

LOS CABOS CHILDREN'S FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2008

**LOS CABOS CHILDREN'S FOUNDATION
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2008**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES	3
STATEMENT OF FUNCTIONAL EXPENSES	4
STATEMENT OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6
INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION	11
ADDITIONAL INFORMATION	
SCHEDULE OF GRANTS	12

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Los Cabos Children's Foundation
Sioux Falls, South Dakota

We have audited the accompanying statement of financial position of Los Cabos Children's Foundation as of December 31, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Los Cabos Children's Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides 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 Los Cabos Children's Foundation as of December 31, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, the Foundation has restated the beginning net assets of January 1, 2008 to correct an error related to the recording of deferred revenue and failure to record cash accounts.



LarsonAllen LLP

Minneapolis, Minnesota
October 14, 2009



**LOS CABOS CHILDREN'S FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2008**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	155,637
Contributions and Pledges Receivable, Net		32,000
Receivable from Related Party		347,353
Total Current Assets		534,990

PROPERTY AND EQUIPMENT, NET

27,791

Total Assets

\$ 562,781

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable and Other Liabilities	\$	2,275
Funds Held for Others		16,085
Deferred Registration Revenue		97,357
Total Liabilities		115,717

NET ASSETS

Unrestricted Net Assets		419,707
Temporarily Restricted Net Assts		27,357
Total Net Assets		447,064

Total Liabilities and Net Assets

\$ 562,781

See accompanying Notes to Financial Statements.

**LOS CABOS CHILDREN'S FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT			
Donations	\$ 485,326	\$ 257,263	\$ 742,589
In-Kind Donations	1,005,995	-	1,005,995
Special Events Revenue (Including \$250,000 of of In-Kind Donations)	1,614,268	-	1,614,268
Direct Benefits	(399,284)	-	(399,284)
Net Special Event Revenue and Support	<u>1,214,984</u>	<u>-</u>	<u>1,214,984</u>
Interest Income	11,025	-	11,025
Subtotal Revenue and Support	<u>2,717,330</u>	<u>257,263</u>	<u>2,974,593</u>
Net Assets Released from Restrictions	<u>257,263</u>	<u>(257,263)</u>	<u>-</u>
Total Revenue and Support	2,974,593	-	2,974,593
EXPENSES			
Program Service	2,670,938	-	2,670,938
Support Services:			
Administrative	142,439	-	142,439
Fund Raising	214,605	-	214,605
Total Support Services	<u>357,044</u>	<u>-</u>	<u>357,044</u>
Total Expenses	<u>3,027,982</u>	<u>-</u>	<u>3,027,982</u>
CHANGE IN NET ASSETS	(53,389)	-	(53,389)
Net Assets - Beginning of Year - as Previously Stated	577,817	27,357	605,174
Restatement (Note 7)	<u>(104,721)</u>	<u>-</u>	<u>(104,721)</u>
Net Assets - Beginning of Year - as Restated	<u>473,096</u>	<u>27,357</u>	<u>500,453</u>
NET ASSETS - END OF YEAR	<u>\$ 419,707</u>	<u>\$ 27,357</u>	<u>\$ 447,064</u>

See accompanying Notes to Financial Statements.

**LOS CABOS CHILDREN'S FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2008**

	Program Services	Support Services			Total Functional Expenses	Direct Benefit	Total Expenses
		Administrative Services	Fund Raising	Total Support Services			
Grants	\$ 1,549,000	\$ -	\$ -	\$ -	\$ 1,549,000	\$ -	\$ 1,549,000
Medical Services and Supplies (In-Kind)	968,139	-	-	-	968,139	-	968,139
Advertising (In-Kind)	-	-	37,856	37,856	37,856	-	37,856
Facilities Rental (In-Kind)	-	-	-	-	-	250,000	250,000
Special Events	-	-	95,354	95,354	95,354	33,246	128,600
Office Expenses	-	12,971	57,798	70,769	70,769	-	70,769
Gifts and Recognition	-	-	-	-	-	116,038	116,038
Professional Fees	-	18,941	-	18,941	18,941	-	18,941
Travel	96,949	-	-	-	96,949	-	96,949
Other	-	7,520	14,347	21,867	21,867	-	21,867
Payroll	44,421	18,971	8,442	27,412	71,833	-	71,833
Payroll Taxes	4,177	1,752	808	2,560	6,737	-	6,737
Other Program Expenses	8,252	-	-	-	8,252	-	8,252
Vehicle Expense	-	6,951	-	6,951	6,951	-	6,951
Rent	-	12,000	-	12,000	12,000	-	12,000
Depreciation Expense	-	7,334	-	7,334	7,334	-	7,334
Bad Debt Expense	-	56,000	-	56,000	56,000	-	56,000
Total	\$ 2,670,938	\$ 142,439	\$ 214,605	\$ 357,044	\$ 3,027,982	\$ 399,284	\$ 3,427,266
Percentage	88.2%	4.7%	7.1%	11.8%	100.0%		

See accompanying Notes to Financial Statements.

