

CHILDREN'S HOPE INTERNATIONAL AND AFFILIATE
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015

SMITH PATRICK LLC

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Children's Hope International and
Children's Hope International Foundation
St. Louis, Missouri

We have audited the accompanying consolidated financial statements of Children's Hope International and Children's Hope International Foundation (nonprofit organizations)(the "Organizations") which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Children's Hope International and Children's Hope International Foundation as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Smith Patrick LLC, CPA's

Smith Patrick LLC, CPA's
St. Louis, Missouri

April 25, 2016

**CHILDREN'S HOPE INTERNATIONAL AND AFFILIATE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015**

	Children's Hope International	Children's Hope International Foundation	Eliminations	Consolidated
ASSETS	<u>International</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current Assets:				
Cash and cash equivalents	\$ 334,081	\$ 378,021	\$ -	\$ 712,102
Prepaid expenses	23,794	-	-	23,794
Investments	1,145,226	47,189	-	1,192,415
Total Current Assets	<u>1,503,101</u>	<u>425,210</u>	<u>-</u>	<u>1,928,311</u>
Property and equipment, net of depreciation	2,852,093	-	-	2,852,093
Other Assets:				
Cash surrender value of life insurance policies	153,595	-	-	153,595
Total Assets	<u>\$ 4,508,789</u>	<u>\$ 425,210</u>	<u>\$ -</u>	<u>\$ 4,933,999</u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	\$ 4,408	\$ -	\$ -	\$ 4,408
Accrued vacation	8,369	-	-	8,369
Deferred revenue	249,590	-	-	249,590
Total Current Liabilities	<u>262,367</u>	<u>-</u>	<u>-</u>	<u>262,367</u>
Total Liabilities	<u>262,367</u>	<u>-</u>	<u>-</u>	<u>262,367</u>
Net Assets:				
Unrestricted	4,246,422	355,339	-	4,601,761
Temporarily restricted	-	69,871	-	69,871
Total Net Assets	<u>4,246,422</u>	<u>425,210</u>	<u>-</u>	<u>4,671,632</u>
Total Liabilities and Net Assets	<u>\$ 4,508,789</u>	<u>\$ 425,210</u>	<u>\$ -</u>	<u>\$ 4,933,999</u>

See accompanying notes and independent auditor's report

**CHILDREN'S HOPE INTERNATIONAL AND AFFILIATE
CONSOLIDATED STATEMENT OF ACTIVITIES
DECEMBER 31, 2015**

	Children's Hope International	Children's Hope International Foundation	Eliminations	Consolidated
Changes in Unrestricted Net Assets				
Unrestricted Revenues, Support and Gains				
Adoption fees	\$ 288,874	\$ -	\$ -	\$ 288,874
Home study and post-placement fees	45,630	-	-	45,630
Contributions	26,225	98,751	-	124,976
Rental income	164,091	-	-	164,091
Other	46,731	-	-	46,731
Net investment income	(26,071)	(16,158)	-	(42,229)
Interest income	11,004	26	-	11,030
Total Unrestricted Revenues, Support and Gains Before Net Assets Released From Restrictions	<u>556,484</u>	<u>82,619</u>	<u>-</u>	<u>639,103</u>
Net Assets Released from Restrictions	<u>-</u>	<u>132,587</u>	<u>-</u>	<u>132,587</u>
Total Unrestricted Revenues, Support and Gains	<u>556,484</u>	<u>215,206</u>	<u>-</u>	<u>771,690</u>
Expenses				
Program services	339,808	131,608	-	471,416
Management and general	447,024	11,200	-	458,224
Fundraising	18,613	5,625	-	24,238
Total Expenses	<u>805,445</u>	<u>148,433</u>	<u>-</u>	<u>953,878</u>
Increase (decrease) in Unrestricted Net Assets	<u>(248,961)</u>	<u>66,773</u>	<u>-</u>	<u>(182,188)</u>
Changes in Temporarily Restricted Net Assets				
Contributions	-	123,239	-	123,239
Net assets released from restrictions	<u>-</u>	<u>(132,587)</u>	<u>-</u>	<u>(132,587)</u>
Decrease in Temporarily Restricted Net Assets	<u>-</u>	<u>(9,348)</u>	<u>-</u>	<u>(9,348)</u>
Increase (decrease) in Net Assets	<u>(248,961)</u>	<u>57,425</u>	<u>-</u>	<u>(191,536)</u>
Net Assets - Beginning of the Year	<u>4,495,383</u>	<u>367,785</u>	<u>-</u>	<u>4,863,168</u>
Net Assets - End of the Year	<u>\$ 4,246,422</u>	<u>\$ 425,210</u>	<u>\$ -</u>	<u>\$ 4,671,632</u>

