



Audited Financial Statements
December 31, 2008 and for the year then ended

Michael Cummins, CPA, P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Children's Hope International and Children's Hope International Foundation

We have audited the accompanying consolidated statement of financial position of Children's Hope International and Children's Hope International Foundation (both are nonprofit organizations) as of December 31, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the offices controlled by Children's Hope International and Children's Hope International Foundation in foreign countries. The financial operations of those offices are required to be included in the financial statements by accounting principles generally accepted in the United States of America. Consequently, we were not able to satisfy ourselves regarding assets, liabilities and revenues and expenses of the foreign operations included in the financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we applied audit procedures to the accounting records of the foreign offices and referred to in the preceding paragraph the financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of Children's Hope International and Children's Hope International Foundation as of December 31, 2008 and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Michael Cummins, CPA, P.C. (Continued)

Management has adopted the provisions of Statement of Financial Accounting Standards No. 157 *Fair Value Measurements*, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses and the consolidating schedule of activities is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of functional expenses has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole except for the limitation of the scope of our audit discussed in our opinion on the financial statements. We have not audited the consolidating schedule of activities and express no opinion on it.

Michael Cummins, CPA, P.C.

Michael Cummins, CPA PC
St. Louis, MO
September 14, 2009

Children's Hope International and Children's Hope International Foundation

Consolidated Statement of financial Position

December 31, 2008

Current assets	
Cash	\$ 261,740
Cash in foreign bank accounts	1,594,153
Prepaid expenses	13,661
Promises to give - short term	81,000
Accounts receivable	1,570
Investments	<u>344,624</u>
	<u>2,296,748</u>
Promises to give long term	-
Property and equipment	4,365,513
Other assets	
Due from officer	554,655
Cash value officer life insurance policies	<u>120,015</u>
	<u>\$ 7,336,931</u>
Liabilities and net assets	
Current liabilities	
Current portion capital leases	\$ 29,972
Accounts payable	93,074
Accrued vacation and salaries	61,419
Deferred revenue	<u>579,248</u>
	<u>763,713</u>
Capital lease less current portion	<u>46,153</u>
	<u>809,866</u>
Net assets	
Unrestricted net assets	6,416,926
Temporarily restricted assets	<u>110,139</u>
	<u>6,527,065</u>
	<u>\$ 7,336,931</u>

See notes to the financial statements.

Children's Hope International and Children's Hope International Foundation

Consolidated statement of Activity
For the year ended December 31, 2008

Changes in unrestricted net assets:

Unrestricted revenues, support and gains

Adoption fees	\$ 6,386,560
Home study and post-placement fees	496,856
Other	44,006
Contributions	346,160
Net investment income	(211,950)
Foreign currency gain	213,962
Gain on disposal of property and equipment	(12,457)
Total unrestricted revenues, Support and gains before Net assets released from restrictions	<u>7,263,137</u>
Net assets released from restrictions	<u>3,999,938</u>
Total unrestricted revenues, support and gains	<u>11,263,075</u>

Adjustment to promises to give	<u>(75,000)</u>
	<u>11,188,075</u>

Expenses

Program services	10,886,269
Management and general	1,778,193
Fundraising	129,658
Total expenses	<u>12,794,120</u>
Increase (decrease) in Unrestricted net assets	<u>(1,606,045)</u>

Changes in temporarily restricted

Net assets	
Contributions	3,529,170
Net assets released from restrictions	(3,999,938)
Increase in temporarily restricted net assets	<u>(470,768)</u>
Increase (decrease) in net assets	<u>(2,076,813)</u>
Net assets - beginning of year	<u>8,048,748</u>
Prior period adjustment	<u>555,130</u>
	<u>8,603,878</u>
Net assets-end of year	<u><u>\$ 6,527,065</u></u>

