

MIRACLE FLIGHTS FOR KIDS, INC.

FINANCIAL STATEMENTS

YEAR ENDED APRIL 30, 2012

AND

INDEPENDENT AUDITORS' REPORT



FRIEDMAN LLP
ACCOUNTANTS AND ADVISORS

MIRACLE FLIGHTS FOR KIDS, INC.

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FRIEDMAN LLP
ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Miracle Flights for Kids

We have audited the accompanying statement of financial position of Miracle Flights for Kids, Inc. (the "Organization") as of April 30, 2012 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Miracle Flights for Kids, Inc, as of April 30, 2012, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

September 27, 2012

MIRACLE FLIGHTS FOR KIDS, INC.

STATEMENT OF FINANCIAL POSITION

APRIL 30, 2012

ASSETS

Current assets

Cash and cash equivalents	\$ 86,293
Certificates of deposit	1,097,427
Contributions receivable, net of allowance for doubtful accounts of \$45,395	5,273
Investments	14,672
Total current assets	1,203,665

Fixed assets

Equipment and furniture, net of accumulated
depreciation of \$95,045

-

Other assets

Annuities	282,355
	\$ 1,486,020

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 11,959
Due to related party	26,035
Total current liabilities	37,994

Commitments and contingencies

Net assets

Unrestricted	1,448,026
	\$ 1,486,020

See notes to financial statements.

MIRACLE FLIGHTS FOR KIDS, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED APRIL 30, 2012

Unrestricted revenue, gains and other support	
Contributions	\$ 1,551,654
In-kind contributions	936,323
Investment gain and other income	12,384
	<hr/>
	2,500,361
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Expenses	
Program services	
Miracle Flights for Kids	1,042,668
Miracle Flights for Kids - in-kind	832,200
Supporting services	
Management and general	68,503
Management and general - in-kind	104,123
Fundraising	307,596
	<hr/>
	2,355,090
<hr/>	
Increase in net assets	145,271
 Unrestricted net assets, beginning of year	
	1,302,755
Unrestricted net assets, end of year	<hr/>
	\$ 1,448,026

See notes to financial statements.

MIRACLE FLIGHTS FOR KIDS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED APRIL 30, 2012

	Miracle Flights For Kids	Management and General	Fundraising	Total
Bank and credit card fees	\$ 9,618	\$ -	\$ 4,744	\$ 14,362
Community outreach	503,431	-	247,959	751,390
Dues and fees	-	4,379	-	4,379
Insurance	-	10,119	-	10,119
Repairs and maintenance	-	2,340	-	2,340
Meals and entertainment	-	612	-	612
Miscellaneous	-	560	-	560
Occupancy	28,923	9,380	3,709	42,012
Office supplies	1,289	-	636	1,925
Postage	6,127	-	3,022	9,149
Printing	5,270	-	2,600	7,870
Professional services	-	27,796	-	27,796
Staff leasing	340,274	110,352	43,632	494,258
Telephone	5,795	1,879	743	8,417
Travel resources	965,323	-	-	965,323
Utilities	-	3,556	-	3,556
Vehicle expense	8,818	1,653	551	11,022
	<u>\$ 1,874,868</u>	<u>\$ 172,626</u>	<u>\$ 307,596</u>	<u>\$ 2,355,090</u>

See notes to financial statements.

MIRACLE FLIGHTS FOR KIDS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED APRIL 30, 2012

Cash flows from operating activities	
Increase in net assets	\$ 145,271
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Unrealized loss on investments	8
Allowance for doubtful accounts	(2,656)
Changes in assets and liabilities	
Contributions receivable	1,309
Accounts payable	(73,846)
Net cash provided by operating activities	70,086
Cash flows from investing activities	
Contributions to annuity accounts	(50,000)
Purchases to investment accounts	(4,970)
Purchase of certificates of deposit	694,310
Redemption of certificates of deposit	(706,343)
Net cash used in investing activities	(67,003)
Net increase in cash and cash equivalents	3,083
Cash and cash equivalents, beginning of year	83,210
Cash and cash equivalents, end of year	\$ 86,293

See notes to financial statements.

MIRACLE FLIGHTS FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Miracle Flights for Kids, Inc. (the "Organization") was founded in 1985 and is a national, 501(c)(3) nonprofit organization dedicated to helping low income very sick children overcome financial obstacles that prevent them from accessing proper medical care and second opinions.

The Organization flies children who are struggling with serious cancers and other debilitating diseases to specialized medical treatment centers across the United States. Any child needing medical treatment or seeking a second opinion not available in their own home town is eligible to apply for a miracle mission.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). 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. As of April 30, 2012, there were no temporary or permanently restricted net assets.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash balances in banks are insured by the Federal Deposit Insurance Corporation subject to certain limitations. For purposes of the statement of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Equipment and Furniture

Equipment and furniture are stated at cost at the date of acquisition or fair value at the date of donation. The Organization capitalizes all fixed assets over \$500 with an estimated useful life of greater than five years. Depreciation is provided using the straight line method over the estimated useful lives, or lease term, whichever is shorter.

MIRACLE FLIGHTS FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

Expenses are allocated to program and supporting services on the following basis:

- a) Travel and associated expenses are considered program expenses only.
- b) Community outreach and associated expenses are allocated using the physical units method. The allocation under the physical units method is based on lines of print from the documents and scripts used in the above activities. Each line of print is analyzed and a determination is made as to its purpose. The number of lines for each objective is totaled and weighed against the total number of lines in the document as well as the frequency of use of the document. The joint costs are then allocated to their proper objective based on the results of this process.
- c) Personnel and associated expenses are allocated on the basis of the employee's time allocated to each category.
- d) Professional services are considered management and general expenses only.
- e) Overhead expense categories are allocated to management and general, unless they can be directly identified with either program or fundraising activities.

