

**Fabretto Children's Foundation**

Financial Statements,  
and Independent Auditors' Report

December 31, 2015 and 2014

# Fabretto Children's Foundation

Financial Statements  
December 31, 2015 and 2014

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Fabretto Children's Foundation

We have audited the accompanying financial statements of Fabretto Children's Foundation ("the Foundation"), which comprise the statements of financial position as of December 31, 2015 and 2014, the related statements of activities 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.

### *Auditor's 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 auditor's 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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matter***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included on pages 21-22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Handwritten signature in black ink that reads "Rogers & Company PLLC". The signature is written in a cursive, flowing style.

Vienna, Virginia  
April 13, 2016

## Fabretto Children's Foundation

### Statements of Financial Position December 31, 2015 and 2014

	2015	2014
<b>Assets</b>		
Cash and cash equivalents	\$ 21,203	\$ 244,436
Pledges receivable	-	4,982
Interest receivable	14,623	14,623
Prepaid expenses	46,106	24,500
Investments	1,216,050	1,301,690
Certificates of deposit	-	80,000
Deposits	7,800	9,600
Property and equipment, net	36,055	17,597
Total assets	<u>\$ 1,341,837</u>	<u>\$ 1,697,428</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 94,815	\$ 26,823
Deferred revenue	10,530	53,604
Deferred rent	5,186	4,516
Total liabilities	<u>110,531</u>	<u>84,943</u>
<b>Net (Deficit) Assets</b>		
Unrestricted:		
Undesignated	(322,400)	279,973
Board-designated	279,857	317,236
Total unrestricted net (deficit) assets	(42,543)	597,209
Temporarily restricted net assets	1,153,849	895,276
Permanently restricted net assets	120,000	120,000
Total net assets	<u>1,231,306</u>	<u>1,612,485</u>
Total liabilities and net assets	<u>\$ 1,341,837</u>	<u>\$ 1,697,428</u>

See accompanying notes.

**Fabretto Children's Foundation**

Statement of Activities  
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenue and Support</b>				
Contributions	\$ 976,317	\$ 574,233	\$ -	\$ 1,550,550
Grants – government	307,107	-	-	307,107
Grants – foundations	-	656,554	-	656,554
Events	325,213	-	-	325,213
Interest and dividends	1,213	20,933	-	22,146
Merchandise sales	58,407	-	-	58,407
In-kind contributions	1,289,355	-	-	1,289,355
Miscellaneous income	24,666	-	-	24,666
Released from restrictions	993,147	(993,147)	-	-
Total operating revenue and support	<u>3,975,425</u>	<u>258,573</u>	<u>-</u>	<u>4,233,998</u>
<b>Expenses</b>				
Program services:				
Aid for Nicaraguan Youth	3,336,607	-	-	3,336,607
Events – direct costs	368,399	-	-	368,399
Cost of sold merchandise	55,305	-	-	55,305
Total program services	<u>3,760,311</u>	<u>-</u>	<u>-</u>	<u>3,760,311</u>
Supporting services:				
Management and general	497,199	-	-	497,199
Fundraising	323,145	-	-	323,145
Total supporting services	<u>820,344</u>	<u>-</u>	<u>-</u>	<u>820,344</u>
Total expenses	<u>4,580,655</u>	<u>-</u>	<u>-</u>	<u>4,580,655</u>
<b>Change in Net Assets from Operations</b>	(605,230)	258,573	-	(346,657)
<b>Non-Operating Activities</b>				
Net realized and unrealized loss on investments	<u>(34,522)</u>	<u>-</u>	<u>-</u>	<u>(34,522)</u>
<b>Change in Net Assets</b>	(639,752)	258,573	-	(381,179)
<b>Net Assets, beginning of year</b>	<u>597,209</u>	<u>895,276</u>	<u>120,000</u>	<u>1,612,485</u>
<b>Net (Deficit) Assets, end of year</b>	<u>\$ (42,543)</u>	<u>\$ 1,153,849</u>	<u>\$ 120,000</u>	<u>\$ 1,231,306</u>

See accompanying notes.

