

THE HOPE CHEST FOR BREAST CANCER FOUNDATION

FINANCIAL STATEMENTS

December 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Hope Chest for Breast Cancer Foundation
Wayzata, Minnesota

Report on Financial Statements

We have audited the accompanying financial statements of The Hope Chest for Breast Cancer Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Hope Chest for Breast Cancer Foundation as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lurie Besikof Lapidus & Company, LLP

Lurie Besikof Lapidus & Company, LLP
Minneapolis, Minnesota

November 4, 2014

THE HOPE CHEST FOR BREAST CANCER FOUNDATION

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 160,283	\$ 313,240
Certificates of deposit	121,154	121,103
Mutual funds	241,734	30,500
Due from related party	8,778	9,844
TOTAL CURRENT ASSETS	<u>531,949</u>	<u>474,687</u>
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$20,078 and \$14,382	<u>3,635</u>	<u>9,331</u>
	<u>\$ 535,584</u>	<u>\$ 484,018</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 5,618	\$ 9,039
Grants payable to other nonprofit organizations	20,000	29,000
TOTAL CURRENT LIABILITIES	<u>25,618</u>	<u>38,039</u>
NET ASSETS		
Unrestricted	479,966	415,979
Temporarily restricted	30,000	30,000
TOTAL NET ASSETS	<u>509,966</u>	<u>445,979</u>
	<u>\$ 535,584</u>	<u>\$ 484,018</u>

See notes to financial statements.

THE HOPE CHEST FOR BREAST CANCER FOUNDATION

STATEMENTS OF ACTIVITIES

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES						
Hope Chest retail stores:						
Revenue from sales of donated items	\$ 812,226	\$ -	\$ 812,226	\$ 768,684	\$ -	\$ 768,684
Costs of selling donated items	<u>691,002</u>	<u>-</u>	<u>691,002</u>	<u>655,938</u>	<u>-</u>	<u>655,938</u>
	<u>121,224</u>	<u>-</u>	<u>121,224</u>	<u>112,746</u>	<u>-</u>	<u>112,746</u>
Special events:						
Revenues	185,083	-	185,083	164,007	-	164,007
Expenses	<u>46,926</u>	<u>-</u>	<u>46,926</u>	<u>98,277</u>	<u>-</u>	<u>98,277</u>
	<u>138,157</u>	<u>-</u>	<u>138,157</u>	<u>65,730</u>	<u>-</u>	<u>65,730</u>
Other donations:						
Monetary	81,566	-	81,566	63,988	30,000	93,988
In-kind	<u>28,653</u>	<u>-</u>	<u>28,653</u>	<u>22,334</u>	<u>-</u>	<u>22,334</u>
	<u>110,219</u>	<u>-</u>	<u>110,219</u>	<u>86,322</u>	<u>30,000</u>	<u>116,322</u>
Interest and dividend income	<u>4,886</u>	<u>-</u>	<u>4,886</u>	<u>2,603</u>	<u>-</u>	<u>2,603</u>
Increase (decrease) in fair value of mutual funds	<u>6,834</u>	<u>-</u>	<u>6,834</u>	<u>(338)</u>	<u>-</u>	<u>(338)</u>
	<u>381,320</u>	<u>-</u>	<u>381,320</u>	<u>267,063</u>	<u>30,000</u>	<u>297,063</u>
EXPENSES						
Program services	226,044	-	226,044	190,874	-	190,874
Management and general	42,616	-	42,616	102,075	-	102,075
Fundraising	<u>48,673</u>	<u>-</u>	<u>48,673</u>	<u>53,227</u>	<u>-</u>	<u>53,227</u>
	<u>317,333</u>	<u>-</u>	<u>317,333</u>	<u>346,176</u>	<u>-</u>	<u>346,176</u>
INCREASE (DECREASE) IN NET ASSETS	63,987	-	63,987	(79,113)	30,000	(49,113)
NET ASSETS						
Beginning of year	<u>415,979</u>	<u>30,000</u>	<u>445,979</u>	<u>495,092</u>	<u>-</u>	<u>495,092</u>
End of year	<u>\$ 479,966</u>	<u>\$ 30,000</u>	<u>\$ 509,966</u>	<u>\$ 415,979</u>	<u>\$ 30,000</u>	<u>\$ 445,979</u>

See notes to financial statements.

THE HOPE CHEST FOR BREAST CANCER FOUNDATION

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	<u>2013</u>	<u>2012</u>
OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 63,987	\$ (49,113)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Interest and dividend income reinvested	(4,451)	(1,607)
(Increase) decrease in fair value of mutual funds	(6,834)	338
Depreciation expense	5,696	6,720
Changes in operating assets and liabilities:		
Due from related party	1,066	109,631
Accounts payable and accrued expenses	(3,421)	563
Grants payable to other nonprofit organizations	(9,000)	29,000
Net cash provided by operating activities	<u>47,043</u>	<u>95,532</u>
INVESTING ACTIVITIES		
Proceeds from sale of mutual funds	-	5,843
Purchases of mutual funds	(200,000)	(30,000)
Net cash used by investing activities	<u>(200,000)</u>	<u>(24,157)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(152,957)	71,375
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>313,240</u>	<u>241,865</u>
End of year	<u>\$ 160,283</u>	<u>\$ 313,240</u>

See notes to financial statements.

