

WARM BLANKETS
CHILDREN'S FOUNDATION, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

For the Year Ended
June 30, 2011



Certified Public Accountants & Advisors

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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, 2011, 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, 2011, 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.

A handwritten signature in black ink, appearing to read 'Sikich LLP'.

Naperville, Illinois
January 11, 2012

FINANCIAL STATEMENTS

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

For the Year Ended June 30, 2011

| ASSETS | |
|---|----------------------------|
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 1,205,477 |
| Accounts receivable | 4,461 |
| Contributions receivable from trusts - current portion | 4,198 |
| Prepaid expenses and other assets | <u>28,768</u> |
| Total current assets | <u>1,242,904</u> |
| CONTRIBUTIONS RECEIVABLE FROM TRUSTS, NET OF CURRENT PORTION | <u>40,719</u> |
| FURNITURE AND EQUIPMENT | |
| Furniture and equipment | 214,554 |
| Less accumulated depreciation | <u>(126,662)</u> |
| Net furniture and equipment | <u>87,892</u> |
| TOTAL ASSETS | <u><u>\$ 1,371,515</u></u> |
| LIABILITIES AND NET ASSETS | |
| CURRENT LIABILITIES | |
| Accounts payable | \$ 24,587 |
| Accrued expenses | <u>15,951</u> |
| Total current liabilities | <u>40,538</u> |
| NET ASSETS | |
| Unrestricted | 387,622 |
| Temporarily restricted | <u>943,355</u> |
| Total net assets | <u>1,330,977</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 1,371,515</u></u> |

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

| | Unrestricted | Temporarily Restricted | Total |
|--|-------------------|---------------------------|---------------------|
| REVENUES | | | |
| Contributions | \$ 818,731 | \$ 2,416,998 | \$ 3,235,729 |
| In-kind contributions | 1,160,338 | - | 1,160,338 |
| Interest and dividends | 434 | - | 434 |
| Unrealized gain on investments | 1,463 | - | 1,463 |
| Change in value of contributions receivable from trusts | - | (9,704) | (9,704) |
| Net assets released from restrictions | 2,543,185 | (2,543,185) | - |
| Total revenues | 4,524,151 | (135,891) | 4,388,260 |
| EXPENSES | | | |
| Program | 4,075,650 | - | 4,075,650 |
| General and administrative | 199,583 | - | 199,583 |
| Fundraising | 236,511 | - | 236,511 |
| Total expenses | 4,511,744 | - | 4,511,744 |
| CHANGE IN NET ASSETS | 12,407 | (135,891) | (123,484) |
| NET ASSETS, BEGINNING OF YEAR | 375,215 | 1,079,246 | 1,454,461 |
| NET ASSETS, END OF YEAR | \$ 387,622 | \$ 943,355 | \$ 1,330,977 |

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2011

| | Program | General and Administrative | Fundraising | Total |
|----------------------------------|---------------------|-------------------------------|-------------------|---------------------|
| Contributions for orphan care | | | | |
| Fiscal support | \$ 2,451,823 | \$ - | \$ - | \$ 2,451,823 |
| Supplies | 1,146,608 | - | - | 1,146,608 |
| Salaries and wages | 251,000 | 48,566 | 124,602 | 424,168 |
| Other employee benefits | 1,431 | 151 | 4,096 | 5,678 |
| Payroll taxes | 24,111 | 4,665 | 11,969 | 40,745 |
| Professional fees | 753 | 12,603 | - | 13,356 |
| Supplies | 20,083 | 9,799 | 5,258 | 35,140 |
| Telecommunications | 5,698 | 2,363 | 2,708 | 10,769 |
| Insurance | - | 2,164 | - | 2,164 |
| Occupancy | 13,730 | 23,824 | 7,941 | 45,495 |
| Dues and subscriptions | - | 966 | 6,236 | 7,202 |
| Postage and delivery | 879 | 352 | 1,670 | 2,901 |
| Printing and publication | - | - | 10,287 | 10,287 |
| Bank charges | - | 25,571 | - | 25,571 |
| Travel | 83,774 | 5,597 | 8,959 | 98,330 |
| Utilities | 1,132 | 2,991 | 1,676 | 5,799 |
| Office | 44,623 | 25,801 | 7,252 | 77,676 |
| Consultants | 30,005 | 1,250 | 2,406 | 33,661 |
| Advertising | - | 1,008 | 41,451 | 42,459 |
| Depreciation | - | 31,912 | - | 31,912 |
| TOTAL FUNCTIONAL EXPENSES | \$ 4,075,650 | \$ 199,583 | \$ 236,511 | \$ 4,511,744 |

