

FRIENDS OF THE ORPHANS
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011



CliftonLarsonAllen

**FRIENDS OF THE ORPHANS
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YEARS ENDED DECEMBER 31, 2012 AND 2011**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Friends of the Orphans
Chicago, Illinois

We have audited the accompanying financial statements of Friends of the Orphans (the "Organization"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, 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.

Auditors' 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 auditors' 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.

Basis for Qualified Opinion

As discussed in Note 11 to the financial statements, these financial statements do not include the activity of Father Wasson Legacy Endowment, Inc. In our opinion, accounting principles generally accepted in the United States of America require that any entities which the Organization has both legal control and economic interest in be consolidated with the Organization. If the financial statements of Father Wasson Legacy Endowment, Inc. had been consolidated with those of the Organization, total assets would be increased by \$11,497,301 and \$10,872,287 at December 31, 2012 and 2011, respectively; total liabilities would be decreased by \$116,606 and \$28,859, at December 31, 2012 and 2011, respectively; and the change in net assets would be increased by \$702,761 and \$714,422 for the years ended December 31, 2012 and 2011, respectively.

Qualified Opinion

In our opinion, except for the effects of not consolidating an entity where legal control and economic interest exists, as discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



CliftonLarsonAllen LLP

Oak Brook, Illinois
April 27, 2013

**FRIENDS OF THE ORPHANS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011**

	2012	2011
ASSETS		
Cash and Cash Equivalents	\$ 3,699,599	\$ 2,215,180
Accounts Receivable	11,718	2,416
Pledges Receivable, Net of Allowance for Uncollectible Pledges of \$21,539 in 2012 and \$127,630 in 2011	351,543	403,682
Prepaid Expenses	79,495	83,465
Investments	363,109	445,225
Beneficial Interest in Perpetual Trusts	2,638,866	2,517,493
Beneficial Interest in Land Trust	37,500	37,500
Fixed Assets, Net	84,177	54,154
Other Assets	33,135	33,135
Total Assets	\$ 7,299,142	\$ 5,792,250
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable	\$ 998,370	\$ 118,077
Accrued Expenses and Other Liabilities	382,088	205,403
Due to Other Organizations	120,357	28,959
Total current Liabilities	1,500,815	352,439
NET ASSETS		
Unrestricted		
Undesignated for General Activities	2,146,349	1,844,308
Designated by Board of Directors	136,957	136,957
Invested in Furniture and Equipment	84,177	54,154
	2,367,483	2,035,419
Temporarily Restricted	791,978	886,899
Permanently Restricted	2,638,866	2,517,493
Total Net Assets	5,798,327	5,439,811
Total Liabilities and Net Assets	\$ 7,299,142	\$ 5,792,250

See accompanying Notes to Financial Statements.

