

**COMBINED FINANCIAL STATEMENTS
With Independent Auditor's Report**

DECEMBER 31, 2017 and 2016

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

**Todhunter & Associates, Inc.
18818 Teller Ave., Suite 109
Irvine, CA 92612**

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

December 31, 2017 and 2016

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TODHUNTER & ASSOCIATES, INC.

AN ACCOUNTANCY CORPORATION

INDEPENDENT AUDITOR'S REPORT

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

Report on Combined Financial Statements

We have audited the accompanying combined financial statements of Royal Family Kids, Inc. and For the Children Foundation (a nonprofit organization) which comprise the combined statements of financial position as of December 31, 2017 and 2016, and the related combined statements of activities and cash flows for the years 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 audits. We conducted our audits 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.

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MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS (AICPA)
AND CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS (CSCPA)

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Royal Family Kids, Inc. and For the Children Foundation as of December 31, 2017 and 2016, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The *combined schedules of functional expenses* on pages 18 to 19 are presented for purposes of additional analysis and are 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.

Todhunter & Associates, Inc.

Irvine, California

March 2, 2018

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

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS	<u>Royal Family Kids, Inc.</u>	<u>For the Children Foundation</u>	<u>Total</u>
Cash and cash equivalents	\$ 377,327	\$ 68,554	\$ 445,881
Receivables	2,812	-	2,812
Employee advance	5,153	-	5,153
Inventory	74,593	-	74,593
Promissory notes receivable	1,088,000	-	1,088,000
Marketable securities	1,248,838	1,020,004	2,268,842
Property and equipment, net	<u>6,270</u>	<u>-</u>	<u>6,270</u>
Total assets	<u>\$ 2,802,993</u>	<u>\$ 1,088,558</u>	<u>\$ 3,891,551</u>
 LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued liabilities	<u>\$ 36,147</u>	<u>\$ -</u>	<u>\$ 36,147</u>
Total liabilities	<u>36,147</u>	<u>-</u>	<u>36,147</u>
Net assets:			
Unrestricted	2,668,360	1,088,558	3,756,918
Temporarily restricted	<u>98,486</u>	<u>-</u>	<u>98,486</u>
Total net assets	<u>2,766,846</u>	<u>1,088,558</u>	<u>3,855,404</u>
Total liabilities and net assets	<u>\$ 2,802,993</u>	<u>\$ 1,088,558</u>	<u>\$ 3,891,551</u>

See Accompanying Notes and Independent Auditor's Report.

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

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS	<u>Royal Family Kids, Inc.</u>	<u>For the Children Foundation</u>	<u>Total</u>
Cash and cash equivalents	\$ 251,482	\$ 66,521	\$ 318,003
Receivables	18,012	-	18,012
Inventory	131,280	-	131,280
Promissory notes receivable	1,088,000	-	1,088,000
Marketable securities	1,151,584	876,487	2,028,071
Property and equipment, net	<u>17,587</u>	<u>-</u>	<u>17,587</u>
Total assets	<u>\$ 2,657,945</u>	<u>\$ 943,008</u>	<u>\$ 3,600,953</u>
 LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued liabilities	\$ 22,964	\$ -	\$ 22,964
Note payable	<u>6,907</u>	<u>-</u>	<u>6,907</u>
Total liabilities	<u>29,871</u>	<u>-</u>	<u>29,871</u>
Net assets:			
Unrestricted	2,608,556	943,008	3,551,564
Temporarily restricted	<u>19,518</u>	<u>-</u>	<u>19,518</u>
Total net assets	<u>2,628,074</u>	<u>943,008</u>	<u>3,571,082</u>
Total liabilities and net assets	<u>\$ 2,657,945</u>	<u>\$ 943,008</u>	<u>\$ 3,600,953</u>

See Accompanying Notes and Independent Auditor's Report.

