

KRISTIE'S FOUNDATION, INC.
(A California Public Benefit Corporation)
AUDIT REPORT
For the Fiscal Year Ended
July 31, 2012



KRISTIE'S FOUNDATION, INC.
For the Fiscal Year Ended July 31, 2012
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Kristie's Foundation, Inc.
Anaheim, California

We have audited the accompanying statements of financial position of Kristie's Foundation, Inc. (A California Public Benefit Corporation) as of July 31, 2012, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of Kristie's Foundation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

The Organization does not maintain records of items held in inventory, nor is a physical count taken at year-end of items held in inventory at the end of the fiscal year. As a result, we were unable to obtain information to support inventory stated at \$30,210 in the accompanying statement of financial position as of July 31, 2012. Management believes the value of inventory is approximately \$10,000, but has not made any adjustments since 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the existence and valuation of the Organization's inventory, the financial statements referred to above present fairly, in all material respects, the financial position of Kristie's Foundation, Inc. as of July 31, 2012, and the changes in its net assets and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 4 to the financial statements, the Organization has suffered recurring significant reductions in donation and fundraising revenues, increasing credit card debt and has a deficiency in net assets that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding these matters also are described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Nigro & Nigro, PC

February 12, 2013

KRISTIE'S FOUNDATION, INC.
Statement of Financial Position
July 31, 2012

ASSETS

Current Assets:

Cash	\$	4,209
Accounts receivable		14
Inventory		30,069
Total Current Assets		<u>34,292</u>

Capital Assets:

Capital assets, net		<u>3,502</u>
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Total Assets	\$	<u>37,794</u>
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LIABILITIES AND NET ASSETS

Liabilities

Current Liabilities:

Accounts payable	\$	3,531
Credit cards payable		56,114
Payroll liabilities		2,870
Notes payable		1,914
Total Current Liabilities		<u>64,429</u>

Net assets

Unrestricted		<u>(26,635)</u>
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Total Liabilities and Net Assets	\$	<u>37,794</u>
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KRISTIE'S FOUNDATION, INC.
Statement of Activities
For the Fiscal Year Ended July 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 101,866	\$ 7,500	\$ 109,366
Donated goods and services	98,829	-	98,829
Grants	43,520	30,000	73,520
Program and consulting services	3,246	-	3,246
Special events	20,121	-	20,121
Net assets released from restrictions	37,500	(37,500)	-
	<u>305,082</u>	<u>-</u>	<u>305,082</u>
EXPENSES			
Program services	293,566	-	293,566
Management and general	63,387	-	63,387
Fundraising	34,143	-	34,143
	<u>391,096</u>	<u>-</u>	<u>391,096</u>
Change in net assets	(86,014)	-	(86,014)
Net assets, August 1, 2011	<u>59,379</u>	<u>-</u>	<u>59,379</u>
Net assets, July 31, 2012	<u>\$ (26,635)</u>	<u>\$ -</u>	<u>\$ (26,635)</u>

KRISTIE'S FOUNDATION, INC.
Statement of Cash Flows
For the Fiscal Year Ended July 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$	(86,014)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation expense		2,306
Change in operating assets and liabilities:		
(Increase) decrease in operating assets:		
Accounts receivable		(14)
Inventory		140
Increase (decrease) in operating liabilities:		
Accounts payable		2,495
Credit cards payable		(104)
Payroll liability		2,457
		<hr/>
Net cash provided by operating activities		7,280

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of furniture and equipment		<hr/> (2,474)
Net cash used by investing activities		<hr/> (2,474)

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on note payable		<hr/> (4,436)
Net cash used by financing activities		<hr/> (4,436)
Net increase (decrease) in cash		(85,644)
Beginning cash, August 1, 2011		<hr/> 89,853
Ending cash, July 31, 2012	\$	<hr/> <hr/> 4,209

