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HANSON & CO.
Certified Public Accountants

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

HOPE HOUSE OF COLORADO

Years Ended December 31, 2012 and 2011

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Board of Directors
Hope House of Colorado

Independent Auditor's Report

We have audited the accompanying financial statements of Hope House of Colorado (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and change in net assets, functional expenses, and cash flows for the years 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 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 from 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 preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 Hope House of Colorado as of December 31, 2012 and 2011, 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.

Hansm? Co. CPA's

Denver, Colorado

September 4, 2013

HOPE HOUSE OF COLORADO
Statements of Financial Position

ASSETS		
December 31,	2012	2011
CURRENT ASSETS		
Cash and cash equivalents - unrestricted	\$ 119,685	\$ 217,321
Contributions receivable, net of allowance for doubtful accounts of \$-0-	9,811	42,658
Cash and cash equivalents - restricted for purchase of land	215,000	-
Total current assets	344,496	259,979
PROPERTY AND EQUIPMENT		
Land	141,570	141,570
Building and improvements	601,353	601,353
Furniture and equipment	20,918	14,183
Vehicles	26,503	26,065
Total property and equipment	790,344	783,171
Less accumulated depreciation	(120,382)	(105,026)
Net property and equipment	669,962	678,145
OTHER ASSETS		
Loan fees, net of accumulated amortization of \$169 in 2012	5,896	-
Deposits	5,712	-
Software, net of accumulated amortization of \$4,000 in 2012 and \$3,333 in 2011	-	667
Net other assets	11,608	667
Total assets	\$ 1,026,066	\$ 938,791

The accompanying notes are an integral part of this statement.

LIABILITIES AND NET ASSETS		
December 31,	2012	2011
CURRENT LIABILITIES		
Accounts payable	\$ 15,549	\$ 3,204
Current portion of long-term debt	8,758	4,283
Payroll liabilities	6,102	1,900
Total current liabilities	30,409	9,387
NON-CURRENT LIABILITIES		
Long-term debt	178,235	182,531
NET ASSETS		
Unrestricted	602,193	721,313
Temporarily restricted	215,229	25,560
Total net assets	817,422	746,873
Total liabilities and net assets	\$ 1,026,066	\$ 938,791

HOPE HOUSE OF COLORADO
Statement of Activities and Change in Net Assets
Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Contributions			
Corporate	\$ 92,759	\$ -	\$ 92,759
Grants	97,110	-	97,110
In-kind contributions	82,057	-	82,057
Churches	20,174	-	20,174
Individuals	216,088	215,000	431,088
Special event revenue	\$ 422,419		
Less: Cost of direct benefit to donors	<u>147,961</u>		
Net special event revenue	274,458	-	274,458
Other income	72	-	72
Interest income	24	-	24
Net assets released from restrictions	25,331	(25,331)	-
TOTAL REVENUES AND OTHER SUPPORT	808,073	189,669	997,742
EXPENSES			
Programs	687,438	-	687,438
Management and general	97,735	-	97,735
Fundraising expense	142,020	-	142,020
TOTAL EXPENSES	927,193	-	927,193
CHANGE IN NET ASSETS	(119,120)	189,669	70,549
NET ASSETS AT BEGINNING OF YEAR	721,313	25,560	746,873
NET ASSETS AT END OF YEAR	\$ 602,193	\$ 215,229	\$ 817,422

The accompanying notes are an integral part of this statement.

HOPE HOUSE OF COLORADO
Statement of Activities and Change in Net Assets
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Contributions			
Corporate	\$ 93,926	\$ -	\$ 93,926
Grants	103,050	-	103,050
In-kind contributions	46,143	-	46,143
Churches	19,997	-	19,997
Individuals	376,556	24,479	401,035
Special event revenue	\$ 318,407		
Less: Cost of direct benefit to donors	<u>94,111</u>		
Net special event revenue	224,296	-	224,296
Other income	482	-	482
Interest income	23	-	23
Net assets released from restrictions	4,076	(4,076)	-
TOTAL REVENUES AND OTHER SUPPORT	868,549	20,403	888,952
EXPENSES			
Programs	602,761	-	602,761
Management and general	77,828	-	77,828
Fundraising expense	76,096	-	76,096
TOTAL EXPENSES	756,685	-	756,685
CHANGE IN NET ASSETS	111,864	20,403	132,267
NET ASSETS AT BEGINNING OF YEAR	609,449	5,157	614,606
NET ASSETS AT END OF YEAR	\$ 721,313	\$ 25,560	\$ 746,873

The accompanying notes are an integral part of this statement.

