

ROYAL FAMILY KIDS' CAMPS, INC.

INDEPENDENT AUDITORS' REPORT

December 31, 2006 and 2005

ROYAL FAMILY KIDS' CAMPS, INC.
December 31, 2006 and 2005

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BALSER, HOROWITZ, FRANK & WAKELING

AN ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Royal Family Kids' Camps, Inc.

We have audited the accompanying statements of financial position of Royal Family Kids' Camps, Inc. as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Royal Family Kids' Camps, Inc. as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Balsler, Horowitz, Frank & Wakeling

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Santa Ana, California
October 6, 2007

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ROYAL FAMILY KIDS' CAMPS, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2006 and 2005

	2006	2005
Assets		
Cash and cash equivalents	\$ 177,303	\$ 346,164
Accounts receivable, net	8,906	12,252
Inventory	160,343	129,094
Prepaid expenses	846	750
Property and equipment, net	<u>36,298</u>	<u>29,872</u>
Total assets	<u>\$ 383,696</u>	<u>\$ 518,132</u>
Liabilities		
Accounts payable	\$ 29,851	\$ 29,903
Accrued vacation	13,121	9,687
Payroll tax payable	16,771	3,827
Sales tax payable	<u>121</u>	<u>188</u>
Total liabilities	<u>59,864</u>	<u>43,605</u>
Net assets		
Unrestricted	198,269	189,889
Temporarily restricted	<u>125,563</u>	<u>284,638</u>
Total net assets	<u>323,832</u>	<u>474,527</u>
Total liabilities and net assets	<u>\$ 383,696</u>	<u>\$ 518,132</u>

See accompanying notes and independent auditors' report

ROYAL FAMILY KIDS' CAMPS, INC.
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2006 and 2005

	2006	2005
Unrestricted net assets		
Support and revenues		
Contributions	\$ 1,263,943	\$ 1,022,558
Banquet	133,289	141,252
Appeal letters	53,348	59,771
Merchandise sales	479,352	446,272
Interest income	2,695	2,141
Other income	<u>68,928</u>	<u>75,370</u>
Total support and revenues	2,001,555	1,747,364
Net assets released from purpose restrictions	<u>221,398</u>	<u>2,860,589</u>
Total unrestricted support, revenues and reclassifications	<u>2,222,953</u>	<u>4,607,953</u>
Expenses		
Program services	1,897,396	3,920,272
Supporting services		
General and administrative	238,980	552,839
Fund raising	<u>78,197</u>	<u>112,389</u>
Total expenses	<u>2,214,573</u>	<u>4,585,500</u>
Change in unrestricted net assets	<u>8,380</u>	<u>22,453</u>
Temporarily restricted net assets		
Contributions	62,323	249,501
Net assets released from purpose restrictions	<u>(221,398)</u>	<u>(2,860,589)</u>
Change in temporarily restricted net assets	<u>(159,075)</u>	<u>(2,611,088)</u>
Change in net assets	(150,695)	(2,588,635)
Net assets, beginning of year	<u>474,527</u>	<u>3,063,162</u>
Net assets, end of year	<u>\$ 323,832</u>	<u>\$ 474,527</u>

See accompanying notes and independent auditors' report

ROYAL FAMILY KIDS' CAMPS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Change in net assets	\$ (150,695)	\$ (2,588,635)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	11,124	16,040
Donated stock	-	2,846,574
Changes in:		
Accounts receivable	3,346	(7,217)
Inventory	(31,249)	(20,995)
Deferred income	-	(11,825)
Prepaid expenses	(96)	5,732
Accounts payable	(52)	(12,978)
Payroll tax payable	12,944	(117)
Accrued vacation	3,434	9,687
Sales tax payable	(67)	15
	<u> </u>	<u> </u>
Net cash flows provided by (used in) operating activities	<u>(151,311)</u>	<u>236,281</u>
Cash flows from investing activities		
Acquisition of property and equipment	<u>(17,550)</u>	<u>(17,743)</u>
Net cash flows used in investing activities	<u>(17,550)</u>	<u>(17,743)</u>
Net change in cash and cash equivalents	(168,861)	218,538
Cash and cash equivalents, beginning of year	<u>346,164</u>	<u>127,626</u>
Cash and cash equivalents, end of year	<u>\$ 177,303</u>	<u>\$ 346,164</u>

See accompanying notes and independent auditors' report

ROYAL FAMILY KIDS' CAMPS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 1 – Summary of significant accounting policies

Nature of activities

Royal Family Kids' Camps, Inc. (the Organization) is a national overseer and coordinator of summer camps for abused and neglected children. The children are selected for participation by local social service agencies. The camps are financed and operated by individual churches, without charge to the children or the social service agencies. The Organization was incorporated in 1989 as a California non-profit corporation, and has adopted a December 31 reporting year end.

