MIRACLES FOR KIDS AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2019

HCVT
HOLTHOUSE | CARLIN | VAN TRIGT LLP

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Miracles for Kids:

We have audited the accompanying consolidated financial statements of Miracles for Kids and its affiliate (a non-profit, collectively the Organization), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated 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 audits 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2019, 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.

Prior Period Adjustment for Correction of Error

As discussed in Note 9 to the consolidated financial statements, certain errors resulting in a misstatement of the Organization's consolidated financial statements were identified by management during 2019. Accordingly, adjustments have been made to net assets as of December 31, 2018 to correct the errors. Our opinion is not modified with respect to these matters.

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 17 and 18 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual organizations 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 statement 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.

Holthouse Carlin & Van Trigt LLP

Irvine, California
November 4, 2020

MIRACLES FOR KIDS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31,		2019
ASSETS		
Current assets:		
Cash and cash equivalents	$	1,944,582
Pledges receivable		147,451
Pledges receivable - related party		147,495
Prepaid expenses and other current assets		23,225
Total current assets		2,262,753
Property, net		37,259
Pledges receivable, net of current portion and discount		45,054
Pledges receivable - related party, net of current portion and discount		402,086
Right-of-use asset		2,690,590
Other assets		25,000
Total assets	$	5,462,742
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$	9,812
Accrued expenses and other current liabilities		88,566
Deferred revenue		15,000
Total current liabilities		113,378
Lease liability		2,709,488
Total liabilities		2,822,866
Commitments and contingencies (see Notes)		
Net assets without donor restriction - Miracle Manor, LLC		33,899
Net assets		
Without donor restrictions		2,605,977
Total net assets		2,639,876
Total liabilities and net assets	$	5,462,742

See accompanying notes to consolidated financial statements.

MIRACLES FOR KIDS
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31,				2019
Support, revenue, gains and losses - without donor restrictions				
Contributions - individuals			$	154,405
Contributions - corporations and foundations				363,383
Contributions - Miracle Manor capital campaign				3,069
Grants - corporations				80,000
Donated services				181,173
Special event revenue	$	2,811,561		
Less: direct cost of benefits provided to donors		(493,902)		2,317,659
Rental income				127,736
Miscellaneous income				1,550
Gain on termination of pledge agreement				297,296
Loss on sale of Miracle Manor property				(285,105)
Total support, revenue, gains and losses - without donor restrictions				3,241,166
Expenses:				
Program services				2,036,842
Supporting services:				
Management and general				158,341
Fundraising				377,776
Subtotal supporting services				536,117
Total expenses				2,572,959
Change in net assets without donor restrictions				668,207
Net assets without donor restrictions - beginning of the year, as originally stated				2,047,881
Prior period adjustments (Note 9)				(76,212)
Net assets without donor restrictions - beginning of the year, as restated				1,971,669
Net assets without donor restrictions - end of the year			$	2,639,876

See accompanying notes to consolidated financial statements.