See notes to the financial statements

Children's Hope International and Children's Hope International Foundation

Consolidated Statement of Cash Flows

For the year ended December 31, 2008

Cash flows from operating activities	
Increase (decrease) in net assets	\$ (2,076,813)
Adjustments to reconcile increase (decrease) in net assets	
To net cash provided by (used in) operating activities:	
Depreciation	302,392
(Gain) loss on disposal of property and equipment	12,457
Realized gains on investments	244,490
Unrealized (gains) losses on investments	
Changes in assets and liabilities:	
(increase) decrease in prepaid expenses	115,500
(increase) decrease in promises to give	279,000
(increase) decrease in accounts receivable	(1,570)
Increase in accounts payable	(52,301)
Increase in accrued vacation and salaries	(109,377)
Increase in deferred revenue	(233,128)
Net cash provided by (used in) operating activities	<u>(1,519,350)</u>
Cash flows from investing activities	
Proceeds from sales of investments	6,070,875
Purchase of investments	(3,514,479)
Purchase of property and equipment	(698,797)
Proceeds from sales of property and equipment	14,722
Increase in cash value of officer life insurance policies	-
Net cash provided by (used in) investing activities	<u>1,872,321</u>
Cash flows from financing activities	
Principal payments on capital lease obligations	(27,562)
Net cash used in financing activities	<u>(27,562)</u>
Net increase (decrease) in cash	325,409
Cash - beginning of year	1,530,484
Cash - end of year	<u>\$ 1,855,893</u>
Supplemental Disclosure Of Cash Flow Information	
Interest paid	<u>\$ 9,827</u>

See notes to the financial statements

Children's Hope International and Children's Hope International Foundation

Notes to Consolidated Financial Statements

December 31, 2008

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Children's Hope International (CHI) and Children's Hope International Foundation (CHIF) (the Organizations).

CHIF is controlled by CHI resulting in consolidation of these financial statements. All transactions between CHI and CHIF have been eliminated in consolidation.

Basis of Accounting

The accompanying financial statements of CHI and CHIF have been prepared on the accrual basis of accounting.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-For-Profit Organizations. Under SFAS No. 117, CHI and CHIF are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Organizations do not have any permanently restricted net assets at December 31, 2008.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

Management has adopted the provisions of Statement of Financial Accounting Standards No. 157 *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1

Children's Hope International and Children's Hope International Foundation

Notes to Consolidated Financial Statements

December 31, 2008

(Continued)

1. Summary of Significant Accounting Policies (continued)

Investments (continued)

measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under are described as follows

Level 1 Inputs (Quoted Prices)—are quoted prices in active markets for identical assets that the organization has the ability to access at the measurement date (for example, prices derived from NYSE, NASDAQ and the Chicago Board of Trade). If a level 1 input is available for a particular investment, it must be used to value that investment.

Level 2 Inputs (Observable Inputs)—are inputs (other than quoted prices included within level 1) that are observable for the asset, either directly or indirectly. Observable inputs are those that reflect the assumptions market participants would use in pricing the asset developed on market data obtained from sources independent of the organization (e.g., matrix pricing, yield curves and indices).

Level 3 Inputs (Unobservable Inputs)—are unobservable inputs for the asset. Unobservable inputs are those that reflect the organization's own assumptions about the assumptions that market participants would use in pricing the asset developed, based on the best information available in the circumstances (e.g., investment manager pricing for private placements, private equities and hedge funds).

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 promises are received and are recorded at the present value of the estimated future cash flows. Promises to give are stated at the amount management expects to collect from balances outstanding at year end. The collectability of the promises to give is uncertain because of economic conditions however management does not believe an allowance is required yet.

In-kind contributions

The financial statements include unaudited in-kind contributions \$1,153,268 all of in kind contributions were received in China. This is based on estimates from the China office. The dollar amount was determined by converting Chinese currency by the average conversion rate in effect in 2008. The amount also includes volunteer labor of \$ 14,508. It is not known if the volunteer labor actually meets the criteria for recording in the financial statements under generally accepted accounting principles.

Children's Hope International and Children's Hope International Foundation

Notes to Consolidated Financial Statements

December 31, 2008

(Continued)

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment 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. Depreciation is recorded on a straight-line basis, with a half-month convention depreciation recognized in the years of acquisition and disposal, over the estimated useful lives of the assets.

