

CAPTAIN HOPE'S KIDS
FINANCIAL STATEMENTS
December 31, 2009 and 2008

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Independent Auditor's Report

Board of Directors
Captain Hope's Kids

We have audited the accompanying statements of financial position of Captain Hope's Kids, (a not-for-profit organization) as of December 31, 2009 and 2008, and the related statements of financial activities and cash flows for the years then ended. These financial statements are the responsibility of the Captain Hope's Kids management. 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 of material misstatement. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Captain Hope's Kids as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

April 6, 2010

Thomas Stephen & Company, LLP
THOMAS STEPHEN & COMPANY, LLP

Captain Hope's Kids
 Statements of Financial Position
 December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 363,398	\$ 368,296
Receivables	18,521	26,250
Inventories	23,438	12,841
Total current assets	<u>405,357</u>	<u>407,387</u>
Deposits	1,837	1,837
Property and equipment, net of accumulated depreciation	<u>21,456</u>	<u>27,939</u>
Total assets	<u><u>\$ 428,650</u></u>	<u><u>\$ 437,163</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable - all current	<u>\$ 562</u>	<u>\$ 8,633</u>
Net assets		
Unrestricted	428,088	403,530
Temporarily restricted	-	25,000
Total net assets	<u>428,088</u>	<u>428,530</u>
Total liabilities and net assets	<u><u>\$ 428,650</u></u>	<u><u>\$ 437,163</u></u>

See accompanying notes.

Captain Hope's Kids
 Statements of Financial Activities
 for the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenues		
Contributions	\$ 138,648	\$ 116,532
Special events (net of expenses of \$23,084 and \$35,077 in 2008 and 2009, respectively)	28,642	85,797
Donated goods	471,959	474,450
Donated in-kind services	65,724	64,305
Interest and other income	2,745	7,269
Total unrestricted revenues and support	<u>707,718</u>	<u>748,353</u>
Net assets released from restrictions	<u>216,750</u>	<u>181,500</u>
Total unrestricted revenues, support and reclassification	<u>924,468</u>	<u>929,853</u>
Expenses		
Program distributions	602,362	642,866
Program services	232,086	197,236
General and administrative	40,547	53,587
Fundraising and development	24,915	44,004
Total expenses	<u>899,910</u>	<u>937,693</u>
Increase (decrease) in unrestricted net assets	<u>24,558</u>	<u>(7,840)</u>
Temporarily restricted contributions	191,750	206,500
Net assets released from restrictions	<u>(216,750)</u>	<u>(181,500)</u>
Increase (decrease) in temporarily restricted net assets	<u>(25,000)</u>	<u>25,000</u>
Change in net assets	(442)	17,160
Net assets at beginning of year	<u>428,530</u>	<u>411,370</u>
Net assets at end of year	<u>\$ 428,088</u>	<u>\$ 428,530</u>

See accompanying notes.

Captain Hope's Kids
 Statements of Cash Flows
 for the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets	\$ (442)	\$ 17,160
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	7,122	1,792
Gain on sale of assets	(1,615)	(1,800)
Donation of fixed assets	-	(5,717)
(Increase) decrease in accounts receivable	7,729	(10,000)
(Increase) decrease in inventories	(10,597)	15,150
Decrease in prepaid expenses	-	250
Increase (decrease) in accounts payable	(8,071)	8,246
Net cash provided by (used in) operating activities	<u>(5,874)</u>	<u>25,081</u>
Cash flows from investing activities		
Proceeds from disposal of assets	1,615	1,800
Purchase of furniture and equipment	(639)	(22,326)
Net cash provided by (used in) investing activities	<u>976</u>	<u>(20,526)</u>
Net increase (decrease) in cash and cash equivalents	(4,898)	4,555
Cash and cash equivalents at beginning of year	<u>368,296</u>	<u>363,741</u>
Cash and cash equivalents at end of year	<u>\$ 363,398</u>	<u>\$ 368,296</u>
Supplemental noncash flow information		
In-kind donations	\$ 537,683	\$ 538,755

See accompanying notes.

Captain Hope's Kids
Notes to Financial Statements
December 31, 2009 and 2008

1. Nature of Operations

Captain Hope's Kids (the Organization) is a not-for-profit corporation which provides diapers, school uniforms, school supplies, clothing, personal items, blankets and toys to homeless children in the Dallas and Fort Worth areas of North Texas.