MIRACLES FOR KIDS
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

	Program Services				Supporting Services			
FOR THE YEAR ENDED DECEMBER 31, 2019	**Grants**	**Housing**	**Wellness and Support**	**Subtotal**	**Management and General**	**Fundraising**	**Subtotal**	**Total**
Salaries, benefits, and taxes	$ 384,098	$ 128,033	$ 21,338	$ 533,469	$ 51,920	$ 249,142	$ 301,062	$ 834,531
Occupancy	65,377	243,503	3,632	312,512	1,987	4,298	6,285	318,797
Grants	736,976	-	-	736,976	-	-	-	736,976
Special events - facilities, rentals, fees and other production expenses	-	-	-	-	-	395,130	395,130	395,130
Special events - food and beverage expenses	-	-	-	-	-	98,772	98,772	98,772
Professional services	-	-	-	-	64,145	-	64,145	64,145
Insurance	6,175	2,058	343	8,576	202	401	603	9,179
Program supplies	130,438	43,482	45,735	219,655	-	-	-	219,655
Meals, travel and entertainment	264	89	15	368	18,381	7,522	25,903	26,271
Licenses, dues and other fees	18,113	5,950	1,006	25,069	820	5,319	6,139	31,208
Other expenses	26,921	8,974	1,495	37,390	2,513	18,364	20,877	58,267
Depreciation	69,527	23,176	3,863	96,566	3,582	7,099	10,681	107,247
Advertising and marketing	-	-	-	-	-	-	-	-
Interest	13,905	51,583	773	66,261	145	288	433	66,694
Bank and other fees	-	-	-	-	14,646	85,343	99,989	99,989
Total expenses	$ 1,451,794	$ 506,848	$ 78,200	$ 2,036,842	$ 158,341	$ 871,678	$ 1,030,019	$ 3,066,861
Less: direct costs of benefits provided to donors	-	-	-	-	-	(493,902)	(493,902)	(493,902)
Total functional expenses	$ 1,451,794	$ 506,848	$ 78,200	$ 2,036,842	$ 158,341	$ 377,776	$ 536,117	$ 2,572,959

See accompanying notes to consolidated financial statements.

MIRACLES FOR KIDS
CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31,		2019
Cash flows from operating activities:		
Change in net assets without donor restrictions	$	668,207
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities:		
Depreciation		107,247
Gain on termination of pledge agreement		(297,296)
Loss on sale of Miracle Manor property		285,105
Amortization of operating lease		18,898
Discount on pledges receivable		47,899
Changes in operating assets and liabilities:		
Pledges receivable		144,180
Prepaid expenses and other current assets		16,018
Other assets		(8,826)
Accounts payable		(28,951)
Accrued expenses and other current liabilities		(24,333)
Deferred revenue		15,000
Net cash provided by operating activities		943,148
Cash flows from investing activities:		
Net proceeds from sale of Miracle Manor property		4,143,280
Purchases on property		(1,321)
Net cash provided by investing activities		4,141,959
Cash flows from financing activities:		
Payments on long-term debt		(3,502,915)
Cash used in financing activities		(3,502,915)
Net change in cash and cash equivalents		1,582,192
Cash and cash equivalents at beginning of year		362,390
Cash and cash equivalents at end of year	$	1,944,582
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$	19,746
Non-cash investing and financing activities:		
Right-of-use asset acquired through operating lease	$	2,690,590

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND NATURE OF BUSINESS

Miracles for Kids (the Organization) helps families with critically-ill children battle bankruptcy, homelessness, hunger and depression so they can concentrate on what is most important – fighting for their child's life. As one of the only organizations on the West Coast dedicated to alleviating these stressors, Miracles for Kids' focuses on helping through its major programs:

- ***Bill Pay Program*** Monthly grants pay rent, help keep the lights on, the water running and so much more.
- ***Housing Program*** Families at risk of homelessness have an affordable and safe place to call home with Miracle Manor, a 12-unit apartment complex located in Orange County, CA.
- ***Wellness and Support Program***
    - Mental health services, educational sessions and wellness activities help families better cope with trauma and stress associated with life-threatening diseases.
    - Getting basic necessities can be a challenge for families in crisis, so the Basket of Miracles and Closet of Miracles programs help provide food, clothing and other essential items.

These programs serve families living at or near the poverty level, with a critically-ill child in treatment at one of the four leading children's hospitals: Children's Hospital of Orange County (CHOC), Children's Hospital Los Angeles, Mattel Children's Hospital UCLA, and UCSF Benioff Children's Hospital in the Bay Area. The monthly financial assistance, subsidized housing, mental health services and wellness activities provided by Miracles for Kids help to create stability when families are crumbling from the financial and emotional devastation of fighting for their child's life.