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

COMBINED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	Royal Family Kids, Inc.	For the Children Foundation	Total
UNRESTRICTED NET ASSETS			
Support and revenues:			
Contributions	\$ 887,527	\$ 7,144	\$ 894,671
Merchandise sales	1,044,805	-	1,044,805
Events	97,193	-	97,193
Training and other programs	197,962	-	197,962
Other income	12,399	-	12,399
Income from investments (net)	123,901	138,490	262,391
Total unrestricted support and revenues	2,363,787	145,634	2,509,421
Net assets released from restrictions:			
Restrictions satisfied by payments	269,035	-	269,035
Total unrestricted support, revenues and reclassifications	2,632,822	145,634	2,778,456
Expenses:			
Program services:			
Camps and mentoring clubs	2,395,558	-	2,395,558
Total program services	2,395,558	-	2,395,558
Supporting services:			
General and administrative	71,663	84	71,747
Fundraising	105,797	-	105,797
Total supporting services	177,460	84	177,544
Total expenses	2,573,018	84	2,573,102
Change in unrestricted net assets	59,804	145,550	205,354

See Accompanying Notes and Independent Auditor's Report.

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

COMBINED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	<u>Royal Family Kids, Inc.</u>	<u>For the Children Foundation</u>	<u>Total</u>
TEMPORARILY RESTRICTED NET ASSETS			
Contributions	348,003	-	348,003
Net assets released from restrictions	<u>(269,035)</u>	<u>-</u>	<u>(269,035)</u>
 Change in temporarily restricted net assets	 <u>78,968</u>	 <u>-</u>	 <u>78,968</u>
 Change in net assets	 <u>138,772</u>	 <u>145,550</u>	 <u>284,322</u>
NET ASSETS, at beginning of year	 <u>2,628,074</u>	 <u>943,008</u>	 <u>3,571,082</u>
 NET ASSETS, at end of year	 <u><u>\$ 2,766,846</u></u>	 <u><u>\$ 1,088,558</u></u>	 <u><u>\$ 3,855,404</u></u>

See Accompanying Notes and Independent Auditor's Report.

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

COMBINED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	Royal Family Kids, Inc.	For the Children Foundation	Total
UNRESTRICTED NET ASSETS			
Support and revenues:			
Contributions	\$ 745,697	\$ 62,901	\$ 808,598
Merchandise sales	711,259	-	711,259
Events	49,560	-	49,560
Training and other programs	107,056	-	107,056
Other income	61,389	-	61,389
Income from investments (net)	97,613	88,134	185,747
Total unrestricted support and revenues	1,772,574	151,035	1,923,609
Net assets released from restrictions:			
Restrictions satisfied by payments	313,179	-	313,179
Total unrestricted support, revenues and reclassifications	2,085,753	151,035	2,236,788
Expenses:			
Program services:			
Camps and mentoring clubs	2,043,288	-	2,043,288
Total program services	2,043,288	-	2,043,288
Supporting services:			
General and administrative	266,486	212	266,698
Fundraising	222,020	-	222,020
Total supporting services	488,506	212	488,718
Total expenses	2,531,794	212	2,532,006
Change in unrestricted net assets	(446,041)	150,823	(295,218)

See Accompanying Notes and Independent Auditor's Report.

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

COMBINED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	<u>Royal Family Kids, Inc.</u>	<u>For the Children Foundation</u>	<u>Total</u>
TEMPORARILY RESTRICTED NET ASSETS			
Contributions	285,097	-	285,097
Net assets released from restrictions	<u>(313,179)</u>	<u>-</u>	<u>(313,179)</u>
 Change in temporarily restricted net assets	 <u>(28,082)</u>	 <u>-</u>	 <u>(28,082)</u>
 Change in net assets	 <u>(474,123)</u>	 <u>150,823</u>	 <u>(323,300)</u>
NET ASSETS, at beginning of year	 <u>3,102,197</u>	 <u>792,185</u>	 <u>3,894,382</u>
NET ASSETS, at end of year	 <u><u>\$ 2,628,074</u></u>	 <u><u>\$ 943,008</u></u>	 <u><u>\$ 3,571,082</u></u>

See Accompanying Notes and Independent Auditor's Report.

