

COMMON HOPE

Saint Paul, Minnesota

Consolidated Financial Statements

December 31, 2008 and 2007



COMMON HOPE

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Common Hope
Saint Paul, Minnesota

We have audited the accompanying consolidated statement of financial position of Common Hope, a nonprofit organization, and its Affiliate (collectively, "the Organization") as of December 31, 2008 and 2007, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the 2007 financial statements of Fundacion Familias de Esperanza ("Fundacion"), Common Hope's affiliate, whose statements reflect total assets of approximately \$571,500 at December 31, 2007, total revenues and other support of approximately \$2,671,700 (of which the majority is eliminated in consolidation), and total expenses of approximately \$2,632,700 for the year ended December 31, 2007. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Fundacion is based solely on the report of the other auditors.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the 2007 report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Common Hope and its Affiliate as of December 31, 2008 and 2007, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Boulay, Heutmaker, Zibell & Co. P.L.L.P.
Certified Public Accountants

Minneapolis, Minnesota
June 26, 2009

COMMON HOPE

Consolidated Statement of Financial Position

ASSETS	December 31	
	2008	2007
Current Assets		
Cash and equivalents		
U.S.	\$ 529,132	\$ 526,038
Guatemala	92,691	88,025
Total cash and equivalents	621,823	614,063
Current portion of pledges receivable		4,792
Prepaid expenses	29,190	33,424
Investments, short-term	557,475	16,850
Other	7,757	5,936
Total current assets	1,216,245	675,065
Investments, net of short-term	146,411	768,396
Property, Plant and Equipment, Guatemala		
Land and land improvements	1,711,830	1,683,520
Buildings	3,893,818	3,875,732
Equipment	201,390	203,582
Vehicles	136,214	159,546
	5,943,252	5,922,380
Less accumulated depreciation	1,399,360	1,209,563
Net property, plant and equipment, Guatemala	4,543,892	4,712,817
Office Equipment, U.S.	136,519	72,266
Less accumulated depreciation	61,928	54,381
Net office equipment, U.S.	74,591	17,885
Total assets	\$ 5,981,139	\$ 6,174,163
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 285,080	\$ 220,019
Volunteer trip deposits	43,254	64,023
Total current liabilities	328,334	284,042
Net Assets		
Unrestricted	5,213,348	5,578,243
Temporarily restricted	439,457	311,878
Total net assets	5,652,805	5,890,121
Total liabilities and net assets	\$ 5,981,139	\$ 6,174,163

Notes to Consolidated Financial Statements are an integral part of this Statement.

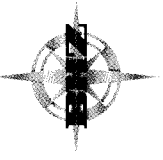


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Consolidated Statement of Activities

	Year Ended December 31 2008		Year Ended December 31 2007	
	Total	Unrestricted	Total	Unrestricted
Revenues and Other Support				
Contributions	\$ 3,755,313	\$ 1,241,380	\$ 3,406,472	\$ 1,254,054
Interest and dividend income	16,971	16,971	23,052	23,052
Unrealized and realized gain (loss) on investments	(202,607)	(202,607)	156,077	156,077
Program fees	35,084	35,084	45,980	45,980
Miscellaneous, net of expenses of \$15,121 in 2008, and \$46,123 in 2007	17,482	17,482	65,086	65,086
Gain (loss) on sale of assets, net	5,186	5,186	(1,764)	(1,764)
Net assets released from restrictions:				
Satisfaction of program restrictions				(2,377,777)
Total revenues and other support	3,627,429	2,386,354	3,694,903	2,377,777
		127,579		(225,359)
Expenses				
Program operating expenses				
Health care	602,596	602,596	507,191	507,191
Family & community development	742,330	742,330	608,451	608,451
Housing improvement	266,172	266,172	270,300	270,300
Education	1,647,211	1,647,211	1,604,199	1,604,199
General and administrative	407,415	407,415	350,557	350,557
Fundraising	199,021	199,021	192,000	192,000
Total expenses	3,864,745	3,864,745	3,532,698	3,532,698
Change in Net Assets	(237,316)	(364,895)	162,205	387,564
		127,579		(225,359)
Net Assets - Beginning of year	5,890,121	5,578,243	5,727,916	5,190,679
Net Assets - End of year	\$ 5,652,805	\$ 5,213,348	\$ 5,890,121	\$ 5,578,243
		\$ 439,457		\$ 311,878

Notes to Consolidated Financial Statements are an integral part of this Statement.