**FRIENDS OF THE ORPHANS
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2012 and 2011**

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT								
Contributions	\$ 10,922,495	\$ -	\$ -	\$ 10,922,495	\$ 6,788,662	\$ -	\$ -	\$ 6,788,662
Bequests	163,132	-	-	163,132	723,384	-	-	723,384
Donated Services and Materials	5,469,541	-	-	5,469,541	5,591,586	-	-	5,591,586
Special Events, Net of Direct Costs of \$251,665 in 2012 and \$249,388 in 2011	1,322,066	-	-	1,322,066	1,274,040	-	-	1,274,040
Total Support	<u>17,877,234</u>	<u>-</u>	<u>-</u>	<u>17,877,234</u>	<u>14,377,672</u>	<u>-</u>	<u>-</u>	<u>14,377,672</u>
REVENUE								
Interest and Dividends	8,032	-	-	8,032	23,599	-	-	23,599
Unrealized Gain (Loss)	(2,813)	-	-	(2,813)	4,087	-	-	4,087
Distributions from Beneficial Interest in Trusts	100,621	-	-	100,621	137,118	-	-	137,118
Change in Value of Trusts	-	-	121,373	121,373	-	-	(193,445)	(193,445)
Miscellaneous	44,239	-	-	44,239	10,722	-	-	10,722
Total Revenue	<u>150,079</u>	<u>-</u>	<u>121,373</u>	<u>271,452</u>	<u>175,526</u>	<u>-</u>	<u>(193,445)</u>	<u>(17,919)</u>
Net Assets Released from Restrictions	94,921	(94,921)	-	-	841,191	(841,191)	-	-
Total Support and Revenue	<u>18,122,234</u>	<u>(94,921)</u>	<u>121,373</u>	<u>18,148,686</u>	<u>15,394,389</u>	<u>(841,191)</u>	<u>(193,445)</u>	<u>14,359,753</u>
EXPENSES								
Program Services	14,528,833	-	-	14,528,833	12,070,766	-	-	12,070,766
Management and General	1,105,324	-	-	1,105,324	1,323,262	-	-	1,323,262
Fundraising	2,156,013	-	-	2,156,013	1,988,667	-	-	1,988,667
Total Expenses	<u>17,790,170</u>	<u>-</u>	<u>-</u>	<u>17,790,170</u>	<u>15,382,695</u>	<u>-</u>	<u>-</u>	<u>15,382,695</u>
CHANGE IN NET ASSETS	332,064	(94,921)	121,373	358,516	11,694	(841,191)	(193,445)	(1,022,942)
Net Assets - Beginning of Year	2,035,419	886,899	2,517,493	5,439,811	2,023,725	1,728,090	2,710,938	6,462,753
NET ASSETS - END OF THE YEAR	<u>\$ 2,367,483</u>	<u>\$ 791,978</u>	<u>\$ 2,638,866</u>	<u>\$ 5,798,327</u>	<u>\$ 2,035,419</u>	<u>\$ 886,899</u>	<u>\$ 2,517,493</u>	<u>\$ 5,439,811</u>

See accompanying Notes to Financial Statements.

**FRIENDS OF THE ORPHANS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012**

	Program Services	Management and General	Fund Raising	Total Support Services	Total
Salaries	\$ 254,075	\$ 609,693	\$ 1,415,218	\$ 2,024,911	\$ 2,278,986
Payroll Taxes	19,711	47,299	109,789	157,088	176,799
Employee Benefits	21,277	51,057	118,514	169,571	190,848
	<u>295,063</u>	<u>708,049</u>	<u>1,643,521</u>	<u>2,351,570</u>	<u>2,646,633</u>
Support to Orphanages-NPHI					
Operations - Direct Support	5,255,358	-	-	-	5,255,358
Operations - Designated and Sharing	3,236,880	-	-	-	3,236,880
Donated Materials and Supplies	5,442,368	-	-	-	5,442,368
	<u>13,934,606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,934,606</u>
Bank and Credit Card Fees	-	4,946	89,973	94,919	94,919
Consulting and Outside Services	27,204	-	26,212	26,212	53,416
Cultivation	-	-	8,965	8,965	8,965
Bad Debt Recoveries, Net	-	(47,171)	-	(47,171)	(47,171)
Depreciation and Amortization	-	27,943	-	27,943	27,943
Dues and Subscriptions	-	3,384	-	3,384	3,384
Employee Search and Relocation	-	14,965	-	14,965	14,965
Event Supplies	-	-	47,742	47,742	47,742
Hospitality and Meals	-	27,092	-	27,092	27,092
Insurance	-	21,385	-	21,385	21,385
Investment Fees	-	5,118	-	5,118	5,118
Licenses and Fees	-	49,005	-	49,005	49,005
Occupancy	68,792	89,821	115,470	205,291	274,083
Office Equipment	-	25,198	-	25,198	25,198
Office Supplies	-	25,903	25,903	51,806	51,806
Outside Services	-	7,645	-	7,645	7,645
Postage and Shipping	21,844	21,844	43,688	65,532	87,376
Professional Fees	-	46,443	-	46,443	46,443
Program Education and Marketing	-	5,223	80,841	86,064	86,064
Promotion	-	-	2,824	2,824	2,824
Repair and Maintenance	-	8,071	-	8,071	8,071
Telecommunications	-	12,152	19,911	32,063	32,063
Training and Seminars	-	1,850	3,032	4,882	4,882
Travel	181,324	11,663	47,931	59,594	240,918
Miscellaneous	-	34,795	-	34,795	34,795
	<u>299,164</u>	<u>397,275</u>	<u>512,492</u>	<u>909,767</u>	<u>1,208,931</u>
Total Expense	<u><u>\$ 14,528,833</u></u>	<u><u>\$ 1,105,324</u></u>	<u><u>\$ 2,156,013</u></u>	<u><u>\$ 3,261,337</u></u>	<u><u>\$ 17,790,170</u></u>

See accompanying Notes to Financial Statements.

