MIRACLES FOR KIDS

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Miracles for Kids

We have audited the accompanying consolidated financial statements of Miracles for Kids (a nonprofit organization) and affiliates. which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statement of activities, functional expenses and cash flow for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 2016 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Miracles for Kids and affiliates as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on page 18 and 19 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operation and cash flows of the individual companies, and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material aspects in relation to the consolidated financial statements as a whole.

Adjustments to Prior Period Financial Statements

The financial statements of Miracles for Kids as of December 31, 2015, were audited by other auditors whose report dated March 9, 2016, expressed an unmodified opinion on those statements. As discussed in Note XI, the Company has restated its 2015 financial statements during the current year to account for correction of errors, in accordance with accounting principles generally accepted in the United States of America. The other auditors reported on the 2015 financial statements before the restatement.

As part of our audit of the 2016 financial statements, we also audited adjustments described in Note XI that were applied to restate the 2015 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2015 financial statements of the Organization other than with respect to the adjustments and, accordingly, we do not express an opinion or any form of assurance on the 2015 financial statements as a whole.

Vertical Advisors, LLP

July 20, 2017

MIRACLES FOR KIDS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31, 2016	December 31, 2015 (Restated)
Assets		
Current assets		
Cash and cash equivalents	$ 42,174	$ 123,165
Pledge receivable, net	906,995	652,016
Pledge receivable - related party	60,000	60,000
Prepaid expenses and other current assets	11,920	--
Total current assets	1,021,089	835,181
Property and equipment, net	4,899,722	3,364,260
Pledge receivable - related party, net of current portion	396,534	389,736
Other assets	632	632
Total assets	$ 6,317,977	$ 4,589,809
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 285,836	$ 131,892
Accrued and other liabilities	141,948	59,685
Pledge payable - current	60,000	60,000
Deferred revenue	--	16,000
Line of credit	499,896	499,896
Current portion of long term debt	54,496	554,950
Total current liabilities	1,042,176	1,322,423
Pledge payable, net of current portion	363,073	354,383
Long term debt, net of current portion	2,925,117	2,276,578
Total liabilities	4,330,366	3,953,384
Member's equity	(61,529)	(16,139)
Net Assets		
Unrestricted	2,049,140	652,564
Temporarily restricted	--	--
Permanently restricted	--	--
Total net assets/member's equity	1,987,611	636,425
Total liabilities and net assets/member's equity	$ 6,317,977	$ 4,589,809

See accompanying notes and independent auditor's report.

MIRACLES FOR KIDS
CONSOLIDATED STATEMENTS OF ACTIVITIES

	For the years ended December 31, 2016	2015 (Restated)
Support and revenues - Unrestricted		
Contributions - Individuals	$ 194,674	$ 118,215
Contributions - Corporations and foundations	61,263	242,947
Contributions - Miracle Manor capital campaign	1,016,683	594,141
Donated services	1,148,477	64,292
Donated supplies	103,638	289,316
Rental income	92,614	90,371
Miscellaneous income	2,793	6,239
Special events:		
Special event revenue	1,660,350	1,341,812
Less direct cost	(583,245)	(446,381)
Net revenue from special events	1,077,105	895,431
Subtotal support and revenues	3,697,247	2,300,952
Net assets released from restrictions	--	--
Total support and revenues	3,697,247	2,300,952
Expenses		
Program services	1,719,731	1,589,705
Supporting services:		
Management and general	283,517	237,883
Fundraising	159,518	74,395
Subtotal supporting services	443,035	312,278
Miracle Manor, LLC	183,295	199,998
Total expenses	2,346,061	2,101,981
Increase in unrestricted net assets/member's equity	1,351,186	198,971
Support and revenues - Temporarily restricted		
Contributions	--	--
Net assets released from restriction	--	--
Increase (decrease) in temporarily restricted net assets	--	--
Increase (decrease) in net assets	1,351,186	198,971
Net assets/member's equity beginning of year	636,425	437,454
Net assets/member's equity end of year	$ 1,987,611	$ 636,425

See accompanying notes and independent auditor's report.