Deferred Revenue

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

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.

Description of Program Services and Supporting Activities

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

Adoption - Encompasses all aspects of CHI's adoption activities.

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

Earthquake aid – In 2008 CHI office in China provided support for victims of the earthquake in China.

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

Children's Hope International and Children's Hope International Foundation

Notes to Consolidated Financial Statements

December 31, 2008

(Continued)

1. Summary of Significant Accounting Policies (continued)

Description of Program Services and Supporting Activities (continued)

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 include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Tax Status

Both CHI and CHIF are organizations described in Internal Revenue Code Section 501(c)(3). Both have received Internal Revenue Service (IRS) determination letters stating that they are exempt from federal tax on income from related, exempt activities.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2008 were \$ 70,868.

Foreign currency

Amounts included in the financial statements that are derived from foreign operations have been converted to US dollars based on year end exchange rates for balances at year end. Transactions during the year were converted using the average exchange rate. There was an adjustment to year end bank accounts of \$213,962 part of which includes foreign exchange gain.

2. Operations

CHI provides adoption services for children in China, Colombia, Vietnam, Russia, Kazakhstan, 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, Vietnam, Kazakhstan and Russia. In 2008 CHI had 496 adoptions.

The office in Vietnam, was closed during 2008 and the office in Kazakhstan was closed in 2009.

Children's Hope International and Children's Hope International Foundation

Notes to Consolidated Financial Statements

December 31, 2008

(Continued)

2. Operations (continued)

In addition to adoptions, CHI also accepts donations through its Helping Hands Programs to improve the health and welfare of orphaned children in China, Ethiopia Vietnam, India, Russia, Colombia and Kazakhstan. In 2001, CHIF was formed to assume these charitable activities. In 2008, CHI and CHIF together distributed \$ 1,245,237 , for humanitarian aid projects in these countries and for adoption grants to several families in need.

3. Cash

Cash in US bank accounts may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limits. Cash in foreign bank accounts is unaudited and managements rights and obligations regarding the security of the deposits is unknown.

4. Investments

Assets Measured at Fair Value on a Recurring Basis

Description	12/31/2008	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money markets	\$ 323,414	\$ -	\$ 323,414	\$ -
Fixed income	9,980	5,230	4,750	-
Equity	11,230	11,230	-	-
	344,624	16,460	328,164	-
Split interest life insurance	120,015	-	-	120,015
Total	\$ 809,263	\$ 32,920	\$ 656,328	\$ 120,015

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

Beginning Balance	Split interest life insurance policies
Changes (not provided by insurance company)	\$ 120,015
Ending Balance	<u>\$ 120,015</u>
The amount of total gains or losses for the period included in changes in net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	<u>\$ -</u>

Children's Hope International and Children's Hope International Foundation

Notes to Consolidated Financial Statements

December 31, 2008

(Continued)

4. Investments (continued)

	December 31, 2008	
	Fair value	Cost
Money market funds	\$ 323,414	\$ 323,414
Corporate bonds	4,750	51,384
Mutual funds	16,460	24,403
	<u>\$ 344,624</u>	<u>\$ 399,201</u>

Investment income consists of the following:

	Amount
Investment income	
Interest and dividends	\$ 54,128
Unrealized gains	(54,577)
Realized	(200,303)
	<u>(200,752)</u>
Expenses	(11,198)
Net investment income	<u>\$ (211,950)</u>

5. Capital assets

Capital assets consist of the following:

	Amount
Land	\$ 1,268,757
Buildings	2,970,140
Building improvements	227,105
Equipment	997,973
Capital leases	145,091
	<u>5,609,066</u>
Less: Accumulated depreciation	<u>1,243,553</u>
	<u>\$ 4,365,513</u>

Children's Hope International and Children's Hope International Foundation

Notes to Consolidated Financial Statements

December 31, 2008

(Continued)

6. Promises to give

Promises to give consist of one outstanding promise of \$81,000 all due in the current year. During the year management charged \$ 75,000 to adjustments to promises to give for uncollectable promises to give.