**FRIENDS OF THE ORPHANS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011**

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 320,571	\$ 504,801	\$ 1,233,008	\$ 2,058,380
Payroll Taxes	26,659	41,979	102,536	171,174
Employee Benefits	25,254	39,768	97,136	162,158
	<u>372,484</u>	<u>586,548</u>	<u>1,432,680</u>	<u>2,391,712</u>
Support to Orphanages-NPHI				
Operations - Direct Support	4,154,609	-	-	4,154,609
Operations - Designated and Sharing	1,768,862	-	-	1,768,862
Donated Materials and Supplies	5,573,973	-	-	5,573,973
	<u>11,497,444</u>	<u>-</u>	<u>-</u>	<u>11,497,444</u>
Bank and Credit Card Fees	-	70	75,925	75,995
Consulting and Outside Services	27,204	10,700	38,069	75,973
Cultivation	-	-	24,050	24,050
Bad Debt Expense	-	363,545	-	363,545
Depreciation and Amortization	-	34,253	-	34,253
Dues and Subscriptions	-	1,652	-	1,652
Employee Search and Relocation	-	3,603	-	3,603
Event Supplies	-	-	59,761	59,761
Hospitality and Meals	-	12,929	-	12,929
Insurance	-	21,689	-	21,689
Investment Fees	-	6,674	-	6,674
Licenses and Fees	-	64,922	-	64,922
Occupancy	62,358	41,315	115,668	219,341
Office Equipment	-	31,872	-	31,872
Office Supplies	-	22,698	22,698	45,396
Outside Services	-	45,948	35,913	81,861
Postage and Shipping	-	16,277	48,831	65,108
Professional Fees	-	24,453	-	24,453
Program Education and Marketing	-	4,945	86,138	91,083
Promotion	-	-	3,469	3,469
Repair and Maintenance	-	5,402	-	5,402
Telecommunications	-	10,774	16,094	26,868
Training and Seminars	-	1,818	2,716	4,534
Travel	111,276	8,559	26,655	146,490
Miscellaneous	-	2,616	-	2,616
	<u>200,838</u>	<u>736,714</u>	<u>555,987</u>	<u>1,493,539</u>
Total Expense	<u><u>\$ 12,070,766</u></u>	<u><u>\$ 1,323,262</u></u>	<u><u>\$ 1,988,667</u></u>	<u><u>\$ 15,382,695</u></u>

See accompanying Notes to Financial Statements.

**FRIENDS OF THE ORPHANS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011**

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 358,516	\$ (1,022,942)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:		
Provision for (Recoveries of) Bad Debts	(47,171)	363,545
Depreciation and Amortization	27,943	34,253
Unrealized (Gain) Loss on Investments	2,813	(4,087)
Change in Value of Perpetual Trusts	(121,373)	193,445
(Increase) Decrease in:		
Accounts Receivable	90,008	29,392
Pledges Receivable	-	362,819
Prepaid Expenses	3,970	(17,522)
Other Assets	-	(2,337)
Increase (Decrease) in:		
Accounts Payable	880,293	37,013
Accrued Expenses and Other Liabilities	176,685	(22,133)
Due to Other Organizations	91,398	(42,744)
Net Cash Provided by (Used in) Operating Activities	1,463,082	(91,298)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets and Software	(57,966)	-
Proceeds from Sales and Maturities of Investments	100,000	227,436
Purchase of Investments	(20,697)	-
Net Cash Provided by Investing Activities	21,337	227,436
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,484,419	136,138
Cash and Cash Equivalents - Beginning of Year	2,215,180	2,079,042
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,699,599	\$ 2,215,180

See accompanying Notes to Financial Statements.