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

COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 284,322	\$ (323,300)
Adjustments to reconcile change in net assets to cash used by operating activities:		
Depreciaton	5,499	6,168
Net investment (gains) and losses	(201,608)	(68,936)
Gifts of marketable securities	20,534	-
Loss on disposal of property and equipment	3,010	-
Changes in:		
Receivables	15,200	11,128
Employee advance	(5,153)	-
Inventory	56,687	50,859
Prepaid expenses	-	13,069
Accounts payable and accrued liabilities	<u>13,183</u>	<u>(517)</u>
Net cash flows provided (used) by operating activities	<u>191,674</u>	<u>(311,529)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipt of insurance payment on auto loss	7,771	-
Purchases of property and equipment	(4,963)	-
Proceeds on sale of marketable security investments	718,047	-
Purchases of marketable security investments	(777,744)	(1,169,929)
Net change in promissory notes receivable	<u>-</u>	<u>1,600,000</u>
Net cash flows (used) provided by investing activities	<u>(56,889)</u>	<u>430,071</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	<u>(6,907)</u>	<u>(4,595)</u>
Net cash flows used by financing activities	<u>(6,907)</u>	<u>(4,595)</u>
Net change in cash and cash equivalents	127,878	113,947
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>318,003</u>	<u>204,056</u>
End of year	<u>\$ 445,881</u>	<u>\$ 318,003</u>

See Accompanying Notes and Independent Auditor's Report.

ROYAL FAMILY KIDS, INC. AND FOR THE CHILDREN FOUNDATION

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 1 – Nature of Organization

Royal Family Kids, Inc. (the Organization) is an international Christian not-for-profit Internal Revenue Code Section 501(c)(3) organization, incorporated in the state of California. Since its inception in 1989, and originally named Royal Family Kids' Camps, Inc., the Organization has recruited, trained, supported and monitored summer camps that are operated for abused and neglected children. The Organization works in conjunction with local social services agencies and other nonprofit organizations in providing a safe environment to fellowship and mentor at-risk foster children. The Organization's programs are provided at no cost to the children's families and social services agencies that participate.

In 2008 Royal Friends' Clubs, Inc. was formed as a separate nonprofit corporation to provide mentoring and monthly club activities for at-risk youth. In 2011, Royal Friends' Clubs, Inc. was merged into Royal Family Kids' Camps, Inc. After this merger, the Organization's name was changed to Royal Family Kids, Inc.

The Organization's affiliate, For the Children Foundation, (FTCF) was incorporated on May 25, 2005 in the state of California as a nonprofit public benefit Internal Revenue Code Section 501(c)(3) organization. FTCF was organized exclusively to seek grants, contributions, bequests and other sources of income in order to provide funding for the operations of Royal Family Kids, Inc's program services.

Principles of Combination

The accompanying financial statements include the accounts of two affiliated organizations, Royal Family Kids, Inc. and For the Children Foundation. These affiliates are under common control as defined by accounting principles generally accepted in the United States of America and are reported separately in the financial statements. All significant inter-organization transactions have been eliminated as a result of the combination in reporting.

The financial statements are referred to as combined financial statements on the cover page as well as the opinion. Combined information is reflected in all references to the following statements, notes and schedules: statements of financial position, statements of activities, statements of cash flows, notes to financial statements and schedule of functional expenses. If any of these statements are not combined, they will be identified accordingly.

Note 2 - Summary of Significant Accounting Policies

The combined financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. A summary of significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Basis of Presentation

The financial statement presentation follows the recommendations of Financial Accounting Standards Board ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under this accounting standard, the affiliates are 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. During the years ended December 31, 2017 and 2016, there were no net assets or activities classified as permanently restricted.

Income Taxes

The affiliates are exempt from federal and state income tax under Internal Revenue Code Section 501(c)(3). The affiliates are subject to federal and state income tax on unrelated business income as stipulated in Internal Revenue Code Section 511. During the years ended December 31, 2017 and 2016, both the Organization and its' affiliate had no activities unrelated to its exempt purpose and therefore incurred no tax liability due to unrelated business income.

Financial Accounting Standards Board ASC 740-10-25, *Income Taxes*, prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The affiliates have evaluated their uncertain tax positions and related income tax contingencies, and does not believe that any material uncertain tax positions exist. All governmental reporting forms are subject to examination by federal taxing authorities for a period of three years from the date they are filed and a period of four years for state taxing authorities.

Cash and Cash Equivalents

For statements of financial position and cash flow purposes, cash and cash equivalents include cash on hand, cash on deposit, money market accounts, and certificates of deposit with maturities of three months or less.

Receivables

The affiliates consider all receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Inventory

Inventory consists of camp and mentoring club supplies and merchandise. The inventory is valued at the lower of cost or market.