MIRACLES FOR KIDS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2016

		Supporting Services				
	Program Services	Management and General	Fundraising	Subtotal	Miracle Manor, LLC	Total
Salaries	$ 428,850	$ 131,002	$ 87,943	$ 647,795	$ --	$ 647,795
Employee benefits	27,838	7,310	1,250	36,398	--	36,398
Payroll taxes	34,592	10,457	7,312	52,361	--	52,361
Rent	22,057	11,255	2,193	35,505	--	35,505
Grants program	523,306	--	--	523,306	--	523,306
Fund a Family program	139,120	--	--	139,120	--	139,120
Baskets and other programs	33,275	--	--	33,275	--	33,275
Miracle Manor program	108,301		--	108,301	--	108,301
Auction items	--	--	19,355	19,355	--	19,355
Event facilities and services	--	--	5,057	5,057	--	5,057
Professional services - Accounting	--	11,075	--	11,075	--	11,075
Professional services - Other	169,625	5,044	4,592	179,261	--	179,261
Insurance	6,221	647	115	6,983	--	6,983
Depreciation	76,101	24,212	4,321	104,634	59,814	164,448
Donated services	1,760	--	--	1,760	--	1,760
Utilities and communication	27,304	9,073	2,648	39,025	--	39,025
Meals, travel and entertainment	12,419	22,279	1,448	36,146	--	36,146
Office supplies and expenses	21,790	7,309	709	29,808	--	29,808
Taxes, licenses and fees	38,377	648	254	39,279	--	39,279
Memberships and dues	1,544	6,202	503	8,249	--	8,249
Advertising and marketing	26,280	2,647	2,175	31,102	--	31,102
Repairs and maintenance	9,848	2,707	454	13,009	--	13,009
Postage and printing	7,595	1,618	1,075	10,288	--	10,288
Interest	--	27,610	--	27,610	123,150	150,760
Bank and other fees	3,528	2,422	18,114	24,064	331	24,395
Total expenses	$ 1,719,731	$ 283,517	$ 159,518	$ 2,162,766	$ 183,295	$ 2,346,061

See accompanying notes and independent auditor's report.

MIRACLES FOR KIDS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2015

		Supporting Services				
	Program Services	Management and General	Fundraising	Subtotal	Miracle Manor, LLC	(Restated) Total
Salaries	$ 476,428	$ 89,330	$ 29,777	$ 595,535	$ --	$ 595,535
Employee benefits	32,987	6,185	2,062	41,234	--	41,234
Payroll taxes	40,046	7,509	2,503	50,058	--	50,058
Rent	62,821	11,779	3,926	78,526	--	78,526
Grants program	534,752	--	--	534,752	--	534,752
Fund a Family program	83,971	--	--	83,971	--	83,971
Basket of Miracles program	32,191	--	--	32,191	--	32,191
Auction items	--	--	12,826	12,826	--	12,826
Event facilities and services	--	--	703	703	--	703
Professional services - Accounting	6,436	4,290	--	10,726	--	10,726
Professional services - Other	113,469	20,024	--	133,493	--	133,493
Insurance	3,431	605	--	4,036	--	4,036
Depreciation	11,980	6,451	--	18,431	59,814	78,245
Donated services	40,292	24,000	--	64,292	--	64,292
Utilities and communication	34,434	2,739	1,957	39,130	6,243	45,373
Meals, travel and entertainment	20,399	18,359	2,040	40,798	--	40,798
Office supplies and expenses	20,697	7,609	2,131	30,437	321	30,758
Taxes, licenses and fees	--	22,891	--	22,891	--	22,891
Memberships and dues	11,753	3,918	--	15,671	6,912	22,583
Advertising and marketing	28,704	997	10,166	39,867	--	39,867
Repairs and maintenance	9,094	1,705	568	11,367	8,548	19,915
Postage and printing	3,356	1,732	5,736	10,824	--	10,824
Interest	11,752	619	--	12,371	116,679	129,050
Bank and other fees	10,712	7,141	--	17,853	1,481	19,334
Total expenses	$ 1,589,705	$ 237,883	$ 74,395	$ 1,901,983	$ 199,998	$ 2,101,981

See accompanying notes and independent auditor's report.

