

ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION

INDEPENDENT AUDITORS' REPORT

December 31, 2011

ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION

December 31, 2011

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Balsler Horowitz Frank & Wakeling

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Royal Family Kids, Inc. and
For the Children Foundation
Santa Ana, California

We have audited the accompanying combined statement of financial position of Royal Family Kids, Inc. and For the Children Foundation (the Organization) as of December 31, 2011, and the related combined statements of activities and cash flows for the year then ended. Management is responsible for the preparation and fair presentation of these financial statements. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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 from material misstatement. An audit involves performing procedures to obtain audit evidence about 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.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Royal Family Kids', Inc. and For the Children Foundation as of December 31, 2011 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.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combined schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements as a whole.

Balsler, Horowitz, Frank & Wakeling

BALSER, HOROWITZ, FRANK & WAKELING
Santa Ana, California
December 18, 2012

**ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION**

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2011

	ROYAL FAMILY KIDS	FOR THE CHILDREN FOUNDATION	TOTAL
Assets			
Cash and cash equivalents	\$ 205,988	\$ 19,505	\$ 225,493
Accounts receivable	1,725	-	1,725
Investments	890	1,052,060	1,052,950
Inventory	321,324	-	321,324
Prepaid expenses	13,676	-	13,676
Property and equipment, net	<u>1,465</u>	<u>-</u>	<u>1,465</u>
 Total assets	 <u>\$ 545,068</u>	 <u>\$ 1,071,565</u>	 <u>\$ 1,616,633</u>
Liabilities			
Accounts payable	94,013	-	94,013
Accrued vacation	22,905	-	22,905
Deferred income	24,603	-	24,603
Payroll tax payable	4,828	-	4,828
Sales tax payable	<u>107</u>	<u>-</u>	<u>107</u>
 Total liabilities	 <u>146,456</u>	 <u>-</u>	 <u>146,456</u>
Net assets			
Unrestricted	232,612	1,071,565	1,304,177
Temporarily restricted	<u>166,000</u>	<u>-</u>	<u>166,000</u>
 Total net assets	 <u>398,612</u>	 <u>1,071,565</u>	 <u>1,470,177</u>
 Total liabilities and net assets	 <u>\$ 545,068</u>	 <u>\$ 1,071,565</u>	 <u>\$ 1,616,633</u>

See accompanying notes and independent auditors' report

**ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION**

COMBINED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2011

	ROYAL FAMILY KIDS	FOR THE CHILDREN FOUNDATION	Total
Unrestricted net assets			
Support and revenues			
Contributions	\$ 1,146,119	\$ -	\$ 1,146,119
Grants to/from affiliates	156,000	(156,000)	-
Banquet	89,589	-	89,589
Appeal letters	14,432	-	14,432
Merchandise sales	614,821	-	614,821
Interest income	212	123	335
Other income	177,435	-	177,435
Investment income	-	131,939	131,939
	<u> </u>	<u> </u>	<u> </u>
Total support and revenue	2,198,608	(23,938)	2,174,670
Net assets released from purpose restrictions	<u>60,633</u>	<u>-</u>	<u>60,633</u>
 Total unrestricted support, revenues, and reclassifications	 <u>2,259,241</u>	 <u>(23,938)</u>	 <u>2,235,303</u>

See accompanying notes and independent auditors' report

**ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION**

COMBINED STATEMENT OF ACTIVITIES (continued)

For the Year Ended December 31, 2011

	ROYAL FAMILY KIDS	FOR THE CHILDREN FOUNDATION	Total
Expenses			
Program services	1,913,764	97	1,913,861
Supporting services			
General and administrative	261,688	15	261,703
Fund raising	<u>71,993</u>	<u>2</u>	<u>71,995</u>
Total expenses	<u>2,247,445</u>	<u>114</u>	<u>2,247,559</u>
Change in unrestricted net assets	11,796	(24,052)	(12,256)
Temporarily restricted net assets			
Contributions	36,350	-	36,350
Net assets released from purpose restriction	<u>(60,633)</u>	<u>-</u>	<u>(60,633)</u>
Change in temporarily restricted net as:	(24,283)	-	(24,283)
Change in net assets	<u>(12,487)</u>	<u>(24,052)</u>	<u>(36,539)</u>
Net assets, beginning of year	411,099	1,095,617	1,506,716
Net assets, end of year	<u>\$ 398,612</u>	<u>\$ 1,071,565</u>	<u>\$ 1,470,177</u>

