

**LOS CABOS CHILDREN'S FOUNDATION**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

**LOS CABOS CHILDREN'S FOUNDATION  
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# LarsonAllen<sup>®</sup> LLP

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Los Cabos Children's Foundation as of December 31, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Los Cabos Children's Foundation as of December 31, 2010 and 2009, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*LarsonAllen LLP*  
**LarsonAllen LLP**

Minneapolis, Minnesota  
July 8, 2011

**LOS CABOS CHILDREN'S FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 258,453	\$ 659,821
Prepays	55,099	16,500
Current Portion Pledges Receivable	176,600	77,500
Total Current Assets	490,152	753,821
<b>PROPERTY AND EQUIPMENT, NET</b>	18,697	23,875
<b>PLEDGES RECEIVABLE, NET OF CURRENT PORTION</b>	337,287	286,275
Total Assets	\$ 846,136	\$ 1,063,971
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Other Liabilities	\$ 20,507	\$ 12,108
Deferred Registration Revenue	30,929	41,198
Current Portion of Grants Payable	72,000	334,500
Total Current Liabilities	123,436	387,806
<b>GRANTS PAYABLE, NET OF CURRENT PORTION</b>	-	69,639
Total Liabilities	123,436	457,445
<b>NET ASSETS</b>		
Unrestricted Net Assets	228,913	186,251
Temporarily Restricted Net Assts	493,787	420,275
Total Net Assets	722,700	606,526
Total Liabilities and Net Assets	\$ 846,136	\$ 1,063,971

See accompanying Notes to Financial Statements.

**LOS CABOS CHILDREN'S FOUNDATION  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUE AND SUPPORT</b>			
Donations	\$ 324,236	\$ 401,037	\$ 725,273
In-Kind Donations	328,288	-	328,288
Special Events Revenue (Including \$200,000 and \$200,000 of In-Kind Donations for 2010 and 2009, respectively)	1,466,720	-	1,466,720
Direct Benefits	(320,668)	-	(320,668)
Net Special Event Revenue and Support	1,146,052	-	1,146,052
Interest Income	5,035	-	5,035
Subtotal Revenue and Support	1,803,611	401,037	2,204,648
Net Assets Released from Restrictions	327,525	(327,525)	-
Total Revenue and Support	2,131,136	73,512	2,204,648
<b>EXPENSES</b>			
Program Service	1,496,704	-	1,496,704
Support Services:			
Administrative	239,060	-	239,060
Fund Raising	352,710	-	352,710
Total Support Services	591,770	-	591,770
Total Expenses	2,088,474	-	2,088,474
<b>CHANGE IN NET ASSETS</b>	42,662	73,512	116,174
Net Assets - Beginning of Year	186,251	420,275	606,526
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 228,913</u>	<u>\$ 493,787</u>	<u>\$ 722,700</u>

See accompanying Notes to Financial Statements.

2009		
Unrestricted	Temporarily Restricted	Total
\$ 524,627	\$ 525,261	\$ 1,049,888
924,664	-	924,664
1,412,683	-	1,412,683
(313,184)	-	(313,184)
1,099,499	-	1,099,499
3,780	-	3,780
2,552,570	525,261	3,077,831
132,343	(132,343)	-
2,684,913	392,918	3,077,831
2,467,644	-	2,467,644
154,765	-	154,765
295,960	-	295,960
450,725	-	450,725
2,918,369	-	2,918,369
(233,456)	392,918	159,462
419,707	27,357	447,064
<u>\$ 186,251</u>	<u>\$ 420,275</u>	<u>\$ 606,526</u>

**LOS CABOS CHILDREN'S FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2010**

	Program Services	Support Services			Total Functional Expenses	Direct Benefit	Total Expenses
		Administrative Services	Fund Raising	Total Support Services			
Grants	\$ 757,435	\$ -	\$ -	\$ -	\$ 757,435	\$ -	\$ 757,435
Medical Services and Supplies	333,413	-	-	-	333,413	-	333,413
Children's Medical Campus	41,817	-	-	-	41,817	-	41,817
Advertising	-	-	28,260	28,260	28,260	-	28,260
Facilities Rental	-	-	-	-	-	255,179	255,179
Special Events	-	-	238,535	238,535	238,535	65,489	304,024
Office Expenses	67,877	17,120	29,573	46,693	114,570	-	114,570
Professional Fees	-	84,355	-	84,355	84,355	-	84,355
Travel	29,748	-	30,653	30,653	60,401	-	60,401
Other	89,597	23,098	8,639	31,737	121,334	-	121,334
Payroll	154,908	39,071	14,937	54,008	208,916	-	208,916
Payroll Taxes	21,909	5,526	2,113	7,639	29,548	-	29,548
Other Program Expenses	-	-	-	-	-	-	-
Vehicle Expense	-	11,032	-	11,032	11,032	-	11,032
Rent	-	24,347	-	24,347	24,347	-	24,347
Depreciation Expense	-	10,511	-	10,511	10,511	-	10,511
Bad Debt Expense	-	24,000	-	24,000	24,000	-	24,000
<b>Total</b>	<b>\$ 1,496,704</b>	<b>\$ 239,060</b>	<b>\$ 352,710</b>	<b>\$ 591,770</b>	<b>\$ 2,088,474</b>	<b>\$ 320,668</b>	<b>\$ 2,409,142</b>
Percentage	71.7%	11.4%	16.9%	28.3%	100.0%		

See accompanying Notes to Financial Statements.