MIRACLES FOR KIDS
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31, 2016	2015 (Restated)
Cash flows from operating activities		
Increase (decrease) in net assets/member's equity	$ 1,351,186	$ 198,971
Adjustments to reconcile increase (decrease) in net assets/member's equity to net cash provided by operating activities:		
Depreciation	164,448	78,245
Net discount on pledge receivable/payable	(503)	(503)
Donated property and equipment included in donated services and supplies	(1,250,354)	(289,316)
Changes in operating assets and liabilities:		
Accounts receivable	--	20,609
Pledge receivable	(252,584)	(352,016)
Prepaid expenses and other current assets	(11,920)	720
Other assets	--	(9,287)
Accounts payable	153,944	130,797
Accrued and other liabilities	82,263	(73,999)
Deferred revenue	(16,000)	16,000
Net cash provided by (used in) operating activities	220,480	(279,779)
Cash flows from investing activities		
Purchases of property and equipment	(449,556)	(207,726)
Net cash used in investing activities	(449,556)	(207,726)
Cash flows from financing activities		
Proceeds from issuance of line of credit	--	499,896
Borrowings (payments) of long term debt, net	148,085	(43,472)
Net cash provided by financing activities	148,085	456,424
Net decrease in cash and cash equivalents	(80,991)	(31,081)
Cash and cash equivalents - Beginning of year	123,165	154,246
Cash and cash equivalents - End of year	$ 42,174	$ 123,165
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 143,375	$ 129,049

See accompanying notes and independent auditor's report.

I. NATURE OF OPERATIONS

Miracles for Kids (Miracles) is one of the only organizations on the West Coast providing monthly financial assistance and subsidized housing to families who are fighting for their child's life. A recent Harvard study concluded that the number one reason people go bankrupt is medical bills, even though 72% of families filing for bankruptcy had major medical insurance.

Miracles for Kids helps critically ill children and their families stay strong and together, by keeping the lights on and a roof over their heads during the most emotionally excruciating time in their lives. Based in Southern California, the organization was founded in 2002, incorporated in California as a nonprofit corporation and continues to expand its reach by serving children receiving treatment at leading hospitals: CHOC Children's in Orange, Children's Hospital Los Angeles and Mattel Children's Hospital UCLA. In 2017 the organization will expand to include a partnership with Benioff Children's Hospital, Oakland.

The Organization has four core programs:

1. Paying the Bills – monthly financial assistance to help families pay for rent, utilities, car loans, medical insurance, groceries, transportation and other basic needs
2. Housing – subsidized housing at Miracle Manor (less than a mile from CHOC) for twelve families at a time for up to two years
3. Healing – weekly therapy sessions for siblings and caretakers aimed at reducing anxiety and depression
4. Feeding & Clothing – ongoing provision of clothing, food and other household items

Although more than two thirds of the children Miracles helps have been diagnosed with cancer, the remaining one third have blood based diseases and rare orphan conditions where few if any support services are available.

In 2016, Miracles for Kids provided the following:

- Monthly financial assistance to 146 families
- Stable subsidized housing at Miracle Manor for 12 families (54 individuals)
- Surf and paddle camp for 80 kids
- Basic needs assistance for 249 families

The Organization advances its mission through the leadership of the Co-Founder & CEO, Autumn Strier and a team of twelve employees. Miracles enjoys an outpouring of community support from volunteers and donors. All revenue is generated through events, private philanthropic gifts and grants. Both the Orange County and Los Angeles Boards are actively engaged in fundraising.

To learn more about how Miracles for Kids has joined forces with parents and loved ones to keep families stable while they fight, visit: MiraclesForKids.org.

Miracle Manor, LLC (Subsidiary), which was formed on December 18, 2014, the date the certificate of formation was filed with the California Secretary of State in accordance with the California Limited Liability Company Act, acts like a holding company for certain property which Miracles uses for client transitional housing. Miracles is the sole member of the Subsidiary.

Miracles for Kids and Miracle Manor, LLC (Miracle Manor) are collectively the "Organization".

II. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, as applicable.

Consolidation

The consolidated financial statements include the accounts of Miracles and Miracle Manor, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated 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 those estimates.

Cash and Cash Equivalents

The Organization considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents. The Organization did not have any cash equivalents as of December 31, 2016 and 2015.

Concentration of Credit Risk

The Organization maintains cash balances at several national and state financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. The Organization has not experienced any losses in such accounts and does not believe that it is exposed to any significant credit risk on cash.

Property and Equipment

The Organization capitalizes property and equipment over $1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five to fifteen years.

