

**MIRACLE FLIGHTS FOR KIDS, INC.**

**FINANCIAL STATEMENTS**

**APRIL 30, 2013**

**AND**

**INDEPENDENT AUDITORS' REPORT**

# MIRACLE FLIGHTS FOR KIDS, INC.

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**FRIEDMAN LLP**  
ACCOUNTANTS AND ADVISORS

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Miracle Flights for Kids, Inc.

We have audited the accompanying financial statements of Miracle Flights for Kids, Inc. (the "Organization"), which comprise the statement of financial position as of April 30, 2013, and the related statements of activities and changes in net assets, functional activities 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 from 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 Miracle Flights for Kids, Inc., as of April 30, 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.

A handwritten signature in black ink, appearing to read "Friedman LLP". The signature is written in a cursive, flowing style.

August 27, 2013

**MIRACLE FLIGHTS FOR KIDS, INC.**

**STATEMENT OF FINANCIAL POSITION**

**APRIL 30, 2013**

**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 41,480,456
Temporarily restricted cash for flights	14,376
Certificate of deposit	258,320
Contributions receivable, net of allowance for doubtful accounts of \$68,227	21,954
Investments	16,565
Total current assets	41,791,671

**Fixed assets**

Equipment and furniture, net of accumulated depreciation of \$95,045	-
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**Other assets**

Long-term certificate of deposit	257,914
Annuities	361,562
	\$ 42,411,147

**LIABILITIES AND NET ASSETS**

**Current liabilities**

Accounts payable	\$ 12,381
Total current liabilities	12,381

Commitments and contingencies

**Net assets**

Unrestricted	42,384,390
Temporarily restricted	14,376
	\$ 42,411,147

See notes to financial statements.

**MIRACLE FLIGHTS FOR KIDS, INC.**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED APRIL 30, 2013**

	Unrestricted	Temporarily Restricted	Total
<b>Revenue, gains and other support</b>			
Contributions	\$ 42,206,143	\$ 15,000	\$ 42,221,143
In-kind contributions	1,102,785	-	1,102,785
Investment gain and other income	54,701	-	54,701
Net assets released from restrictions	624	(624)	-
	43,364,253	14,376	43,378,629
<b>Expenses</b>			
Program services			
Miracle Flights for Kids	920,562	-	920,562
Miracle Flights for Kids - in-kind	1,010,253	-	1,010,253
Supporting services			
Management and general	103,681	-	103,681
Management and general - in-kind	92,532	-	92,532
Fundraising	300,861	-	300,861
	2,427,889	-	2,427,889
<b>Increase in net assets</b>	40,936,364	14,376	40,950,740
Net assets, beginning of year	1,448,026	-	1,448,026
<b>Net assets, end of year</b>	\$ 42,384,390	\$ 14,376	\$ 42,398,766

See notes to financial statements.

**MIRACLE FLIGHTS FOR KIDS, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED APRIL 30, 2013**

	Miracle Flights For Kids	Management and General	Fundraising	Total
Bank and credit card fees	\$ 7,257	\$ -	\$ 3,575	\$ 10,832
Community outreach	428,161	-	210,886	639,047
Dues and fees	-	2,226	-	2,226
Insurance	-	10,097	-	10,097
Repairs and maintenance	-	2,145	-	2,145
Meals and entertainment	-	1,628	-	1,628
Miscellaneous	-	740	-	740
Occupancy	26,894	9,245	5,883	42,022
Office supplies	2,203	-	1,085	3,288
Postage	2,466	-	1,215	3,681
Printing	6,013	-	2,961	8,974
Professional services	-	24,022	-	24,022
Staff leasing	337,127	115,887	73,747	526,761
Telephone	4,572	1,571	1,000	7,143
Travel resources	1,107,986	-	-	1,107,986
Utilities	-	4,294	-	4,294
Bad debt expense	-	22,832	-	22,832
Vehicle expense	8,136	1,526	509	10,171
	<b>\$ 1,930,815</b>	<b>\$ 196,213</b>	<b>\$ 300,861</b>	<b>\$ 2,427,889</b>

See notes to financial statements.