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Consolidated Statement of Cash Flows

	Year Ended December 31 2008	Year Ended December 31 2007
Cash Flows from Operating Activities		
Change in net assets	\$ (237,316)	\$ 162,205
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	219,844	211,287
Uncollectible pledges receivable	4,792	
Unrealized/realized (gain) loss on investments	202,608	(156,077)
Loss (gain) on sale of assets, net	(5,186)	1,765
Donated stock	(12,341)	(91,713)
Contributions restricted for long-term purposes		(5,000)
Change in assets and liabilities		
Pledges receivable, net		35,237
Prepaid expenses	4,234	(6,387)
Other current assets	(1,821)	1,380
Accounts payable and accrued liabilities	65,060	(75,722)
Trip deposits	(20,769)	(4,345)
Net cash from operating activities	219,105	72,630
Cash Flows from Investing Activities		
Proceeds from sale of investments	402,433	684,217
Purchase of investments	(511,339)	(700,000)
Proceeds from sale of equipment	6,018	
Purchase of property and equipment	(108,457)	(305,291)
Net cash used for investing activities	(211,345)	(321,074)
Cash Flows from Financing Activities		
Contributions restricted for long-term purposes		5,000
Net Increase (Decrease) in Cash and Equivalents	7,760	(243,444)
Cash and Equivalents - Beginning of Year	614,063	857,507
Cash and Equivalents - End of Year	\$ 621,823	\$ 614,063
Supplemental Schedule of Noncash Investing and Financing Activities		
Gifts of stock	\$ 12,341	\$ 91,713

Notes to Consolidated Financial Statements are an integral part of this Statement.



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Consolidated Statement of Functional Expenses

Year Ended December 31
2008

	Program Operating Expenses						
	Total	Health Care	Family & Community Development	Housing Improvement	Education	General and Administrative	Fundraising
Specific assistance	\$ 964,020	\$ 174,886	\$ 158,504	\$ 67,906	\$ 562,026	\$ 688	\$ 10
Salaries, wages, and benefits	1,942,625	304,889	443,108	76,791	691,874	288,591	137,372
Supplies and travel	277,194	48,032	57,988	19,242	132,642	13,553	5,737
Services and professional fees	38,645	1,211	1,203	456	3,448	32,327	
Office and occupancy	347,400	41,063	59,029	16,542	139,267	38,905	52,594
Depreciation	219,844	26,280	16,717	64,046	100,106	11,876	819
Other	75,017	6,235	5,781	21,189	17,848	21,475	2,489
Total expenses	\$ 3,864,745	\$ 602,596	\$ 742,330	\$ 266,172	\$ 1,647,211	\$ 407,415	\$ 199,021

Year Ended December 31
2007

	Program Operating Expenses						
	Total	Health Care	Family & Community Development	Housing Improvement	Education	General and Administrative	Fundraising
Specific assistance	\$ 839,535	\$ 129,367	\$ 91,379	\$ 62,783	\$ 556,006		
Salaries, wages, and benefits	1,857,119	278,609	403,250	90,452	683,623	\$ 266,564	\$ 134,621
Supplies and travel	200,689	26,539	35,272	14,347	106,994	12,892	4,645
Services and professional fees	31,078	386	889	215	1,349	28,149	90
Office and occupancy	330,780	37,780	56,916	20,387	150,055	16,429	49,213
Depreciation	211,288	25,001	16,370	67,489	90,884	10,888	656
Other	62,209	9,509	4,375	14,627	15,288	15,635	2,775
Total expenses	\$ 3,532,698	\$ 507,191	\$ 608,451	\$ 270,300	\$ 1,604,199	\$ 350,557	\$ 192,000

Notes to Consolidated Financial Statements are an integral part of this Statement.



