

MIRACLES FOR KIDS

FINANCIAL STATEMENTS

December 31, 2013

With Independent Auditors' Report Thereon



An Independent CPA Firm

MIRACLES FOR KIDS

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An Independent CPA Firm

Board of Directors
MIRACLES FOR KIDS
Irvine, California

INDEPENDENT AUDITORS' REPORT

Report on Financial Statements

We have audited the accompanying financial statements of Miracles for Kids (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 Miracles for Kids as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

David L. Gruber and Associates, Inc.

David L. Gruber and Associates, Inc.
Huntington Beach, CA
April 21, 2014

MIRACLES FOR KIDS
STATEMENT OF FINANCIAL POSITION
December 31, 2013

ASSETS

Current assets:

Cash and cash equivalents	\$ 91,778
Accounts receivable	47,500
Pledge receivable from related party- current	60,000
Prepaid expenses	5,000
Deposits	632
Total current assets	204,910

Pledge receivable from related party- long term, net of discount 414,803

Fixed assets:

Property and equipment, net	40,518
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Total assets \$ 660,231

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 15,755
Accrued liabilities	23,138
Pledge payable-current	60,000
Deferred revenue	10,000
Total current liabilities	108,893

Pledge payable- long term, net of discount 410,454

Total liabilities 519,347

Net Assets:

Unrestricted	140,884
Temporarily restricted	-
Permanently restricted	-
Total net assets	140,884

Total liabilities and net assets \$ 660,231

MIRACLES FOR KIDS
STATEMENT OF ACTIVITIES
Year ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and revenues:				
Contributions-individuals	\$ 498,700	-	-	498,700
Contributions-corporations	238,897	-	-	238,897
Special events:				
Stars and Stripes, net of direct expenses of \$190,113	207,692	-	-	207,692
Night of Miracles, net of direct expenses of \$410,684	120,253	-	-	120,253
Miscellaneous income	33,064	-	-	33,064
Subtotal support and revenues	<u>1,098,606</u>	<u>-</u>	<u>-</u>	<u>1,098,606</u>
Net assets released from restrictions	<u>16,886</u>	<u>(16,886)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>1,115,492</u>	<u>(16,886)</u>	<u>-</u>	<u>1,098,606</u>
Expenses:				
Program services	<u>941,226</u>	<u>-</u>	<u>-</u>	<u>941,226</u>
Supporting services:				
Management & General	107,754	-	-	107,754
Fundraising	180,708	-	-	180,708
Subtotal supporting services	<u>288,462</u>	<u>-</u>	<u>-</u>	<u>288,462</u>
Total expenses	<u>1,229,688</u>	<u>-</u>	<u>-</u>	<u>1,229,688</u>
Increase (decrease) in net assets	(114,196)	(16,886)	-	(131,082)
Net assets (deficit) at beginning of year	<u>255,080</u>	<u>16,886</u>	<u>-</u>	<u>271,966</u>
Net assets (deficit) at end of year	<u>\$ 140,884</u>	<u>-</u>	<u>-</u>	<u>140,884</u>

See independent auditors' report and notes to financial statements

MIRACLES FOR KIDS

STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2013

	Program Services	Supporting Services			Total
		Management & General	Fundraising	Subtotal	
Salaries and benefits	\$ 255,871	68,727	96,930	165,657	421,528
Payroll taxes	22,018	2,726	8,224	10,950	32,968
Rent	27,744	3,353	4,696	8,049	35,793
Grant program	424,218	-	-	-	424,218
Fund a Family program	79,585	-	-	-	79,585
Basket of Miracles program	34,353	-	-	-	34,353
Other programs	21,945	-	-	-	21,945
Professional services	13,428	1,624	2,274	3,898	17,326
Insurance	-	312	436	748	748
Depreciation	4,104	368	1,653	2,021	6,125
Utilities	13,113	1,076	5,287	6,363	19,476
Meals, travel and entertainment	8,582	13,256	6,590	19,846	28,428
Office expenses	7,793	2,091	2,144	4,235	12,028
Memberships,licenses and dues	-	2,391	10,604	12,995	12,995
Advertising	600	2,308	14,900	17,208	17,808
Repairs and maintenance	6,238	754	1,055	1,809	8,047
Postage and printing	3,630	969	697	1,666	5,296
Interest	2,582	6,430		6,430	9,012
Fundraising	-	-	23,302	23,302	23,302
Bank and other fees	15,422	1,369	1,916	3,285	18,707
Total expenses	\$ 941,226	107,754	180,708	288,462	1,229,688

