

CAPTAIN HOPE'S KIDS
FINANCIAL STATEMENTS
December 31, 2007 and 2006

Captain Hope's Kids
Financial Statements
December 31, 2007 and 2006

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report.....	1
Statements of Financial Position, December 31, 2007 and 2006.....	2
Statements of Financial Activities for the Years Ended December 31, 2007 and 2006....	3
Statements of Cash Flows for the Years Ended December 31, 2007 and 2006.....	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, 2007 and 2006, 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, 2007 and 2006, 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 28, 2008

DAVIS CLARK & COMPANY, LLC
Certified Public Accountants

Captain Hope's Kids
Statements of Financial Position
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Current assets		
Cash and cash equivalents	\$ 363,741	\$ 286,800
Receivables	16,250	44,152
Inventories	27,991	27,897
Prepaid expenses	<u>250</u>	<u>- 0 -</u>
Total current assets	408,232	358,849
Deposits	1,837	2,087
Furniture and equipment, net	<u>1,688</u>	<u>3,144</u>
Total assets	<u>\$ 411,757</u>	<u>\$ 364,080</u>

LIABILITIES AND NET ASSETS

Accounts payable - all current	<u>\$ 387</u>	<u>\$ 8,166</u>
Net assets		
Unrestricted	402,295	313,114
Board designated	9,075	3,000
Temporarily restricted	<u>- 0 -</u>	<u>39,800</u>
Total net assets	<u>411,370</u>	<u>355,914</u>
Total liabilities and net assets	<u>\$ 411,757</u>	<u>\$ 364,080</u>

The accompanying notes are an integral part of these statements.

Captain Hope's Kids
 Statements of Financial Activities
 For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues		
Contributions	\$ 105,516	\$ 103,637
Special events	213,425	136,194
Donated goods	340,591	375,982
Interest and other income	<u>9,997</u>	<u>7,030</u>
Total unrestricted revenues and support	669,529	622,843
Net assets released from restrictions	<u>185,900</u>	<u>146,500</u>
Total unrestricted revenues, support and reclassification	<u>855,429</u>	<u>769,343</u>
Expenses		
Program	538,676	502,112
Special events	154,943	120,169
General and administrative	41,007	54,715
Fundraising and development	<u>25,547</u>	<u>44,926</u>
Total expenses	<u>760,173</u>	<u>721,922</u>
Increase in unrestricted net assets	<u>95,256</u>	<u>47,421</u>
Temporarily restricted contributions	146,100	143,300
Net assets released from restriction	(<u>185,900</u>)	(<u>146,500</u>)
Decrease in temporarily restricted net assets	(<u>39,800</u>)	(<u>3,200</u>)
Change in net assets	55,456	44,221
Net assets at beginning of year	<u>355,914</u>	<u>311,693</u>
Net assets at end of year	<u>\$ 411,370</u>	<u>\$ 355,914</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, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Change in net assets	\$ 55,456	\$ 44,221
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,456	1,166
Unrealized and realized loss on investments	- 0 -	803
Loss on sale of assets	- 0 -	451
Donation of fixed assets	- 0 -	(2,000)
(Increase) decrease in accounts receivable	27,902	(17,675)
(Increase) in inventories	(94)	(15,675)
(Increase) decrease in prepaid expenses	(250)	628
(Increase) decrease in deposits	250	(2,087)
Increase (decrease) in accounts payable	(7,779)	3,994
Net cash provided by operating activities	76,941	13,826
 Cash flows from investing activities		
Sale of investments	- 0 -	84,875
Purchase of furniture and equipment	- 0 -	(850)
Net cash provided by investing activities	- 0 -	84,025
 Net increase in cash and cash equivalents	76,941	97,851
Cash and cash equivalents at beginning of year	286,800	188,949
 Cash and cash equivalents at end of year	\$ 363,741	\$ 286,800
 Supplemental noncash flow information:		
In-kind donations	\$ 340,951	\$ 377,982

The accompanying notes are an integral part of these statements.

Captain Hope's Kids
Notes to Financial Statements
December 31, 2007 and 2006

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. 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. 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.

4. 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, 2007 and 2006

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

5. 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:

	2007	2006
Furniture and equipment	\$ 52,850	\$ 52,850
Accumulated depreciation	(51,162)	(49,706)
Net book value	\$ 1,688	\$ 3,144

Depreciation expense was \$1,456 and \$1,166 for the years ending December 31, 2007 and 2006, respectively.

6. Donated Goods and Services

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

During 2007 and 2006 the following goods and services were donated to the Organization for special events, program services and operations:

	2007	2006
Inventory	\$ 299,686	\$ 338,477
Printing	11,410	3,045
Supplies	6,632	15,687
Business Services	22,863	18,773
	\$ 340,591	\$ 375,982

7. 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, 2007 and 2006

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

8. 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.

9. 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.

10. 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. Commitments

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

	<u>Base Rent</u>
2008	\$ 12,048
2009	12,452
2010	12,836
2011	5,415
Thereafter	<u>- 0 -</u>
Total	<u>\$ 42,751</u>

Captain Hope's Kids
Notes to Financial Statements
December 31, 2007 and 2006

C. Commitments (cont'd)

Total rent expenses for 2007 and 2006 are \$16,979 and \$16,383, respectively.

D. Net Assets

Temporarily restricted net assets consisted for the following:

	2007	2006
CHK (formerly BITS)	\$ - 0 -	\$ 39,800

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:

	2007	2006
Van reserve	\$ 9,075	\$ 3,000

E. 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, 2007 and 2006, uninsured balances totaled \$166,937 and \$90,293, respectively.

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.