**FRIENDS OF THE ORPHANS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Friends of the Orphans (the "Organization") was organized as an Illinois Not-for-Profit Corporation on June 29, 2004. The Organization is organized and operated exclusively for charitable and educational purposes. The Organization is dedicated to improving the lives of orphaned, abandoned, and disadvantaged children through its support of the Nuestros Pequeños Hermanos (NPHI) network of orphanages in Latin America and the Caribbean.

Basis of Presentation

Contributions received are recorded as an increase in unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Donor restricted contributions are reported as unrestricted support where the restrictions have been satisfied in the same year in which the revenue is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as "Net assets released from restrictions". Net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – Those resources over which the board of directors has discretionary control. It is the policy of the board of directors to review its plans for future support of orphaned, abandoned, and disadvantaged children and other related special purposes and designate sums of unrestricted net assets to specific locations and special purposes.

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

Permanently Restricted – Those resources subject to a donor-imposed restriction that they be maintained permanently by the Organization. The donors of these resources permit the Organization to use all or part of the income earned, including capital appreciation, or related investments for unrestricted or temporarily restricted purposes.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of demand deposits and money market accounts.

Accounts Receivable

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables.

**FRIENDS OF THE ORPHANS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Contributions are recognized when the donor makes a pledge to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional pledges receivable. The allowance is based on prior years' experience and management's analysis of specific pledges made.

Investments

The Organization carries investments in marketable securities with readily determinable market values and all investments in debt securities at their fair values.

Beneficial Interests in Trusts

Beneficial interests in trusts consist of assets held in perpetual trusts and a beneficial interest in a land trust.

Beneficial Interests in Perpetual Trust – The Organization is the beneficiary of two perpetual trusts held by a third party. Under the terms of the trusts, the Organization has the irrevocable right to receive the income generated by the trust in perpetuity. The beneficial interest in the perpetual trusts is recorded at the fair value. Changes in net assets of the trusts are recorded as gain or losses (change in value of trusts) on the Statements of Activities. Net assets and changes in the net assets are recorded as permanently restricted. Distributions received from these trusts are recorded as temporarily restricted or unrestricted income, in accordance with the respective trust agreements.

Beneficial Interest in Land Trust – The Organization is the beneficiary of a land trust held by a third party. Under the terms of the trusts, the Organization has the irrevocable right to receive 25% of the income generated by the trust. The beneficial interest in the perpetual trusts is recorded at the fair value. Changes in net assets of the trusts are recorded as gain or losses (change in value of trusts) on the Statement of Activities. Net assets and changes in the net assets are recorded as temporarily restricted. Distributions received from this trust are recorded as unrestricted income.

Fixed Assets

Furniture, equipment, and vehicles are stated at cost or estimated value if donated. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, generally five years. All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of the assets are capitalized.

**FRIENDS OF THE ORPHANS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and Materials

Donated services are recognized for those that improve or enhance property and equipment (as contributions and increases to the basis of property and equipment) or for those that require specialized skills (as contributions and expenses), are performed by people with those skills and would otherwise be purchased by the Organization.

Donations of materials and non-cash assets are recorded as contributions at their estimated fair value at the date of donation. Such donations are recorded as increases in unrestricted net assets unless the donor has restricted the donated materials to a specific purpose. Donated materials are expensed as program supplies. Donated non-cash assets are recorded in accordance with the Organization's capitalization policy and depreciated if required.

Although highly valued by the Organization, contributions of time and services provided by many volunteers do not meet the criteria for recognition and, therefore, are not recognized in the financial statements.

Functional Expenses

Operating expenses directly identified with a functional area are charged to such area and, where such expenses affect more than one area, they are allocated to the respective areas on the basis of ratios, as estimated by management.

Fair Value Measurement

The Organization follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the Organization has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the Statements of Financial Position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as the U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Level 1 includes various mutual funds, collective funds, and U.S. Treasury futures.

**FRIENDS OF THE ORPHANS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 2 – Financial assets and liabilities are valued using inputs quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes private collateralized mortgage obligations, municipal bonds, and corporate debt securities.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes private equity, venture capital, hedge funds and real estate, as well as beneficial interests in trusts.