See accompanying notes and independent auditors' report

ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION

COMBINED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2011

Cash flows from operating activities	
Change in net assets	\$ (36,539)
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	4,850
Unrealized gain on investments	(123,629)
Changes in:	
Accounts receivable	18,567
Inventory	(103,691)
Prepaid expenses	(806)
Accounts payable	42,152
Accrued vacation	(849)
Deferred income	22,353
Payroll tax payable	(1,134)
Sales tax payable	<u>(714)</u>
Net cash from operating activities	<u>(179,440)</u>
Cash flows from investing activities	
Purchase of investments	(551)
Sale of investments	<u>150,000</u>
Net cash from investing activities	<u>149,449</u>
Net change in cash and cash equivalents	(29,991)
Cash and cash equivalents, beginning of year	<u>255,484</u>
Cash and cash equivalents, end of year	<u><u>\$ 225,493</u></u>

There were no financing activities for the year ended December 31, 2011.

See accompanying notes and independent auditors' report

**ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION**

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2011

Note 1 – Summary of significant accounting policies

Nature of activities

Since 1989 Royal Family Kids' Camps, Inc. has recruited, trained, supported and monitored summer camps operated for abused and neglected children, ages 7 to 11, typically selected by local Social Service Agencies. In 2008 it formed Royal Friends' Clubs, Inc. as a separate nonprofit corporation to provide mentoring and monthly club activities for these same children. Both camps and clubs-mentoring are financed and operated by individual churches without charge to the children or the Social Service Agencies. Effective January 1, 2011, Royal Friends' Clubs, Inc. was merged into Royal Family Kids' Camps, Inc., and the name was changed to Royal Family Kids, Inc. (RFK). RFK is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code. The Organization is supported primarily from contributions from the general public.

RFK carries out its exempt functions by providing support to these camps and club-mentor programs, and by initiating new camps and club-mentor programs. Support includes supplying standardized operating procedures, training for camp directors and club directors, program review, web services, and similar. It also develops and produces curriculum and promotional brochures. RFK provides items such as Royal Family KIDS t-shirts, Bibles, and other materials for the kids. In the 2011 summer season, RFK supported the operation of 181 camps in 34 states and 11 foreign countries that served approximately 6,300 children. In the school year of 2011-12, matches were made of 350 children with individual adults for four hours per month of one to one mentoring, plus a monthly club meeting; clubs operated in 11 states and in Australia. Individual camps and clubs had combined annual budgets of over a million dollars. In addition, over 10,000 volunteers donated in excess of 1,300,000 hours, which management estimated could be valued at approximately \$27.1 million using the IRS volunteer service rates.

For the Children Foundation (FCF) was incorporated on May 25, 2005, as a California nonprofit public benefit corporation and is exempt from income taxes under 501(c)(3) of the Internal Revenue Code. FCF's exclusive purpose is to support RFK by seeking grants, contributions, bequests and other income and applying those resources for the benefit of RFK.

Principles of combination

The accompanying combined financial statements represent the operations of two affiliated organizations (the Organization). These organizations are related by common board of directors membership and by financial relationships that require a combination of the entities into one set of financial statements. All references to the Organization in these financial statements include both entities where appropriate. All significant inter-organizational balances and transactions have been eliminated.

ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2011

Note 1 – Summary of significant accounting policies (continued)

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of presentation

The Organization reports 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. At December 31, 2011, there were no net assets or activities classified as permanently restricted.

Cash and cash equivalents

Cash and cash equivalents includes all monies in banks and highly liquid investments with maturity dates of three months or less.

Accounts receivable

Accounts receivable arise exclusively from sales to RFK camps and clubs and is stated at the amount management expects to collect from outstanding balances. Any allowance for doubtful accounts would be immaterial to the financial statements and is, therefore, not recorded.

Investments in marketable securities

Investments in marketable securities with readily determinable fair values are carried at their fair values in the combined statement of financial position. Unrealized gains and losses are included in the change in unrestricted net assets in the accompanying combined statement of activities.

Inventory

Inventory consists of camp related promotional items and various camp and club memorabilia. The inventory is stated at the lower of cost or market.

Property and equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$2,000. Property and equipment is stated at cost or estimated fair value at date of receipt if donated. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense for the year ended December 31, 2011, was \$4,850.

ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2011

Note 1 – Summary of significant accounting policies (continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence and/or nature of any donor restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. 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 statements of activities as net assets released from restrictions. At December 31, 2011, there were no contributions classified as permanently restricted.

Donated assets and services

Donated assets and other non-monetary items are reflected as contributions in the accompanying statements at their estimated fair market values as of the date of receipt. For the year ended December 31, 2011, the Organization received the use of storage facilities and a membership valued at \$90,000. These amounts are included in contributions on the combined statement of activities.