In 2019, Miracles for Kids assisted 331 children fighting over 163 unique illnesses. Although nearly one-half of the patients served have been diagnosed with a type of pediatric cancer, the remaining patients have blood-based diseases and rare medical conditions where few, if any, support services are available. Specific support in 2019 included:

- Monthly financial assistance to 176 families
- Stable, subsidized housing at Miracle Manor for 12 families
- Mental health services, educational sessional and wellness activities to more than 167 individuals
- Basic needs assistance to 331 families

Based in Southern California, Miracles for Kids was founded in 2002 and incorporated in California as a nonprofit organization. The organization continues to advance its mission through the leadership of the Co-Founder and Chief Executive Officer, Autumn Strier, and a team of 18 employees. They operate a main office in Irvine, CA and a subsidized housing complex, Miracle Manor, in Orange, CA. To learn more about how Miracles for Kids has joined forces with parents and loved ones, visit miraclesforkids.org.

Miracle Manor, LLC Miracle Manor, LLC (Miracle Manor), formed on December 18, 2014, is a 12-unit apartment complex used to provide subsidized housing to families with critically-ill children. The housing program is operated by Miracles for Kids, which is the sole member of the Subsidiary. Miracles for Kids and Miracle Manor are collectively the "Organization."

During 2019, Miracle Manor sold all of its property to an unrelated party for gross consideration of $4,350,000 and Miracles for Kids concurrently entered into a master lease agreement (Note 5).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting The Organization maintains its accounting records under the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America (US GAAP).

Principles of Consolidation The consolidated financial statements include the accounts of Miracles for Kids and Miracle Manor. All significant intercompany accounts and transactions have been eliminated in consolidation.

Net Assets Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

- *With Donor Restrictions* Resources that are subject to donor-imposed restrictions. Some restrictions are temporary in nature, such as those restricted by a donor for use for a particular purpose or in a particular future period. Other restrictions may be perpetual in nature, such as those that are restricted by a donor that the resources must be maintained in perpetuity. When a donor restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the consolidated financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

- *Without Donor Restrictions* Net assets available to support operations and not subject to donor-imposed stipulations. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specific in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Functional Allocation of Expenses The consolidated statement of functional expenses presents the natural classification of expenses by function. Accordingly, certain costs have been allocated among programs and supporting services benefited. The expenses that are allocated include occupancy, depreciation and amortization (allocated on a square footage basis), as well as wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other (all of which are allocated on the basis of estimates of time and effort).

The allocation methodology is periodically reviewed by management for relevancy and accuracy.

The functional classifications are defined as follows:

- Program expenses consist of costs incurred in connection with providing services and conducting programs.

- Management and general expenses consist of costs incurred in connection with the overall activities, which are not allocable to another functional expense category.

- Fundraising expenses consist of costs incurred in connection with activities related to obtaining grants and activities designed to generate revenue.

Use of Estimates In preparing consolidated financial statements in conformity with US GAAP, management makes estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include the collectability of pledges receivable and the allocation of functional expenses during the year ended December 31, 2019. Actual results could differ from those estimates.

Cash and Cash Equivalents Cash and cash equivalents consist primarily of cash on hand and short term investments, which mature within three months from the date of original purchase. The Organization did not have any cash equivalents as of December 31, 2019.

Concentration of Business and Credit Risk The Organization maintains cash balances in excess of the Federal Deposit Insurance Corporation insurance limit. The Organization has not experienced any losses in these accounts and does not believe it is exposed to significant credit risk with respect to cash at December 31, 2019.

The Organization had two donors that accounted for approximately 60% of its pledges receivable as of December 31, 2019. The Organization had no donors or grants that accounted for more than 10% of revenues for the year ended December 31, 2019.

Advertising Costs Advertising costs are charged to expense as incurred. Total advertising costs for the year ended December 31, 2019 was $26,035.

Recent Accounting Pronouncements Effective January 1, 2019, as both a resource recipient and a resource provider, the Organization adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 amends the accounting guidance related to (1) evaluating whether transactions should be accounted for as contributions or exchange transactions, and (2) determining whether a contribution is conditional. Implementation of ASU 2018-08 did not require reclassification or restatement of any balances related to the periods presented.

