

Blazek & Vetterling

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors of
The Periwinkle Foundation:

We have audited the accompanying statements of financial position of The Periwinkle Foundation (Periwinkle) as of December 31, 2008 and 2007 and the related statements of activities, of functional expenses, and of cash flows for the years then ended. These financial statements are the responsibility of Periwinkle's management. 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 our audits 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 audits provide 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 The Periwinkle Foundation as of December 31, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

May 14, 2009

The Periwinkle Foundation

Statements of Financial Position as of December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash	\$ 211,942	\$ 201,306
Pledges receivable	2,005	28,570
Prepaid expenses and other assets	10,578	20,383
Investments <i>(Note 2)</i>	<u>641,778</u>	<u>559,198</u>
TOTAL ASSETS	<u>\$ 866,303</u>	<u>\$ 809,457</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 11,769	\$ 19,085
Deferred revenue	<u> </u>	<u>159,550</u>
Total liabilities	<u>11,769</u>	<u>178,635</u>
Net assets:		
Unrestricted <i>(Note 3)</i>	846,150	602,252
Temporarily restricted for future operations	<u>8,384</u>	<u>28,570</u>
Total net assets	<u>854,534</u>	<u>630,822</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 866,303</u>	<u>\$ 809,457</u>

See accompanying notes to financial statements.

The Periwinkle Foundation

Statement of Activities for the year ended December 31, 2008

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions <i>(Note 4)</i>	\$ 257,577	\$ 319,887	\$ 577,464
Special events	655,748		655,748
Cost of direct donor benefit of special events	(138,775)		(138,775)
Investment return <i>(Note 2)</i>	<u>(4,951)</u>		<u>(4,951)</u>
Total revenue	769,599	319,887	1,089,486
Net assets released from restrictions:			
Program expenditures	311,503	(311,503)	
Expiration of time restrictions	<u>28,570</u>	<u>(28,570)</u>	
Total	<u>1,109,672</u>	<u>(20,186)</u>	<u>1,089,486</u>
EXPENSES:			
Program expenses	608,516		608,516
Fundraising	174,273		174,273
Management and general	<u>82,985</u>		<u>82,985</u>
Total expenses	<u>865,774</u>		<u>865,774</u>
CHANGES IN NET ASSETS	243,898	(20,186)	223,712
Net assets, beginning of year	<u>602,252</u>	<u>28,570</u>	<u>630,822</u>
Net assets, end of year	<u>\$ 846,150</u>	<u>\$ 8,384</u>	<u>\$ 854,534</u>

See accompanying notes to financial statements.

The Periwinkle Foundation

Statement of Activities for year ended December 31, 2007

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions <i>(Note 4)</i>	\$ 302,270	\$ 170,633	\$ 472,903
Special events	237,632		237,632
Cost of direct donor benefit of special events	(14,237)		(14,237)
Investment return <i>(Note 2)</i>	<u>31,691</u>		<u>31,691</u>
Total revenue	557,356	170,633	727,989
Net assets released from restrictions:			
Program expenditures	139,563	(139,563)	
Expiration of time restrictions	<u>28,552</u>	<u>(28,552)</u>	
Total	<u>725,471</u>	<u>2,518</u>	<u>727,989</u>
EXPENSES:			
Program expenses	575,678		575,678
Fundraising	187,939		187,939
Management and general	<u>56,416</u>		<u>56,416</u>
Total expenses	<u>820,033</u>		<u>820,033</u>
CHANGES IN NET ASSETS	(94,562)	2,518	(92,044)
Net assets, beginning of year	<u>696,814</u>	<u>26,052</u>	<u>722,866</u>
Net assets, end of year	<u>\$ 602,252</u>	<u>\$ 28,570</u>	<u>\$ 630,822</u>

See accompanying notes to financial statements.

The Periwinkle Foundation

Statement of Functional Expenses for the year ended December 31, 2008

	<u>PROGRAM EXPENSES</u>	<u>FUNDRAISING</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL</u>
Salaries and related expenses	\$ 181,641	\$ 65,363	\$ 20,153	\$ 267,157
Professional fees	66,015	58,789	41,065	165,869
Facility expenses	146,710	3,715	3,715	154,140
Supplies	138,779	8,272	3,483	150,534
Printing	28,100	21,724	2,166	51,990
Transportation	26,480	230	102	26,812
Postage and delivery	10,740	6,356	1,932	19,028
Insurance	6,232	1,335	1,335	8,902
Bank fees			8,475	8,475
Newsletter		7,239		7,239
Other	<u>3,819</u>	<u>1,250</u>	<u>559</u>	<u>5,628</u>
Total expenses	<u>\$ 608,516</u>	<u>\$ 174,273</u>	<u>\$ 82,985</u>	865,774
Cost of direct donor benefit of special events				<u>138,775</u>
Total				<u>\$1,004,549</u>
Percent of total expenses	70%	20%	10%	100%

See accompanying notes to financial statements.