**Fabretto Children's Foundation**

Statement of Activities  
For the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Operating Revenue and Support</b>				
Contributions	\$ 1,216,623	\$ 525,183	\$ -	\$ 1,741,806
Grants – government	563,721	-	-	563,721
Grants – foundations	-	541,946	-	541,946
Events	253,221	-	-	253,221
Interest and dividends	9,380	19,978	-	29,358
Merchandise sales	133,614	-	-	133,614
In-kind contributions	1,239,982	-	-	1,239,982
Miscellaneous income	1,881	-	-	1,881
Released from restrictions	1,319,158	(1,319,158)	-	-
<b>Total operating revenue and support</b>	<b>4,737,580</b>	<b>(232,051)</b>	<b>-</b>	<b>4,505,529</b>
<b>Expenses</b>				
Program services:				
Aid for Nicaraguan Youth	3,666,927	-	-	3,666,927
Events – direct costs	367,023	-	-	367,023
Cost of sold merchandise	78,910	-	-	78,910
<b>Total program services</b>	<b>4,112,860</b>	<b>-</b>	<b>-</b>	<b>4,112,860</b>
Supporting services:				
Management and general	407,296	-	-	407,296
Fundraising	383,076	-	-	383,076
<b>Total supporting services</b>	<b>790,372</b>	<b>-</b>	<b>-</b>	<b>790,372</b>
<b>Total expenses</b>	<b>4,903,232</b>	<b>-</b>	<b>-</b>	<b>4,903,232</b>
<b>Change in Net Assets from Operations</b>	<b>(165,652)</b>	<b>(232,051)</b>	<b>-</b>	<b>(397,703)</b>
<b>Non-Operating Activities</b>				
Net realized and unrealized gain on investments	30,704	-	-	30,704
<b>Change in Net Assets</b>	<b>(134,948)</b>	<b>(232,051)</b>	<b>-</b>	<b>(366,999)</b>
<b>Net Assets, beginning of year</b>	<b>732,157</b>	<b>1,127,327</b>	<b>120,000</b>	<b>1,979,484</b>
<b>Net Assets, end of year</b>	<b>\$ 597,209</b>	<b>\$ 895,276</b>	<b>\$ 120,000</b>	<b>\$ 1,612,485</b>

See accompanying notes.

## Fabretto Children's Foundation

### Statements of Cash Flows For the Years Ended December 31, 2015 and 2014

	2015	2014
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (381,179)	\$ (366,999)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,200	6,898
Donated stock	(8,619)	-
Change in discount on pledges receivable	-	(193)
Net realized and unrealized loss (gain) on investments	34,522	(30,704)
Change in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	-	31,450
Grants receivable	-	133,508
Pledges receivable	4,982	5,018
Interest receivable	-	(4,223)
Due from Nicaragua	-	82,200
Prepaid expenses	(21,606)	(8,371)
Deposits	1,800	(7,800)
Increase (decrease) in:		
Accounts payable and accrued expenses	67,992	(26,225)
Refundable advances	-	(82,200)
Deferred revenue	(43,074)	53,604
Deferred rent	670	4,516
	(336,312)	(209,521)
<b>Net cash used in operating activities</b>		
<b>Cash Flows from Investing Activities</b>		
Purchases of fixed assets	(26,658)	-
Purchase of investments	(104,980)	(745,793)
Proceeds from sale of investments	164,717	859,997
Proceeds from maturities of certificates of deposit	80,000	-
	113,079	114,204
<b>Net cash provided by investing activities</b>		
<b>Net Decrease in Cash and Cash Equivalents</b>	(223,233)	(95,317)
<b>Cash and Cash Equivalents, beginning of year</b>	244,436	339,753
<b>Cash and Cash Equivalents, end of year</b>	\$ 21,203	\$ 244,436

See accompanying notes.



# Fabretto Children's Foundation

Notes to Financial Statements  
December 31, 2015 and 2014

## 1. Nature of Operations

The Fabretto Children's Foundation ("the Foundation") is a nonprofit entity 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.

## 2. Summary of Significant Accounting Policies

### Basis of Accounting and Presentation

The Foundation's financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions in the following classes:

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of the Foundation's operations. The Board of Directors has designated a portion of the Foundation's unrestricted net assets for the scholarship endowment. Board-designated net assets were \$279,857 and \$317,236 at December 31, 2015 and 2014, respectively.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of the Foundation or by the passage of time. Temporarily restricted net assets were \$1,153,849 and \$895,276 at December 31, 2015 and 2014, respectively.
- *Permanently restricted net assets* represent funds in which the principal must be held in perpetuity, while the earnings may be available for the restricted purpose imposed by the donors. Permanently restricted net assets were \$120,000 at both December 31, 2015 and 2014.