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2011

| | |
|--|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | <u>\$ (123,484)</u> |
| Adjustments to reconcile change in net assets to net cash from operating activities | |
| Depreciation | 31,912 |
| (Increase) decrease in | |
| Accounts receivable | 3,256 |
| Contributions receivable from trusts | 68,697 |
| Prepaid expenses and other assets | (12,269) |
| Increase (decrease) in | |
| Accounts payable | 3,058 |
| Accrued expenses | <u>573</u> |
| Total adjustments | <u>95,227</u> |
| Net cash from operating activities | <u>(28,257)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchases of equipment | <u>(20,977)</u> |
| Net cash from investing activities | <u>(20,977)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (49,234) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>1,254,711</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 1,205,477</u> |

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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.

Fair Value Measurements

The Foundation follows 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.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2011.

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.

The Foundation follows 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 derecognition, classification, interest and penalties, disclosure, and transition. The Foundation conducts business solely in the U.S. and, as a result, files information returns for U.S. and Illinois. In the normal course of business, the Foundation is subject to examination by taxing authorities.

The Foundation's information returns for years subsequent to fiscal 2007 are open, by statute, for review by authorities. However, at present, there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the Foundation currently files or has filed with.

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.

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

3. TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2011, the Foundation had temporarily restricted net assets available for the following projects:

| | |
|---|-----------------------|
| Support for orphan rescue and care | \$ 898,438 |
| Contributions receivable from trusts | <u>44,917</u> |
| TOTAL TEMPORARILY RESTRICTED NET ASSETS | <u>\$ 943,355</u> |

4. OPERATING LEASE

The Foundation leases an office pursuant to an operating lease agreement with an expiration date of December 31, 2012. The monthly rate on this lease is \$2,597. The Foundation paid \$31,765 for the space it occupies during the year ended June 30, 2011. 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, 2011.

The following is a schedule by year of future minimum lease payments at June 30, 2011.

| | |
|---|----------------------|
| 2012 | \$ 36,654 |
| 2013 | <u>18,876</u> |
| TOTAL FUTURE MINIMUM LEASE PAYMENTS | <u>\$ 55,530</u> |

5. SUPPLEMENTAL CASH FLOW INFORMATION

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

6. DONATED GOODS AND SERVICES

The Foundation received in-kind donations of various supplies and materials to be used in Cambodia for \$1,146,608, the fair market value at the time of donation. Total in-kind contributions the Foundation received were \$1,160,338 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 a final annual payment in the amount of \$4,198 in 2012.

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

7. CONTRIBUTIONS RECEIVABLE FROM TRUSTS (Continued)

The Foundation also has a beneficial interest in two similar charitable remainder trusts. The present value of estimated future distributions from these trusts is \$40,719 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, 2011 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 | \$ - | \$ - | \$ 4,198 | \$ 4,198 |
| Contribution receivable, beneficial interest in charitable remainder trust | - | - | 40,719 | 40,719 |
| TOTAL BY LEVEL | \$ - | \$ - | \$ 44,917 | \$ 44,917 |

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, 2011.

| | |
|--|---|
| | <u>Contributions receivable from trusts</u> |
| BALANCE, BEGINNING OF YEAR | \$ 113,614 |
| Change in value of beneficial interest | (9,704) |
| Payment from charitable lead annuity trust | <u>(58,993)</u> |
| BALANCE, END OF YEAR | <u>\$ 44,917</u> |

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

8. CONCENTRATIONS

The Foundation maintains its cash in bank deposit accounts at financial institutions. The balances, at times, may exceed federally insured limits.

9. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through January 11, 2012, 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.