7. Leases

The Organizations conduct a portion of their operations in leased facilities. Some of these leases provide that the Organizations pay additional building expenses. Future minimum lease commitments at December 31, 2008 are as follows:

December 31,	<u>Amount</u>	<u>Subleases</u>	<u>Net</u>
2009 \$	48,568	\$ 46,530	\$ 2,038
2010	49,516	24,300	25,216
2011	50,480		50,480
2012	20,634		20,634
2013	10,464		10,464
	<u>\$ 179,662</u>	<u>\$ 70,830</u>	<u>\$ 108,832</u>

Total rent expense for all operating leases was \$ 169,489

During 2002, 2006, and 2007, CHI entered into equipment leases, which are considered to be equivalent to installment purchases for purposes of accounting presentation. The assets under the capital leases are capitalized using interest rates of 5.06% to 9.62% which were appropriate at the inception of the related lease and amortized over a five-year period. Amortization of such leases is included in depreciation expense. The gross amount of equipment recorded under the capital leases totaled \$145,091 at December 31, 2008, respectively. Accumulated amortization on this equipment amounted to \$78,900 at December 31, 2008.

Children's Hope International and Children's Hope International Foundation

Notes to Consolidated Financial Statements

December 31, 2008

(Continued)

7. Leases (continued)

Future minimum lease payments related to this equipment as of December 31, 2008 are as follows:

December 31,	<u>Amount</u>	
2009	\$	35,472
2010		31,121
2011		15,500
2012		<u>3,243</u>
		85,336
Less interest		<u>9,212</u>
		76,124
Less current portion		<u>29,971</u>
Long term portion	\$	<u><u>46,153</u></u>

Interest expense of \$ 9,212 was charged against income in 2008.

8. Retirement plans

401(k) Plan

All employees who have worked for three months or more are eligible to participate in a multiple employer plan sponsored by ADP total source. Employees may contribute up to 100% of their compensation up to limits specified in the internal revenue code. CHI determines on an annual basis the amount it will match. CHI's matching contribution was \$ 25,435 for 2008.

Nonqualified Pension Plans

CHI provides nonqualified pension benefits to its executives. The benefit is provided by split interest policies on two officers. The officers have assigned rights to CHI to the policy cash surrender value 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. Changes in cash value are unknown since the insurance companies declined to provide the information.

Children's Hope International and Children's Hope International Foundation

Notes to Consolidated Financial Statements

December 31, 2008

(Continued)

9. Foreign Operations

CHI and CHIF have offices in other countries that are staffed by CHI employees in those countries. Information included in the financial statements regarding foreign bank accounts and expenses with the foreign offices are unaudited.

About 28 % of the CHI and the CHIF assets are in China under the control of the executive director and associate director. Because of legal restrictions in China CHI's and CHIF's right to the assets is uncertain.

10. Related Party Transactions

CHI advanced \$ 554,000 to its Associate Director Melody Zhang in China to purchase a building to be used by the CHIF and CHI in 2005 and 2004. Because of Chinese law CHI cannot purchase a building in China. Management has an informal understanding with Ms Zhang that the building purchased in her name is to be used exclusively for use by CHI. CHI's legal rights to the property are uncertain since no formal agreement has been executed. The amount advanced to Ms. Zhang is recorded as an advance to the associate director until a formal agreement is executed. Subsequent to the end of the year management executed an agreement with Ms. Zhang about board approval and how the property is to be used.

