

WARM BLANKETS
CHILDREN'S FOUNDATION, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the Year Ended
June 30, 2010



Certified Public Accountants & Advisors

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998 Corporate Boulevard • Aurora, IL 60502

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Warm Blankets Children's
Foundation, Inc.
Rolling Meadows, Illinois

We have audited the accompanying statement of financial position of Warm Blankets Children's Foundation, Inc. (the Foundation) as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's 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 examining, on a test basis, evidence supporting the amounts and disclosures in the 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 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 Warm Blankets Children's Foundation, Inc. as of June 30, 2010, 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.

Sikich LLP

Aurora, Illinois
February 7, 2011

FINANCIAL STATEMENTS

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

For the Year Ended June 30, 2010

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,254,711
Accounts receivable	7,717
Contributions receivable from trusts - current portion	29,450
Prepaid expenses and other assets	<u>16,499</u>
Total current assets	<u>1,308,377</u>
CONTRIBUTIONS RECEIVABLE FROM TRUSTS, NET OF CURRENT PORTION	<u>84,164</u>
FURNITURE AND EQUIPMENT	
Furniture and equipment	193,578
Less accumulated depreciation	<u>(94,751)</u>
Net furniture and equipment	<u>98,827</u>
TOTAL ASSETS	<u>\$ 1,491,368</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 21,529
Accrued expenses	<u>15,378</u>
Total current liabilities	<u>36,907</u>
NET ASSETS	
Unrestricted	375,215
Temporarily restricted	<u>1,079,246</u>
Total net assets	<u>1,454,461</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,491,368</u>

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Contributions	\$ 718,937	\$ 2,542,254	\$ 3,261,191
In-kind contributions	524,377	-	524,377
Interest and dividends	2,097	-	2,097
Unrealized gain on investments	(868)	-	(868)
Change in value of contributions receivable from trusts	-	(331)	(331)
Net assets released from restrictions	2,044,987	(2,044,987)	-
Total revenues	3,289,530	496,936	3,786,466
EXPENSES			
Program	2,823,712	-	2,823,712
General and administrative	175,319	-	175,319
Fundraising	264,389	-	264,389
Total expenses	3,263,420	-	3,263,420
CHANGE IN NET ASSETS	26,110	496,936	523,046
NET ASSETS, BEGINNING OF YEAR	349,105	582,310	931,415
NET ASSETS, END OF YEAR	\$ 375,215	\$ 1,079,246	\$ 1,454,461

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2010

	Program	General and Administrative	Fundraising	Total
Contributions for orphan care				
Fiscal support	\$ 1,859,473	\$ -	\$ -	\$ 1,859,473
Supplies	510,647	-	-	510,647
Salaries and wages	259,582	47,285	136,864	443,731
Other employee benefits	10,225	3,539	6,155	19,919
Payroll taxes	24,126	4,438	12,959	41,523
Professional fees	-	12,106	-	12,106
Supplies	22,372	8,703	1,188	32,263
Telecommunications	6,199	2,267	2,267	10,733
Insurance	-	3,080	-	3,080
Occupancy	13,730	23,374	7,791	44,895
Dues and subscriptions	-	901	1,440	2,341
Postage and delivery	2,623	1,698	3,614	7,935
Printing and publication	-	-	13,749	13,749
Bank charges	-	18,252	-	18,252
Travel	65,365	-	4,826	70,191
Utilities	1,047	2,810	1,608	5,465
Office	26,750	15,515	5,598	47,863
Consultants	21,573	-	16,997	38,570
Advertising	-	300	49,333	49,633
Depreciation	-	31,051	-	31,051
TOTAL FUNCTIONAL EXPENSES	\$ 2,823,712	\$ 175,319	\$ 264,389	\$ 3,263,420

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	<u>\$ 523,046</u>
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	31,051
(Increase) decrease in	
Accounts receivable	(715)
Contributions receivable from trusts	29,781
Prepaid expenses and other assets	(151)
Increase (decrease) in	
Accounts payable	(21,542)
Accrued expenses	<u>4,195</u>
Total adjustments	<u>42,619</u>
Net cash from operating activities	<u>565,665</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of equipment	<u>(19,458)</u>
Net cash from investing activities	<u>(19,458)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	546,207
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>708,504</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,254,711</u></u>

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010

1. NATURE OF ACTIVITIES

Warm Blankets Children's Foundation, Inc. (the Foundation) is a nonprofit Christian mission dedicated to the rescue of orphans and widows through third world church planting and outreach. The Foundation's mission is to restore the lives of orphans in partnership with churches, corporations, and individuals who have a passion to help needy, parentless children.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposit accounts, and highly liquid investments with an initial maturity of three months or less.

Investments

Investments are carried at fair value. Fair values are generally based upon quoted market prices. Realized and unrealized gains or losses are reflected in the statement of activities.

Fair Value Measurements

During the fiscal year ended June 30, 2010, the Foundation adopted the authoritative guidance issued by the Financial Accounting Standards Board (FASB) which defines fair value, establishes a framework for measuring fair value by providing a hierarchy used to classify the source of the information measuring fair value, and expands disclosures about fair value measurements. The guidance does not require any new fair value measurements. In February 2008, the FASB issued supplemental guidance which delayed the effective date of the initial standard for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008. The Foundation adopted this supplemental guidance on July 1, 2010 with no material effect on its financial position, changes in net assets and cash flows from either the initial or supplemental guidance.