Impairment of Long-Lived Assets

The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

Restricted and Unrestricted Revenue and Support

The Organization follows ASC 958-605, *Revenue Recognition for Not-for-Profit Entities*. In accordance with ASC 958-605, contributions received are recorded as unrestricted, temporality restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor 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.

Donated Supplies, Facilities and Services

Donated noncash assets, such as use of facilities and supplies, are recorded at their fair values in the period received. Donations of services are recognized in the financial statements if the services received: (1) create or enhance nonfinancial assets or require specialized skills; (2) are provided by individuals possessing those skills; and (3) would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis for deriving their value.

Donated services of $1,760 and $64,292 for the years ended December 31, 2016 and 2015, respectively, have been recorded as both revenues and program expenses and represent the approximate fair value of construction contractors and other specialized skills provided by individuals possessing these skills, and would typically need to be purchased if not provided.

Donated supplies and services of $1,250,354 and $289,316 for the years ended December 31, 2016 and 2015, respectively, consists primarily of apartment and leasehold improvements on the Miracle Manor apartment building located in Orange, CA and were recognized as revenue and as an asset which will be depreciated over their estimated useful lives.

Fair Value Measurements

The Organization’s financial instruments, including cash and cash equivalents, accounts receivable, and accounts payable are carried at cost, which approximates fair value because of the short-term nature of these instruments.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of future cash flows. The discounts on those amounts are recorded using risk-free interest rates applicable to those years in which the promises are received. Amortization of the discounts is included in contribution revenue.

The Organization uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance as of December 31, 2016 and 2015.

Pledges Payable

Pledges to other organizations are recognized when the Organization makes a promise to give that is, in substance, unconditional. Such pledges that are authorized but unpaid as of the end of the year are recognized as liabilities. Unconditional promises to give that are expected to be paid in more than one year are recorded at the present value of the future cash flows. The discounts on those amounts are recorded using risk-free interest rates applicable to those years in which the promises are received.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. The Organization follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the Organization for uncertain tax positions as of December 31, 2016 and 2015. The Organization's tax returns for years 2015, 2014 and 2013 are subject to review and examination by federal and state authorities. Any interest and penalties would be included in income tax expense on the statements of activities.

Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Recent Accounting Pronouncements

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Organization is assessing the impact this standard will have on its financial statements.

III. PROPERTY AND EQUIPMENT

Property and equipment as of December 31 are as follows:

	2016	2015
Land	$ 1,015,870	$ 1,015,870
Building	1,884,130	1,884,130
Improvements	2,196,952	497,042
Furniture and fixtures	45,880	45,880
Equipment	20,023	20,023
	5,162,855	3,462,945
Less accumulated depreciation and amortization	(263,133)	(98,685)
Property and equipment, net	$ 4,899,722	$ 3,364,260

Depreciation expense for the year ended December 31, 2016 and 2015 was $164,448 and $78,245, respectively.

IV. PLEDGE RECEIVABLE

Pledge receivable include pledges that have been discounted at rates ranging from 3.50% to 3.75%. The following is a summary of the Organization's pledge receivable at December 31:

	2016	2015
Total amounts due in:		
One year	$ 395,750	$ 387,679
Two to five years	549,607	283,357
	945,357	671,036
Less discount to present value	(38,362)	(19,020)
Pledge receivable, net	$ 906,995	$ 652,016

V. PLEDGE RECEIVABLE – RELATED PARTY

During September 2012, the Organization received a pledge for $600,000 from Personalcare Physicians to secure naming rights on behalf of the Organization, as well as, for use for programs and events in support of patients and their families at CHOC Children's Miracles for Kids Family Resource Center. A board member of the Organization is the Chief Executive Officer of Personalcare Physicians. The terms of the pledge require equal monthly payments over ten years beginning in April 2013. The Organization applied a discount rate of 3.25 percent per year based on the Wall Street Journal Prime Rate at the date of the pledge.

Future pledge receivables to be collected are as follows:

Year Ending December 31,		Amount
2017	$	60,000
2018		60,000
2019		60,000
2020		60,000
2021		60,000
Thereafter		213,333
		513,333
Less discount		(56,799)
Total	$	456,534

VI. LINE OF CREDIT

During April 2015, the Organization renewed its line of credit with a financial institution for up to $500,000 and matures in December 2017. The line of credit bears a variable interest rate based on the bank prime rate (3.75 % and 3.50% at December 31, 2016 and 2015, respectively). The line of credit requires monthly minimum payments on interest incurred and requires payment of all outstanding balances upon maturity. The line of credit is secured by the Organization's assets. The balance outstanding was $499,896 as of December 31, 2016 and 2015.