The Organization carries out its exempt functions by providing support to these camps and initiating new camps. Support includes supplying standardized operating procedures, training camp directors, and developing and producing curriculum and promotional brochures. The Organization also provides items such as Royal Family T-shirts, Bibles, and other materials for campers. In the 2006 summer season, the Organization supported the operation of 154 camps in 36 states and four foreign countries, with combined annual budgets of approximately \$5.3 million and donated in-kind services of \$9.6 million. Approximately 5,600 children and 7,400 volunteers participated in these camps.

Basis of presentation

Financial statements presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At December 31, 2006 and 2005, there were no net assets or activities classified as permanently restricted.

Cash and cash equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of three months or less.

Accounts receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Allowance for doubtful accounts as of December 31, 2006 and 2005, are \$2,873 and \$2,873, respectively.

ROYAL FAMILY KIDS' CAMPS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

Note 1 – Summary of significant accounting policies (continued)

Investments

The Organization adopted SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of assets, liabilities and net assets. Unrealized gains and losses are included in the change in net assets. At December 31, 2006 and 2005, investments consisting of marketable securities were \$0 and \$0 respectively. The Organization transferred its interest in \$2,830,000 of donated stock to For the Children Foundation, a California non-profit corporation on May 25, 2005.

Inventories

Inventories consist of camp related promotional items and various camp memorabilia. The inventories are stated at the lower of cost or market.

Property and equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$500. Property and equipment are stated at cost or estimated fair value at date of receipt if donated. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. Depreciation expense for the years ended December 31, 2006 and 2005, was \$11,124 and \$16,040, respectively.

Revenue recognition

As required by generally accepted accounting principles, the Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, 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 purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. At December 31, 2006 and 2005, there were no contributions classified as permanently restricted.

ROYAL FAMILY KIDS' CAMPS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

Note 1 – Summary of significant accounting policies (continued)

Shipping and handling costs

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

Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Concentrations of credit risk

All of the Organization's cash is held in three financial institutions. Cash accounts at banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The balances in these accounts may, at times, exceed federally insured limits. Management does not believe that it is exposed to significant credit risk in connection with cash and cash equivalents.

Financial statement estimates and assumptions

The preparation of 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 these estimates.

Income taxes

The Organization is exempt from Federal and California income tax under Internal Revenue Code Section 501(c) (3). The Organization is subject, however, to Federal and California income tax on unrelated business income as stipulated in Internal Revenue Code Section 511 and Regulation Section 1.511. During the year ended December 31, 2006 and 2005, the Organization had no activities unrelated to its exempt purpose, and therefore incurred no tax liability due to unrelated business income.

Donated assets

Donated assets and other non-monetary items are reflected as contributions in the accompanying statements at their estimated fair market values as of the date of receipt. For the years ended December 31, 2006 and 2005 the Organization received the use of storage facilities valued at \$18,000 and \$18,000, and donated assets totaling \$43,319 and \$64,015, respectively.

ROYAL FAMILY KIDS' CAMPS, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

Note 2 – Property and equipment

Property and equipment consist of the following:

	2006	2005
Automobiles	\$ 16,829	\$ 16,829
Office equipment	113,064	97,282
Computer software	25,799	25,799
Office furnishings	47,750	45,981
Video master tapes	29,362	29,362
Accumulated depreciation	<u>(196,506)</u>	<u>(185,380)</u>
Net property and equipment	<u>\$ 36,298</u>	<u>\$ 29,873</u>

Note 3 – Temporarily restricted net assets

Temporarily restricted net assets consist of the following:

	2006	2005
New camp start-up	\$ 20,287	\$ 9,687
Curriculum	3,043	3,044
Endowment fund	79,396	48,047
Scholarship fund	2,511	2,510
Camperships	3,840	3,840
International camps	7,450	6,650
Grandma Joan Fund	6,249	5,049
Passing the Scepter	2,787	5,811
Capital Campaign	<u>–</u>	<u>200,000</u>
Temporarily restricted net assets	<u>\$ 125,563</u>	<u>\$ 284,638</u>

Note 4 – Supplemental disclosures of cash flow information

There was no cash paid for interest or income taxes for the years ended December 31, 2006 and 2005.