Assets and liabilities carried at fair value are classified and disclosed in one of the following categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

The Foundation generally capitalizes purchases of property and equipment in excess of \$500. Purchased property and equipment are capitalized at cost. Donated assets are recorded at the estimated fair market value at the date of donation. Depreciation is computed on a straight-line basis over the useful lives of the assets which generally range from 5 to 10 years.

Contributions

All contributions 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 or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Foundation had no permanently restricted net assets during the fiscal year ended June 30, 2010.

Functional Allocation of Expenses

The costs of providing program services and other activities have been summarized on a functional basis in the statement of functional expenses. Certain indirect expenses have been allocated among the program and supporting services benefited.

Income Taxes

Pursuant to a letter dated June 3, 2005, the Foundation has been determined by the Internal Revenue Service as exempt from federal income taxes under the provisions of section 501(c)(3) of the Internal Revenue Code and classified as a public charity.

During the fiscal year ended June 30, 2010, the Foundation adopted the authoritative guidance issued by the Financial Accounting Standards Board (FASB) that clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has not been met. This guidance also addresses de-recognition, classification, interest and penalties, disclosure, and transition. In the normal course of business, the Foundation is subject to examination by taxing authorities. The Foundation's informational returns for years subsequent to fiscal 2006 are open, by statute, for review by authorities. However, at present, there are no ongoing informational return audits or unresolved disputes with the various tax authorities that the Foundation currently files or has filed with.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The adoption of this guidance did not have any material effect on the Foundation's financial position, changes in net assets, or cash flows as of June 30, 2010, or for subsequent periods.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2010, the Foundation had temporarily restricted net assets available for the following projects:

Support for orphan rescue and care	\$ 965,632
Contributions receivable from trusts	<u>113,614</u>
 TOTAL TEMPORARILY RESTRICTED NET ASSETS	 <u>\$ 1,079,246</u>

4. OPERATING LEASE

The Foundation leases an office pursuant to an operating lease agreement with an expiration date of December 31, 2010. The monthly rate on this lease is \$2,597. The Foundation paid \$31,165 for the space it occupies during the year ended June 30, 2010. The Foundation has determined the rent being charged is less than fair market value. Accordingly, the Foundation has recognized \$13,730 as an in-kind donation and rent expense for the year ended June 30, 2010.

The following is a schedule by year of future minimum lease payments at June 30, 2010.

2011	<u>\$ 15,582</u>
 TOTAL FUTURE MINIMUM LEASE PAYMENTS	 <u>\$ 15,582</u>

5. SUPPLEMENTAL CASH FLOW INFORMATION

During the fiscal year, the Foundation made no cash payments for interest or income taxes.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS (Continued)

6. DONATED GOODS AND SERVICES

The Foundation received in-kind donations of various supplies and materials to be used in Cambodia for \$510,647, the fair market value at the time of donation. Total in-kind contributions the Foundation received totaled \$524,377 which includes \$13,730 of an in-kind rent donation as further discussed in Note 4 of the financial statements.

7. CONTRIBUTIONS RECEIVABLE FROM TRUSTS

The Foundation has a beneficial interest in a charitable lead trust and charitable remainder trusts.

Pursuant to the charitable lead trust agreement, the Foundation expects to receive annual payments of \$29,450 through 2012. The present value of expected future distributions are estimated at \$69,844 using a discount rate of 3% and are reflected in contributions receivable from trusts in the accompanying financial statements.

The Foundation also has a beneficial interest in two similar charitable remainder trusts. The present value of estimated future distributions from these trusts is \$43,770 which is reflected in contributions receivable from trusts in the accompanying financial statements. This estimate is based upon life expectancies of the two current recipients and a discount rate of 3%.

Revaluations of the expected future distributions are recognized in the accompanying statement of activities as changes in the value of contributions receivable from trusts.

Contributions receivable from trusts measured at fair value on a recurring basis at June 30, 2010 are as follows:

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Contribution receivable, beneficial interest in charitable lead annuity trust	\$ -	\$ -	\$ 69,844	\$ 69,844
Contribution receivable, beneficial interest in charitable remainder trust	-	-	43,770	43,770
TOTAL BY LEVEL	\$ -	\$ -	\$ 113,614	\$ 113,614

WARM BLANKETS CHILDREN'S FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)

7. CONTRIBUTIONS RECEIVABLE FROM TRUSTS (Continued)

The following table sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the year ended June 30, 2010.

	<u>Contributions receivable from trusts</u>
BALANCE, BEGINNING OF YEAR	\$ 143,395
Change in value of beneficial interest	(331)
Payment from charitable lead annuity trust	<u>(29,450)</u>
BALANCE, END OF YEAR	<u>\$ 113,614</u>

8. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through February 7, 2011, which was the date that these financial statements were available for issuance, and determined that there were no significant nonrecognized subsequent events through that date.