HOPE HOUSE OF COLORADO
Statement of Functional Expenses
Year Ended December 31, 2012

	Program Activities	Support Services		Total
		Management and General	Fundraising	
Salary expense	\$ 477,237	\$ 5,468	\$ 51,313	\$ 534,018
Payroll tax expense	39,684	3,412	3,569	46,665
Employee benefit expense	4,682	403	1,058	6,143
Education and training	1,205	1,025	201	2,431
Interest expense	11,727	366	1,182	13,275
Insurance	12,635	640	1,518	14,793
Mentoring program	12,917	-	-	12,917
Moving expense	19,151	4,228	4,497	27,876
Office expenses	33,414	18,479	23,366	75,259
Other expenses	3,351	4,668	20,108	28,127
Professional contracts	845	45,352	34,703	80,900
Repairs and maintenance	7,128	8,961	505	16,594
Residential program	32,079	-	-	32,079
Supportive services	8,733	-	-	8,733
Vehicle expenses	6,558	-	-	6,558
Total expenses before depreciation and amortization	671,346	93,002	142,020	906,368
Depreciation expense	15,558	4,600	-	20,158
Amortization expense	534	133	-	667
Total expenses	\$ 687,438	\$ 97,735	\$ 142,020	\$ 927,193

The accompanying notes are an integral part of this statement.

HOPE HOUSE OF COLORADO
Statement of Functional Expenses
Year Ended December 31, 2011

	Program Activities	Support Services		Total
		Management and General	Fundraising	
Salary expense	\$ 396,071	\$ 3,651	\$ 37,429	\$ 437,151
Payroll tax expense	33,094	1,127	5,214	39,435
Employee benefit expense	4,801	3,727	1,314	9,842
Education and training	7,582	2,229	292	10,103
Interest expense	12,090	2,358	728	15,176
Insurance	9,038	1,749	454	11,241
Mentoring program	10,140	-	-	10,140
Office expenses	30,750	5,844	20,701	57,295
Other expenses	3,233	4,166	9,669	17,068
Professional contracts	646	38,557	-	39,203
Repairs and maintenance	12,399	9,487	99	21,985
Residential program	51,490	-	-	51,490
Supportive services	8,391	-	-	8,391
Vehicle expenses	4,932	32	196	5,160
Total expenses before depreciation and amortization	584,657	72,927	76,096	733,680
Depreciation expense	17,038	4,634	-	21,672
Amortization expense	1,066	267	-	1,333
Total expenses	\$ 602,761	\$ 77,828	\$ 76,096	\$ 756,685

The accompanying notes are an integral part of this statement.

HOPE HOUSE OF COLORADO
Statements of Cash Flows (page 1 of 2)

Years Ended December 31,	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from programs and events	\$ 422,491	\$ 318,889
Cash received from contributions and grants	458,978	575,350
Interest received	24	23
Cash payments to suppliers and employees	(952,690)	(760,670)
Deposit on lease	(712)	-
Interest paid	(13,106)	(15,176)
Net cash (used for) provided by operating activities	(85,015)	118,416
CASH FLOWS FROM INVESTING ACTIVITIES		
Earnest money deposit on land purchase	(5,000)	-
Purchase of equipment	(1,735)	(5,496)
Net cash used for investing activities	(6,735)	(5,496)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contribution restricted to land purchase	215,000	-
Line of credit advances	43,718	-
Line of credit repayments	(43,718)	-
Payments on long-term debt	(5,886)	(3,819)
Net cash provided by (used for) financing activities	209,114	(3,819)
NET INCREASE IN CASH	117,364	109,101
CASH AT BEGINNING OF YEAR	217,321	108,220
CASH AT END OF YEAR	\$ 334,685	\$ 217,321

The accompanying notes are an integral part of this statement.

HOPE HOUSE OF COLORADO
Statements of Cash Flows (page 2 of 2)

Years Ended December 31,	2012	2011
Reconciliation of change in net assets to net cash (used for) provided by operating activities:		
Change in net assets	\$ 70,549	\$ 132,267
Reconciling adjustments:		
Depreciation	20,158	21,672
Amortization	667	1,333
Loan fees	169	-
Contribution restricted to land purchase	(215,000)	-
In-kind contribution of equipment and vehicles	(12,913)	-
Vehicles gifted to clients	2,673	10,342
Changes in assets and liabilities:		
Accounts receivable	32,847	(42,658)
Lease deposit	(712)	-
Accounts payable	12,345	(4,967)
Accrued payroll liabilities	4,202	427
Total adjustments	(155,564)	(13,851)
Net cash (used for) provided by operating activities	\$ (85,015)	\$ 118,416

Schedule of non-cash investing and financing activities:

Equipment and vehicles acquired by in-kind contributions	\$ 12,913	\$ -
Loan extension fees added to note payable	\$ 6,065	\$ -

The accompanying notes are an integral part of this statement.