Revenue Recognition

Contributions are recorded when they are received. Unconditional promises to give (pledges) are recorded at their net present value when collectability is reasonably assured and subject to estimation. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specially restricted by the donor. Donated property and services requiring specialized skills are recorded at the estimated fair market value on the date of the gift. All contributions receivable are due within one year.

The Organization records contributions as temporarily restricted or permanently restricted net assets if they are received with any donor restrictions as to their use. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support 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.

MIRACLE FLIGHTS FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and Materials

Donated services are recognized as in-kind donations if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Income Taxes

The Organization is exempt from Federal and State income taxes under Internal Revenue code Section 501(c) (3).

Federal and State information returns for years prior to 2009 are no longer subject to examination by tax authorities.

Investments

GAAP requires certain financial assets and liabilities to be measured at fair value. GAAP defines fair value, provides guidance for measuring fair value, requires certain disclosures and discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). GAAP also provides for a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value into three brand levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect management's own assumptions.

The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

MIRACLE FLIGHTS FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

Investments

Investments include shares of common stock and are stated at fair value based upon quoted prices on a recognized securities exchange and are valued at the last reported sales price on the last business day of the year. Investments in common stock are classified as Level 1 investments. Total balance in investments as of April 30, 2012 is \$14,672.

Annuities

Variable annuities are insurance products that are complex long-term investment vehicles that are subject to market risk. They are stated at fair value based upon quoted prices. Investments in annuities are classified as Level 1 investments. Total balance in annuities as of April 30, 2012 is \$282,355.

Subsequent events

These financial statements were approved by management and available for issuance on September 27, 2012. Management has evaluated subsequent events through this date.

2 - ALLOCATION OF JOINT COSTS

The Organization does fundraising and program service through professional outreach companies. In 2012, the Organization incurred \$751,390 of these costs and all of these amounts were considered joint costs under AICPA Statement of Position 98-2. Of these costs, \$503,431 was allocated to the Miracle Flights for Kids program and \$247,959 was allocated to fund raising, using the physical units method.

The allocation under the physical units method is based on lines of print from the documents and scripts used in the above activities. Each line of print is analyzed and a determination is made as to its purpose. The number of lines for each objective is totaled and weighed against the total number of lines in the document as well as the frequency of use of the document. The joint costs are then allocated to their proper objective based on the results of this process.

MIRACLE FLIGHTS FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

3 - CERTIFICATES OF DEPOSITS

The Company has four certificates of deposits. The first certificate of deposit is held with First Service Bank of Nevada. It matures in September 2012, bears interest at a rate of 0.65% and has a value of \$337,785 as of April 30, 2012. The second certificate of deposit is held with MetLife Bank, NA. It matures in April 2013, bears interest at a rate of 1.54% and has a value of \$254,021 as of April 30, 2012. The third certificate of deposit is held with Discover Bank. It matures in September 2012, bears interest at a rate of 0.35% and has a value of \$250,292 as of April 30, 2012. The last certificate of deposit is held with USAA Financial. It matures in July 2012, bears interest at a rate of 1.69% and has a value of \$255,329 as of April 30, 2012.

4 - INVESTMENTS AND ANNUITIES

Investments consist of the following at April 30, 2012:

Available for sale securities	\$	13,785
Unrealized gain		887
	\$	14,672

Annuities consist of the following at April 30, 2012:

Annuities	\$	283,249
Unrealized loss		(894)
	\$	282,355

5 - RELATED PARTY

As of April 30, 2012 a related party payable of \$26,035 is due on demand without interest.

6 - IN-KIND DONATIONS

For the year ended April 30, 2012, the Organization received \$936,323 of in-kind services, which consist primarily of donated flights and flight resources. These services have been reported as unrestricted revenue and the in-kind expenses have been included in the Miracle Flights for Kids program services under travel resources.

MIRACLE FLIGHTS FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

7 - CONCENTRATIONS

The Organization utilizes vendors to generate pledge contributions; one vendor represented 19% of total expenses included in community outreach expense in the statement of functional expenses. Additionally, the Organization utilizes various airlines for travel resources.

8 - COMMITMENTS AND CONTINGENCIES

On October 1, 2011, the Organization was committed to a contract for fundraising and program services expiring on September 30, 2012. The contract renews automatically on an annual basis unless rescinded by either party. The contract provides for payments to be made by the Organization based on a range of amounts per mailing.

Also on October 1, 2011, the Organization was committed to another contract for fundraising and program services expiring on September 30, 2014. Unless notice is given, the contract will be automatically extend for two additional years. The contract provides for payments to be made by the Organization based on hourly rates.

The Organization's national president is named the unconditional personal guarantor in the Organization's lease agreement for the duration of the lease agreement being in effect.

9 - OPERATING LEASES

The Organization leases office space under an 18-month operating lease, expiring on June 30, 2013. Base monthly rent is \$3,266 per month excluding utility allowance of \$120 per month.

The future minimum rental payments required under the operating lease agreement that has initial non-cancellable lease terms in excess of one year as of April 30, 2012 and 2013 is \$40,632 and \$6,772, respectively.

Total rental expense under operating leases for the year ended April 30, 2012 was \$42,012.