



DAVIS CLARK & COMPANY

Certified Public Accountants

FAX COVER SHEET 15

Date: 6/7/07

To: Carey McMann

Company: Captain Hope's Kids

E-mail: carey.mcmann@tx.rr.com

Phone:

Fax:

From: Reggie Lei

COMMENTS:

Audited FLS.

This communication is intended to be used only by the person or entity to whom it is addressed, and may contain information that is privileged, confidential and/or exempt from disclosure under applicable law. If you are not the intended recipient, you are hereby notified that any dissemination, distribution or reproduction of this communication is strictly prohibited. If you have received this communication in error, or if you are unable to deliver this communication to the intended recipient, please notify us immediately by telephone at the number below.

PAGES INCLUDING THE COVER PAGE: 12

CAPTAIN HOPE'S KIDS
FINANCIAL STATEMENTS
December 31, 2006 and 2005

Captain Hope's Kids
Financial Statements
December 31, 2006 and 2005

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Statements of Financial Position, December 31, 2006 and 2005.....	2
Statements of Financial Activities for the Years Ended December 31, 2006 and 2005....	3
Statements of Cash Flows for the Years Ended December 31, 2006 and 2005.....	4
Notes to Financial Statements.....	5



DAVIS CLARK
& COMPANY

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Captain Hope's Kids
10555 Newkirk, Suite 580
Dallas, Texas 75220

We have audited the accompanying Statements of Financial Position of Captain Hope's Kids, (a nonprofit organization) as of December 31, 2006 and 2005, and the related Statements of Financial Activities and of Cash Flows for the years then ended. These financial statements are the responsibility of 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 positions of Captain Hope's Kids as of December 31, 2006 and 2005, 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.

May 18, 2007

DAVIS CLARK & COMPANY, LLC
Certified Public Accountants

Captain Hope's Kids
 Statements of Financial Position
 December 31, 2006 and 2005

	<u>ASSETS</u>	
	2006	2005
Current assets		
Cash and cash equivalents	\$ 286,800	\$ 188,949
Investments, at market value	- 0 -	85,678
Receivables	44,152	26,477
Inventories	27,897	12,222
Prepaid expenses	- 0 -	628
Total current assets	358,849	313,954
Deposits	2,087	- 0 -
Furniture and equipment, net	3,144	1,911
Total assets	\$ 364,080	\$ 315,865

LIABILITIES AND NET ASSETS

Accounts payable - all current	\$ 8,166	\$ 4,172
Net assets		
Unrestricted	313,114	268,693
Board designated	3,000	- 0 -
Temporarily restricted	39,800	43,000
Total net assets	355,914	311,693
 Total liabilities and net assets	 \$ 364,080	 \$ 315,865

The accompanying notes are an integral part of these statements.

Captain Hope's Kids
 Statements of Financial Activities
 For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues		
Contributions	\$ 103,637	\$ 97,088
Special events	136,194	125,155
Donated goods	375,982	212,367
Interest and other income	<u>7,030</u>	<u>3,944</u>
Total unrestricted revenues and support	622,843	438,554
Net assets released from restrictions	<u>146,500</u>	<u>151,500</u>
Total unrestricted revenues, support and reclassification	<u>769,343</u>	<u>590,054</u>
Expenses		
Program	502,112	349,689
Special events	120,169	80,764
General and administrative	54,715	35,363
Fundraising and development	<u>44,926</u>	<u>39,634</u>
Total expenses	<u>721,922</u>	<u>505,450</u>
Increase in unrestricted net assets	<u>47,421</u>	<u>84,604</u>
Temporarily restricted contributions	143,300	166,000
Net assets released from restriction	<u>(146,500)</u>	<u>(151,500)</u>
Increase (decrease) in temporarily restricted net assets	<u>(3,200)</u>	<u>14,500</u>
Change in net assets	44,221	99,104
Net assets at beginning of year	<u>311,693</u>	<u>212,589</u>
Net assets at end of year	<u>\$ 355,914</u>	<u>\$ 311,693</u>

The accompanying notes are an integral part of these statements.