### Cash Equivalents

For the purpose of the statements of cash flows, the Foundation considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.

## Fabretto Children's Foundation

Notes to Financial Statements  
December 31, 2015 and 2014

### 2. Summary of Significant Accounting Policies (continued)

#### Accounts Receivable

Accounts receivable consist primarily of grant and sponsorship receivables, and are recorded at their net realizable value. Management periodically reviews the status of all accounts receivable balances and assesses their collectability. No allowance for doubtful accounts is recorded at December 31, 2015 and 2014, as management believes that all amounts are fully collectible.

#### Pledges Receivable

Pledges receivable are deemed fully collectible and are reflected at net present value based on projected cash flows. Pledges due in more than one year are discounted to present value based on management's estimate of the risk adjusted rate of return. There were no amounts due in more than one year as of December 31, 2015 and 2014.

#### Investments

Investments are recorded at fair value based on quoted market prices. Donated investments are recorded at fair value based on quoted market prices at the time of receipt. Realized and unrealized gains and losses are reported as non-operating income in the accompanying statements of activities.

#### Certificates of Deposit

At December 31, 2014, the Foundation held certificates of deposit with original maturity dates greater than a period of ninety days that are carried at amortized cost. Certificates of deposit totaled \$80,000 at December 31, 2014. There were no certificates of deposit at December 31, 2015. Interest earned on the certificates of deposit is included in the accompanying statements of activities. These certificates of deposit do not qualify as securities as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, *Investments – Debt and Equity Securities*. Therefore, these investments are not included in the fair value disclosures required by FASB ASC 820, *Fair Value Measurements and Disclosures*.

## **Fabretto Children's Foundation**

Notes to Financial Statements  
December 31, 2015 and 2014

### **2. Summary of Significant Accounting Policies (continued)**

#### Property and Equipment

Property and equipment with a cost greater than \$500 and a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to five years. Upon retirement or disposal of assets, the cost and accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is included in revenue or expenses. Expenditures for maintenance and repairs are expensed as incurred.

#### Revenue Recognition

All grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Foundation reports grants and contributions as temporarily restricted support if they are received with donor or grantor 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 statements of activities as net assets released from restrictions. However, restrictions met in the same accounting period in which the related contribution was received are treated as unrestricted.

Government grants that are cost reimbursable in nature are recognized as revenue as the related expenditures are incurred. Costs incurred in excess of cash received are reflected as grants receivable and cash received in excess of costs incurred are reflected as refundable advances in the accompanying statements of financial position.

Events revenue is recognized in the period in which the event takes place. Amounts received in advance are recorded as deferred revenue in the accompanying statements of financial position.

Revenue from all other sources is recognized when earned.

#### In-Kind Contributions

The Foundation receives in-kind contributions from various foundations and individual donors. It is the Foundation's policy to recognize income from in-kind donations at their fair value at the time of donation. In-kind donations consist of agricultural commodities, educational supplies, land and buildings, and other items utilized in the Foundation's programmatic activities in Nicaragua. These donations are recorded as in-kind contributions in the accompanying statements of activities.

## **Fabretto Children's Foundation**

Notes to Financial Statements  
December 31, 2015 and 2014

### **2. Summary of Significant Accounting Policies (continued)**

#### Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### 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 the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 13, 2016, the date the financial statements were available to be issued.

### **3. Concentration of Credit Risk**

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist of cash and cash equivalents, and investments. The Foundation maintains interest-bearing cash deposits and investments with financial institutions, and these values, from time to time, exceed insurable limits under the Federal Depository Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC). The Foundation has not experienced any credit losses on its cash and cash equivalents, and investments to date as it relates to FDIC and SIPC insurance limits. Management periodically assesses the financial condition of these financial institutions and believes that the risk of any credit loss is minimal.

### **4. Investments and Fair Value Measurements**

The Foundation follows FASB ASC 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value.

