

**FABRETTO CHILDREN'S FOUNDATION**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT**

**DECEMBER 31, 2004**

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## Independent Auditor's Report

To the Board of Directors and Members  
Fabretto Children's Foundation

We have audited the accompanying statement of financial position of Fabretto Children's Foundation as of December 31, 2004, and the related statements of activities, and cash flows for the year then ended. These financial statements are the responsibility of the management of Fabretto Children's Foundation. 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, financial statements referred to above present fairly, in all material respects, the financial position of Fabretto Children's Foundation as of December 31, 2004, 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.

March 31, 2005

**FABRETTO CHILDREN'S FOUNDATION  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2004**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents - unrestricted	\$ 166,645
Investments - unrestricted	1,480,130
Accounts receivable	2,000
Contributions receivable	23,993
Prepaid expenses	<u>153,880</u>
Total Current Assets	1,826,648

**FIXED ASSETS**

Equipment	9,572
Less accumulated depreciation	<u>(2,458)</u>
Total Fixed Assets	7,114

**OTHER ASSETS**

Investments restricted	161,951
Investments board designated	<u>140,427</u>
Total Other Assets	<u>302,378</u>

<b>TOTAL ASSETS</b>	<b><u>\$ 2,136,140</u></b>
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**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts payable	\$ 44,161
Deferred revenue	<u>27,670</u>
Total Liabilities	71,831

**NET ASSETS**

Unrestricted - general	1,716,561
Unrestricted - board designated	<u>140,427</u>
Total Unrestricted Net Assets	1,856,988
Temporarily restricted net assets	45,370
Permanently restricted net assets	<u>161,951</u>
Total Net Assets	<u>2,064,309</u>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 2,136,140</u></b>
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See independent auditors' report and accompanying notes to financial statements.

**FABRETTO CHILDREN'S FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 300,592	\$ 236,162	\$ -	\$ 536,754
Events	491,669	-	-	491,669
Less expenses associated with the events	(175,435)	-	-	(175,435)
Grants	202,045	-	-	202,045
In kind contributions-food commodities	235,802	-	-	235,802
In kind contributions-other	201,653	-	-	201,653
Net assets released from restrictions Satisfaction of program or time restrictions	<u>190,792</u>	<u>(190,792)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	1,447,118	45,370	-	1,492,488
<b>INVESTMENT REVENUE</b>				
Interest and dividends	39,163	-	3,425	42,588
Unrealized gain on investments	<u>87,355</u>	<u>-</u>	<u>6,894</u>	<u>94,249</u>
Total investment and revenue	<u>126,518</u>	<u>-</u>	<u>10,319</u>	<u>136,837</u>
<b>TOTAL REVENUE AND SUPPORT</b>	1,573,636	45,370	10,319	1,629,325
<b>EXPENSES</b>				
Programs				
Aid for Nicaraguan Youth	<u>1,262,475</u>	<u>-</u>	<u>-</u>	<u>1,262,475</u>
Total Programs	1,262,475	-	-	1,262,475
Support Services				
General and administration	111,478	-	-	111,478
Fundraising	<u>82,275</u>	<u>-</u>	<u>-</u>	<u>82,275</u>
Total support services	193,753	-	-	193,753
Total Expenses	<u>1,456,228</u>	<u>-</u>	<u>-</u>	<u>1,456,228</u>
<b>CHANGE IN NET ASSETS</b>	117,408	45,370	10,319	173,097
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>1,739,580</u>	<u>-</u>	<u>151,632</u>	<u>1,891,212</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,856,988</u>	<u>\$ 45,370</u>	<u>\$ 161,951</u>	<u>\$2,064,309</u>

See independent auditors' report and accompanying notes to financial statements.

**FABRETTO CHILDREN'S FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2004**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 173,097
Adjustments to reconcile net increase in net assets to net cash used by operating activities:	
Depreciation expense	2,458
Unrealized gain on investments	(94,249)
Changes in assets and liabilities:	
Decrease in accounts receivable	13,203
Decrease in contributions receivable	46,553
Increase in prepaid expenses	(146,380)
Increase in accounts payable	15,160
Decrease in deferred revenue	(19,622)
Net Cash Used By Operating Activities	<u>(9,780)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of fixed assets	(2,945)
Proceeds from sale of investments	100,000
Purchase of investments	<u>(69,402)</u>
Net Cash Provided By Investing Activities	27,653
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	17,873
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>148,772</u>
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 166,645</u>

See independent auditors' report and accompanying notes to financial statements.

**FABRETTO CHILDREN'S FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

The Fabretto Children's Foundation, Inc. (The "Organization"), is a nonprofit organization organized under the laws of the State of Illinois for the purpose of the formation and maintenance of charitable funds to provide for the health, education, and welfare of children in need, including, but not limited to children residing outside the United States, so as to provide relief to the poor, the distressed and the underprivileged.

Program Description

**Aid for Nicaraguan Youth** – In partnership with local Nicaraguan organizations, the Fabretto Children's Foundation, Inc. raises funds and operates programs to provide opportunities for low income Nicaraguan children to obtain the education they need to become responsible productive adults by offering programs promoting nutrition, health, education, community and character development. Specific program areas sponsored by the Organization include after school education nutrition and enrichment activities, youth development, scholarships, music education, auto-mechanics vocational training, computer skills training, food production and sustainable forestry.

During the year ended December 31, 2004, the Organization's assistance allowed local Nicaraguan organizations to:

- Include 3,000 children in nutrition and education programs
- Award over 100 job training scholarships for vocational, technical, and college studies
- Provide schoolbooks to neighborhood study centers
- Open a new center to serve two remote rural communities
- Begin to build and equip a library
- Improve job training and education opportunities by upgrading computer/job skills training centers

The Organization also has grants with USAID and the US Department of Agriculture to distribute food to local Nicaraguan communities, providing food aid to 28,000 children, pregnant mothers and elderly.