HOPE HOUSE OF COLORADO
Notes to Financial Statements

Note A - Nature of Activities and Significant Accounting Policies

Nature of Activities

Hope House of Colorado is committed to transforming the lives of teen mothers around the world. Hope House offers teen moms and their children hope for a brighter future by providing resources, education, and support to build strong, healthy, loving homes. Hope House offers residential and outreach programs at their facilities in Arvada and Westminster, Colorado. Hope House was incorporated in 2001 in the State of Colorado as a non-profit corporation. Hope House is supported primarily through donor contributions, grants, and fundraising activity.

Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board and reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Hope House considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Property and Equipment

It is the policy of Hope House to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Property and equipment are recorded at cost when purchased and fair value when donated. Property and equipment are depreciated using the straight-line method over useful lives of 5 to 40 years.

Net Assets

All financial transactions are recorded as unrestricted, temporarily restricted, and permanently restricted. Restrictions are made by donors who may stipulate limitations on the time a gift must be held, when it may be used, or the purpose for which it may be used.

Unrestricted net assets include assets and liabilities that are available for the regular activities of Hope House and controlled by the Board through the annual budget.

HOPE HOUSE OF COLORADO
Notes to Financial Statements

Note A - Nature of Activities and Significant Accounting Policies (continued)

Net Assets (continued)

Temporarily restricted net assets include donor contributions that have either a time or purpose limitation. When the limitations on contributions expire through the passage of time or action of Hope House, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions are reflected as unrestricted net assets when the restrictions are completely fulfilled in the year of receipt.

Permanently restricted net assets are contributions subject to donor imposed requirements that they be maintained permanently. Hope House has no permanently restricted net assets at this time.

Contributions and Contributions Receivable

Hope House conducts fundraising campaigns or may be the recipient of grant revenue. Contributions, including unconditional promises to give, are recorded as revenue in the period the contribution is received or the unconditional promise to give is made. Conditional promises to give are recorded as revenue when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions are available for unrestricted use unless specifically restricted by the donor.

Contributions receivable or unconditional promises to give are recorded at face value, which approximates fair value. No discounts or allowances have been applied to contributions receivable at year end because Hope House expects these amounts to be fully collectible within one year. An allowance for doubtful accounts receivable is estimated using management's judgment of current economic conditions. An account is written off only when management has determined that it is unlikely to be collected.

In-Kind Contributions

In-kind contributions may include donated property and equipment, services, space use, materials or supplies. All are valued at estimated fair value when recognized. Hope House recognizes the value of contributed services when they 1) create or enhance a non-financial asset or property and equipment; or 2) require specialized skills and would otherwise need to be purchased.

Functional Expenses

Expenses are charged directly to program, management and general, and fundraising categories based on specific identification of the expense. Indirect expenses have been allocated based on analysis of personnel time utilized for the related activity.

HOPE HOUSE OF COLORADO
Notes to Financial Statements

Note A - Nature of Activities and Significant Accounting Policies (continued)

Income Taxes

Hope House is exempt from income taxes under the Internal Revenue Code Section 501(c)(3) as a charitable organization. U.S. generally accepted accounting principles (GAAP) require an entity to disclose material uncertain tax positions that management believes do not meet a “more-likely-than-not” standard of being sustained under an income tax audit. If disclosure is required, the entity must accrue a liability for any such taxes, penalties, and interest. As of December 31, 2012, there is no taxable income from unrelated business activities and management has not identified any uncertain tax positions requiring disclosure or accrual. Information returns for the periods ending December 31, 2009 through 2012 remain open and subject to IRS inquiry.

Note B - Line of Credit

Hope House has a \$50,000 revolving line of credit with the bank. The interest rate is variable based on prime plus 1%, but is never lower than 5%. The line of credit is secured by real estate owned by Hope House. The line of credit is fully available at December 31, 2012.

The line of credit was increased to \$100,000 effective May 30, 2013 and matures May 30, 2015. The floor on the variable interest was revised to 4.25% effective with the revised agreement.

Note C - Temporary Restrictions of Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Gift restricted to purchase of land	\$215,000	\$ -
Gift restricted to capital campaign	229	24,479
Mentoring medical/dental fund	-	81
Website development	<u>-</u>	<u>1,000</u>
Total	<u>\$215,229</u>	<u>\$ 25,560</u>

Net assets released from restriction total \$25,331 and \$4,076 in 2012 and 2011 and consist of amounts temporarily designated for resident medical expenses in both years and for activities related to undertaking a capital campaign in 2012.