VII. PLEDGE PAYABLE

During September 2012, the Organization pledged $600,000 to the CHOC Children's Foundation to fund certain special events and marketing campaigns of the CHOC Children's Miracles for Kids Family Resource Center in the CHOC Children's Patient Tower. The pledge is to be paid in equal installments over eight or more years. The Organization applied a discount rate of 3.25 percent per year based on the Wall Street Journal Prime Rate at the date of the pledge.
Future pledge commitments are as follows:

Year Ending December 31,		Amount
2017	$	60,000
2018		60,000
2019		60,000
2020		60,000
2021		60,000
Thereafter		166,000
		466,000
Less discount		(42,927)
Total	$	423,073

VIII. LONG TERM DEBT

During April 2015, the Organization entered into a mortgage note payable to a bank collateralized by a deed of trust on the land and building it purchased. The note bears interest at 4.26% per annum and is payable in monthly installments of approximately $12,700 with final payment due in December 2019. The total principal amount outstanding on the note as of December 31, 2015 was $2,281,528. In July 2016, the mortgage payable was paid and a new mortgage financed.

During June 2016, the Organization entered into a refinanced mortgage note payable to a bank collateralized by a deed of trust on the land and building it purchased. The note bears interest at 3.30% per annum and is payable in monthly installments of approximately $11,858 with final payment due in July 2046. The total principal amount outstanding on the note as of December 31, 2016 was $2,685,318.

During June 2016, the Organization entered into a second mortgage note payable to a bank collateralized by a deed of trust on the land and building it purchased. The note bears interest at 5% per annum and is payable in monthly installments of interest with all accrued interest and principal due in July 2018. The total principal amount outstanding on the note as of December 31, 2016 was $307,500.

In 2016, the Organization adopted the requirements in FASB ASC 835-30 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. Amortization of debt issuance costs is reported as interest expense in the statement of functional expenses. The unamortized debt issuance costs as of December 31, 2016 is $13,205.

Aggregate annual principal maturities of long term debt as of December 31, 2016, are as follows:

Year Ending December 31,		Amount
2017	$	54,496
2018		363,821
2019		58,208
2020		60,158
2021		62,174
Thereafter		2,380,756
Total Annual Principal Maturities	$	2,979,613

IX. NOTE PAYABLE – RELATED PARTY

During 2014, the Organization entered into a promissory note payable to a related party. The note bore interest at 5% per annum and was due in December 2016. The total principal amount outstanding on the note as of December 31, 2015 was $50,000. The note was paid in full during 2016.

X. COMMITMENTS AND CONTINGENCIES

The Company leases its facilities, which are classified as operating leases.

The lease for the Tustin corporate office expires July 2017 and requires monthly payments of approximately $4,500. Future minimum payments under this lease for 2017 is $57,621.

The lease for the Santa Monica corporate office is month to month and requires monthly payments of approximately $900. This lease was terminated in February 2016.

In April 2015, the Organization entered into an agreement with another not-for-profit organization to acquire its assets as a result of its dissolution and incorporated its services into the program delivery of the Organization. The total amount of the assets acquired by the Organization was $17,355. The Organization also acquired a facility lease that expires December 2016 and required monthly payments of approximately $2,000.

In January 2015, the Organization entered into a lease agreement with its Subsidiary to lease an apartment building in Orange. The term of the lease is month to month and requires variable monthly payments.

Net rent expense for the years ended December 31, 2016 and 2015, totaled $35,505 and $78,526, respectively.

The Company leases office equipment, which is classified as an operating lease. The lease is month to month and requires monthly payments of approximately $150.

XI. RESTATEMENT

The Organization has restated its previously issued financial statements for the year ended December 31, 2015 to include an adjustment to pledge receivable and property and equipment.