## Fabretto Children's Foundation

Notes to Financial Statements  
December 31, 2015 and 2014

### 4. Investments and Fair Value Measurements (continued)

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

In general, and where applicable, the Foundation uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

The following table presents the Foundation's fair value hierarchy for those investments measured on a recurring basis as of December 31, 2015:

	Total fair value	Level 1	Level 2	Level 3
Money market funds	\$ 185,973	\$ 185,973	-	-
Mutual funds:				
Small blend	14,641	14,641	-	-
Large value	93,456	93,456	-	-
Foreign large blend	185,555	185,555	-	-
Europe stock	51,376	51,376	-	-
Large blend	101,731	101,731	-	-
Large growth	96,496	96,496	-	-
Diversified emerging markets	98,436	98,436	-	-
Mid-cap value	862	862	-	-
Fixed income:				
Short term bond	68,061	68,061	-	-
Intermediate term bond	186,506	186,506	-	-
Common stocks:				
Technology	45,240	45,240	-	-
Services	8,619	8,619	-	-
US government/agency bonds	79,098	79,098	-	-
Total investments	<u>\$ 1,216,050</u>	<u>\$ 1,216,050</u>	<u>-</u>	<u>-</u>

## Fabretto Children's Foundation

Notes to Financial Statements  
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### 4. Investments and Fair Value Measurements (continued)

The following table presents the Foundation's fair value hierarchy for those investments measured on a recurring basis as of December 31, 2014:

	Total fair value	Level 1	Level 2	Level 3
Money market funds	\$ 318,000	\$ 318,000	\$ -	\$ -
Mutual funds:				
Small blend	15,551	15,551	-	-
Large value	88,218	88,218	-	-
Foreign large blend	192,255	192,255	-	-
Europe stock	42,976	42,976	-	-
Large blend	102,564	102,564	-	-
Large growth	87,961	87,961	-	-
Diversified emerging markets	97,493	97,493	-	-
Fixed income:				
Short term bond	55,706	55,706	-	-
Intermediate term bond	175,412	175,412	-	-
Common stocks:				
Technology	46,300	46,300	-	-
US government/agency bonds	79,254	79,254	-	-
<b>Total investments</b>	<b>\$ 1,301,690</b>	<b>\$ 1,301,690</b>	<b>\$ -</b>	<b>\$ -</b>

Investment (loss) income consists of the following for the years ended December 31:

	2015	2014
Net realized and unrealized (loss) gain	\$ (34,522)	\$ 30,704
Interest and dividends	22,146	29,358
<b>Total investment (loss) income</b>	<b>\$ (12,376)</b>	<b>\$ 60,062</b>

## Fabretto Children's Foundation

Notes to Financial Statements  
December 31, 2015 and 2014

### 5. Property and Equipment

The Foundation held the following property and equipment at December 31:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 39,465	\$ 12,807
Vehicle	<u>32,000</u>	<u>32,000</u>
Total property and equipment	71,465	44,807
Less: accumulated depreciation	<u>(35,410)</u>	<u>(27,210)</u>
Property and equipment, net	<u><u>\$ 36,055</u></u>	<u><u>\$ 17,597</u></u>

### 6. Commitments

Starting in 2008, the Foundation leased office space under an operating lease agreement, which expired on January 31, 2014. Upon expiration of the lease, the Foundation continued renting office space on a month-to-month basis until entering into a new lease at a different location during 2014. The new lease commenced June 15, 2014 and expires June 30, 2019. The lease provides for annual rent escalations of 3%. Under accounting principles generally accepted in the United States of America, all fixed rent increases and lease incentives are recognized on a straight-line basis ratably over the term of the sublease. The difference between this expense and the required lease payments is reflected as deferred rent in the accompanying statements of financial position.

Total rent expense was \$36,127 and \$42,610 for the years ended December 31, 2015 and 2014, respectively. Future minimum payments under the lease are as follows for the years ending December 31:

2016	\$ 32,616
2017	33,594
2018	34,602
2019	<u>17,556</u>
Total future minimum lease payments	<u><u>\$ 118,368</u></u>

## Fabretto Children's Foundation

Notes to Financial Statements  
December 31, 2015 and 2014

### 7. Net Assets

#### Board-Designated Endowment

The Foundation's Board of Directors has internally designated a portion of unrestricted net assets for the Fabretto Scholarship Endowment Fund. The amounts designated by the Board were \$279,857 and \$317,236 at December 31, 2015 and 2014, respectively.

#### Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31:

	<u>2015</u>	<u>2014</u>
Asociación Familia Padre Fabretto	\$ 1,041,300	\$ 781,727
Scholarship Fund	<u>112,549</u>	<u>113,549</u>
Total temporarily restricted net assets	<u>\$ 1,153,849</u>	<u>\$ 895,276</u>

#### Permanently Restricted Net Assets

During 2003 the Foundation received an \$80,000 gift from a donor to create Aviva! Endowed Scholarship Fund ("the Fund"). Under the terms of the gift agreement, the Foundation had to raise a \$40,000 matching contribution to the Fund, for a total principal balance of \$120,000 to be maintained separately and in perpetuity. The income from the fund is to be used to fund vocational, technical, college, or university scholarships for participants or alumni of the programs of La Familia Padre Fabretto in Nicaragua.

### 8. Endowment

The Foundation's endowment has been funded by donor-restricted contributions to be held in perpetuity, the earnings of which are to be used to provide scholarships to La Familia Padre Fabretto participants or alumni. In addition, the Foundation maintains a Board-designated endowment fund for scholarships and sustainability of the Foundation. Under accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.



## Fabretto Children's Foundation

Notes to Financial Statements  
December 31, 2015 and 2014

### 8. Endowment (continued)

#### Interpretation of Relevant Law

The Foundation's Board of Directors has interpreted Virginia's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted funds: (1) the duration and preservation of the fund; (2) the purposes of the Foundation and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect on inflation and deflation; (5) the expected total return from income and the appreciation or depreciation of investments; (6) other resources of the Foundation; and (7) the investment policies of the Foundation.

#### Return Objectives, Risk Parameters, and Strategies

The Foundation follows a conservative investment policy for endowment assets that attempts to preserve fully the original corpus and optimize returns. Under such a policy, the endowment assets would be invested in a manner that is intended to produce results exceeding major investment benchmarks while assuming a moderate level of risk.

#### Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved both through capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

## Fabretto Children's Foundation

Notes to Financial Statements  
December 31, 2015 and 2014

### 8. Endowment (continued)

#### Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature would be reported by the Foundation in unrestricted net assets. There were no fund deficiencies for the years ended December 31, 2015 and 2014.

#### Composition of Endowment Funds

Endowment net asset composition was as follows at December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ -	\$ 120,000	\$ 120,000
Board-designated funds	279,857	-	-	279,857
Total endowment funds	<u>\$ 279,857</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ 399,857</u>

Endowment net asset composition was as follows at December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted funds	\$ -	\$ -	\$ 120,000	\$ 120,000
Board-designated funds	317,236	-	-	317,236
Total endowment funds	<u>\$ 317,236</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ 437,236</u>

## Fabretto Children's Foundation

Notes to Financial Statements  
December 31, 2015 and 2014

### 8. Endowment (continued)

#### Changes in Endowment Net Assets

Changes in endowment net assets were as follows for the year ended December 31, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, beginning of year	\$ 317,236	\$ -	\$ 120,000	\$ 437,236
Investment (loss) income	(37,379)	20,933	-	(16,446)
Amounts appropriated for expenditure	-	(20,933)	-	(20,933)
Change in donor-restricted funds	(37,379)	-	-	(37,379)
Endowment funds, end of year	<u>\$ 279,857</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ 399,857</u>

Changes in endowment net assets were as follows for the year ended December 31, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, beginning of year	\$ 314,947	\$ -	\$ 120,000	\$ 434,947
Investment income	2,289	19,978	-	22,267
Amounts appropriated for expenditure	-	(19,978)	-	(19,978)
Change in donor-restricted funds	2,289	-	-	2,289
Endowment funds, end of year	<u>\$ 317,236</u>	<u>\$ -</u>	<u>\$ 120,000</u>	<u>\$ 437,236</u>

## Fabretto Children's Foundation

Notes to Financial Statements  
December 31, 2015 and 2014

### 9. In-Kind Contributions

The Foundation received the following in-kind contributions during the years ended December 31:

	<u>2015</u>	<u>2014</u>
Agricultural commodities	\$ 1,031,408	\$ 1,030,856
Educational supplies	138,957	105,697
Other	<u>118,990</u>	<u>103,429</u>
Total in-kind contributions	<u>\$ 1,289,355</u>	<u>\$ 1,239,982</u>

In-kind contributions are recorded at their fair market value at the time of donation and are included in the accompanying statements of activities.