MIRACLES FOR KIDS
STATEMENT OF CASH FLOWS

Year ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in net assets	\$ (131,082)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:	
Depreciation	6,125
Increase (decrease) in accounts receivable	(10,544)
Increase (decrease) in pledge receivable	29,232
Increase (decrease) in inventory	10,070
Increase (decrease) in prepaid expenses	(5,000)
(Decrease) Increase in accounts payable	32,639
(Decrease) Increase in deferred revenue	10,000
(Decrease) Increase in pledge payable	<u>(4,631)</u>
Net increase in cash	(63,191)
Cash and cash equivalents, beginning of year	<u>154,969</u>
Cash and cash equivalents, end of year	<u><u>\$ 91,778</u></u>

SUPPLEMENTAL CASH FLOWS DISCLOSURE:

Interest paid	<u><u>\$ 9,012</u></u>
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SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND CAPITAL RELATED FINANCING ACTIVITIES:

The Company did not have any noncash investing or capital related financing activities for the year ended December 31, 2013.

MIRACLES FOR KIDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Miracles for Kids (Organization) are presented to assist in the understanding of the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Organization

Miracles For Kids, Inc. (the "Organization") is an organization committed to improve the lives of children with cancer and other life-threatening illnesses. The purpose is to make a difference in the fight against life-threatening childhood illnesses by providing families with the financial support they need to face the difficulties that result from a child's illness, and serve as an advocate and resource center in the community for children fighting life threatening illnesses and their families. The Organization was incorporated in California as a nonprofit corporation in 2002 and is located in Tustin, California.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

The Organization follows the financial statement presentation recommended by the Financial Accounting Standards Board (FASB) in its Auditing Standards Codification (ASC) 958-205, *Presentation of Financial Statements*. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash as shown on the balance sheet at December 31, 2013 consists of a business checking account.

MIRACLES FOR KIDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Expense Allocation

The costs of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization's principal program is improve the lives of children with cancer and other life-threatening illnesses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are recorded at cost with depreciation provided using the straight-line method over the estimated useful lives of the assets which are as follows: furniture and fixtures 3-7 years; and computer office equipment 3-7 years. Donations of long-lived assets are recorded as contributions at their estimated fair values. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose in which case they are recorded as restricted contributions until such restriction expires. Repairs and maintenance to property, plant and equipment are expensed as incurred. When property, plant and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are eliminated from the accounts, and any gain or loss on such disposition is reflected in income. It is the Organization's policy to capitalize property and equipment over \$1,000.

Impairment of Long-Lived Assets

The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

MIRACLES FOR KIDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Restricted and Unrestricted Revenue and Support

The Organization follows ASC 958-605, *Revenue Recognition*. In accordance with ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Concentration of Credit Risk

The Organization maintains its cash balances at one financial institution and evaluates the credit worthiness of it periodically. The balance is insured by the Federal Deposit Insurance Corporation up to \$250,000. Cash deposits may exceed federally insured limits at times during the year, however, at December 31, 2013 there were no cash balances exceeding the insurance limit. The Organization has not experienced any losses in such account and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Donated Supplies, Facilities and Services

Donated noncash assets, such as use of facilities and supplies, are recorded at their fair values in the period received. Donations of services are recognized in the financial statements if the services received: (1) create or enhance nonfinancial assets or require specialized skills; (2) are provided by individuals possessing those skills; and (3) would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis for deriving their value.

Prepaid Expenses

Prepaid expenses include deposits and advance payments for events and program activities.

MIRACLES FOR KIDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Pledges Receivable

Contributions are recognized when the donor makes a promise to give 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 restriction expires 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 as unrestricted net assets. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of future cash flows. The discounts on those amounts are recorded using risk-free interest rates applicable to those years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Pledges Payable

Pledges to other organizations are recognized when the Organization makes a promise to give that is, in substance, unconditional. Such pledges that are authorized but unpaid as of the end of the year are recognized as liabilities. Unconditional promises to give that are expected to be paid in more than one year are recorded at the present value of future cash flows. The discounts on those amounts are recorded using risk-free interest rates applicable to those years in which the promises are received.

Income Tax Status

The Organization is a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d) and files all federal and state information returns required by law. The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending in years 2012, 2011, and 2010 are subject to examination by the IRS, generally for three years after they were filed.

Accrued Compensated Absences

Employees of the Organization are entitled to paid vacation and sick days. The Organization's management estimated the amount of compensation for future absences to be immaterial. Accordingly, no liability for compensated absences has been recorded in the accompanying financial statements.