The Periwinkle Foundation

Statement of Functional Expenses for the year ended December 31, 2007

	<u>PROGRAM EXPENSES</u>	<u>FUNDRAISING</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL</u>
Salaries and related expenses	\$ 158,157	\$ 55,550	\$ 17,848	\$ 231,555
Professional fees	62,398	49,415	9,748	121,561
Facility expenses	148,160	10,850	1,745	160,755
Supplies	132,670	22,724	10,035	165,429
Printing	29,575	21,212	5,252	56,039
Transportation	23,611	14	216	23,841
Postage and delivery	9,556	4,543	312	14,411
Insurance	5,682	2,414	776	8,872
Bank fees			10,230	10,230
Newsletter		19,974		19,974
Other	<u>5,869</u>	<u>1,243</u>	<u>254</u>	<u>7,366</u>
Total expenses	<u>\$ 575,678</u>	<u>\$ 187,939</u>	<u>\$ 56,416</u>	820,033
Cost of direct donor benefit of special events				<u>14,237</u>
Total				<u>\$ 834,270</u>
Percent of total expenses	70%	23%	7%	100%

See accompanying notes to financial statements.

The Periwinkle Foundation

Statements of Cash Flows for years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 223,712	\$ (92,044)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized gain (loss) on investments	37,379	(2,159)
Change in operating assets and liabilities:		
Pledges receivable	26,565	(70)
Prepaid expenses and other assets	9,805	(17,449)
Accounts payable and accrued expenses	(7,316)	15,608
Deferred revenue	<u>(159,550)</u>	<u>159,550</u>
Net cash provided by operating activities	<u>130,595</u>	<u>63,436</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(919,959)	(463,458)
Sale of investments	<u>800,000</u>	<u>528,100</u>
Net cash provided (used) by investing activities	<u>(119,959)</u>	<u>64,642</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	10,636	128,078
Cash and cash equivalents, beginning of year	<u>201,306</u>	<u>73,228</u>
Cash and cash equivalents, end of year	<u>\$ 211,942</u>	<u>\$ 201,306</u>

See accompanying notes to financial statements.

The Periwinkle Foundation

Notes to Financial Statements for the years ended December 31, 2008 and 2007

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Periwinkle Foundation (Periwinkle), a Texas non-profit corporation founded in 1983, is dedicated to developing and providing programs that enrich the lives of children, young adults and families who are challenged by cancer and other life threatening illnesses and are cared for at Texas Children’s Hospital. The Foundation’s programs, Camp Periwinkle, the Arts and Creative Writing Program (which includes Making A Mark), Camp YOLO, and the Long Term Survivor Program (which includes Celebration of Life) provided more than 4,000 opportunities to positively change the lives of these individuals and families.

Tax status – The Periwinkle Foundation is exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Pledges receivable due within one year are recorded at net realizable value. Amounts due in more than one year are discounted, if material, to estimate the present value of future cash flows. At December 31, 2008, all pledges receivable are due within one year.

Investments are recorded at fair value.

Fair value measurements – Effective January 1, 2008, Periwinkle adopted Financial Accounting Standard No. 157 (FAS 157), which provides a framework for measuring fair value of certain assets and liabilities and expands disclosures about fair value measurements. As defined in FAS 157, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

Certain of Periwinkle’s financial assets are measured at fair value on a recurring basis, including certificates of deposit and mutual fund instruments. The three levels of the fair value hierarchy defined by FAS 157 and a description of the valuation methodologies used for instruments measured at fair value are as follows:

- *Level 1* – Quoted prices in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments such as certificates of deposit and mutual funds.
- *Level 2* – Pricing inputs other than quoted prices included in Level 1, which are either directly observable or that can be derived or supported from observable data as of the reporting date. Periwinkle has no financial assets or financial liabilities with Level 2 inputs.

- *Level 3* – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. Periwinkle has no financial assets or financial liabilities with Level 3 inputs.

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted support. When a donor 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.

Non-cash contributions – Donated assets, materials, and use of facilities are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recorded as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial 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.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenues and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 2 – INVESTMENTS

Investments consist of the following:

	2008 <u>LEVEL 1</u>	2007 <u>LEVEL 1</u>
Certificates of deposit	\$ 427,411	\$ 321,807
Mutual funds	<u>214,367</u>	<u>237,391</u>
Total investments	<u>\$ 641,778</u>	<u>\$ 559,198</u>

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Certificates of deposit are valued at the closing price reported on the active market on which the individual securities are traded. Mutual funds are valued at the net asset value of shares held at year end. The valuation method used may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the management believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date. The inputs or methodology used to measure investments are not necessarily indicative of the risk of investigating a particular security.

Investment return includes earnings on cash and cash equivalents and consists of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 32,428	\$ 29,532
Net realized and unrealized gain on investments	<u>(37,379)</u>	<u>2,159</u>
Investment return	<u>\$ (4,951)</u>	<u>\$ 31,691</u>

NOTE 3 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2008</u>	<u>2007</u>
Undesignated	\$ 631,783	\$ 364,861
Board designated reserve	<u>214,367</u>	<u>237,391</u>
Total unrestricted net assets	<u>\$ 846,150</u>	<u>\$ 602,252</u>

NOTE 4 – NON-CASH CONTRIBUTIONS

The fair value of non-cash items included in contributions and expenses is as follows:

	<u>2008</u>	<u>2007</u>
Camp faculty	\$ 42,664	\$ 32,087
Professional services	20,330	9,600
Catering services	14,933	20,650
Camp staff housing	11,739	8,400
Equipment and supplies	<u>11,143</u>	<u>16,392</u>
Total	<u>\$ 100,809</u>	<u>\$ 87,129</u>

NOTE 5 – OPERATING LEASE

Periwinkle leases office space under a non-cancelable lease. Future minimum lease commitments are as follows:

2009	\$ 19,796
2010	<u>1,650</u>
Total	<u>\$ 21,446</u>

Lease expense totaled \$21,157 in 2008 and \$13,578 in 2007.