**LOS CABOS CHILDREN'S FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (53,389)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:	
Depreciation	7,334
(Increase) Decrease in:	
Affiliate Receivable	(307,353)
Other Receivables	(32,000)
Increase (Decrease) in:	
Accounts Payable and Other Liabilities	(110,386)
Funds Held for Others	16,085
Deferred Revenue	(20,143)
Net Cash Used by Operating Activities	<u>(499,852)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Property and Equipment	<u>(30,768)</u>
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DECREASE IN CASH AND CASH EQUIVALENTS

(530,620)

Cash and Cash Equivalents - Beginning of Year as Restated

686,257

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 155,637

See accompanying Notes to Financial Statements.

**LOS CABOS CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose

Los Cabos Children's Foundation (the Foundation) is a not-for-profit organization in Sioux Falls, South Dakota with activities in Mexico. It's purpose is to assist children by providing medical, educational, and humanitarian assistance in the Los Cabos area and in the United States. Support comes from fundraisers and general donations.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Basis of Presentation

Financial statement 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 Organization*. Under SFAS No. 117, Net assets and revenues, gains, and losses are classified based on donor imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted – Resources over which the board of directors has discretionary control.

Temporarily Restricted – Those resources subject to donor imposed restrictions which will be satisfied by actions of the Foundation or passage of time.

Permanently Restricted – Those resources subject to a donor imposed restriction that they be maintained permanently by the Foundation.

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. The Foundation does not have any permanently restricted net assets.

Concentrations

The Foundation's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. Management believes it places its cash with high quality credit institutions. However, at times cash may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Cash and Cash Equivalents

The Organization classifies all highly liquid debt securities with a maturity of three months or less at the time of purchase to be cash equivalents. The Foundation holds two accounts internationally within Mexico which are impacted by foreign currency exchange rates. Foreign currency translation had no material impact on the 2008 financial statements. The value of these funds as of December 31, 2008 was \$7,046.

**LOS CABOS CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Pledges Receivable

Receivables are recorded at net realizable value. The Foundation provides an allowance for bad debts using the allowance method, which is based on management judgment. An allowance is provided when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At December 31, 2008, an allowance of \$56,000 is recorded. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Funds Held for Others

Funds held for other consists of cash received for a fundraising project which is not controlled by the Foundation (Note 2).

Property and Equipment

Property and equipment are capitalized at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is computed over the estimated useful life of five years on an accelerated basis. Property and equipment is presented net of accumulated depreciation of \$11,521 for the year ended December 31, 2008.

Special Events

The Foundation conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Proceeds received, including sponsorship of the events, is reported net of the direct benefit to donors in the statements of activities. Registration fees paid to participate in future year events are treated as deferred revenue until the event occurs.

Allocated Expenses

Expenses by function have been allocated among program and supporting services classifications on the basis of estimates made by the Foundation's management.

Donated Services

The Foundation receives donated services from doctors, airlines, and marketing professionals. Donated services from doctors and airlines are used in the performance of program services. Donated services from marketing professionals are used in the performance of fundraising activities. These items are recognized in the financial statements as contributions and expenses.

In addition, the Foundation receives donated services from a variety of unpaid volunteers assisting with program services. No amounts have been recognized in the accompanying statements of activities because the criteria for recognition of such volunteer effort under SFAS No. 116 have not been satisfied.

**LOS CABOS CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

On January 1, 2008, the Foundation adopted Statement of Financial Accounting Standard No. 157, *Fair Value Measurements* (SFAS 157). As permitted, adoption of SFAS 157 has been delayed for certain nonfinancial assets and nonfinancial liabilities to January 1, 2009. SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under an existing accounting pronouncement. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. As of December 31, 2008, the Foundation has no assets and liabilities measured under SFAS 157.

Tax Exempt Status

The Foundation is organized as a nonprofit corporation and has tax exempt status from the Internal Revenue Service under Internal Revenue Code Section 501(c)(3) as a charitable foundation. Subsequent to year-end, the Foundation was awarded charitable status in Mexico.