Estimates

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

Income Tax Status

The Organization is a not-for-profit organization exempt from paying corporate federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). It has been classified as an organization that is not a private foundation under the IRC and charitable contributions by donors are tax deductible.

The Organization has evaluated its tax positions and determined it has no uncertain tax positions at December 31, 2012 or 2011.

The Organization's 2009-2012 tax years are open for examination by the Internal Revenue Service (IRS). Should the Organization's tax exempt status be challenged in the future, all years since inception could be subject to review by the IRS.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition for disclosure through April 27, 2013, the date the financial statements were available to be issued.

**FRIENDS OF THE ORPHANS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 2 PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2012 and 2011 consist of time restricted contributions from various donors to support ongoing operations and the NPHI network of orphanages in Latin America. Pledges receivable consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Pledges Receivable Due:		
In Less than One Year	\$ 189,802	\$ 254,863
In One to Five Years	182,980	275,949
In More than Five Years	300	500
Total	<u>373,082</u>	<u>531,312</u>
Less: Allowance for Uncollectible Pledges	(21,539)	(127,630)
Total Pledges Receivable	<u>\$ 351,543</u>	<u>\$ 403,682</u>

Pledges expected to be received more than one year from the Statements of Financial Position date are discounted to present value. At December 31, 2012 and 2011, any related present value discount was considered insignificant.

NOTE 3 INVESTMENTS

Investments consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Domestic Equities	\$ 35,511	\$ 2,024
Fixed-Income - Government Agencies	327,598	443,201
	<u>\$ 363,109</u>	<u>\$ 445,225</u>

NOTE 4 FIXED ASSETS

Fixed assets consist of the following at December 31:

	<u>2012</u>	<u>2011</u>
Furniture and Equipment	\$ 376,519	\$ 359,728
Website Development	41,175	-
Less: Accumulated Depreciation and Amortization	(333,517)	(305,574)
	<u>\$ 84,177</u>	<u>\$ 54,154</u>

Depreciation and amortization expense charged to operations for the years ended December 31, 2012 and 2011 totaled \$27,943 and \$34,253, respectively.

**FRIENDS OF THE ORPHANS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 5 DUE TO OTHER ORGANIZATIONS

The Organization collects payments throughout the year for other not-for-profit organizations in an agency capacity. The amounts collected that have not been remitted to these organizations are reflected as liabilities at year-end.

The Father Wasson Legacy Endowment, Inc. (FWLE), a related supporting organization, was established to further the mission of Father Wasson who started the first orphanage in the NPH system in Cuernavaca, Mexico. As of December 31, 2012 and 2011, the unremitted amounts were \$116,606 and \$28,959, respectively.

In 2009, the Organization entered into an agency relationship with Ciudad de los Niños de Matamoros for the transfer of funds to NPH. As of December 31, 2012, there were unremitted amounts of \$3,751. There were no unremitted amounts as of December 31, 2011.

NOTE 6 RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at December 31:

	2012	2011
Immunization, Health, Medical, and Educational Needs	\$ 402,935	\$ 445,717
Beneficial Interest in Land Trust	37,500	37,500
Time Restricted Pledges Receivable	351,543	403,682
	\$ 791,978	\$ 886,899

Permanently restricted net assets at December 31, 2012 and 2011 consist of the Organization's beneficial interest in perpetual trusts.

NOTE 7 DONATED SERVICES AND MATERIALS

For the years ended December 31, 2012 and 2011, the Organization received contributions for professional services requiring specialized skills in the amount of \$27,171 and \$17,613, respectively.

During the years ended December 31, 2012 and 2011, the Organization received donated materials of \$5,442,368 and \$5,573,973, respectively.

NOTE 8 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Foundation values all other assets and liabilities refer to Note 1 - Summary of Significant Accounting Policies - Organization.