The donor of the gift restricted to purchase of land stipulated that the land be acquired by January 31, 2014. Management believes the possibility that the land will not be purchased in advance of that date is remote. Therefore, the gift is recorded in the year of receipt and is temporarily restricted.

HOPE HOUSE OF COLORADO
Notes to Financial Statements

Note D - In Kind Contributions

Hope House recorded in kind contributions for donated services and space totaling \$63,544 and \$40,673 in 2012 and 2011, respectively. Donated equipment, vehicles, and supplies totaling \$18,513 and \$5,470 were recognized in 2012 and 2011, respectively. Donated services and space include legal, accounting, counseling, medical, dental, skilled trades, computer services, and space. In-kind contributions may be used for program activities, management and general, or fundraising purposes.

In addition, many individuals volunteer their time and perform a variety of tasks vital to Hope House. However, these services do not meet the criteria for recognition in the financial statements. Hope House received more than and 9,400 volunteer hours in 2012 and 4,300 volunteer hours in 2011.

Note E - Long-Term Debt

Long-term debt consists of the following:

	<u>2012</u>	<u>2011</u>
Installment note payable to First Bank, refinanced August 6, 2012, secured by deed of trust on property. See next item.	\$ -	\$186,814
Installment note payable to First Bank, secured by deed of trust on property owned by Hope House and collateralized by all account balances at First Bank. Payable in monthly installments of \$1,533.91, including interest at 5.2%. Due in full July 27, 2027.	186,993	-
Less current portion	<u>(8,758)</u>	<u>(4,283)</u>
Long-term debt	<u>\$178,235</u>	<u>\$182,531</u>

Long-term debt matures as follows:

Years ending December 31,	
2013	\$ 8,758
2014	9,232
2015	9,730
2016	10,232
2017	10,808
Thereafter	<u>138,233</u>
	<u>\$186,993</u>

Long-term debt originally had a balloon payment which was refinanced in 2012 for a 15 year term note payable, at a lower interest rate. Loan fees of \$6,065 were added to loan principal and are included in other assets on the statement of financial position. They are amortized over the life of the loan and included in interest expense in the statement of functional expenses. A prepayment penalty may be assessed if the loan is refinanced with another lender.

HOPE HOUSE OF COLORADO
Notes to Financial Statements

Note F - Lease Expense

At December 31, 2012, Hope House has no operating leases in effect beyond one year. Lease payments on office equipment are included in office expense and total \$2,350 and \$1,564 for the years ended December 31, 2012 and 2011, respectively. Rent expense for administrative and program space are also included in office expense and total \$5,655 and \$2,400 for the years ended December 31, 2012 and 2011, respectively. See Note J, subsequent events.

Note G - Concentrations

Hope House generates substantially all of its support from contributions, grants, and fundraising events. For the year ending December 31, 2012, 62% of support is from contributions including in-kind, 28% from net special event revenue, and 10% from grants. For the year ending December 31, 2011, 63% of support is from contributions including in-kind, 25% from net special event revenue, and 12% from grants. A single donor gift in 2012 is 30% of all contributions and is temporarily restricted for the purchase of land for a new resource center. See notes C and H.

Financial instruments that potentially subject Hope House to concentrations of credit risk consist primarily of cash and cash equivalents deposited in banks located within the same geographic region. Hope House places its cash with creditworthy, high-quality financial institutions that are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2012 and 2011, there are no uninsured cash balances.

Unlimited FDIC insurance coverage on non-interest bearing accounts expired December 31, 2012. Beginning January 1, 2013, all combined deposits are covered by the standard insurance amount of \$250,000 at each institution.

Note H - Commitment to Purchase Land

Hope House intends to acquire land and build a resource center for program and administrative space. Hope House initiated a capital campaign for this purpose and received a restricted gift for the purchase of land. See Note C. Hope House signed a contract to purchase the land in 2012 and paid an earnest money deposit of \$5,000 which is included in deposits on the statements of financial position. The contract has been extended to October 31, 2013.

Note I - Comparability of Financial Statements

Certain items from the December 31, 2011 financial statements have been reclassified in order to make them comparable to the current financial statements. Contributions of \$24,479 received in 2011 have been reclassified from unrestricted to temporarily restricted to the capital campaign. There is no effect on the total change in net assets.

HOPE HOUSE OF COLORADO
Notes to Financial Statements

Note J - Subsequent Events

As discussed in Note B, Hope House refinanced the line of credit in May 2013.

Subsequent to year end, the lease for administrative and program space was extended for an additional year and expires November 30, 2014. See Note F.

Management has evaluated subsequent events through the date the financial statements were available to be issued, which is the date of the audit report.