### 10. Related Parties

Asociación Familia Padre Fabretto (AFPF) is a legally separate entity, registered in Nicaragua, that is related to the Foundation through common management. The organizations share employees and related expenses. The Foundation does not have the ability to appoint the majority of AFPF's Board of Directors and therefore does not control AFPF. The accompanying financial statements only include accounts of the Foundation. The Foundation contributed \$3,080,795 and \$3,627,869 to AFPF during the years ended December 31, 2015 and 2014, respectively.

Fundacion Fabretto (FF) is a legally separate entity, registered in Spain, to broaden support through grassroots fundraising and access to Spanish and other European funding sources. Neither organization holds controlling financial interest in the other. The Foundation did not make any contributions to FF during the years ended December 31, 2015 and 2014.

Fabretto Charitable Trust (FCT) is a legally separate entity, registered in the United Kingdom, to join the Foundation's network of supporters. Neither organization holds controlling interest in the other. The Foundation has not made any financial contributions to FCT since its inception in 2013.

## **Fabretto Children's Foundation**

Notes to Financial Statements  
December 31, 2015 and 2014

### **11. Income Taxes**

The Foundation is recognized as a tax-exempt organization under Internal Revenue Code (IRC) Section 501(c)(3), and is exempt from income taxes except for taxes on unrelated business activities. No tax expense is recorded in the accompanying financial statements, as there was no unrelated business taxable income. Contributions to the Foundation are deductible as provided in IRC Section 170(b)(1)(A)(vi). Management evaluated the Foundation's tax positions, and concluded that the Foundation's financial statements do not include any uncertain tax positions.

### **12. Aid for Nicaraguan Youth**

In partnership with the local Nicaraguan organization, the Foundation raises funds, creates awareness, and generates outreach for the Foundation's programs providing opportunities to impoverished Nicaraguan children and their families to obtain the education they need to become responsible, productive adults by offering programs promoting education, nutrition and health, and community development.

Specific program areas sponsored by the Foundation include:

#### *Early & Primary Educational Enrichment*

Designed to provide students with enrichment activities that support their learning and give teachers and parents the training they need to guide children in the early stages of life.

#### *Rural Secondary Education*

Offers underprivileged secondary school students with Ministry-certified educational classes leading to a high school diploma that enables them to pursue post-secondary education and/or gainful employment.

#### *Vocational & Life Skills Education*

Provides students with a vocational and occupational direction through practical activities and technical skills trainings, helping students prepare to work in the modern economy.

#### *Food Security & Nutrition*

Delivers nutritional services through action-oriented activities that include school lunches, garden initiatives, and agribusiness training, as well as provision of nutritious school lunches for over 15,000 students per day.

## **Fabretto Children's Foundation**

Notes to Financial Statements  
December 31, 2015 and 2014

### **12. Aid for Nicaraguan Youth (continued)**

#### *Community Well-Being*

Designed to support community improvement efforts through small infrastructure projects (wells, water lines), access to markets through strategic partnerships, health and hygiene training to community members, and other community-based work that leads to stronger, healthier environments for children and their families.

During the year ended December 31, 2015, the Foundation's assistance enabled the Nicaraguan programming to:

1. Include over 18,000 children in nutrition and education programs from pre-school to primary to high school;
2. Provide program services and support to 320 local primary and secondary schools in Nicaragua, including a recent addition of support in the Región Autónoma Caribe Sur (RACS) region;
3. Establish school gardens at primary schools, to support agronomy skills instruction and to grow food for the schools' lunch programs;
4. Provide over 1,000 parents and family members with Fabretto classes in preventive health, organic production, home gardens, and nutritional education;
5. Provide certificate training for over 500 Ministry of Education teachers;
6. Serve over 845,000 school lunches to needy children;
7. Direct beneficiaries of all programs totaled 21,935.

### **13. Results of Operations**

The Foundation has experienced two consecutive years of net deficits. While total net assets remained positive at December 31, 2015, continued losses could potentially have a significant effect on the Foundation's programs and operations. These losses are being realized in the unrestricted class of net assets, which indicates insufficient unrestricted funding to cover general programs and operations of the Foundation. Management is implementing strategies to restructure operations to stabilize reserves, reduce expenditures, expand unrestricted funding streams, and seek broader contribution sources. In addition, management is actively pursuing additional grants, which will be able to absorb a portion of the overhead costs. The Foundation expects to increase its reserves in future years, bringing all net asset balances to positive levels of reserves. The financial statements do not include any adjustments that may be necessary if the Foundation is unable to continue as a going concern.