THE HOPE CHEST FOR BREAST CANCER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Description of Activities and Summary of Significant Accounting Policies –

Nature of Activities

The Hope Chest for Breast Cancer Foundation (the Foundation) was organized in 2001 as a Minnesota nonprofit organization. The Foundation was organized to raise funds to provide the quickest access to help with the most urgent needs of financially distressed breast cancer patients and their families. Funds are raised through the sale of upscale women's clothing, and high end furniture and decorative accessories donated by the general public, manufacturers and retail businesses. The donated items are sold in the Hope Chest for Breast Cancer Resale Stores. Additional support is raised for the Foundation through fundraising events and solicitation of financial contributions from individuals, corporations, and foundations. The Foundation receives support in the form of cash and noncash donations.

Financial Statement Presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted - Resources over which the Board of Directors has discretionary control. Designated amounts, if any, represent those revenues which the Board has set aside for a particular purpose.

Temporarily Restricted - Those resources subject to donor imposed restrictions which will be satisfied by actions of the Foundation or passage of time.

Permanently Restricted - Those resources subject to donor imposed restrictions that they be maintained permanently by the Foundation.

All gifts of cash and other assets are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

Use of Estimates

The preparation of these financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect certain reported amounts and disclosures in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and highly liquid financial instruments purchased with an original maturity of three months or less.

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THE HOPE CHEST FOR BREAST CANCER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1. Description of Activities and Summary of Significant Accounting Policies – (continued)

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, ranging from three to seven years.

Grants Payable to Other Nonprofit Organizations

The Foundation contributed \$170,000 and \$134,000 in 2013 and 2012, respectively, to hospital and clinic programs providing assistance to breast cancer patients and their families, of which \$20,000 and \$29,000 was accrued at December 31, 2013 and 2012, respectively.

Income Taxes

The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and comparable state regulations. Therefore, no income tax provision is included in the financial statements. The Foundation is classified as an organization that is not a private foundation under the Internal Revenue Code and contributions by donors are tax deductible.

The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Foundation is no longer subject to income tax examinations for years prior to 2010.

Contributed Services

Contributed professional services are recognized if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Management and general expenses include \$4,323 and \$4,334 for 2013 and 2012, respectively, for contributed professional services.

In addition, a substantial number of unpaid volunteers made significant contributions of their time that do not meet the recognition criteria described above. Accordingly, the value of that donated time is not reflected in the financial statements.

Donated Materials and Facilities

Donated materials are recorded at the estimated fair value when received and when such value can be objectively and accurately determined. The Foundation received donated materials for program purposes, management and general, and fundraising purposes totaling \$24,330 and \$37,761 (including facility usage estimated at \$18,000 from a related party – see footnote 6) for 2013 and 2012, respectively, which are recorded in both revenues and expenses.

THE HOPE CHEST FOR BREAST CANCER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

2. Certificates of Deposit –

The Foundation owns two certificates of deposit, maturing in 2014 and earning interest at .20% at December 31, 2013. The certificates renew at maturity.

3. Fair Value Measurements –

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 and 2012.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Foundation are deemed to be actively traded.

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THE HOPE CHEST FOR BREAST CANCER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

3. Fair Value Measurements – (continued)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Foundation management has utilized level 1 within the fair value hierarchy to determine the fair value of the mutual funds.

4. Net Assets –

Designated

The Board of Directors of the Foundation designated \$100,000 of unrestricted net assets as an operating reserve.

Temporarily Restricted

The Foundation received a \$30,000 temporarily restricted contribution in 2012 to be used to fund the position of a grant writer. The grant had not been expended as of December 31, 2013.

5. Functional Allocation of Expenses –

The costs of providing the various programs were summarized on a functional basis in the statements of activities. Accordingly, certain costs were allocated among the programs and supporting services benefited, management and general expenses, and fundraising based upon the best estimates of management.

6. Related Party Transactions and Balances –

The Foundation has a management agreement with a corporation controlled by the Chief Executive Officer of the Foundation's board of directors. The management agreement requires the corporation to purchase such items of clothing, furniture, household furnishings and accessories that are donated to the Foundation which meet the Foundation's inventory standards. The corporation operates the retail stores where the donated property is sold. The management agreement requires the management company to pay the Foundation an amount equal to the sales less reasonable compensation for services provided by the management company. The amount earned by the Foundation may not be less than 15% of all gross sales from the retail stores. The Foundation reports the gross sales of the donated items and the gross selling expenses as reported on the financial statements of the related corporation.

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THE HOPE CHEST FOR BREAST CANCER FOUNDATION

NOTES TO FINANCIAL STATEMENTS

6. Related Party Transactions and Balances – (continued)

The balance due from related party represents amounts owed to the Foundation by the related corporation. The balance at December 31, 2013 and 2012 was noninterest bearing and due on demand.

7. Subsequent Events –

Management has evaluated subsequent events through November 4, 2014, the date the financial statements were available to be issued.

On October 23, 2014, the Foundation opened a new resale location. The new location is operated through The Hope Chest for Breast Cancer Resale Shop of Bloomington, a newly created, wholly owned, nonprofit subsidiary of the Foundation. Items donated to the new location are resold by the Foundation and are not included in the above management agreement.

The resale store located in St. Paul, Minnesota, which was leased by and operated by the management corporation, did not renew its lease and anticipates closing November 14, 2014.