MIRACLES FOR KIDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Fair Value Measurements

The Organization's financial instruments, including cash and cash equivalents, accounts receivable, and accounts payable are carried at cost, which approximates fair value because of the short-term nature of these instruments.

NOTE 2 - PLEDGE RECEIVABLE- RELATED PARTY

During September 2012, the Organization received a pledge for \$600,000 from an organization in which a board member is the Chief Executive Officer, Personalcare Physicians, to fund certain special events and marketing campaigns of the CHOC Children's Family Resource Center (see Note 4). The terms of the pledge require equal monthly payments over ten years beginning in April 2013. The Organization applied a discount rate of 3.25 percent per year based on the Wall Street Journal Prime Rate at the date of the pledge. During the fiscal year 2013, the Organization received \$40,000 of the pledge and amortized \$10,768 of the discount. Future pledge receivables to be collected for the years ending December 31 are as follows:

2014	\$ 60,000
2015	60,000
2016	60,000
2017	60,000
2018	60,000
Thereafter	260,000
Total	<u>560,000</u>
Less discount	<u>(85,197)</u>
	<u>474,803</u>
Less current portion	<u>(60,000)</u>
Long-term portion	<u>\$ 414,803</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2013 consisted of the following:

Furniture and fixtures	\$ 45,880
Equipment	8,485
Total	<u>54,365</u>
Less accumulated depreciation	<u>(13,847)</u>
Net book value	<u>\$ 40,518</u>

Depreciation expense for 2013 was \$6,125 for the year ended December 31, 2013.

MIRACLES FOR KIDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 4 - PLEDGE PAYABLE

During September 2012, the Organization pledged \$600,000 to the CHOC Children's Foundation to fund certain special events and marketing campaigns of the CHOC Children's Family Resource Center in the CHOC Children's Patient Tower. The pledge is to be paid in equal installments over eight or more years. The Organization applied a discount rate of 3.25 percent per year based on the Wall Street Journal Prime Rate at the date of the pledge. During the fiscal year 2013, the Organization paid \$10,000 of the pledge and amortized \$5,369 of the discount. Future pledge commitments for the years ending December 31 are as follows:

2014	\$ 60,000
2015	60,000
2016	60,000
2017	60,000
2018	60,000
Thereafter	240,000
Total	<u>540,000</u>
Less discount	<u>(69,546)</u>
	<u>470,454</u>
Less current portion	<u>(60,000)</u>
Long-term portion	<u>\$ 410,454</u>

NOTE 5 – LINE OF CREDIT

During July 2012, the Organization renewed its line of credit with a financial institution for up to \$250,000. The line of credit is secured by the Organization's assets and matures in April 2014. The line of credit bears a variable interest rate based on the bank rate (3.25% at December 31, 2013) plus one percent. As of December 31, 2013, the line of credit interest rate was 4.25 percent. The line of credit requires minimum monthly payments on interest incurred and requires payment of all outstanding balances upon maturity. For the year 2013, the Organization incurred interest expense and fees of \$9,012 and there was no balance outstanding as of December 31, 2013.

MIRACLES FOR KIDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 6 – NET ASSETS RELEASED FROM RESTRICTIONS

During the year ended December 31, 2013, \$16,886 of temporarily restricted net assets were released to unrestricted net assets as a result of the satisfaction of donor imposed restrictions. There were no permanently restricted net assets during the year ended December 31, 2013.

<u>Restriction</u>	<u>Temporarily Restricted Net Assets- Beginning of Year</u>	<u>Temporarily Restricted Revenues</u>	<u>Released From Restriction</u>	<u>Temporarily Restricted Net Assets- End of Year</u>
Fund a Family	<u>\$ 16,886</u>	<u> -</u>	<u>(16,886)</u>	<u> -</u>

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Operating Leases - During April 2012, the Organization entered into a two year lease agreement for office space located in Tustin. The term of the lease extends through April 2014 and requires minimum monthly payments of \$2,826. It is the Organization's intention to renew the lease upon expiration. For the year ended December 31, 2013, rent expense for the facility was \$33,913.

The Organization also leases office equipment and the term of the lease is month to month and requires minimum monthly payments of \$156. For the year ended December 31, 2013, rent expense for the equipment was \$1,880.

Total future minimum lease payments were as follows:

December 31:

2014	\$11,304
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Other - The Organization is subject to legal proceedings, claims, and assessments which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions, should they occur, will not materially affect the Institute's financial statements.

MIRACLES FOR KIDS

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013

NOTE 9 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are issued or are available to be issued.

Management has evaluated subsequent events through April 21, 2014, the date on which the financial statements were available to be issued.