OTHER REQUIRED INFORMATION

Interest paid	\$	<hr/> <hr/> 11,007
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KRISTIE'S FOUNDATION, INC.*Statement of Functional Expenses**For the Fiscal Year Ended July 31, 2012*

EXPENSES	Program Services				Supporting Services		Total Expenses
	Wish Assist	Children's	Family	Total	Management	Fundraising	
		Trust Fund	Support	Program Services	and General		
Salaries	\$ 14,965	\$ -	\$ 92,072	\$ 107,037	\$ 13,112	\$ 15,495	\$ 135,644
Payroll taxes	2,353	-	14,477	16,830	2,060	2,436	21,326
Professional fees	-	-	-	-	8,401	10,620	19,021
Occupancy	33,980	-	-	33,980	2,711	-	36,691
Conference, conventions and meetings	-	-	7,433	7,433	-	-	7,433
Depreciation	-	-	-	-	2,306	-	2,306
Taxes and fees	-	-	-	-	1,901	122	2,023
Donated goods	-	-	98,645	98,645	-	-	98,645
Interest	-	-	-	-	11,007	-	11,007
Insurance	627	-	-	627	5,069	-	5,696
Food, dining, and entertainment	442	-	1,280	1,722	-	-	1,722
Emergency family support	375	14,908	6,396	21,679	200	-	21,879
Transportation	1,482	-	2,040	3,522	360	-	3,882
Supplies	96	-	890	986	7,319	1,130	9,435
Postage and shipping	-	-	-	-	367	197	564
Telephone and communications	-	207	578	785	5,943	-	6,728
Staff development	-	-	-	-	1,197	-	1,197
Advertising and promotion	-	-	320	320	597	160	1,077
Membership dues	-	-	-	-	837	-	837
Event expenses	-	-	-	-	-	3,983	3,983
Total Expenses	<u>\$ 54,320</u>	<u>\$ 15,115</u>	<u>\$ 224,131</u>	<u>\$ 293,566</u>	<u>\$ 63,387</u>	<u>\$ 34,143</u>	<u>\$ 391,096</u>

See accompanying notes and auditors' report.

KRISTIE'S FOUNDATION, INC.

Notes to Financial Statements

July 31, 2012

NOTE 1 –NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Kristie's Foundation, Inc. (the "Organization") is a non-profit 501(c)(3) public benefit corporation dedicated to the mission of providing support, assistance and cherished moments to critically ill children and their families. Their focus is on end-of-life care for children and support for the families that love them. The Organization was established in 2003 and operates a facility in Anaheim, California.

Basis of Presentation

The Organization's policy is to prepare its financial statements on the accrual basis of accounting. This means that revenues are recorded when earned, rather than when received, and expenses are recorded when incurred, not when they are paid.

Recognition of Revenue

The primary source of revenue to the Organization is donations.

Fundraising revenues, which consist of a BBQ and music festival and Kristie's Choo Choo Express, are recorded when the event occurs.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. The Organization has not received any contributions with donor-imposed restrictions that would result in permanently restricted net assets.

Unrestricted: These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related services, raising contributions and performing administrative functions.

Temporarily Restricted: The Organization reports gifts of cash and other assets as temporarily restricted support when they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, i.e. the stipulated time restriction ends or the purpose of the 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

The Organization's accounting policy for donated materials and equipment is to record these items as contributions at their estimated fair market value at the date they are received. Contributions of donated services that create or enhance non financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at the fair values of in the period received.

During the year ended July 31, 2012 volunteer services were performed by over 200 volunteers on behalf of the Organization in support of its programs. Since these services do not meet the criteria specified in Statement of Financial Accounting Standard No. 116, *Accounting for Contributions Received and Contributions Made*, for recognizing a monetary value of these services, no such value has been assigned to these services in the Organization's financial statements.

KRISTIE'S FOUNDATION, INC.

Notes to Financial Statements

July 31, 2012

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property with a cost of \$1,000 or greater is capitalized and recorded as additions to property and equipment. Donated property is recorded at the estimated fair value at the date of the gift. Equipment is depreciated using the straight-line method over an estimated useful life of three to five years. Maintenance and repair costs are charged to expense as incurred.