**SUPPLEMENTARY INFORMATION**

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## Fabretto Children's Foundation

### Schedule of Functional Expenses For the Year Ended December 31, 2015

	Aid for Nicaraguan Youth	Events – Direct Costs	Cost of Sold Merchandise	Management and General	Fundraising	Total Expenses
Accounting and audit	\$ -	\$ -	\$ -	\$ 77,757	\$ -	\$ 77,757
Advertising	-	-	-	2,160	3,377	5,537
Bank charges	410	138	8	46,418	300	47,274
Communication	44	-	-	8,827	174	9,045
Consulting	58,530	1,349	450	50,239	1,800	112,368
Depreciation	-	-	-	8,200	-	8,200
Dues and subscriptions	-	3,481	-	7,180	8,917	19,578
Employee benefits	9,926	2,291	764	10,309	14,890	38,180
Equipment	118	-	-	14,173	849	15,140
Food and beverage	71	74,927	-	-	-	74,998
Grants to La Familia						
Padre Fabretto	1,892,672	-	38,179	32,835	904	1,964,590
In-kind uses	1,170,365	118,990	-	-	-	1,289,355
Insurance	-	-	-	3,990	-	3,990
Miscellaneous	2,385	-	47	1,274	1,087	4,793
Other direct event	75	101,629	-	-	900	102,604
Payroll taxes	11,205	2,586	862	11,636	16,807	43,096
Postage and shipping	24	497	1,989	1,896	107	4,513
Printing	81	9,498	89	1,801	8,078	19,547
Rent	454	2,271	-	28,860	4,542	36,127
Salaries	161,105	37,178	12,393	167,301	241,657	619,634
Supplies	3,459	3,922	254	4,769	390	12,794
Travel	25,683	9,642	270	17,574	18,366	71,535
<b>Total Expenses</b>	<b>\$ 3,336,607</b>	<b>\$ 368,399</b>	<b>\$ 55,305</b>	<b>\$ 497,199</b>	<b>\$ 323,145</b>	<b>\$ 4,580,655</b>



## Fabretto Children's Foundation

### Schedule of Functional Expenses For the Year Ended December 31, 2014

	Aid for Nicaraguan Youth	Events – Direct Costs	Cost of Sold Merchandise	Management and General	Fundraising	Total Expenses
Accounting and audit	\$ -	\$ -	\$ -	\$ 84,040	\$ -	\$ 84,040
Advertising	-	-	-	1,220	153	1,373
Bank charges	47	8	-	37,255	2,556	39,866
Communication	1,863	-	-	6,541	1,088	9,492
Consulting	12,425	-	1,100	35,744	9,700	58,969
Depreciation	-	-	-	6,898	-	6,898
Dues and subscriptions	1,003	-	-	8,612	13,634	23,249
Employee benefits	8,334	-	-	10,242	5,014	23,590
Equipment	747	-	-	1,485	-	2,232
Food and beverage	-	61,117	-	-	-	61,117
Grants to La Familia						
Padre Fabretto	2,285,821	3,291	61,188	-	-	2,350,300
In-kind uses	1,157,331	82,651	-	-	-	1,239,982
Insurance	-	-	-	4,936	-	4,936
Miscellaneous	6,303	770	-	58	3,484	10,615
Other direct event	-	130,236	-	-	-	130,236
Payroll taxes	9,846	2,173	1,104	13,603	16,618	43,344
Postage and shipping	4,296	410	324	2,422	959	8,411
Printing	271	17,446	-	702	12,029	30,448
Rent	1,995	9,973	-	10,696	19,946	42,610
Salaries	162,336	39,808	14,437	160,105	252,624	629,310
Supplies	262	1,794	199	7,822	527	10,604
Travel	14,047	17,346	558	14,915	44,744	91,610
<b>Total Expenses</b>	<b>\$ 3,666,927</b>	<b>\$ 367,023</b>	<b>\$ 78,910</b>	<b>\$ 407,296</b>	<b>\$ 383,076</b>	<b>\$ 4,903,232</b>