11. Correction of errors in prior periods.

A prior period adjustment was made to correct known errors in prior financial statements

	Amount
Error foreign bank accounts	\$ 539,486
Error in cost of capital assets	(57,209)
Error in officer advance	60,108
Error in capital leases	15,713
Error in depreciation	<u>(2,968)</u>
	<u>\$ 555,130</u>

SUPPLEMENTAL INFORMATION

Children's Hope International and Children's Hope International Foundation
Schedule of Functional Expenses
For the year ended December 31, 2008

	Program	Administration	Fundraising	Total
Salaries	\$ 2,239,416	\$ 556,974	\$ 61,900	\$ 2,858,290
Payroll taxes	223,051	85,167	9,463	317,681
Benefits	129,725	63,163	7,018	199,906
Pension	-	22,893	2,543	25,436
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	2,592,192	728,197	80,924	3,401,313
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Adoption expenses	2,142,490	-	-	2,142,490
Advertising	13,152	57,594	122	70,868
Bank Charges	51,627	2,434	-	54,061
Contract labor	19,925	240,389	-	260,314
Depreciation	65,229	237,455	-	302,684
Foreign office administrations	100,585	-	-	100,585
Fundraising events	-	-	16,661	16,661
Helping hands humanitarian expense	4,342,287	-	-	4,342,287
Insurance	3,556	81,867	-	85,423
Interest	2,990	6,837	-	9,827
Licenses	-	-	3,318	3,318
Meetings and conferences	4,397	9,798	-	14,195
Miscellaneous expense	18,122	18,349	-	36,471
Moving	7,819	-	-	7,819
Postage	119,216	29,542	-	148,758
Printing	2,414	720	13,791	16,925
Professional fees	15,320	82,030	14,700	112,050
Rent	191,132	1,757	-	192,889
Repairs and maintenance	9,837	78,775	-	88,612
Software	-	33,577	-	33,577
Supplies	25,116	31,918	-	57,034
Tax	8,402	16,995	-	25,397
Telephone	81,065	53,948	-	135,013
Travel and entertainment	1,060,728	30,317	142	1,091,187
Utilities	8,668	35,694	-	44,362
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	8,294,077	1,049,996	48,734	9,392,807
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	\$ 10,886,269	\$ 1,778,193	\$ 129,658	\$ 12,794,120
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See auditor's report regarding this information.

Children's Hope International and Children's Hope International Foundation
Consolidating Schedule of Activities -Unaudited
For the year ended December 31, 2008

	Children's Hope International	Children's Hope International Foundation	Eliminating entries	Consolidated
Changes in unrestricted net assets:				
Unrestricted revenues, support and gains				
Adoption fees	\$ 6,394,110	\$ -	\$ (7,550)	\$ 6,386,560
Home study and post-placement fees	496,856	-	-	496,856
Other	43,940	66	-	44,006
Contributions		495,268	(149,108)	346,160
Net investment income	(204,135)	(7,815)	-	(211,950)
Foreign currency gain	213,962		-	213,962
Gain on disposal of property and equipment	(12,457)		-	(12,457)
Total unrestricted revenues, Support and gains before Net assets released from restrictions	6,932,276	487,519	(156,658)	7,263,137
Net assets released from restrictions	-	3,999,938	-	3,999,938
Total unrestricted revenues, support and gains	6,932,276	4,487,457	(156,658)	11,263,075
Adjustment to promises to give	-	(75,000)	-	(75,000)
	6,932,276	4,412,457	(156,658)	11,188,075
Expenses				
Program services	6,694,819	4,389,702	(198,252)	10,886,269
Management and general	1,791,229	154,790	(167,826)	1,778,193
Fundraising	1,109	54,626	73,923	129,658
Total expenses	8,487,157	4,599,118	(292,155)	12,794,120
Increase (decrease) in Unrestricted net assets	(1,554,881)	(186,661)	135,497	(1,606,045)
Changes in temporarily restricted Net assets				
Contributions	-	3,664,667	(135,497)	3,529,170
Net assets released from restrictions	-	(3,999,938)	-	(3,999,938)
Increase in temporarily restricted net assets	-	(335,271)	(135,497)	(470,768)
Increase (decrease) in net assets	(1,554,881)	(521,932)	-	(2,076,813)
Net assets - beginning of year	7,332,928	715,820	-	8,048,748
Prior period adjustment	553,450	1,680	-	555,130
	7,886,378	717,500	-	8,603,878
Net assets-end of year	\$ 6,331,497	\$ 195,568	\$ -	\$ 6,527,065

See auditor's report regarding this information.