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Notes to Consolidated Financial Statements

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Activity

Common Hope and its affiliate, Fundacion Familias de Esperanza (Fundacion), collectively, the "Organization," are nonprofit organizations devoted to aiding the poor of Guatemala living in and around Antigua, the outskirts of Guatemala City, and the village of San Rafael. Common Hope and its affiliate promote hope and opportunity in Guatemala, partnering with children, families and communities who want to participate in a process of development to improve their lives through education, health care and housing. The programs presently conducted by Common Hope and its affiliate include the following:

Education – The Organization provided education for approximately 2,700 children at the pre-primary, primary, secondary and university levels, including tuition, books, supplies and tutoring. The Organization operates one school and also provides teacher support and skill building through the public school system.

Health Care – Medical staff and volunteers provide preventative and curative care in a clinic that received approximately 12,000 visits during 2008 and supports two other clinics which provide preventative and curative care. This medical care includes examinations, medications, surgeries, x-rays, lab work, nutritional counseling, pre-natal care and dental care. Health education is provided at outreach programs in local schools and communities.

Family & Community Development – Through a long-term relationship with a Common Hope social worker, families identify goals, obstacles and establish their own individualized development plan. Social workers connect families to resources for dealing with issues such as abuse, alcoholism, legal problems, job placement, and health and educational concerns.

Housing Improvement – The Organization constructs new homes, roofs, stoves and floors as well as installs plumbing and electrical services in existing homes. This work is done in partnership with families who perform community service hours to earn the materials and the construction support.

Housing Improvement – New Hope Site – The Organization operates an additional site in Tres Sabanas, San Pedro Ayampuc, Guatemala, which is on the outskirts of Guatemala City, where it has developed land and provides housing for 42 families. The Organization currently supports the community with a water system, a community center, and a sewage treatment plant.

Common Hope operated as "The Godchild Sponsorship Corporation" from its inception in 1986 until March 2001, when it adopted the name Common Hope.



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Notes to Consolidated Financial Statements

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Basis of Presentation

The financial statements include the accounts of Common Hope, a nonprofit organization incorporated in Minnesota, and its affiliate, a related nonprofit organization incorporated in Guatemala, Central America, under the name of Fundacion Familias de Esperanza (Fundacion). All significant intercompany balances and transactions are eliminated in consolidation. The two entities are collectively referred to as the "Organization" in these financial statements. Fundacion is the entity that carries out the mission of Common Hope in Guatemala.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting. The Organization reports its financial position and activities according to three classes of net assets as unrestricted, temporarily restricted, and permanently restricted based on the existence or absence of donor-imposed restrictions, as follows:

- Unrestricted net assets - net assets that are not subject to donor-imposed stipulations
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time
- Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of such assets permit the Organization to use all or part of the income earned on the assets

At December 31, 2008 and 2007, the Organization had no permanently restricted net assets.

Accounting Estimates

Management uses estimates and assumptions in preparing these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America with respect to the value of in-kind donations, depreciation lives and the allocation of the functional expenses. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.



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Notes to Consolidated Financial Statements

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Foreign Currency Translation

The functional currency used by Fundacion is the U.S. Dollar. As funds are transferred from Common Hope to Fundacion, they are converted to Guatemalan Quetzals, and expended for the programs in Guatemala. There are no material translation adjustments or material exchange rate differences in these financial statements. The difference in the exchange rates between the statement of financial position date and the date of the audit report would not materially affect these financial statements.

Cash and Equivalents

The Organization considers certificates of deposit with maturities of three months or less to be cash equivalents. At times throughout the year, the Organization's cash deposited in financial institutions in the United States of America may exceed FDIC insurance limits.

Pledges Receivable

Pledges receivable (which represent unconditional promises to give) that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value which is measure at the present value of their estimated cash flows. The discounts on those amounts are computed using the interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Pledges receivable is presented net of an allowance for uncollectible contributions. Pledges receivable totaled \$4,792 at December 31, 2007. The Organization had no outstanding pledges receivable at December 31, 2008.