Shipping and Handling Costs

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

Investments

Investments are reported at their fair values in the combined statements of financial position. Realized and unrealized gains and losses are included in the change in net assets in the combined statements of activities.

Fair Value Measurements

The affiliates have adopted Financial Accounting Standards Board ASC 820-10-35 *Fair Value Measurements*, for the years ended December 31, 2017 and 2016. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a fair value hierarchy in three levels that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows.

- Level 1 – Inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. 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 – Inputs other than quoted prices within Level 1 that are observable, either directly or indirectly. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.
- Level 3 – Inputs are unobservable. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounts, cash flow models, and similar techniques and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost, or at fair value at the date of gift if donated, less accumulated depreciation. Maintenance, repairs, and renewals that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. The Organization has elected to capitalize all property and equipment expenditures greater than \$2,000. Depreciation expense for the years ended December 31, 2017 and 2016 was \$5,499 and \$6,168, respectively. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

Contributed Services

Financial Accounting Standards Board ASC 958-605-25-16, *Not-for-Profit Entities – Revenue Recognition – Contributed Services*, requires recording the value of donated services that create or enhance non-financial assets or require specialized skills. Volunteers have contributed significant amounts of their time to the activities of the Organization; however, since the above requirements were not met, the value of the contributed services has not been recorded in the financial statements.

Revenue Recognition

As required by generally accepted accounting principles, the Organization has adopted Financial Accounting Standards Board ASC 958-605-25, *Not-for-Profit Entities – Revenue Recognition*, for the years ended December 31, 2017 and 2016. Under this accounting standard, 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 donor-restricted net assets are reported as an increase in temporarily restricted 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 the purpose of the 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. During the years ended December 31, 2017 and 2016, there were no activities affecting permanently restricted net assets.

Compensated Absences

Accumulated paid time off is accrued when incurred. Accrued vacation time for the years ended December 31, 2017 and 2016 was \$12,497 and \$13,821, respectively, which is reported as part of accrued liabilities in the combined statement of financial position.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Advertising and Promotional Expenses

The Organization expenses the cost of advertising and promotional expenditures when incurred.

Functional Allocation of Expenses

The cost of providing various programs and other activities has 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.

Concentration of Credit Risk

Financial instruments that potentially subject the affiliates to credit risk include cash and cash equivalents, and investments. Cash accounts at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. The balances in these accounts may, at times, exceed insured limits. Investments in marketable securities are subject to market fluctuations.

Pronouncements Effective in the Future

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-14 Not-for-Profit Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities. The amendments in this update are designed to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The amendments in this ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Amendments should be applied on a retrospective basis in the year the update is first applied. Management is currently evaluating the impact the amendments in this ASU will have on the combined financial statements.

In February 2016, the FASB issued amendments to ASU 2016-02, Leases. Among other things, lessees will be required to recognize the following for all leases (with exception of short-term leases) at the commencement date: 1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019. Management is currently evaluating the impact the amendments in this ASU will have on the combined financial statements.

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Use of Estimates

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 of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

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 the 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 3 - Property and Equipment

A summary of property and equipment follows:

	<u>2017</u>	<u>2016</u>
Auto	\$ -	\$ 24,880
Office equipment	<u>12,924</u>	<u>7,961</u>
Total property and equipment	12,924	32,841
Accumulated depreciation	<u>(6,654)</u>	<u>(15,254)</u>
Net property and equipment	\$ <u>6,270</u>	\$ <u>17,587</u>

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 4 – Investments

Both the Organization and its' affiliate, FTFCF have investments in marketable securities which consist of amounts in broker traded funds. The investment valuations are based on quoted market prices that are readily and regularly available in an active market.

The Organization has investments in three promissory notes that are funded by a charitable remainder trust. Monthly interest only annuity payments are received with a variable interest structure according to the terms of the trust agreement. The notes have terms ending in 2025, 2029 and 2030. In 2016, the Organization received the remaining principal balance from two of the notes, leaving one note outstanding as of December 31, 2017.