Captain Hope's Kids
 Statements of Cash Flows
 For the Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Change in net assets	\$ 44,221	\$ 99,104
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,166	1,667
Unrealized and realized loss (gain) on investments	803	(894)
Loss on sale of assets	451	- 0 -
Donation of fixed assets	(2,000)	- 0 -
(Increase) in accounts receivable	(17,675)	(15,177)
(Increase) decrease in inventories	(15,675)	12,031
(Increase) decrease in prepaid expenses	628	(628)
(Increase) in deposits	(2,087)	- 0 -
Increase in accounts payable	3,994	4,172
Net cash provided by operating activities	13,826	100,275
 Cash flows from investing activities		
Sale of investments	84,875	- 0 -
Purchase of furniture and equipment	(850)	(1,230)
Net cash provided by (used in) investing activities	84,025	(1,230)
 Net increase in cash and cash equivalents	97,851	99,045
Cash and cash equivalents at beginning of year	188,949	89,904
 Cash and cash equivalents at end of year	\$ 286,800	\$ 188,949
 Supplemental noncash flow information:		
In-kind donations	\$ 377,982	\$ 212,367

The accompanying notes are an integral part of these statements.

Captain Hope's Kids
Notes to Financial Statements
December 31, 2006 and 2005

A. Nature of Operations

Captain Hope's Kids (the Organization) is a nonprofit corporation which provides clothing, personal items, blankets, luggage, toys and cash to homeless children in the Dallas and Fort Worth areas of North Texas.

B. Summary of Significant Accounting Policies

1. 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. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted revenues. 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.

2. 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.

3. Investments

Marketable securities are stated at current market value as reported by Merrill Lynch. The net realized and unrealized gains and losses in market value of investments are reflected in interest and other income in the statement of activities. In 2006, the Organization transferred all investments from Merrill Lynch to AIM Investments money market account, which is classified as cash and cash equivalents.

4. Inventories

Inventories consists of clothes, toys and luggage. Inventories, except items which are received as donations, are valued at average cost at year end. For donated items, the Organization values these items using valuation data provided by the Salvation Army.

Captain Hope's Kids
Notes to Financial Statements
December 31, 2006 and 2005

B. Summary of Significant Accounting Policies (cont'd)

5. 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.

6. 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. Furniture and equipment are as follows:

	<u>2006</u>	<u>2005</u>
Furnitures and equipments	\$ 52,850	\$ 52,500
Accumulated depreciation	(49,706)	(50,589)
Net book value	<u>\$ 3,144</u>	<u>\$ 1,911</u>

Depreciation expense was \$1,166 and \$1,667 for the years ending December 31, 2006 and 2005, respectively.

7. Donated Goods

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

8. 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.

9. 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

Captain Hope's Kids
Notes to Financial Statements
December 31, 2006 and 2005

B. Summary of Significant Accounting Policies (cont'd)

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.

10. Income Taxes

The Organization is exempt from Federal income taxes under section 501 (c)(3) of the Internal Revenue Code according to an Internal Revenue Service determination dated April 14, 1999. Accordingly, no provision has been made for federal income taxes.

11. Compensated Absences

Employees of the Organization receive paid vacation and personal days off, depending on length of service, and other factors. It is impractical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Organization's policy is to recognize the cost of compensated absences when actually paid to employees.

C. Investments

Investments at market value consist of the following at December 31, 2005:

Mutual fund - equity	\$ 51,190
Money market annuities	<u>34,488</u>
	<u>\$ 85,678</u>

D. Related Party

The Organization receives contributions consisting of donated office space from a company with related directors. The estimated fair value of the donated office space is approximately \$14,000 for the year ended December 31, 2005. The revenue and expenses are included in donated goods and general and administrative expenses in the accompanying statements of activities of 2005. In 2006, these contributions were terminated.

E. Commitments

In 2006, the Organization entered into a escalating lease agreement for new office space. The schedule of lease payments are as follows:

Captain Hope's Kids
Notes to Financial Statements
December 31, 2006 and 2005

E. Commitments (cont'd)

	<u>Base Rent</u>
2007	\$ 11,636
2008	12,048
2009	12,452
2010	12,836
2011	5,415
Total	\$ 54,387

Total rent expenses for 2006 and 2005 are \$16,383 and \$14,042, respectively.

F. Net Assets

Temporarily restricted net assets consisted for the following:

	<u>2006</u>	<u>2005</u>
BITS	\$ 39,800	\$ 43,000

The Organization's Board of Directors has designated unrestricted net assets to be disbursed with the approval of the Board of Directors. This designation is not legally binding upon the Organization. The funds are designated for the following:

	<u>2006</u>	<u>2005</u>
Van reserve	\$ 3,000	\$ -0-

G. Concentration

The Organization derives the majority of its revenue from special events and 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. At December 31, 2006 and 2005, uninsured balances totaled \$90,293 and \$94,783, respectively.

Captain Hope's Kids
Notes to Financial Statements
December 31, 2006 and 2005

G. Concentration (cont'd)

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