Investments

Investments in money markets, certificates of deposit and marketable equity securities are stated at fair market value, based on quoted values. Donated investments are initially recorded at fair market value on the date of donation and thereafter reported in accordance with the Organization's aforementioned investment valuation policy. Realized and unrealized gains and losses on investments are recorded in the statement of activities. Investment income is generally absent donor restriction and therefore unrestricted.

Money market funds that are not federally insured are included in investments and totaled \$396,498 and \$424,113 at December 31, 2008 and 2007, respectively. The Organization maintains money market funds for cash management purposes.



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Notes to Consolidated Financial Statements

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Property, Plant and Equipment

Property, plant and equipment, which are primarily located in Guatemala, are stated at cost. Donated property, plant and equipment are stated at fair value on the date of contribution. Depreciation is recognized over the estimated useful lives of the assets by use of the straight-line and accelerated methods. Maintenance and repairs are expensed as incurred; major improvements and betterments are capitalized. Common Hope holds title to substantially all property, plant and equipment located in Guatemala, except the New Hope Village land and land improvements, which are owned by Common Hope's affiliate, Fundacion.

As of December 31, 2008, the Organization was taking steps to organize an association of home owners for the 42 homes in New Hope Village as a separate legal entity, with the intention of donating the land currently functioning as certain green space and roadways to the new association, which occurred on March 15, 2009. In addition, in 2009 14 New Hope homeowners earned title to their independent parcel of land by completing certain program requirements. The total estimated value of the land transferred to the association and homeowners was approximately \$100,000 by April 30, 2009. The Organization will continue to own the offices, school, and community building and wastewater treatment facility at New Hope Village.

Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Organization first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including, but not limited to, discounted cash flow models, quoted market values and third-party independent appraisals.

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. With regard to gifts of property, plant and equipment or gifts of cash to be used to acquire such assets, absent specific donor stipulations, the Organization reports such gifts as net assets released from restrictions when the donated or acquired long-lived assets are placed in service.



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Donated Services

A significant portion of the Organization's functions are conducted by unpaid volunteers the value of which is not recorded in the financial statements because these services do not meet the criteria for recognition under accounting principles generally accepted in the United States of America. Various medical and other professionals also contribute their services to the Organization, the estimated value of which is approximately \$39,600 and \$37,000 for the years ended December 31, 2008 and 2007, respectively, and is recognized as contributions (revenue) and services and professional fees (expense) in the accompanying financial statements.

Basis of Allocating Functional Expenses

Allocations are generally made as follows:

- Salaries by time spent on principal activities of each employee
- Employee benefits and payroll taxes according to the percentage used to allocate salaries
- All other expenses are directly allocable or allocated in a manner as considered practicable

Income Taxes

Common Hope is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Fundacion is a foundation operating under Guatemalan laws and is generally exempt from taxes based on income.



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2. FAIR VALUE

Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157) defines fair value, outlines a framework for measuring fair value (although it does not expand the required use of fair value) and details the required disclosures about fair value measurements. Effective January 1, 2008, the Organization adopted SFAS 157 except for certain nonfinancial assets and liabilities with respect to the deferral under FSP 157-2. The adoption of SFAS 157 did not have a material effect on the Organization's financial position, results of operations or activities, or cash flows for fiscal year 2008.

SFAS 157's requirements for certain nonfinancial assets and liabilities recognized or disclosed at fair value on a nonrecurring basis are deferred until fiscal years beginning after November 15, 2008 in accordance with FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2). At the present time, the Organization does not have any nonfinancial assets or liabilities that would require fair value recognition or disclosures under SFAS 157.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The Organization uses a fair value hierarchy that has three levels of inputs, both observable and unobservable, with use of the lowest possible level of input to determine fair value. Level 1 inputs include quoted market prices in an active market or the price of an identical asset or liability. Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data. The Organization uses valuation techniques in a consistent manner from year-to-year.



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The following table provides information on those assets that are measured at fair value on a recurring basis.