On January 1, 2019, the Organization adopted ASU 2016-02, Leases (Topic 842) and related subsequent amendments (collectively, “ASC 842”). ASC 842 requires the recognition of right-of-use (“ROU”) assets and lease liabilities for leases classified as operating leases, and also expands disclosure requirements. The Organization measured and recognized leases that existed at January 1, 2019 using a modified retrospective approach. The Organization also elected the lessee package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, lease classification, or what qualifies as an initial direct cost. The adoption of ASC 842 did not result in the recognition of ROU assets related to existing operating leases and did not have an impact on net assets as of January 1, 2019.

Following adoption of ASC 842, at lease inception, the Organization determines whether an arrangement is or contains a lease. The Organization has elected not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. Differences between variable lease payments included in the measurement of lease liabilities and actual payments are recognized during the period in which they are incurred. Variable lease payments were immaterial for the year ended December 31, 2019. The expense associated with both short-term and variable leases is immaterial and is included in general and administrative expenses on the accompanying consolidated statement of functional expenses.

ROU assets represent the Organization's right to use leased assets over the term of the lease. Lease liabilities represent the Organization's contractual obligation to make lease payments over the lease term.

For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured as the present value of the future minimum lease payments over the lease term. When the rate implicit in the lease is not determinable, ASC 842 prescribes the use of the Organization's incremental borrowing rate at the commencement date of the lease to determine the present value of the minimum lease payments. The Organization elected the practical expedient allowing the use of the risk-free discount rate in lieu of their incremental borrowing rate at the commencement date of the lease. ROU assets are calculated as the present value of the remaining lease payments plus unamortized initial direct costs plus any prepayments less any unamortized lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to the Organization if the option were not exercised. Lease expense is recognized on a straight-line basis over the lease term and is included in occupancy expenses in the accompanying consolidated statement of functional expenses.

For finance leases, after lease commencement the lease liability is measured on an amortized cost basis and increased to reflect interest on the liability and decreased to reflect the lease payments made during the period. Interest on the lease liability is determined each period during the lease term as the amount that results in a constant period discount rate on the remaining balance of the liability. The ROU asset is subsequently measured at cost, less any accumulated amortization and any accumulated impairment losses. Amortization of the ROU asset is recognized over the period from the commencement date to the earlier of (1) the end of the useful life of the ROU asset, or (2) the end of the lease term.

To the extent a lease arrangement includes both lease and non-lease components, the components are accounted for separately. The transaction price is allocated to the lease and non-lease components based on a relative stand-alone price basis.

Property Property consists of long-lived assets of the Organization acquired for use in the Organization's normal business operations and are not intended for resale. These assets are recorded at cost, net of accumulated depreciation. Renewals and betterments that increase the useful lives of the assets are capitalized. Repair and maintenance expenditures are expensed as incurred. Cost and accumulated depreciation applicable to assets retired or otherwise disposed of are eliminated from the accounts, and any gain or loss on such dispositions are reflected in the consolidated statement of activities and change in net assets.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Description	Years
Office furniture and fixtures	5 – 15
Computers and other equipment	3 – 12

Donations of property 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 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 net assets with donor restrictions to net assets without donor restrictions at that time.

The Organization reviews its property for impairment whenever events or circumstances indicate the carrying amount of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the year ended December 31, 2019.

Contributions and Pledges Receivable Unconditional contributions are recorded at estimated fair value and are recognized as revenue in the period received. The Organization reports unconditional contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions or unconditional promises to give with payments due in future periods are discounted to present value and reported as donor-restricted revenue. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met.

The Organization uses the allowance method to determine uncollectible pledges 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, 2019.

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 consolidated 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 accompanying consolidated financial statement as there is no objective basis for deriving their value.

Donated services of $181,173 for the year ended December 31, 2019 have been recorded as both contributions and program expenses and represent the approximate fair value of attorneys, website developers, construction contractors and other specialized skills provided by individuals possessing these skills, and would typically need to be purchased, if not provided. There were no donated supplies during the year ended December 31, 2019.