**MIRACLE FLIGHTS FOR KIDS, INC.**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED APRIL 30, 2013**

**Cash flows from operating activities**

Increase in net assets	\$ 40,950,740
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Temporarily restricted cash for flights	(14,376)
Unrealized gain on investments	(31,100)
Bad debt expense	22,832
Changes in assets and liabilities	
Contributions receivable	(39,513)
Accounts payable	422
Due to related party	(26,035)
Net cash provided by operating activities	40,862,970

**Cash flows from investing activities**

Contributions to annuity accounts	(50,000)
Purchase of certificates of deposit	(342,881)
Redemption of certificates of deposit	924,074
Net cash provided by investing activities	531,193

**Net increase in cash and cash equivalents** 41,394,163

**Cash and cash equivalents, beginning of year** 86,293

**Cash and cash equivalents, end of year** \$ 41,480,456

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's net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions into the following three categories:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met, either by action of the Organization and/or the passage of time.

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 report in the statement of activities as net assets released from restrictions.

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that must be maintained permanently by the Organization. Generally, the donors of these assets would permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. There were no permanently restricted net assets at April 30, 2013.

## **MIRACLE FLIGHTS FOR KIDS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **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. As of April 30, 2013, all equipment and furniture has been fully depreciated.

##### **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. 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.

## **MIRACLE FLIGHTS FOR KIDS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **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.

##### **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 those 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.

## **MIRACLE FLIGHTS FOR KIDS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **Investments (Continued)**

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.

##### *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, 2013 is \$16,565.

##### *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, 2013 is \$361,562.

##### **Subsequent events**

These financial statements were approved by management and available for issuance on August 27, 2013. 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 2013, the Organization incurred \$639,047 of these costs and all of these amounts were considered joint costs under AICPA Statement of Position 98-2. Of these costs, \$428,161 was allocated to the Miracle Flights for Kids program and \$210,886 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 two certificates of deposits. The first certificate of deposit is held with USAA Financial. It matures in July 2013, bears interest at a rate of 1.00% and has a value of \$258,320 as of April 30, 2013. The second certificate of deposit is held with GE Capital Retail Bank. It matures in April 2015, bears interest at a rate of 1.15% and has a value of \$257,914 as of April 30, 2013.

#### 4 - INVESTMENTS AND ANNUITIES

Investments consist of the following at April 30, 2013:

Available for sale securities	\$	14,672
Unrealized gain		1,893
	\$	16,565

Annuities consist of the following at April 30, 2013:

Annuities	\$	332,355
Unrealized loss		29,207
	\$	361,562

#### 5 - IN-KIND DONATIONS

For the year ended April 30, 2013, the Organization received \$1,102,785 of in-kind donations, which consist primarily of donated flights and flight resources. These services have been reported as unrestricted revenue and the related in-kind expenses have been included in the Miracle Flights for Kids program services under travel resources and management and general.

#### 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net at April 30, 2013 is restricted for flight costs associated with a specific state in the United States of America.

## **MIRACLE FLIGHTS FOR KIDS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

#### **7 - CONCENTRATIONS**

The Organization utilizes vendors to generate pledge contributions; one vendor represented 23% of total expenses included in community outreach expense in the statement of functional expenses.

For the year ended April 30, 2013, the Organization received \$40,871,405 from British Airways PLC, which represented 94% of total revenue. The Organization was selected as the recipient of the U.S. *Cy Pres* Payment in a U.S. class-action lawsuit.

#### **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 was renewed by both parties for the period October 1, 2012 through September 30, 2013. 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 extended 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. The Organization extended the operating lease through December 31, 2013. Base monthly rent is \$3,266 per month excluding utility allowance of \$120 per month.

Total rental expense under operating leases for the year ended April 30, 2013 was \$42,022.

## **MIRACLE FLIGHTS FOR KIDS, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

#### **10 - SUBSEQUENT EVENTS**

On April 30, 2013, the Organization issued a promissory note that was disbursed by the Organization on May 1, 2013. The note is for a principal sum of \$2,200,000 with an annual interest rate of 20%. The principal amount of the note is due in one lump payment on April 30, 2016. The note may be prepaid at any time for the amount of the principal sum plus 10% plus any interest due up to and including the date of payoff. Interest payments are to be made on a semi-annual basis with the first interest payment due six months from the commencement date of the agreement and continuing until paid in full. The note is personally guaranteed by the recipients.

During June 2013, MFFK Holdings, Inc. was established with the specific primary purpose as an asset holding company for the nonprofit corporation Miracle Flights for Kids, Inc. MFFK Holdings, Inc. has been organized as a 501(c)2 Non Profit Corporation. MFFK Holdings, Inc. purchased McCarran Corporate Plaza for approximately \$10.8 million during June 2013 with funds supplied by the Organization.