

CAPTAIN HOPE'S KIDS
FINANCIAL STATEMENTS

December 31, 2005

Captain Hope's Kids

Financial Statements

December 31, 2005

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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 Statement of Financial Position of Captain Hope's Kids, (a nonprofit organization) as of December 31, 2005, and the related Statement of Financial Activities and of Cash Flows for the year 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 audit.

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 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 audit provides 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, 2005, and the 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.

July 7, 2006


DAVIS, CLARK AND COMPANY, P.C.
Certified Public Accountants

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

<u>Assets</u>	
Cash and cash equivalents	\$ 188,949
Investments, at market value	85,678
Receivables	26,477
Inventories	12,222
Prepaid expenses	628
Furniture and equipment, net	<u>1,911</u>
Total assets	<u>\$ 315,865</u>
 <u>Liabilities</u>	
Accounts payable	<u>\$ 4,172</u>
 <u>Net Assets</u>	
Net assets	
Unrestricted	268,693
Temporarily restricted	<u>43,000</u>
Total net assets	<u>311,693</u>
Total net assets and liabilities	<u>\$ 315,865</u>

The accompanying notes are an integral part of this statement.

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

Revenues	
Contributions	\$ 97,088
Special events	125,155
Donated goods	212,367
Interest and other income	<u>3,944</u>
Total unrestricted revenues and support	438,554
Net assets released from restrictions	<u>151,500</u>
Total unrestricted revenues, support and reclassification	<u>590,054</u>
Expenses	
Program	349,689
Special events	80,764
General and administrative	35,363
Fund-raising and development	<u>39,634</u>
Total expenses	<u>505,450</u>
Increase in unrestricted net assets	<u>84,604</u>
Temporarily restricted contributions	166,000
Net assets released from restriction	<u>(151,500)</u>
Increase in temporarily restricted net assets	<u>14,500</u>
Change in net assets	99,104
Net assets at beginning of year	<u>212,589</u>
Net assets at end of year	<u>\$ 311,693</u>

The accompanying notes are an integral part of this statement.

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

Cash flows from operating activities	
Change in net assets	\$ 99,104
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	1,667
Unrealized gain on investments	(894)
(Increase) in accounts receivable	(15,177)
Decrease in inventories	12,031
(Increase) in prepaid expenses	(628)
Increase in accounts payable	<u>4,172</u>
Net cash provided by operating activities	<u>100,275</u>
Cash flows from investing activities	
Purchase of furniture and equipment	<u>(1,230)</u>
Net cash (used in) investing activities	<u>(1,230)</u>
Net increase in cash and cash equivalents	99,045
Cash and cash equivalents at beginning of year	<u>89,904</u>
Cash and cash equivalents at end of year	<u>\$ 188,949</u>
Supplemental non-cash flow information:	
In-kind donations	<u>\$ 212,367</u>

The accompanying notes are an integral part of this statement.

Captain Hope's Kids
Notes to Financial Statements
December 31, 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.

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, 2005

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. Furniture and equipment are as follows:

Cost	\$ 52,500
Accumulated depreciation	(<u>50,589</u>)
Net book value	<u>\$ 1,911</u>

Depreciation expense was \$1,667 for the year ending December 31, 2005.

6. Donated Goods

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

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.

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, inventory and investments and the allocation of functional expenses.

9. Income Taxes

The Corporation 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.

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

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

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. 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.

E. Net Assets

Temporarily restricted net assets consisted for the following at 2005:

BITS	<u>\$ 43,000</u>
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F. 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.

Captain Hope's Kids
Notes to Financial Statements
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F. Concentration (cont'd)

The Organization periodically maintains balances in financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits. At December 31, 2005, uninsured balances totaled \$94,783.

G. Subsequent Event

Subsequent to year end, the Organization lost a significant amount of donated services, which consisted of accounting, audit oversight, preparation of their 990 tax form, credit card payment processing, IT support and office space. The Organization entered into a escalating lease agreement for new office space. The terms of that agreement are as follows (base rent plus 1.64% of taxes and utilities):

<u>Months</u>	<u>Base Rent</u>
1 - 2	\$ - 0 -
3 - 12	\$ 951
13 - 24	\$ 983
25 - 36	\$ 1,019
37 - 48	\$ 1,051
49 - 60	\$ 1,083