The Foundation has elected to defer application of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. The Foundation follows Financial Accounting Standard No. 5, *Accounting for Contingencies*, for evaluating uncertain tax positions

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 RELATED PARTY RECEIVABLE

During 2007, the Foundation entered into an agreement with the Chairman of the Board of Directors in which the Foundation would advance funds to a develop project to cover the costs related to the construction of a home in Los Cabos. The expectation of the project was that the proceeds from the sale would exceed the costs and the net proceeds would be donated to the foundation. The land used to construct the house on was purchased by funds secured from the Foundation and from a personal loan received by the Chairman from a financial institution. The title to the land was in the name of the Foundation. However, the funding was primarily through the personal loan from the Chairman, therefore the land was not recorded on the balance sheet as the Foundation had no rights to use the land at the current time.

**LOS CABOS CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 2 RELATED PARTY RECEIVABLE (CONTINUED)

During 2008, due to changes in market conditions it became evident that the house would not generate any net proceeds. At that time the Chairman agreed to personally repay all advances. Subsequent to December 31, 2008, the Chairman repaid all advances from the Foundation and took personal responsibility for the project. The intention is that the title to the land will also be transferred to the Chairman and if any net proceeds are ultimately generated from the sale of the house they will be returned to the Foundation. At this time there is no requirement of a contribution from the project as the financial results can not be reasonably assured.

NOTE 3 TEMPORARILY RESTRICTED

Temporarily restricted net assets consist of the following at December 31, 2008:

Los Cabos Women's Wellness	\$ 15,250
Los Ninos del Capitan	5,885
CARE	5,500
Casa de Carlitos	722
Total	<u>\$ 27,357</u>

Net assets released from restriction consist of the following at December 31, 2008:

Program Grants	<u>\$ 256,529</u>
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NOTE 4 LEASES

The Foundation leases office facilities on an annual basis from an organization that is partially owned by a member of the Board of Directors. Total rent paid under this arrangement was \$12,000 for the year ended December 31, 2008. The arrangement is subject to annual renewal.

NOTE 5 IN-KIND DONATIONS

Donated space, equipment, materials and professional services have been valued at their estimated fair value. Such donations have been included in the financial statements and the corresponding donated revenue and expenses have been recognized at December 31, 2008 as follows:

In-Kind Contributions:	
Medical Services	\$ 916,379
Golf Course Rental and Food	250,000
Event Advertising (Donated by Board Member)	37,856
Equipment and Supplies	36,000
Donated Labor	15,760
Total	<u>\$ 1,255,995</u>

**LOS CABOS CHILDREN'S FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008**

NOTE 6 COMMITMENTS

The Foundation entered into a lease agreement for fiscal year 2009 in December 2008. The cost of the lease is \$12,000.

The Foundation also has a commitment to an auctioneer for the annual fundraising event. The cost of the auctioneer is \$15,000.

NOTE 7 RESTATEMENT

The Foundation incorrectly reported revenue of \$117,500 as income at December 31, 2007 for advance registrations for the 2008 Duckett Challenge. The payments should have been recognized as revenue in 2008 when the event occurred.

The Foundation also failed to record cash accounts held internationally on the balance sheet in the amount of \$12,779 at December 31, 2007.

The effect of the restatement relating to deferred revenue decreased beginning net assets by \$117,500. The effect due to the cash accounts increased beginning net assets by \$12,779. The overall net effect of the restatement decreased changes in net assets and net assets by \$104,721.

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Board of Directors
Los Cabos Children's Foundation
Sioux Falls, South Dakota

Our report on our audit of the basic financial statements of Los Cabos Children's Foundation for the year ended December 31, 2008 appears on page 1. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



LarsonAllen LLP

Minneapolis, Minnesota
October 14, 2009

LOS CABOS CHILDREN'S FOUNDATION
SCHEDULE OF GRANTS
YEAR ENDED DECEMBER 31, 2008
(SEE INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION)

Amigos De Los Ninos	\$ 80,445
Bookmobile	7,005
Liga Mac	178,156
Del Capitan	10,000
Los Cabos WWF	40,250
LCCF - Mexico (Internal)	90,550
Casa de Carlitos	198,835
C.A.R.E.	20,378
Up With People	75,000
Mobilize Mankind	106,000
Santa Josephina Blood Bank	370,106
Casa Amistad	10,000
Mission Expense	27,477
Red Cross	20,000
Special Ed Bussing	10,000
Los Ninos Del Capitan	25,885
YES	57,606
Casa Hogar	28,000
APLS	112,479
San Juan Diego	45,000
Other Grants	<u>35,828</u>
 Total	 <u><u>\$ 1,549,000</u></u>