON-OPERATING:</b>						
Gain (loss) on disposal of fixed assets	(32,745)	-	(32,745)	62,892	-	62,892
Foreign currency translation and other non-operating income	91,933	-	91,933	(19,336)	-	(19,336)
Loss on investments	(7,598)	-	(7,598)	(11,154)	-	(11,154)
	<u>51,590</u>	<u>-</u>	<u>51,590</u>	<u>32,402</u>	<u>-</u>	<u>32,402</u>
<b>Change in Net Assets</b>	<b>57,525</b>	<b>145,067</b>	<b>202,592</b>	<b>(249,102)</b>	<b>77,252</b>	<b>(171,850)</b>
<b>Net Assets, Beginning of Year (as previously reported)</b>	<b>750,654</b>	<b>1,311,847</b>	<b>2,062,501</b>	<b>1,043,389</b>	<b>1,190,962</b>	<b>2,234,351</b>
<b>Prior period adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(43,633)</b>	<b>43,633</b>	<b>-</b>
<b>Net Assets, Beginning of Year, as restated</b>	<b>750,654</b>	<b>1,311,847</b>	<b>2,062,501</b>	<b>999,756</b>	<b>1,234,595</b>	<b>2,234,351</b>
<b>Net Assets, End of Year</b>	<b>\$ 808,179</b>	<b>\$ 1,456,914</b>	<b>\$ 2,265,093</b>	<b>\$ 750,654</b>	<b>\$ 1,311,847</b>	<b>\$ 2,062,501</b>

See notes to consolidated financial statements

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

**Consolidated Statements of Cash Flows**

	Year Ended December 31,	
	2016	2015, restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 202,592	\$ (171,850)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	74,269	90,146
Net realized and unrealized losses on investments	7,598	11,154
Gain on sale of property held for investment	-	(62,892)
Loss on disposal of fixed assets	32,745	-
Loss (gain) on foreign currency translation adjustment	(126,040)	186,807
Changes in operating assets and liabilities:		
Cash and cash equivalents held overseas	(239,249)	156,177
Prepaid expenses and other assets	(19,655)	531
Accounts payable and accrued expenses	(715)	52,409
Deferred revenue	-	(43,633)
Net Cash Provided (Used) by Operating Activities	<u>(68,455)</u>	<u>218,849</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	-	9,542
Proceeds from sale of property held for investment	-	267,205
Proceeds from sale of fixed assets	99,642	-
Purchases of fixed assets	(105,346)	(121,332)
Net Cash Provided (Used) by Investing Activities	<u>(5,704)</u>	<u>155,415</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on note payable	-	(177,207)
Net Cash Used by Financing Activities	<u>-</u>	<u>(177,207)</u>
Change in Cash and Cash Equivalents in U.S.,	(74,159)	197,057
Cash and Cash Equivalents in U.S.,		
Beginning of Year	<u>928,215</u>	<u>731,158</u>
Cash and Cash Equivalents in U.S.,		
End of Year	<u>\$ 854,056</u>	<u>\$ 928,215</u>

See notes to consolidated financial statements

# CHILDREN'S HOPECHEST, INC. AND AFFILIATES

## Notes to Consolidated Financial Statements

December 31, 2016 and 2015

### 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 (the Code) and is not a private foundation under Section 509(a) of the Code.

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, and Christian communities. These sponsoring communities are providing help, training, and discipleship to vulnerable children. CHC has active partnerships in Russia, Swaziland, South Africa, Ethiopia, Uganda, Haiti, 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

December 31, 2016 and 2015

### 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.

During the year ended December 31, 2015, CHC capitalized fixed asset purchases exceeding \$1,000 and expensed lesser amounts in the year purchased. During the year ended December 31, 2016, CHC increased the capitalization policy and capitalized fixed asset purchases exceeding \$2,000 and expensed lesser amounts in the year purchased. All fixed assets with original costs below the new capitalization policy were written off during the year ended December 31, 2016. Due to the immaterial effect on the prior period, CHC has passed on retroactive application.

#### 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**

December 31, 2016 and 2015

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:**

#### **UNCERTAIN TAX POSITIONS**

The financial statement effects of a tax position taken or expected to be taken are recognized in the consolidated financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the consolidated statements of activities. As of December 31, 2016, CHC had no uncertain tax positions that qualify for recognition or disclosure in the consolidated financial statements.

CHC is generally no longer subject to U.S. federal and state income tax examinations by tax authorities for years before 2013.

#### **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 fields outside the U.S. As of December 31, 2016 and 2015, assets maintained by foreign affiliates, which consist of cash and cash equivalents and fixed assets netted with related liabilities, totaled \$1,138,084 and \$941,480, respectively. Total support and revenue received from foreign affiliates totaled \$35,486 and \$41,947 for the years ended December 31, 2016 and 2015, respectively.

#### **FUNCTIONAL ALLOCATION OF EXPENSES**

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

December 31, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with current year presentation.