**FRIENDS OF THE ORPHANS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 8 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis as of December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Domestic Equities	\$ 35,511	\$ -	-	\$ 35,511
Fixed Income - Government Agencies	327,598	-	-	327,598
Beneficial Interest in Perpetual Trust	-	-	2,638,866	2,638,866
Beneficial Interest in Land Trust	-	-	37,500	37,500
Total assets at fair value	<u>\$ 363,109</u>	<u>\$ -</u>	<u>\$ 2,676,366</u>	<u>\$ 3,039,475</u>

Assets measured at fair value on a recurring basis as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Domestic Equities	\$ 2,024	\$ -	-	\$ 2,024
Fixed Income - Government Agencies	443,201	-	-	443,201
Beneficial Interest in Perpetual Trust	-	-	2,517,493	2,517,493
Beneficial Interest in Land Trust	-	-	37,500	37,500
Total assets at fair value	<u>\$ 445,225</u>	<u>\$ -</u>	<u>\$ 2,554,993</u>	<u>\$ 3,000,218</u>

The following table provides a summary of changes in fair value of the Organization's Level 3 financial assets for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Balance, January 1	\$ 2,554,993	2,748,438
Change in Value	121,373	(193,445)
Balance, December 31	<u>\$ 2,676,366</u>	<u>\$ 2,554,993</u>

The valuation of the Level 3 Beneficial Interest in Perpetual Trust is based on the fair market value of assets as indicated on the annual statement received from the trustee. The valuation of the Level 3 Beneficial Interest in Land Trust is based on 25% of the value of the trust property determined through an independent appraisal at December 31, 2011.

**FRIENDS OF THE ORPHANS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

NOTE 9 LEASE COMMITMENTS

The Organization has entered into various operating lease agreements for office space throughout the United States. Under certain of the agreements, the Organization is also liable for a proportionate share of common operating costs.

Future minimum cash payments under these lease agreements are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2013	\$ 219,646
2014	190,687
2015	143,056
2016	143,056
2017	116,858
Thereafter	225,260
	<u>\$ 1,038,563</u>

Total charges to operations for rental expense during the years ended December 31, 2012 and 2011 amounted to \$263,231 and \$209,886, respectively.

NOTE 10 POST RETIREMENT BENEFIT CONTRACT

The Organization has a retirement benefit contract for one former executive. The contract provides payments for health and dental benefits for a period that ends on June 30, 2018 or the death of the participant. The payment amounts are based on the actual premium amounts subject to periodic maximums and a specified supplemental cash payment. These amounts are insignificant and not accrued. The amount paid by the Organization for the years ended December 31, 2012 and 2011 totaled \$4,523 and \$4,354, respectively.

NOTE 11 RELATED PARTY TRANSACTIONS

Contribution revenues from members of the board of directors totaled \$104,066 and \$63,579 for the years ended December 31, 2012 and 2011, respectively.

The Organization has an economic and legal interest in the Illinois not-for-profit organization Father Wasson Legacy Endowment, Inc. (FWLEI). These financial statements do not include the activity of FWLEI. GAAP requires that any entities which the Organization has both legal control and economic interest in be consolidated with the Organization. If the financial statements of FWLEI had been consolidated with those of the Organization, total assets would be increased by \$11,497,301 and \$10,872,287 at December 31, 2012 and 2011, respectively; total liabilities would be decreased by \$116,606 and \$28,959, at December 31, 2012 and 2011, respectively; and the change in net assets would be increased by \$702,761 and \$714,422, for the years ended December 31, 2012 and 2011, respectively.

**FRIENDS OF THE ORPHANS
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NOTE 11 RELATED PARTY TRANSACTIONS (CONTINUED)

FWLEI shares certain management, staff and office facilities with the Organization. FWLEI reimburses the Organization for personnel and overhead expenses attributable to FWLEI activities. For the years ended December 31, 2012 and 2011, these expenses totaled \$10,000. At December 31, 2012 and 2011, the Organization had \$10,000 and \$0 due from FWLEI, respectively.

The Organization processes contributions on behalf of FWLEI. As of December 31, 2012 and 2011, the Organization had \$116,606 and \$28,959, due to FWLEI included as "Due to other organizations" in the Statements of Financial Position.

For the year ended December 31, 2012, a member of the FWLEI's board of directors made a contribution of \$275,965 to the Organization.

NOTE 12 COMMITMENT

During 2012, the Organization's board of directors approved a commitment to provide funding to NPHI in the amount of \$4,350,000 for the year 2013. This commitment is conditional based upon adequate funding being available through the Organization's fundraising efforts.