Fair Value Measurements

	<u>2017</u>	<u>2016</u>
Level 1 Valuation:		
Marketable securities	\$ 2,268,842	\$ 2,028,071
Promissory notes receivable	<u>1,088,000</u>	<u>1,088,000</u>
Total investments	\$ <u>3,356,842</u>	\$ <u>3,116,071</u>
Return on Investments:		
Interest and dividends	\$ 60,783	\$ 116,811
Net realized and unrealized gains	<u>201,608</u>	<u>68,936</u>
Total return on investments	\$ <u>262,391</u>	\$ <u>185,747</u>

Note 5 – Commitments and Contingencies

	<u>2017</u>	<u>2016</u>
<u>Notes Payable</u>		
Note payable secured by the property and equipment of the Organization payable to a financial lender in 60 monthly payments of principal and interest in the amount of \$421 at 4.912% per annum. The note was paid in full during 2017.	\$ _____ -	\$ <u>6,907</u>
Total notes payable	\$ _____ -	\$ <u>6,907</u>

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

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 5 – Commitments and Contingencies (continued)

Operating Leases

The Organization leases office equipment and maintenance services, and office facilities under agreements that are classified as operating leases. Rental expense related to these leases for the years ended December 31, 2017 and 2016 was \$ 65,665 and \$65,669, respectively.

Future minimum payments of operating leases are as follows:

<u>Year Ended</u> <u>December 31</u>	<u>Amount</u>
2018	\$ 61,751
2019	22,311
2020	2,591
2021	1,080

Note 6 - Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of assets available for the Organization's Ambassador program and camps and mentoring club mission programs.

Note 7 – Supplemental Disclosures of Cash Flow Information

	<u>2017</u>	<u>2016</u>
Cash paid during the years for:		
Interest	\$ <u>210</u>	\$ <u>463</u>

Note 8 – Subsequent Events

The management of the affiliates have reviewed the results of operations and evaluated subsequent events for the period of time from December 31, 2017 through March 2, 2018, the date the financial statements were available to be issued. It has been determined that no adjustments are necessary to the amounts reported in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

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

COMBINED SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Camps and Mentoring Clubs</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
Communication and technology	\$ 93,170	\$ 11,646	\$ 11,646	\$ 116,462
Compensation	728,278	40,460	40,460	809,198
Conferences and travel	141,235	-	7,433	148,668
Cost of sales	735,771	-	-	735,771
Depreciation	4,949	275	275	5,499
Dues and subscriptions	21,999	-	-	21,999
Events	-	-	26,700	26,700
Facilities	57,191	3,177	3,177	63,545
Fees	24,189	1,428	1,344	26,961
Hospitality	26,073	3,259	3,259	32,591
Insurance	8,205	1,026	1,026	10,257
Other expenses	21,334	1,185	1,186	23,705
Outside services	124,954	6,942	6,942	138,838
Printing	16,298	905	905	18,108
Programs	372,641	-	-	372,641
Shipping and postage	5,378	672	672	6,722
Supplies	13,893	772	772	15,437
	<u>\$ 2,395,558</u>	<u>\$ 71,747</u>	<u>\$ 105,797</u>	<u>\$ 2,573,102</u>

See Independent Auditor's Report.

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

COMBINED SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	<u>Program Services</u>	<u>Supporting Services</u>		
	Camps and Mentoring Clubs	General and Administrative	Fundraising	Total
Communication and technology	\$ 43,040	\$ 18,110	\$ 13,834	\$ 74,984
Compensation	599,688	171,339	85,669	856,696
Conferences and travel	117,747	223	8,390	126,360
Cost of sales	530,200	-	-	530,200
Depreciation	3,701	2,467	-	6,168
Dues and subscriptions	18,042	6,093	1,370	25,505
Events	-	-	59,555	59,555
Facilities	52,549	9,133	5,977	67,659
Fees	24,809	16,539	-	41,348
Hospitality	8,997	736	254	9,987
Insurance	7,433	4,410	-	11,843
Other expenses	32,405	8,047	61	40,513
Outside services	52,324	14,335	24,346	91,005
Printing	25,664	2,539	20,936	49,139
Programs	361,676	-	-	361,676
Shipping and postage	6,543	4,361	-	10,904
Supplies	158,470	8,366	1,628	168,464
	<u>\$ 2,043,288</u>	<u>\$ 266,698</u>	<u>\$ 222,020</u>	<u>\$ 2,532,006</u>

See Independent Auditor's Report.