3. FIXED ASSETS–NET:

Fixed assets–net consist of:

	December 31, 2016		
	United States	Other Countries	Total
Buildings and improvements	\$ -	\$ 843,701	\$ 843,701
Computer equipment and website development	334,044	23,835	357,879
Furniture and equipment	7,995	30,815	38,810
Software	268,091	-	268,091
Vehicles	-	113,671	113,671
	<u>610,130</u>	<u>1,012,022</u>	<u>1,622,152</u>
Accumulated depreciation and amortization	<u>(335,296)</u>	<u>(389,537)</u>	<u>(724,833)</u>
	<u>\$ 274,834</u>	<u>\$ 622,485</u>	<u>\$ 897,319</u>
	December 31, 2015		
	United States	Other Countries	Total
Buildings and improvements	\$ -	\$ 857,625	\$ 857,625
Computer equipment and website development	349,276	21,952	371,228
Furniture and equipment	20,593	36,251	56,844
Vehicles	-	66,916	66,916
	<u>369,869</u>	<u>982,744</u>	<u>1,352,613</u>
Accumulated depreciation and amortization	<u>(338,397)</u>	<u>(352,527)</u>	<u>(690,924)</u>
	<u>31,472</u>	<u>630,217</u>	<u>661,689</u>
Software in process	<u>210,900</u>	<u>-</u>	<u>210,900</u>
	<u>\$ 242,372</u>	<u>\$ 630,217</u>	<u>\$ 872,589</u>

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

**Notes to Consolidated Financial Statements**

December 31, 2016 and 2015

3. FIXED ASSETS–NET, continued:

Depreciation and amortization expense was \$74,269 and \$90,146, for the years ended December 31, 2016 and 2015, respectively.

During the years ended December 31, 2016 and 2015, foreign currency translation adjustments were recorded for Russian fixed assets in order to properly show the value of the assets on the consolidated financial statements in the reporting currency. For the year ended December 31, 2016, a total adjustment of \$190,811 was recorded to increase the value of the fixed assets, which was partially offset by an increase in accumulated depreciation of \$64,771. The net impact on the fixed assets was therefore \$126,040. For the year ended December 31, 2015, a total adjustment of \$271,054 was recorded to decrease the value of the fixed assets, which was partially offset by a decrease in accumulated depreciation of \$84,247. The net impact on fixed assets was therefore \$186,607.

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 consist of:

	December 31,	
	2016	2015, restated
Projects	\$ 1,123,552	\$ 1,014,668
Sponsorship	333,362	297,179
	<u>\$ 1,456,914</u>	<u>\$ 1,311,847</u>

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

**Notes to Consolidated Financial Statements**

December 31, 2016 and 2015

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. In 2016 and 2015, 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 December 31, 2016 and 2015, CHC made employer contributions of \$60,160 and \$35,008, respectively.

6. COMMITMENTS:

CHC entered into various lease agreements for office space and office equipment. Rent and lease expense on these leases for the years ended December 31, 2016 and 2015, was \$81,165 and \$80,580, respectively. Future minimum payments are:

<u>Year Ending December 31,</u>	
2017	\$ 54,060
2018	3,100
2019	3,100
2020	<u>1,145</u>
	<u>\$ 61,405</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 years ended December 31, 2016 and 2015, CHC incurred \$76,440 for both years, 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 years ended December 31, 2016 and 2015.

9. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

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

**Notes to Consolidated Financial Statements**

December 31, 2016 and 2015

**10. PRIOR PERIOD ADJUSTMENT:**

During the year ended December 31, 2016, management determined that certain amounts previously reported as unrestricted net assets should have been classified as temporarily restricted net assets. Management also determined that certain amounts previously reported as both deferred revenue and temporarily restricted net assets should have only been classified as temporarily restricted net assets. As a result, the 2015 financial statements have been restated to properly reflect these amounts. The impact of this restatement on the financial statements is as follows:

	<u>As Previously Stated</u>	<u>Prior Period Adjustment</u>	<u>As Restated</u>
Unrestricted net assets as of January 1, 2015	\$ 1,043,389	\$ (43,633)	\$ 999,756
Temporarily restricted net assets as of January 1, 2015	\$ 1,190,962	\$ 43,633	\$ 1,234,595
Unrestricted net assets as of December 31, 2015	\$ 833,182	\$ (82,528)	\$ 750,654
Temporarily restricted net assets as of December 31, 2015	\$ 1,172,990	\$ 138,857	\$ 1,311,847
Change in unrestricted net assets for the year ended December 31, 2015	\$ (210,207)	\$ (38,895)	\$ (249,102)
Change in temporarily restricted net assets for the year ended December 31, 2015	\$ (17,972)	\$ 95,224	\$ 77,252
Deferred revenue as of December 31, 2015	\$ 56,329	\$ (56,329)	\$ -
General Contributions and Grants for the year ended December 31, 2015	\$ 1,378,545	\$ 56,329	\$ 1,434,874