Fair Value Measurements The Organization's consolidated financial instruments, including cash and cash equivalents, pledges receivable, and accounts payable and accrued expenses are carried at cost, which approximates fair value because of the short-term nature of these instruments.

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.

During 2019, the Organization and CHOC mutually determined to terminate a pledge funding the naming of CHOC Children's Miracles for Kids Family Resource Center in the CHOC Children's Patient Tower. As a result, a gain on termination of pledge agreement was recorded in the amount of approximately $297,000 during the year ended December 31, 2019.

Income Taxes The Organization is a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. In addition, the Organization does not have any income, which management believes would subject the Organization to unrelated business income taxes. Accordingly, these consolidated financial statements do not reflect a provision for income taxes and there are no other tax positions which must be considered for disclosure. The Organization is required to file tax returns with the Internal Revenue Service (IRS) and other state taxing authorities. With few exceptions, the Organization is no longer subject to income tax examinations by tax authorities for fiscal years before 2015. There are no current tax examinations pending.

New Accounting Pronouncements In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard update (ASU) 2014-09, *Revenue from Contracts with Customers*. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. The updated standard will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective for annual reporting periods beginning after December 15, 2018, and permits the use of either the retrospective or cumulative effect transition method. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers and Leases: Effective Dates for Certain Entities*, amending the effective date of ASU 2014-09 and permitting certain entities to adopt the standard for annual reporting periods beginning after December 15, 2019. The Organization has elected to defer adoption of ASU 2014-09 and has not yet selected a transition method. The Organization is currently evaluating the effect that the updated standard will have on its consolidated financial statements.

3. PROPERTY

Property consists of the following:

As of December 31,	**2019**
Office furniture and fixtures	$ 47,201
Computers and other equipment	60,623
Total property	107,824
Less: accumulated depreciation	(70,565)
Property, net	$ 37,259

Depreciation expense related to property amounted to $107,247 for the year ended December 31, 2019.

4. PLEDGES RECEIVABLE

Pledges receivable include pledges that have been discounted at rates ranging from 1.78% to 2.16%. The following is a summary of the Organization's pledges receivable:

As of December 31,		2019
Total amounts due in:		
One year	$	147,451
Two to five years		46,121
Total pledges receivable		193,572
Less: discount to present value		(1,067)
Pledges receivable, net	$	192,505

5. SALE OF MIRACLE MANOR PROPERTY

During 2019, Miracle Manor sold all of its property with a net book value of approximately $4,428,000 to an unrelated party for consideration of $4,143,000, net of closing and other costs of approximately $207,000, resulting in a loss on sale of approximately $285,000 (Sale).

Concurrent with the Sale, the Organization entered into a master lease agreement with the buyer to continue utilizing the property in their housing program effective June 15, 2019 (Master Lease – Note 7).

Long-term Debt During March 2018, the Organization entered into a loan agreement with Pacific Premiere Bank (Loan). The Loan was used to consolidate debt incurred in prior years. The note had an initial face value of $1,000,000, with interest at 5% per annum, payable in monthly installments of approximately $10,657 with final payment due on March 23, 2028. Proceeds from the Sale were used to repay principal of approximately $3,502,000 and accrued interest balances on the Loan.

6. RELATED PARTY TRANSACTIONS

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 was the Chief Executive Officer of PersonalCare Physicians at the time of the pledge. The terms of the pledge require equal annual payments over ten years beginning in April, 2013. The Organization applied a discount rate of 3.25% per year based on the Wall Street Journal Prime Rate at the date of the pledge. On February 2, 2018, PersonalCare Physicians was sold to Hoag Clinic, a wholly owned subsidiary of Hoag Memorial Hospital. As part of the Asset Purchase Agreement, Hoag assumed the remaining liability of the pledge. The remaining pledge receivable was $373,333 as of December 31, 2019.

In addition, the Organization has received pledges from various other related parties, including members of the board of directors, due through 2021. Pledges receivable from other related parties totaled $212,868 as of December 31, 2019.