See accompanying notes and independent auditor's report

**CHILDREN'S HOPE INTERNATIONAL AND AFFILIATE
CONSOLIDATED STATEMENT OF CASH FLOWS
DECEMBER 31, 2015**

Cash Flows From Operating Activities:

Decrease in net assets	\$ (191,536)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	93,363
Realized and unrealized losses on investments	87,931
Unrealized loss on cash surrender value of life insurance policies	3,620
Non-cash donations	(18,085)
Gain on decrease in liabilities	(27,775)
Decrease (increase) in operating assets:	
Prepaid expenses	3,181
Increase (decrease) in operating liabilities:	
Accounts payable	458
Accrued vacation	(5,952)
Deferred insurance proceeds	(22,576)
Deferred revenue	(21,984)
Net Cash Used by Operating Activities	(99,355)

Cash Flows From Investing Activities:

Purchases of investments	(45,702)
Purchases of property and equipment	(2,360)
Net Cash Used by Investing Activities	(48,062)

Cash Flows From Financing Activities:

Principal payments on capital lease obligations, net	(8,659)
Net Cash Used by Financing Activities	(8,659)

Net Decrease in Cash and Cash Equivalents (156,076)

Cash and Cash Equivalents - Beginning of Year 868,178

Cash and Cash Equivalents - End of Year \$ 712,102

Supplemental Disclosures:

Interest paid	\$ 1,738
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For purposes of the statement of cash flows, the Organization considers all highly liquid investments which are readily converted into cash within 90 days of purchase to be cash equivalents.

**CHILDREN'S HOPE INTERNATIONAL AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organizations

Children's Hope International ("CHI") is a nonprofit Missouri Corporation that was founded in 1992. CHI provides adoption services for children in China, Columbia, and Ethiopia. The majority of CHI's revenue is derived from families seeking adoption. CHI's program expenses include all of CHI's adoption offices, including its foreign offices in China and Ethiopia.

In addition to adoptions, Children's Hope International Foundation ("CHIF") was formed to accept donations for Development-Aid Programs to improve the health and welfare of children at risk in China, Columbia, Vietnam, India, and Ethiopia. In 2015, CHI and CHIF together distributed \$131,608 for humanitarian aid projects in these countries and for adoption grants to several families in need.

Principles of Consolidation

The consolidated financial statements include the accounts of CHI and CHIF (the "Organizations").

CHIF is a separate legal entity. However, since CHI has control over CHIF, both are consolidated in these financial statements. All transactions between CHI and CHIF have been eliminated in consolidation.

Consolidated Financial Statement Presentation

The Organizations follow the provisions of the Financial Accounting Standards Board ("FASB") in regards to the financial statements of not-for-profit organizations as discussed under ASC 958-210, Financial Statements of Not-For-Profit Organizations. This provision requires the reporting of total assets, liabilities and net assets in a statement of financial position, and reporting the change in net assets in a statement of activities. This provision also requires that net assets, revenue, expenses, gains and losses be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2015 were \$6,543.

Cash and Cash Equivalents

The Organizations consider all short-term investments with original maturities of less than three months from the date of purchase to be cash equivalents.

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Organizations maintain their cash balances at multiple financial institutions, including foreign institutions. The balances in US institutions are insured by the Federal Deposit Insurance Corporation up to \$250,000, per financial institution

At times during the year the Organizations maintained balances which exceeded the federally insured limit. The Organizations incurred no losses and believes there is no significant risk with respect to these deposits. As of December 31, 2015, the Organizations had uninsured balances of \$56,714

Deferred Revenue

Deferred revenue consists of cash received prior to December 31, 2015 for post-placement and re-adoption services to be provided by CHI subsequent to December 31, 2015.

**CHILDREN’S HOPE INTERNATIONAL AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Description of Program Services and Supporting Activities

The following program services and supporting activities are included in the accompanying consolidated financial statements:

Adoption – Encompasses all aspects of CHI’s adoptions activities.

Humanitarian Aid – Encompasses all aspects of charitable and humanitarian aid for children.