2. Summary of Significant Accounting Policies

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Contributions are recognized as revenues in the period unconditional promises to give are received. Contributions of assets other than cash are recorded at their estimated fair value. Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time are reported as temporarily restricted net assets. When a restriction expires, temporarily restricted assets are reclassified to unrestricted net assets. Special event revenues are recognized in the periods in which the events occur.

Statement of Cash Flows

The statement of cash flows is presented using the "indirect method". Cash and cash equivalents are comprised of cash on hand, cash in banks and short-term instruments with original maturities of three months or less.

Inventories

Inventories consist of diapers, school uniforms, school supplies, clothing, personal items, blankets and toys. Inventories, except items which are received as donations, are valued at average cost at year end. For certain donated items, the Organization uses valuation data provided by the Salvation Army.

Bad Debts

Bad debts are accounted for using the direct write off method. The direct write off method is not materially different from the allowance method which is required by accounting principles generally accepted in the United States of America. Management periodically reviews accounts receivable on an account by account basis concentrating on accounts more than 90 days old. Accounts are written off when it appears collection efforts will not be successful.

Captain Hope's Kids
Notes to Financial Statements
December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (continued)

Furniture and Equipment

Furniture and equipment are recorded at cost if purchased and fair market value if donated and depreciated using the straight-line and accelerated methods over a period of three to five years. The Organization capitalizes items costing \$500 or more. Furniture and equipment are as follows:

	2009	2008
Property and equipment	\$ 59,536	\$ 61,362
Accumulated depreciation	(38,080)	(33,423)
Net book value	\$ 21,456	\$ 27,939

Depreciation expense was \$7,122 and \$1,792 for the years ending December 31, 2009 and 2008, respectively.

Donated Goods and Services

Donated goods and services are recorded at their estimated fair market value when received.

During 2009 and 2008, the following goods and services were donated to the Organization for special events, program services and operations:

	2009	2008
Inventory	\$ 471,959	\$ 474,450
Printing	8,516	26,078
Supplies	1,026	11,610
Fixed assets	-	5,717
Business services	56,182	20,900
	\$ 537,683	\$ 538,755

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Captain Hope's Kids
Notes to Financial Statements
December 31, 2009 and 2008

2. Summary of Significant Accounting Policies (continued)

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 those estimates. The major estimates are the valuation of in-kind donations and inventory and the allocation of functional expenses.

Income Taxes

The Organization is a not-for-profit Texas corporation which is classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Organization is not classified by the Internal Revenue Service as a private foundation and does not have unrelated business income, which would require the filing of a Form 990-T. Accordingly, no provision for federal income tax has been recorded in the accompanying financial statements. The Organization evaluates its tax exempt status and any unrelated business income each year.

In 2009, the Organization adopted FASB ASC 740-10 (FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – and interpretation of FASB Statement No. 109"). ASC 740-10 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740-10, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. The determination is based on the technical merits of the position and presumes that each uncertain tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information.

Although ASC 740-10 was adopted by the Organization in fiscal 2009, we are not aware of any uncertain tax positions, as of December 31, 2009, that would be subject to the recognition provision of ASC 740-10.

The 2006 through 2009 tax years generally remain subject to examination by federal and state authorities.

Captain Hope's Kids
Notes to Financial Statements
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3. Commitments

In 2006, the Organization entered into an escalating lease agreement for an office space. The Organization also leases certain office equipment under a non-cancelable lease. The schedule of lease payments is as follows:

	<u>Base Rent</u>
2010	\$ 13,549
2011	6,128
2012	416
Total	<u>\$ 20,093</u>

Total rent expenses for 2009 and 2008 are \$18,011 and \$17,517, respectively.

4. Concentration

The Organization derives the majority of its revenue from in-kind donations. Continued funding from these sources at current levels is dependent upon various factors. Such factors include economic conditions, compliance with grant provisions, donor satisfaction, and public perception of mission effectiveness and relative importance.

The Organization periodically maintains balances in financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits.

The Organization operates mainly within the Dallas, Texas metropolitan area. Therefore, results of operations and collectability of receivables are subject to the economic conditions of the area.

5. Related Party Transactions

The Organization received in-kind printing services from Padgett Printing Corp. whose CEO and President, is a member of the Organization's board of directors. During the year ended December 31, 2009, the Organization received \$4,743 worth of printing and other services from his company.

6. Subsequent events

The Organization has evaluated events through April 6, 2010, the date the financial statements were available to be issued. The Organization has no subsequent events to report.