Future pledges receivables from related parties to be collected are as follows:

Years Ending December 31,		Amount
2020	$	147,495
2021		142,056
2022		103,317
2023		60,000
Thereafter		133,333
Total pledges receivable – related party		586,201
Less: discount		(36,620)
Pledges receivable – related party, net	$	549,581

Related Party Contributions During 2019, the Organization received approximately $356,000 in contributions from board members.

7. COMMITMENTS AND CONTINGENCIES

Miracle Manor Master Lease Effective June 15, 2019, the Organization entered into the Master Lease with an unrelated party (Note 5). The Master Lease requires base monthly rent of $22,917, escalating annually, for a term of 10 years with an option to extend for 2 consecutive 5-year periods.

Under ASC 842, the Master Lease is classified as an operating lease and a ROU asset of $2,690,590 and lease liability of $2,709,488 were recorded as of December 31, 2019. Operating lease expenses for the year ended December 31, 2019 were approximately $155,000.

Office Lease During 2019, the Organization leased office space for the Tustin corporate office (Tustin Lease). The Tustin Lease required monthly payments of approximately $5,300 and was terminated in March 2020 when the Organization moved into its new corporate office space (Note 10).

Future minimum payments on the Organizations operating leases as of December 31, 2019 are as follows:

Years Ending December 31,		Amount
2020	$	296,448
2021		288,204
2022		296,854
2023		305,761
2024		314,934
Thereafter		1,506,595
Total	**$**	**3,008,796**

Litigation In the ordinary course of doing business, the Organization, from time to time, becomes involved in various lawsuits. Some of these proceedings may result in judgments being assessed against the Organization which may have an impact on changes in net assets. The Organization does not believe that these proceedings, individually or in the aggregate, would have a material effect on the accompanying consolidated financial statements.

8. LIQUIDITY AND AVAILABILITY

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Financial assets without donor restrictions or other restrictions limiting their use that can be readily made available within one year of the consolidated statement of financial position date, comprise the following:

At December 31,		**2019**
Financial assets at year end:		
Cash and cash equivalents	$	1,944,582
Pledges receivable		147,451
Pledges receivable – related party		147,495
Financial assets available to meet general expenditures within one year	$	2,239,528

As part of its policy to manage liquidity and availability, the Organization holds in its operating checking account a balance equal to at least three months of operating expenses that can be readily liquidated to pay for operating needs.

Short-term pledges receivable consist of unconditional promises to give expected to be received within one year from December 31, 2019. Unrestricted short-term pledges receivable will be available to support general operations of the Organization.

9. CORRECTION OF ERRORS

During 2019, the Organization became aware of certain errors in its previously issued 2018 consolidated financial statements. During the year ended December 31, 2018, certain pledges receivable balances were duplicated in error causing an overstatement of total assets and total change in net assets. As a result, the Organization recorded a prior period adjustment in the accompanying consolidated statement of activities and change in net assets, which decreased net assets by approximately $76,000 as of December 31, 2018.

10. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events that have occurred through the date of the independent auditor’s report, which is the date that the consolidated financial statements were available to be issued, and determined that there were no subsequent events or transactions that required recognition or disclosure in the consolidated financial statements, except as discussed below.

Effects of the Coronavirus Outbreak As a result of the recent coronavirus outbreak in early 2020 (COVID-19), the economic environment in which the Organization operates has been significantly disrupted, including impacting the ability of the onsite staff to perform their normal day-to-day duties and activities. The Organization’s management is in the process of gathering information and developing the appropriate responses to these events and the possible impact to the Organization’s cash flow. The Organization’s management is currently unable to determine if the COVID-19 pandemic will have a material impact on its operations.