Management and General – Includes the functions necessary to maintain an equitable employment program, ensure an adequate working environment, provide coordination and articulation for the Organizations’ program strategy, secure proper administrative functioning of the Board of Directors, and manage the financial budgetary responsibilities of the Organizations.

Fundraising – Provides the structure necessary to encourage and secure private financial support from individuals and organizations through general fundraising activities.

Expense Allocation

Expenses are charged to program services and supporting activities on the basis of directly identifiable costs. Management and general expenses includes those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organizations.

Fixed Assets

Fixed Assets are stated at cost, or if received by gift, at fair value at the date of gift. Gifts of long-lived assets received without stipulations are recorded as unrestricted support. It is the Organizations’ policy to capitalize assets over \$250. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and apartments	30 years
Building improvements	10 years
Equipment and furniture	3-10 years
Vehicles	5 years

Income Tax Uncertainties

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under that guidance, CHI and CHIF may recognize the tax benefit from an uncertain tax position only if it is more than likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organizations and various positions related to the potential sources of unrelated business taxable income (“UBIT”). The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the year ended December 31, 2015.

CHI and CHIF’s Forms 990, Return of Organization Exempt from Income Tax, for the years ending 2014, 2013, and 2012 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

**CHILDREN'S HOPE INTERNATIONAL AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments

Investments are comprised of mutual funds, bonds, cash equivalents, and common and preferred stock and are reported at fair value. Gains and losses on sales of investments are generally determined on a specific cost identification basis. Unrealized gains and losses are determined based on year-end market fluctuations.

Promises To Give

Promises to give are recognized as support in the period the promise is received. There were no unconditional or conditional promises to give as of December 31, 2015. The Organizations use the direct write-off method, which for the Organizations, is not considered to be materially different from the allowance method.

Restricted and Unrestricted Revenue

All contributions received by CHI and CHIF are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. It is the policy of CHI and CHIF to show restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

Tax Status

Both CHI and CHIF are exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable state law.

Use of Estimates

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from estimated amounts.

Subsequent Events

Management has evaluated subsequent events through April 25, 2016, the date the financial statements were available to be issued.

NOTE 2 – FOREIGN OPERATIONS

In connection with CHI's international adoption services, CHI maintains an office in China.

All activity and account balances representing amounts due to or from international offices are reflected in the financial statements in United States dollars.

**CHILDREN'S HOPE INTERNATIONAL AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 – INVESTMENTS

The following is a summary of the Organizations' investments at December 31, 2015:

	Fair Value	Cost Basis	Unrealized Gain / (Loss)
Cash Equivalents	\$ 6,096	\$ 6,096	\$ -
Exchange Traded & Closed End Funds	331,882	237,611	94,271
Mutual Funds	812,554	772,509	40,045
Publicly Traded Partnerships	1,197	-	1,197
Stocks	40,686	34,869	5,817
	<u>\$ 1,192,415</u>	<u>\$ 1,051,085</u>	<u>\$ 141,330</u>

Investment income for the year ended December 31, 2015 is as follows:

Realized and unrealized gains and losses	\$ (87,931)
Investment fees	(7,073)
Interest and dividends	52,775
	<u>\$ (42,229)</u>

NOTE 4 – FIXED ASSETS

Fixed assets costs for CHI and CHIF consist of the following:

Land	\$ 1,268,757
Buildings	2,226,966
Office in China	248,873
Equipment	211,489
Furniture	634,201
Capital leases	66,300
	<u>4,656,586</u>
Accumulated depreciation	<u>(1,804,493)</u>
	<u>\$ 2,852,093</u>

Depreciation expense for CHI and CHIF was \$93,363 for the year ending December 31, 2015.

**CHILDREN'S HOPE INTERNATIONAL AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 – FAIR VALUE MEASUREMENTS

The Organizations applies GAAP for its fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. GAAP established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level I – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Organization has the ability to access at measurement date.
- Level II – Inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly.
- Level III – Inputs are unobservable inputs for the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes to the methodologies used at December 31, 2015.

- *Investments*: Valued at the net asset value (NAV) of shares on the last trading day of the fiscal year, which is the bases for transactions at that date.
- *Life insurance policy*: Valued at the cash surrender value at year-end.