**LOS CABOS CHILDREN'S FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2009**

	Program Services	Support Services			Total Functional Expenses	Direct Benefit	Total Expenses
		Administrative Services	Fund Raising	Total Support Services			
Grants	\$ 1,377,195	\$ -	\$ -	\$ -	\$ 1,377,195	\$ -	\$ 1,377,195
Medical Services and Supplies	809,118	-	-	-	809,118	-	809,118
Children's Medical Campus	-	-	-	-	-	-	-
Advertising	-	-	54,570	54,570	54,570	-	54,570
Facilities Rental	-	-	-	-	-	200,000	200,000
Special Events	-	-	113,851	113,851	113,851	113,184	227,035
Office Expenses	33,407	12,679	36,730	49,409	82,816	-	82,816
Professional Fees	-	33,244	-	33,244	33,244	-	33,244
Travel	129,326	-	7,618	7,618	136,944	-	136,944
Other	5,352	9,535	10,738	20,273	25,625	-	25,625
Payroll	96,256	38,347	65,703	104,050	200,306	-	200,306
Payroll Taxes	9,889	3,940	6,750	10,690	20,579	-	20,579
Other Program Expenses	7,101	-	-	-	7,101	-	7,101
Vehicle Expense	-	2,959	-	2,959	2,959	-	2,959
Rent	-	21,446	-	21,446	21,446	-	21,446
Depreciation Expense	-	14,115	-	14,115	14,115	-	14,115
Bad Debt Expense	-	18,500	-	18,500	18,500	-	18,500
<b>Total</b>	<b>\$ 2,467,644</b>	<b>\$ 154,765</b>	<b>\$ 295,960</b>	<b>\$ 450,725</b>	<b>\$ 2,918,369</b>	<b>\$ 313,184</b>	<b>\$ 3,231,553</b>
<b>Percentage</b>	<b>84.6%</b>	<b>5.3%</b>	<b>10.1%</b>	<b>15.4%</b>	<b>100.0%</b>		

See accompanying Notes to Financial Statements.

**LOS CABOS CHILDREN'S FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 116,174	\$ 159,462
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	10,511	14,115
(Increase) Decrease in:		
Receivable from Related Party	-	347,353
Prepays	(38,599)	(16,500)
Pledges Receivable	(150,112)	(331,775)
Increase (Decrease) in:		
Accounts Payable and Other Liabilities	8,399	9,833
Funds Held for Others	-	(16,085)
Deferred Registration Revenue	(10,269)	(56,159)
Grants Payable	(332,139)	404,139
Net Cash Provided (Used) by Operating Activities	(396,035)	514,383
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(5,333)	(10,199)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(401,368)	504,184
Cash and Cash Equivalents - Beginning of Year	659,821	155,637
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 258,453	\$ 659,821

See accompanying Notes to Financial Statements.

**LOS CABOS CHILDREN'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**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 and an office in Mexico. The 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**

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 three accounts internationally within Mexico which are impacted by foreign currency exchange rates. Foreign currency translation had no material impact on the 2010 and 2009 financial statements. The value of these funds as of December 31, 2010 and 2009 was \$39,610 and \$59,310, respectively.

**LOS CABOS CHILDREN'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pledges Receivable**

Pledges 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, 2010 and 2009, an allowance of \$-0- is recorded. Conditional promises to give are not included as support until such time as the conditions are substantially met.

**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.

**Grants**

Grant commitments are charged to expense at the time the grants are approved by the board of directors. Grants that are payable and considered long-term are recorded at their net present value when the grants are approved.

**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 registration 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. During 2010 there is a decrease to the program expense percentage. The board of directors did not approve grants in December 2010 for the 2011 year as they did in the previous year. As a result, program expenses as well as grants expense decreased for 2010.

**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 and are recorded at fair value based on information obtained from the organizations.

**LOS CABOS CHILDREN'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Donated Services (Continued)**

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 the accounting standard relating to donated services have not been satisfied.

**Tax Exempt Status**

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

The Foundation follows a policy that clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. The policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The implementation of this policy had no impact on the Foundation's financial statements.

The Foundation files as a tax exempt organization. The Foundation's 2007, 2008, and 2009 tax years are open for examination by the IRS and other regulatory agencies in Mexico.

**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.

**Subsequent Events**

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure in these financial statements through July 8, 2011, the date the financial statements were available to be issued.