In April 2020, the Organization entered into a promissory note agreement with SunAmerica Bank in connection with the Payroll Protection Program (“PPP”) set forth in Sections 1102 and 1106 of the Coronavirus Aid, Relief, and Economic Security Act. The loan amount of $160,900 bears interest at the rate of 1.00% per annum and has a maturity date of two years from the funding date of the loan. Under the PPP, certain amounts may be forgiven by the lender under the direction of the administrator of the Small Business Administration so long as the requirements of the PPP for forgiveness are satisfied. Until an amount is forgiven, the principal amount owed is as set forth above and interest accrues thereon.

Office lease In January 2020, the Organization entered into a new facility lease for 3 years under a non-cancellable operating lease, commencing in March 2020. Base monthly rent consists of monthly payments of approximately $12,000, increasing annually, and the Organization received lease incentives of approximately $30,000 in 2020.

MIRACLES FOR KIDS
CONSOLIDATING STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2019		Miracles for Kids		Miracle Manor, LLC		Total
ASSETS						
Current assets:						
Cash and cash equivalents	$	1,915,062	$	29,520	$	1,944,582
Pledges receivable		147,451		-		147,451
Pledges receivable - related party		147,495		-		147,495
Prepaid expenses and other current assets		23,225		-		23,225
Total current assets		2,233,233		29,520		2,262,753
Property, net		37,259		-		37,259
Pledges receivable, net of current portion and discount		45,054		-		45,054
Pledges receivable - related party, net of current portion and discount		402,086		-		402,086
Right-of-use asset		2,690,590		-		2,690,590
Other assets		-		25,000		25,000
Total assets	$	5,408,222	$	54,520	$	5,462,742
LIABILITIES AND NET ASSETS						
Current liabilities:						
Accounts payable	$	9,812	$	-	$	9,812
Accrued and other current liabilities		67,945		20,621		88,566
Deferred revenue		15,000		-		15,000
Total current liabilities		92,757		20,621		113,378
Lease liability		2,709,488		-		2,709,488
Total liabilities		2,802,245		20,621		2,822,866
Commitments and contingencies (see Notes)						
Net assets without donor restriction - Miracle Manor, LLC		-		33,899		33,899
Net assets						
Without donor restrictions		2,605,977		-		2,605,977
Total net assets		2,605,977		33,899		2,639,876
Total liabilities and member's equity/net assets	$	5,408,222	$	54,520	$	5,462,742

See accompanying notes to consolidated financial statements and independent auditor's report.

MIRACLES FOR KIDS
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2019		Miracles for Kids	Miracle Manor, LLC	Eliminations	Total
Support, revenue, gains and losses - without donor restrictions					
Contributions - individuals		$ 154,405	$ -	$ -	$ 154,405
Contributions - corporations and foundations		363,383	-	-	363,383
Contributions - Miracle Manor capital campaign		3,069	-	-	3,069
Grants - corporations		80,000	-	-	80,000
Donated services		181,173	-	-	181,173
Special event revenue	$ 2,811,561				
Less: direct cost of benefits provided to donors	(493,902)	2,317,659	-	-	2,317,659
Rental income		81,683	127,736	(81,683)	127,736
Miscellaneous income		1,550	-	-	1,550
Gain on termination of pledge agreement		297,296	-	-	297,296
Loss on sale of property		(312,406)	27,301	-	(285,105)
Total support, revenue, gains and losses - without donor restrictions		3,167,812	155,037	(81,683)	3,241,166
Expenses:					
Program services		1,970,899	147,626	(81,683)	2,036,842
Supporting services:					
Management and general		158,341	-	-	158,341
Fundraising		377,776	-	-	377,776
Total expenses		2,507,016	147,626	(81,683)	2,572,959
Change in net assets without donor restrictions		660,796	7,411	-	668,207
Net assets without donor restrictions - beginning of the year, as originally stated		2,021,393	26,488	-	2,047,881
Prior period adjustments (Note 9)		(76,212)	-	-	(76,212)
Net assets without donor restrictions - beginning of the year, as restated		1,945,181	26,488	-	1,971,669
Net assets without donor restrictions - end of the year		$ 2,605,977	$ 33,899	$ -	$ 2,639,876

See accompanying notes to consolidated financial statements and independent auditor's report.