

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

For the Year Ended  
June 30, 2005

 Sikich Gardner & Co, LLP  
ACCOUNTANTS AND CONSULTANTS

## C O N T E N T S

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT .....	3
FINANCIAL STATEMENTS	
Statement of Financial Position .....	4
Statement of Activities .....	5
Statement of Functional Expenses .....	6
Statement of Cash Flows .....	7
Notes to Financial Statements .....	8-10

# Sikich Gardner & Co, LLP<sup>TM</sup>

Accountants & Consultants

A Member of Sikich Group, LLC

998 Corporate Boulevard • Aurora, IL 60502-9102

Members of  
American Institute of  
Certified Public Accountants  
Illinois CPA Society

## 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, 2005, 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, 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.

Aurora, Illinois  
December 9, 2005



WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

For the Year Ended June 30, 2005

---

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 177,508
Accounts receivable	7,038
Contributions receivable from trusts- current portion	29,450
Prepaid expenses and other assets	<u>2,992</u>
Total current assets	<u>216,988</u>
Contributions receivable from trusts, net of current portion	<u>213,050</u>
Property and equipment	
Furniture and equipment	43,340
Less accumulated depreciation	<u>(17,397)</u>
Net property and equipment	<u>25,943</u>
Total long-term assets	<u>238,993</u>
TOTAL ASSETS	<u><u>\$ 455,981</u></u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	\$ 6,084
Accrued expenses	<u>14,027</u>
Total current liabilities	<u>20,111</u>
NET ASSETS	
Unrestricted	69,637
Temporarily restricted	<u>366,233</u>
Total net assets	<u>435,870</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 455,981</u></u>

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2005

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Contributions	\$ 394,721	\$ 845,366	\$ 1,240,087
In-kind contributions	152,328	-	152,328
Interest and dividends	489	-	489
Change in value of contributions receivable from trusts	-	9,212	9,212
Net assets released from restrictions	853,905	(853,905)	-
<b>Total revenues</b>	<b>1,401,443</b>	<b>673</b>	<b>1,402,116</b>
<b>EXPENSES</b>			
Program	1,186,129	-	1,186,129
General and administrative	157,159	-	157,159
Fundraising	89,979	-	89,979
<b>Total expenses</b>	<b>1,433,267</b>	<b>-</b>	<b>1,433,267</b>
<b>CHANGE IN NET ASSETS</b>	<b>(31,824)</b>	<b>673</b>	<b>(31,151)</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>101,461</b>	<b>365,560</b>	<b>467,021</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 69,637</b>	<b>\$ 366,233</b>	<b>\$ 435,870</b>

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2005

	Program	General and Administrative	Fundraising	Total
Contributions for orphan care				
Fiscal support	\$ 930,117	\$ -	\$ -	\$ 930,117
Supplies	85,730	-	-	85,730
Salaries and wages	80,184	85,937	16,961	183,082
Other employee benefits	5,962	802	4,571	11,335
Payroll taxes	9,147	80	1,934	11,161
Professional fees	-	7,512	-	7,512
Supplies	6,328	2,361	347	9,036
Telecommunications	3,042	1,887	1,887	6,816
Insurance	-	2,510	-	2,510
Occupancy	17,213	16,524	6,000	39,737
Dues and subscriptions	-	445	-	445
Postage and delivery	2,807	2,739	1,084	6,630
Printing and publication	-	-	2,113	2,113
Bank charges	-	7,264	-	7,264
Travel	26,598	1,000	170	27,768
Utilities	782	1,975	1,231	3,988
Office	13,846	7,739	990	22,575
Consultants	4,373	11,770	37,056	53,199
Advertising	-	200	15,635	15,835
Depreciation	-	6,294	-	6,294
Miscellaneous	-	120	-	120
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 1,186,129</b>	<b>\$ 157,159</b>	<b>\$ 89,979</b>	<b>\$ 1,433,267</b>

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2005

---

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	<u>\$ (31,151)</u>
Adjustments to reconcile change in net assets to net cash from operating activities	
Depreciation	6,294
(Increase) decrease in	
Accounts receivable	(7,038)
Contributions receivable from trusts	20,238
Prepaid expenses and other assets	(35)
Increase (decrease) in	
Accounts payable	2,399
Accrued expenses	<u>6,643</u>
Total adjustments	<u>28,501</u>
Net cash from operating activities	<u>(2,650)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchases of equipment	<u>(10,745)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
None	<u>-</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(13,395)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>190,903</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 177,508</u></u>

See accompanying notes to financial statements.

WARM BLANKETS CHILDREN'S FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

---

1. NATURE OF ACTIVITIES

Warm Blankets Children's Foundation, Inc. (the Foundation) is a non-profit 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 heart for 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.

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, 2005.

Income Taxes

In an advance ruling letter dated May 11, 2001, the Internal Revenue Service granted the Foundation a temporary exemption from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The advance ruling period expired March 31, 2005. 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.

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

---

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2005, the Foundation had temporarily restricted net assets available for the following projects:

Support specific orphanages in Cambodia	\$ 123,733
Contributions receivable from trusts	<u>242,500</u>
 TOTAL TEMPORARILY RESTRICTED NET ASSETS	 <u>\$ 366,233</u>

4. OPERATING LEASE

The Foundation leases an office pursuant an operating lease agreement with an expiration date of December 1, 2009. The monthly rate on this lease ranges from \$2,377 to \$2,521. The Foundation paid \$22,524 for the space it occupies during the year ended June 30, 2005. In addition, the Foundation received \$17,213 in in-kind rent donations at a separate facility during fiscal year 2005.

The following is a schedule by years of future minimum lease payments at June 30, 2005.

2006	\$ 26,024
2007	29,021
2008	29,887
2009	<u>15,126</u>
 TOTAL FUTURE MINIMUM LEASE PAYMENTS	 <u>\$ 100,058</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. CONCENTRATION OF CREDIT RISK

The Foundation maintains cash balances at a financial institution in Buffalo Grove, Illinois. Accounts at this institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. The total amount in excess of federally insured limits is \$111,542 at June 30, 2005.

7. DONATED GOODS AND SERVICES

The executive director donates a significant portion of his time to the Foundation at a substantially reduced salary. Compensation paid to the Executive Director was \$16,486 and an additional in-kind amount of \$49,385 was recorded for a total of \$65,871 for the year ended June 30, 2005. In addition, the Foundation received in-kind donations of various supplies and materials to be used in Cambodia for \$85,730, the fair market value at the time of donation. Total in-kind contributions the Foundation received totaled \$152,328 which includes \$17,213 of an in-kind rent donation as further discussed in Note 4 of the financial statements.

8. 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 \$186,989 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 \$55,511 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 trust.