Method of Accounting

Assets, liabilities, revenue, support and expenses are recorded on the accrual basis of accounting.

**FABRETTO CHILDREN'S FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**  
(continued)

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Basis of Presentation

Net assets and revenue are classified based on the existence or absence of donor - imposed restrictions. Accordingly, net assets of the Organization and changes therein, are classified and reported as follows:

Unrestricted Net Assets - Net assets not subject to donor - imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor - imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor - imposed stipulations that may be maintained permanently by the Organization.

Cash and Cash Equivalents

The Organization maintains its cash in bank deposit accounts, which may exceed federally insured limits. Management considers all highly liquid investments with a maturity of three months or less to be cash equivalents. The Organization believes it is not exposed to any significant credit risk on cash or cash equivalents.

Accounts Receivable

The Organization believes all accounts receivable are collectible. Therefore, no allowance for bad debts has been established.

Investments

Investments are recorded at market value.

Fixed Assets

Property and equipment are carried at cost. The Organization capitalizes all equipment with a cost basis greater than \$1,000. For the year ended December 31, 2004 depreciation expense was \$2,428.

**FABRETTO CHILDREN'S FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**  
(continued)

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor restricted contributions are reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the restriction.

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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services and In-Kind Contributions

Contributions of services are required to be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

In addition to receiving cash contributions, the Organization received in-kind contributions from various donors. It is the policy of the Organization to record the estimated fair market value of the certain in-kind donations as an expense in its financial statements, and similarly increase donations by a like amount.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The cost of providing various programs and other activities has been summarized on a functional basis. Accordingly, certain costs have been allocated between the program and supporting services.

**FABRETTO CHILDREN'S FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**  
(continued)

**NOTE B- INCOME TAXES**

The Organization is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code. Fabretto Children's Foundation is, however, subject to tax on income from business unrelated to its tax exempt purpose. For the years ended December 31, 2004, the Organization had no liability for tax on unrelated business income.

**NOTE C - INVESTMENTS**

The Organization's investments at December 31, 2004 consisted of the following at cost:

	<u>Cost</u>	<u>Market Value</u>
Certificate of deposit	\$ 83,475	\$ 83,475
Equity securities	680,886	814,878
Mutual funds	808,522	823,582
Money market	<u>60,873</u>	<u>60,573</u>
	<u>\$ 1,633,756</u>	<u>\$ 1,782,508</u>

**NOTE D - GOVERNMENT GRANT**

During the year ended December 31, 2004, the Organization received a grant from the U.S. Agency for International Development (USAID) and the U.S. Department of Agriculture (USDA) to receive, transport, deliver, and distribute food commodities to Nicaraguan communities, which qualify as conditional promises to give, are recognized when the condition of performing the terms of the grant agreements are met. Revenue is therefore recognized as earned as the condition of eligible expenses are incurred. The expenditures are subject to audit and acceptance by USAID and USDA. As a result of such audit, adjustments could be required.

At December 31, 2004, the USAID advances made by USAID and USDA to the Organization included in the accompanying statement of financial position was \$27,670. The total grant revenue for the year ended December 31, 2004 was \$202,045.

**FABRETTO CHILDREN'S FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**  
(continued)

**NOTE E -IN KIND CONTRIBUTIONS**

The Organization recognizes contribution revenue for certain services and donated items at their fair market value. For the year ended December 31 2004, in kind contributions included the following:

	Program <u>Services</u>	<u>Fundraising</u>	Management & <u>General</u>	<u>Total</u>
Food commodities	\$ 235,802	\$ -	\$ -	\$ 235,802
Education supplies	86,173	-	-	86,173
Other supplies	59,262	915	-	60,177
Professional services	42,300	-	8,003	50,303
	<u>\$ 423,537</u>	<u>\$ 915</u>	<u>\$ 8,003</u>	<u>\$ 432,455</u>

In addition, the Organization received vouchers for airline travel valued at \$ 5,000. This amount is included as a prepaid expense in the accompanying Statement of Financial Position at December 31, 2004.

A portion of agriculture commodities is food donated by USAID.

**NOTE F- UNRESTRICTED NET ASSETS BOARD DESIGNATED**

The Board of Directors has designated a portion of the Organizations unrestricted net assets for the scholarship endowment. The amount of designated unrestricted net assets at December 31, 2004 was \$140,427.

**FABRETTO CHILDREN'S FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2004**  
(continued)

**NOTE G - PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of funds received and invested to fund scholarships for needy children in Nicaragua. At December 31, 2004, the amount of permanently restricted net assets was \$161,951.

In 2002, the Organization received an endowment gift from a donor to fund scholarships for participants in or alumni of the programs of La Familia Padre Fabretto (FPF), an organization that operates youth development centers in Nicaragua. The amount of the endowment gift was \$80,000. The endowment included a requirement that the Organization contribute \$40,000 to have the principal amount of the fund equal \$120,000. The Organization made the matching contribution in 2002. The endowment also requires that the principal amount of the fund remain an asset of the Organization.

In 2003, the Organization formalized its arrangement with FPF regarding these funds so that this \$120,000 would be given directly to FPF to be invested and managed in Nicaragua on behalf of FCF, provided that the Organization participate with FPF in decision making regarding investment policy and scholarship awards. During the year ended December 31, 2003, the Organization's Board of Directors authorized its \$40,000 matching funds for the scholarship fund to be invested by FPF in Nicaragua Government Bonds. The Organization participates with FPF on all decisions regarding these funds.