The following table summarizes the corrections on each of the affected financial statement line items:

	As previously reported	As restated
Pledge receivable	$ 292,000	$ 652,016
Property and equipment	$ 3,159,416	$ 3,364,260
Contributions – Miracle Manor campaign	$ 234,125	$ 594,141
Donated services revenue	$ 269,136	$ 64,292
Donated supplies revenue	$ 84,472	$ 289,316
Donated services expense	$ 269,136	$ 64,292

XII. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through July 20, 2017, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

MIRACLES FOR KIDS
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
For the year ended December 31, 2016

Assets	Miracles for Kids	Miracle Manor	Eliminations	Consolidated
Current assets				
Cash and cash equivalents	$ 15,938	$ 26,236	$ --	$ 42,174
Pledge receivable, net	906,995	--	--	906,995
Pledge receivable - related party	60,000	--	--	60,000
Due from related parties	--	131,495	(131,495)	--
Prepaid expenses and other current assets	11,920	--	--	11,920
Total current assets	994,853	157,731	(131,495)	1,021,089
Property and equipment, net	2,119,349	2,780,373	--	4,899,722
Pledge receivable - related party, net of current portion	396,534	--	--	396,534
Other assets	632	--	--	632
Total assets	$ 3,511,368	$ 2,938,104	$ (131,495)	$ 6,317,977
Liabilities and Net Assets				
Current liabilities				
Accounts payable	$ 285,836	$ --	$ --	$ 285,836
Accrued and other liabilities	121,928	20,020	--	141,948
Pledge payable - current	60,000	--	--	60,000
Line of credit	499,896	--	--	499,896
Due to related parties	131,495	--	(131,495)	--
Current portion of long term debt	--	54,496		54,496
Total current liabilities	1,099,155	74,516	(131,495)	1,042,176
Pledge payable, net of current portion	363,073			363,073
Long term debt, net of current portion	--	2,925,117	--	2,925,117
Total liabilities	1,462,228	2,999,633	(131,495)	4,330,366
Member's equity		(61,529)	--	(61,529)
Net Assets				
Unrestricted	2,049,140	--	--	2,049,140
Temporarily restricted		--	--	--
Permanently restricted		--	--	--
Total net assets/member's equity	2,049,140	(61,529)	--	1,987,611
Total liabilities and net assets/member's equity	$ 3,511,368	$ 2,938,104	$ (131,495)	$ 6,317,977

See independent auditor's report.

MIRACLES FOR KIDS
CONSOLIDATING STATEMENTS OF ACTIVITIES
For the year ended December 31, 2016

	Miracles for Kids	Miracle Manor	Eliminations	Consolidated
Support and revenues - Unrestricted				
Contributions - Individuals	$ 194,674	$ --	$ --	$ 194,674
Contributions - Corporations and foundations	61,263	--	--	61,263
Contributions - Miracle Manor capital campaign	1,016,683	--	--	1,016,683
Donated services	1,148,477	--	--	1,148,477
Donated supplies	103,638	--	--	103,638
Rental income	--	137,114	(44,500)	92,614
Miscellaneous income	2,002	791	--	2,793
Special events:				
Special event revenue	1,660,350	--	--	1,660,350
Less direct cost	(583,245)	--	--	(583,245)
Net revenue from special events	1,077,105	--	--	1,077,105
Subtotal support and revenues	3,603,842	137,905	(44,500)	3,697,247
Net assets released from restrictions	--	--	--	--
Total support and revenues	3,603,842	137,905	(44,500)	3,697,247
Expenses				
Program services	1,764,231	--	(44,500)	1,719,731
Supporting services:				
Management and general	283,517	--	--	283,517
Fundraising	159,518	--	--	159,518
Subtotal supporting services	443,035	--	--	443,035
Miracle Manor, LLC	--	183,295	--	183,295
Total expenses	2,207,266	183,295	--	2,346,061
Increase in unrestricted net assets/member's equity	1,396,576	(45,390)	(44,500)	1,351,186
Support and revenues - Temporarily restricted				
Contributions	--	--	--	--
Net assets released from restriction	--	--	--	--
Increase (decrease) in temporarily restricted net assets	--	--	--	--
Increase (decrease) in net assets	1,396,576	(45,390)	--	1,351,186
Net assets/member's equity beginning of year	652,564	(16,139)	--	636,425
Net assets/member's equity end of year	$ 2,049,140	$ (61,529)	$ --	$ 1,987,611

See independent auditor's report.