RFK operates with the help of many volunteers, both within the Organization and with the camps and clubs that the Organization supports. These donated services were not recognized in the financial statements because they did not meet the criteria for recognition under generally accepted accounting principles.

Shipping and handling costs

Freight billed to customers is considered sales revenue and the related freight costs as a cost of sales.

Functional allocation of expenses

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

ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2011

Note 1 – Summary of significant accounting policies (continued)

Concentrations of credit risk

All of the Organization's cash is held in three financial institutions. Cash accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances in these accounts may, at times, exceed federally insured limits. Management does not believe that it is exposed to significant credit risk in connection with cash and cash equivalents.

Financial statement estimates and assumptions

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 these estimates.

Income taxes

The Organization is exempt from Federal and California income tax under Internal Revenue Code Section 501(c)(3). The Organization is subject, however, to Federal and California income tax on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the year ended December 31, 2011, the Organization had no activities substantially unrelated to its exempt purpose, and therefore incurred no tax liability due to unrelated business income.

The Organization follows the provisions of Accounting Standards Codification (ASC) 740-10-50, *Accounting for Uncertainty in Income Taxes*. The statement requires that a tax position be recognized or derecognized based on a 'more-likely-than-not' threshold. This applies to positions taken or expected to be taken in a tax return. The statement had no impact on the Organization's combined statement of financial position or statement of activities. The Organization does not believe its financial statements include (or reflect) any uncertain tax positions.

**ROYAL FAMILY KIDS, INC. AND
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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2011

Note 2 – Investments

A summary of investments as of December 31, 2011, follows:

	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized gains (losses)</u>
Mutual funds	\$ 419,831	\$ 507,530	\$ 54,549
Common stock	<u>489,381</u>	<u>545,420</u>	<u>69,080</u>
Total investments	<u>\$ 909,212</u>	<u>\$ 1,052,950</u>	<u>\$ 123,629</u>

The fair value of the Organization's investments is measured based on levels of observable and reliable assumptions as follows:

Level 1: Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer, or broker traded transactions. These valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

All investments are considered Level 1 investments.

**ROYAL FAMILY KIDS, INC. AND
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NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2011

Note 3 – Property and equipment

Property and equipment consisted of the following:

Automobiles	\$ 16,829
Office equipment	121,965
Computer software	27,525
Office furnishings	51,095
Video master tapes	<u>29,362</u>
Total property and equipment	246,776
Less: accumulated depreciation	<u>(245,311)</u>
Property and equipment, net	<u><u>\$ 1,465</u></u>

Note 4 – Temporarily restricted net assets

Temporarily restricted net assets consisted of the following:

New camp start-up	\$ 59,424
Quasi-endowment fund	105,162
Scholarship fund	<u>1,414</u>
Temporarily restricted net assets	<u><u>\$ 166,000</u></u>

Note 5 – Supplemental disclosures of cash flow information

There was no cash paid for interest or income taxes for the year ended December 31, 2011.

Note 6 – Subsequent events

Management has evaluated subsequent events through December 18, 2012, the date on which the financial statements were available to be issued.

**ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION**

COMBINED SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2011

	Program	G&A	Fund Raising	Total
Advertising	\$ 79,058	\$ 12,090	\$ 1,859	\$ 93,011
Auto expenses	3,552	543	84	4,180
Banquets	-	-	40,732	40,732
Books	1,930	295	45	2,270
Camp expenses	98,264	15,029	2,312	115,605
Cost of goods sold	533,519	-	-	533,519
Depreciation	4,123	631	97	4,850
Director's training	63,633	9,732	1,497	74,862
Dues	11,768	1,800	277	13,845
Education	3,917	599	92	4,608
Employee benefits	198,271	30,324	4,665	233,260
Insurance	5,336	816	126	6,278
Newsletter	38,273	5,854	901	45,027
Occupancy	67,179	65,792	1,122	134,093
Office expenses	106,278	16,254	2,501	125,033
Outside services	17,723	2,711	417	20,850
Passing the sceptor	32,619	4,989	768	38,375
Payroll taxes	30,335	4,639	714	35,688
Salaries and wages	547,260	83,699	12,877	643,835
Special projects	38,619	5,906	909	45,434
Travel	32,204	-	-	32,204
	<u>\$ 1,913,861</u>	<u>\$ 261,703</u>	<u>\$ 71,995</u>	<u>\$ 2,247,559</u>

See independent auditors' report