The following table sets forth the Organizations' assets measured at fair value:

Financial Assets at Fair Value as of December 31, 2015				
	Level I	Level II	Level III	Total
Investments	\$ 1,192,415	\$ -	\$ -	\$ 1,192,415
Cash surrender value of life insurance	153,595	-	-	153,595
	\$ 1,346,010	\$ -	\$ -	\$ 1,346,010

NOTE 6 – NET ASSETS

At December 31, 2015 CHIF temporarily restricted net assets of \$75,070 were restricted for humanitarian aid for various countries. Humanitarian aid in China, Columbia, Ethiopia, Kazakhstan, and Vietnam represented \$43,209, \$255, \$24,086, \$1,958, and \$363, respectively, of the balance in temporarily restricted net assets.

NOTE 7 – RELATED PARTY TRANSACTIONS

Oversees apartment

An apartment and land has been purchased and leased by the Associate Executive Director. Any ownership in China is required to be held by a Chinese citizen. Management has an agreement with the Associate Executive Director that the building purchased and land leased in her name are to be used exclusively for use by CHI and CHIF. The land for the apartment is on a long-term land lease through May 27, 2071, signed by the Associate Executive Director, which will ultimately revert to the Chinese government, including all items located on the leased land.

**CHILDREN'S HOPE INTERNATIONAL AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 8 – FACILITIES

The Organization owns its office building and land. It uses a portion for Organizational activities and leases the remainder of the building as well as a portion of its parking spaces to unrelated parties. Currently there are six tenants, five lease a portion of the building and one leases parking spaces. Five of the tenants have lease agreements on a year-to-year or month-to-month basis. The sixth tenant has a lease agreement which runs through June 2019.

Minimum rentals to be received from leases with non-cancelable lease terms in excess of one year are as follows:

<u>Year ended December 31,</u>	<u>Amount received</u>
2016	\$ 71,863
2017	73,659
2018	75,501
2019	38,694
	<u>\$ 259,717</u>

Rent received from all leases for the year ending December 31, 2015 was \$164,091.

NOTE 9 – RETIREMENT PLANS

401(k) Plan

All employees who have worked for three months or more are eligible to participate in the CHI 401(k) Plan. Employees may contribute an amount of 1% to 15% of their eligible compensation. The plan allows for CHI to make discretionary matching contributions. CHI's matching contribution was \$1,422 for the year ending December 31, 2015.

Nonqualified Pension Plans

CHI provides nonqualified pension benefits to its executives.

Cash Surrender Insurance Policies

The Organizations' have split interest policies on its Executive Director and Associate Executive Director. The officers have assigned rights to CHI for the policies' cash surrender values in the case of termination other than death. Upon death of the insured, CHI will receive the total premiums paid by CHI under the policies.

The premiums for these policies were \$2,400 for 2015.

SUPPLEMENTAL INFORMATION

**CHILDREN'S HOPE INTERNATIONAL AND AFFILIATE
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
DECEMBER 31, 2015**

	Supporting Activities			Eliminations	Total
	Program	Management	Fundraising		
Salaries	\$ 83,706	\$ 121,918	\$ -	\$ -	\$ 205,624
Payroll taxes	9,131	13,300	-	-	22,431
Other employee benefits	-	9,117	-	-	9,117
Adoption expenses	92,976	-	-	-	92,976
Advertising	-	6,543	-	-	6,543
Bank charges and credit card fees	8,100	12,419	-	-	20,519
Contract labor	50,330	7,983	-	-	58,313
Depreciation	8,782	84,581	-	-	93,363
Helping Hands humanitarian aid	131,608	-	18,021	-	149,629
Insurance	-	40,690	-	-	40,690
Interest	-	1,738	-	-	1,738
Miscellaneous	2,243	5,963	1,908	-	10,114
Newsletter	-	1,344	-	-	1,344
Printing and postage	4,185	9,683	4,116	-	17,984
Professional fees	1,002	14,465	-	-	15,467
Property tax	-	539	-	-	539
Rent	859	1,925	-	-	2,784
Repairs and maintenance	-	66,721	149	-	66,870
Supplies	-	4,671	-	-	4,671
Telephone	563	5,369	-	-	5,932
Travel	77,721	404	44	-	78,169
Utilities	210	48,851	-	-	49,061
	<u>\$ 471,416</u>	<u>\$ 458,224</u>	<u>\$ 24,238</u>	<u>\$ -</u>	<u>\$ 953,878</u>