

ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION

INDEPENDENT AUDITORS' REPORT

December 31, 2012

ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION

December 31, 2012

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Balser 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 financial statements of Royal Family Kids and For the Children Foundation (the Organization), which comprise the statement of financial position as of December 31, 2012, and the related statement of activities and cash flow for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Royal Family Kids and For the Children Foundation as of December 31, 2012, 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 audit were 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 combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Balser, Horowitz, Frank & Wakeling

BALSER, HOROWITZ, FRANK & WAKELING
Santa Ana, California
December 2, 2013

ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION

COMBINED STATEMENT OF FINANCIAL POSITION
December 31, 2012

	ROYAL FAMILY KIDS	FOR THE CHILDREN FOUNDATION	TOTAL
Assets			
Cash and cash equivalents	\$ 172,035	\$ 3,387	\$ 175,422
Accounts receivable	1,321	-	1,321
Investments	2,600,093	916,305	3,516,398
Inventory	159,197	-	159,197
Prepaid expenses	22,530	-	22,530
Property and equipment, net	<u>3,412</u>	<u>-</u>	<u>3,412</u>
 Total assets	 <u>\$ 2,958,588</u>	 <u>\$ 919,692</u>	 <u>\$ 3,878,280</u>
Liabilities			
Accounts payable	\$ 153,683	\$ -	\$ 153,683
Accrued vacation	26,306	-	26,306
Deferred income	10,000	-	10,000
Payroll tax payable	8,441	-	8,441
Sales tax payable	<u>609</u>	<u>-</u>	<u>609</u>
 Total liabilities	 <u>199,039</u>	 <u>-</u>	 <u>199,039</u>
Net assets			
Unrestricted	2,577,773	919,692	3,497,465
Temporarily restricted	<u>181,776</u>	<u>-</u>	<u>181,776</u>
 Total net assets	 <u>2,759,549</u>	 <u>919,692</u>	 <u>3,679,241</u>
 Total liabilities and net assets	 <u>\$ 2,958,588</u>	 <u>\$ 919,692</u>	 <u>\$ 3,878,280</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, 2012

	ROYAL FAMILY KIDS	FOR THE CHILDREN FOUNDATION	Total
Unrestricted net assets			
Support and revenues			
Contributions	\$ 3,635,773	\$ -	\$ 3,635,773
Grants to/from affiliates	165,000	(165,000)	-
Banquet	110,306	-	110,306
Appeal letters	62,006	-	62,006
Merchandise sales	691,842	-	691,842
Interest income	77,287	39	77,326
Other income	202,199	-	202,199
Investment income	<u>-</u>	<u>14,140</u>	<u>14,140</u>
Total support and revenue	4,944,413	(150,821)	4,793,592
Net assets released from purpose restrictions	<u>52,481</u>	<u>-</u>	<u>52,481</u>
Total unrestricted support, revenues, and reclassifications	<u>4,996,894</u>	<u>(150,821)</u>	<u>4,846,073</u>
Expenses			
Program services	2,284,951	894	2,285,845
Supporting services			
General and administrative	295,033	137	295,170
Fund raising	<u>71,749</u>	<u>21</u>	<u>71,770</u>
Total expenses	<u>2,651,733</u>	<u>1,052</u>	<u>2,652,785</u>
Change in unrestricted net assets	<u>2,345,161</u>	<u>(151,873)</u>	<u>2,193,288</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, 2012

	ROYAL FAMILY KIDS	FOR THE CHILDREN FOUNDATION	Total
Temporarily restricted net assets			
Contributions	68,257	-	68,257
Net assets released from purpose restrictions	<u>(52,481)</u>	<u>-</u>	<u>(52,481)</u>
Change in temporarily restricted net ass	<u>15,776</u>	<u>-</u>	<u>15,776</u>
Change in net assets	2,360,937	(151,873)	2,209,064
Net assets, beginning of year	<u>398,612</u>	<u>1,071,565</u>	<u>1,470,177</u>
Net assets, end of year	<u>\$ 2,759,549</u>	<u>\$ 919,692</u>	<u>\$ 3,679,241</u>

See accompanying notes and independent auditors' report

ROYAL FAMILY KIDS, INC. AND
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COMBINED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2012

Cash flows from operating activities	\$ 2,209,064
Change in net assets	\$ 2,209,064
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	1,292
Unrealized (gain) loss on investments	(6,229)
Realized (gain) loss on investments	2,024
Donation of investments	(2,599,334)
Changes in:	
Accounts receivable	404
Inventory	162,127
Prepaid expenses	(8,854)
Accounts payable	59,670
Accrued vacation	3,401
Deferred income	(14,603)
Payroll tax payable	3,613
Sales tax payable	<u>502</u>
Net cash from operating activities	<u>(186,923)</u>
 Cash flows from investing activities	
Dividends reinvested	(1,894)
Proceeds from sale of investments	141,985
Acquisitions of property and equipment	<u>(3,239)</u>
Net cash from investing activities	<u>136,852</u>
Net change in cash and cash equivalents	(50,071)
 Cash and cash equivalents, beginning of year	<u>225,493</u>
 Cash and cash equivalents, end of year	<u>\$ 175,422</u>

There were no financing activities for the year ended December 31, 2012.