	Fair Value & Carrying Amount in the Balance Sheet	December 31, 2008		
		Fair Value Measurement Using		
		Level 1	Level 2	Level 3
Assets:				
Money market funds	\$396,731	\$396,731		
Certificates of deposit	160,744	160,744	-	-
Total short-term investments	557,475	557,475		
U.S equity securities	146,411	146,411	-	-
Total	<u>\$703,886</u>	<u>\$703,886</u>	<u>\$ -</u>	<u>\$ -</u>

The fair value of the money market funds, certificates of deposit and U.S. equity securities is based on quoted market prices in an active market. As of December 31, 2007, the Organization held for long-term purposes \$424,113 in money market funds and \$344,283 in U.S. Equity securities.

3. LINE OF CREDIT

On March 20, 2009, the Organization entered into a \$300,000 line of credit agreement with its bank. The line of credit agreement expires on December 31, 2009 with interest at the prime rate. Previously, the Organization had a \$300,000 unsecured; demand line of credit which expired on December 31, 2007, with interest at the prime rate. At December 31, 2008 and 2007, there was no outstanding balance on either line of credit.



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4. OPERATING LEASE COMMITMENTS

The Organization leases office space under a three-year non-cancelable operating lease through September 30, 2011. The Organization is obligated to pay costs of insurance, repairs and maintenance pursuant to the terms of the lease. Rent expense totaled \$21,222 and \$22,800 for the years ended December 31, 2008 and 2007, respectively.

Future minimum lease commitments for office space are as follows at December 31, 2008:

	<u>Lease Commitments</u>
2009	\$ 23,952
2010	23,952
2011	<u>17,964</u>
Total	<u>\$ 65,868</u>

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes at December 31:

	<u>2008</u>	<u>2007</u>
Family & Community Development	\$ 192,316	\$ 88,434
Housing improvement programs	14,833	14,721
Health care programs	16,957	39,555
Education programs	<u>215,351</u>	<u>169,168</u>
Totals	<u>\$ 439,457</u>	<u>\$ 311,878</u>

Net assets were released from donor restrictions by incurring program expenses and funding capital additions in fiscal years 2008 and 2007. During fiscal year 2007, certain expenditures that are part of the net assets released from donor restrictions were capitalized as construction in progress and totaled approximately \$306,800.



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Notes to Consolidated Financial Statements

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Total net assets released from donor restrictions because the restricted purposes and occurrence of other events as specified by donors were satisfied were as follows for the years ended December 31:

	<u>2008</u>	<u>2007</u>
Family & Community Development	\$ 1,641,028	\$ 1,576,072
Housing improvement programs	149,587	84,596
Health care programs	147,480	150,013
Education programs	448,259	567,096
	<u>\$ 2,386,354</u>	<u>\$ 2,377,777</u>

6. CONSTRUCTION IN GUATEMALA

In 2000, Common Hope had started construction on the Heart of Hope Center, a multi-purpose building designed to accommodate administrative, health care and dental offices; a warehouse; community meeting space; and vision team and short-term volunteer housing in New Hope Village. The building was constructed in several phases as money became available and is now substantially complete. The construction expenditures are capitalized on a square footage basis when a discreet phase of the project is completed.

In September 2004, Fundacion Familias De Esperanza entered into a construction agreement with a Guatemalan contractor to begin construction on Phase I of the school which was built in New Hope Village. Construction on the new school was completed during August 2005, and the school opened during 2006. Common Hope now holds title to the school. The total cost of the school, including pre-construction costs, was approximately \$756,000.

In March 2007, Fundacion Familias de Esperanza entered into a construction agreement with a Guatemalan contractor to begin construction on Phase 2 of the school. Construction of the second phase of the school, the pre-primary building, was completed during November 2007, at a total cost of \$293,000.



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7. RETIREMENT BENEFITS

The Organization has a SIMPLE IRA plan which is offered to all U.S. full-time employees and part-time employees working over 1300 hours per year. The Organization matched employee contributions to a maximum of 3% of each covered employee's contribution to the plan for 2008 and 2007. The Organization's matching contribution for the plan totaled \$16,500 and \$13,100 for the years ended December 31, 2008 and 2007, respectively.