**LOS CABOS CHILDREN'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 2 PLEDGES RECEIVABLE**

Contributions and pledges receivable at December 31, 2010 consist of a commitment from the Chairman of the Board of Directors and another donor. Contributions and pledges receivable at December 31, 2009 consist of commitments from various donors. The discount rate used to calculate the present value of the receivables was 3.25% at December 31, 2010.

	2010	2009
Pledges Receivable	\$ 666,600	\$ 500,000
Amount Contingent on Event Occurring	(100,000)	(100,000)
Present Value Discount	(52,713)	(36,225)
Net Pledges Receivable	<u>\$ 513,887</u>	<u>\$ 363,775</u>
Amounts Due in:		
Less than One Year	\$ 176,600	\$ 100,000
One to Five Years	490,000	400,000
	<u>\$ 666,600</u>	<u>\$ 500,000</u>

**NOTE 3 PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at December 31, 2010 and 2009:

	2010	2009
Equipment	\$ 15,949	\$ 15,949
Vehicles	33,562	33,562
Software	5,334	-
Total Property and Equipment	54,845	49,511
Less: Accumulated Depreciation	(36,148)	(25,636)
Total Property and Equipment, Net	<u>\$ 18,697</u>	<u>\$ 23,875</u>

**NOTE 4 GRANTS PAYABLE**

The Foundation has made future grant commitments as of December 31, 2010 and 2009. The discount rate used to calculate the present value of the grants payable was 3.25% at December 31, 2009. The 2010 grants payable will be paid out in 2011 and therefore was not discounted. The grants payable balance at December 31, 2010 and 2009 was \$72,000 and \$404,139, respectively. The discounted balance as of December 2009 was \$404,139.

**LOS CABOS CHILDREN'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 5 TEMPORARILY RESTRICTED**

Temporarily restricted net assets consist of the following at December 31, 2010 and 2009:

	2010	2009
CARE	\$ 1,500	\$ 1,500
Liga Mac	-	15,000
Amigos De Los Ninos	-	10,000
Mobilize Mankind	-	10,000
San Juan Diego	-	10,000
Santa Josephina Blood Bank	-	10,000
Children's Medical Campus	25,000	-
Casa Hogar	20,000	-
Time Restricted	513,887	363,775
Total	\$ 560,387	\$ 420,275

Net assets released from restriction consist of the following at December 31, 2010 and 2009:

	2010	2009
Program Grants	\$ 327,525	\$ 132,343

**NOTE 6 LEASES**

For the first half of the year, the Foundation leased office facilities in Sioux Falls, South Dakota that was partially owned by a member of the board of directors. For the second half of 2010 and going forward the Foundation leases space from a hospital in Sioux Falls, South Dakota on an annual basis. In 2010 and 2009, the use of the facilities was provided in-kind at a value of \$12,000. The Foundation also leases office facilities in Mexico on an annual basis from an entity that is partially owned by a member of the board of directors. Total rent paid under this arrangement was \$12,347 and \$9,466 for the years ended December 31, 2010 and 2009, respectively. The arrangement is subject to annual renewal.

**LOS CABOS CHILDREN'S FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**NOTE 7 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, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
In-Kind Contributions:		
Medical Services (Program)	\$ 238,280	\$ 786,408
Event Facility (Direct Benefits)	200,000	200,000
Event Advertising (Fundraising)	37,273	54,570
Travel (Program)	25,735	69,056
Rent (Administrative)	12,000	12,000
Other (Fundraising)	15,000	2,630
Total	<u>\$ 528,288</u>	<u>\$ 1,124,664</u>

Event advertising and rent are contributed by board members.

**NOTE 8 COMMITMENTS**

The Foundation has a commitment to an auctioneer for the annual fundraising event in the amount of \$15,000. The Foundation also has a commitment to three entertainers for the annual fundraising event in the amount of \$46,000.

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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, 2010 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 15 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*  
**LarsonAllen LLP**

Minneapolis, Minnesota  
July 8, 2011

**LOS CABOS CHILDREN'S FOUNDATION**  
**SCHEDULES OF GRANTS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**  
(SEE INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION)

	<u>2010</u>	<u>2009</u>
Amigos De Los Ninos	\$ 34,325	\$ 119,786
Liga Mac	55,000	184,500
Los Cabos WWF	5,500	-
Casa de Carlitos	100,250	103,335
C.A.R.E.	-	4,100
Mobilize Mankind	42,069	214,964
Santa Josephina Blood Bank	215,310	210,350
Mission Expense	200	-
Special Ed Bussing	-	10,000
Los Ninos Del Capitan	31,000	19,300
YES	-	115,550
Casa Hogar	113,100	75,004
San Juan Diego	23,000	36,103
Blood Mobile	-	3,690
Hope Haye	-	8,500
Sarahuaro	5,000	60,000
Spirit of Joy	91,855	95,000
Red Autism	12,000	24,000
SAFE	10,000	-
TPW	8,826	-
Questro	5,000	-
Other Grants	5,000	93,013
	<u>5,000</u>	<u>93,013</u>
Total	<u>\$ 757,435</u>	<u>\$ 1,377,195</u>