See accompanying notes and independent auditors' report

ROYAL FAMILY KIDS, INC. AND
FOR THE CHILDREN FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

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 2012 summer season, RFK supported the operation of 183 camps in 37 states and 9 foreign countries that served approximately 6,524 children. In the school year of 2012-13, matches were made of 473 children with individual adults for four hours per month of one to one mentoring, with a completion rate of 91%. In addition, monthly club meetings were held at 32 Clubs; a total of 810 adult volunteers participated in clubs and mentoring, in 13 states and in Australia. Individual camps and clubs had combined annual budgets of over a million dollars. In addition, almost 10,000 volunteers donated in excess of 1,350,000 hours, which management estimated could be valued at approximately \$29.6 million using the 2012 IRS volunteer service rate.

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, RFK and FCF. 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 combined 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, 2012

Note 1 – Summary of significant accounting policies (continued)

Basis of accounting

The combined 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, 2012, 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 are stated at the amount management expects to collect from outstanding balances. Any allowance for doubtful accounts would be immaterial to the combined financial statements and is, therefore, not recorded.

Investments

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. The partial interests in deeds of trust were donated to the Organization during 2012 and were recorded at the present value of anticipated future income.

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, generally five to fifteen years, on a straight-line basis. Depreciation expense for the year ended December 31, 2012, was \$1,292.

ROYAL FAMILY KIDS, INC. AND
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NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

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, 2012, 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, 2012, the Organization received the use of storage facilities and a membership valued at \$90,000. The Organization also received a level 3 investment valued at \$2,599,334 (see note 2). 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 combined 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
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NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

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 combined 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, 2012, 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 combined 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, 2012

Note 2 – Investments

A summary of investments as of December 31, 2012, follows:

	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized gains (losses)</u>
Mutual funds	\$ 371,725	\$ 522,789	\$ 63,365
Common stock	393,069	394,275	(57,136)
Partial interests in Deeds of trust	<u>2,599,334</u>	<u>2,599,334</u>	<u>-</u>
Total investments	<u>\$ 3,364,128</u>	<u>\$ 3,516,398</u>	<u>\$ 6,229</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.

Below is a summary of the Organizations' investments based on the levels described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	522,789	-	-	522,789
Common stock	394,275	-	-	394,275
Partial interests in Deed of trust	<u>-</u>	<u>-</u>	<u>2,599,334</u>	<u>2,599,334</u>
Total	<u>\$ 917,064</u>	<u>\$ -</u>	<u>\$ 2,599,334</u>	<u>\$ 3,516,398</u>

ROYAL FAMILY KIDS, INC. AND
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NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

Note 2 – Investments (continued)

Investment income as of December 31, 2012, consisted of the following:

Cash dividends earned	\$	7,911
Unrealized gain (loss) on stock		<u>6,229</u>
Total investment income	\$	<u>14,140</u>

Note 3 – Property and equipment

Property and equipment consisted of the following:

Automobiles	\$	16,829
Office equipment		125,204
Computer software		27,525
Office furnishings		51,095
Video master tapes		<u>29,362</u>
Total property and equipment		250,015
Less: accumulated depreciation		<u>(246,603)</u>
Property and equipment, net	\$	<u>3,412</u>

Note 4 – Temporarily restricted net assets

Temporarily restricted net assets consisted of the following:

New camp start-up	\$	66,343
Memory bags		5,832
Quasi-endowment fund		105,162
Appeals		2,025
Scholarship fund		<u>2,414</u>
Temporarily restricted net assets	\$	<u>181,776</u>

ROYAL FAMILY KIDS, INC. AND
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NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2012

Note 5 – Retirement plan

The Organization provides a tax-deferred retirement plan under IRS Code Section 403(b) for eligible employees. There is no age or service requirement for participating in the plan. The assets, liabilities, and results of operations of each employee plan are not included in the financial statements of the Organization. The plan is administered by a third-party retirement service. The Organization does not match any portion of the employees' contributions.

Note 6 – Supplemental disclosures of cash flow information

There was no cash paid for interest or income taxes for the year ended December 31, 2012.

Note 7 – Subsequent events

Management has evaluated subsequent events through December 2, 2013, the date on which the combined 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, 2012

	Program	G&A	Fund Raising	Total
Advertising	\$ 194,450	\$ 29,739	\$ 4,575	\$ 228,764
Auto expenses	2,505	383	59	2,947
Bank charges	79	12	2	93
Banquets	-	-	35,359	35,359
Books	664	102	16	782
Camp expenses	99,005	15,142	2,330	116,477
Cost of goods sold	674,024	-	-	674,024
Depreciation	1,098	168	26	1,292
Director's training	82,988	12,692	1,953	97,633
Dues	12,754	1,951	300	15,005
Education	7,166	1,096	169	8,431
Employee benefits	202,615	30,988	4,767	238,370
Insurance	7,835	1,198	184	9,217
Newsletter	39,057	5,974	919	45,950
Occupancy	60,845	64,823	972	126,640
Office expenses	134,837	20,622	3,173	158,632
Outside services	3,289	503	77	3,869
Passing the sceptor	22,731	3,477	535	26,743
Payroll taxes	40,653	6,218	957	47,828
Salaries and wages	645,252	98,685	15,182	759,119
Special projects	9,136	1,397	215	10,748
Travel	44,862	-	-	44,862
	<u>\$ 2,285,845</u>	<u>\$ 295,170</u>	<u>\$ 71,770</u>	<u>\$ 2,652,785</u>

See independent auditors' report