Cash and Cash Equivalents

The Organization considers cash on hand and certificates of deposit with maturity dates of three months or less at the date of investment to be cash and cash equivalents.

Concentration of Risk

The Organization maintains its cash in various accounts at several financial institutions. At various times during the year, the amount on deposit with a single financial institution may exceed federal depository insurance limits. At July 31, 2012, the Organization had no balances on deposit exceeding \$250,000.

Estimates

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

Income Taxes

The Organization is a non-profit public-benefit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. Accordingly, no provision has been made for income taxes. Management has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Organization's continued qualification as a tax-exempt organization and whether there are unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The Organization files informational returns in the U.S. federal jurisdiction and the state of California.

Inventories

Inventories consist of toys and other donated items. The value of the inventory has not been adjusted since 2010, but in the future will be stated at estimated fair value.

Fair Value of Financial Instruments

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments: Cash and Accounts Payable as reported in the balance sheet approximate fair value because of the short maturities of those instruments.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the combining statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on the benefits derived.

KRISTIE'S FOUNDATION, INC.
Notes to Financial Statements
July 31, 2012

NOTE 2 – CAPITAL ASSETS

Capital assets as of July 31, 2012 consisted of the following:

	Balance, August 1, 2011	Additions	Retirements	Balance, July 31, 2012
Capital assets being depreciated:				
Machinery and Equipment	\$ 17,581	\$ 2,474	\$ -	\$ 20,055
Furniture and Fixtures	8,124	-	-	8,124
Total capital assets being depreciated	<u>25,705</u>	<u>2,474</u>	<u>-</u>	<u>28,179</u>
Accumulated depreciation for:				
Machinery and Equipment	(15,939)	(814)	-	(16,753)
Furniture and Fixtures	(6,432)	(1,492)	-	(7,924)
Total accumulated depreciation	<u>(22,371)</u>	<u>(2,306)</u>	<u>-</u>	<u>(24,677)</u>
Capital assets, net	<u>\$ 3,334</u>	<u>\$ 168</u>	<u>\$ -</u>	<u>\$ 3,502</u>

NOTE 3 – OPERATING LEASE

On May, 2011, the Organization entered into a month-to-month lease agreement for office space in Anaheim, California. The terms of the lease include monthly payments of \$1,700 beginning May 1, 2011. This agreement contains no bargain purchase option. Lease payments totaled \$15,500 for the year ended July 31, 2012.

NOTE 4 – GOING CONCERN ISSUES

During the fiscal year ended July 31, 2012, the Organization experienced a significant decline in revenues from donations and fundraisers. Donations fell by nearly \$120,000, while revenues generated by the annual BBQ failed to bring in revenue at the levels it had in prior years. As a result, the Organization has been required to pay for costs on a credit card, which was now accrued more than \$56,000 as of July 31, 2012. However, there was not sufficient cash on hand to pay the credit card at year-end. In addition, the CEO of the Organization has frequently foregone wage periods throughout the year, but at some point those wages will need to be paid.

NOTE 5 – CURRENT LIABILITIES

The current liabilities balance is comprised of \$56,114 in credit card debt. Due to recent decline in revenues and cash flow shortages, the Organization is working with the credit card companies to negotiate a reduced debt balance.

KRISTIE'S FOUNDATION, INC.

Notes to Financial Statements

July 31, 2012

NOTE 6 – SUBSEQUENT EVENTS

Events subsequent to July 31, 2012 have been evaluated through February 12, 2013, the date at which the Organization's audited financial statements were available to be issued. No events requiring disclosures have occurred through this date.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Organization made a \$15,000 interest free loan to Kristie's Events, an organization run and operated by the CEO of Kristies' Foundation, Inc. who is also the President of the Board of Directors. The loan was paid in full by July 31, 2012.