

ONLY MAKE BELIEVE, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2012 AND 2011

ONLY MAKE BELIEVE, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Only Make Believe, Inc.

We have audited the accompanying financial statements of Only Make Believe, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Only Make Believe, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
August 20, 2013

ONLY MAKE BELIEVE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash (Notes 1c, 7a and 9)	\$ 801,181	\$ 748,595
Unconditional promises to give (Notes 1c and 3)		
Unrestricted	38,945	16,925
Prepaid expenses	7,486	13,214
Property and equipment, net of accumulated depreciation (Notes 1d and 4)	6,814	11,672
Security deposits	<u>15,964</u>	<u>15,105</u>
Total Assets	<u><u>\$ 870,390</u></u>	<u><u>\$ 805,511</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 27,732</u>	<u>\$ 28,751</u>
Commitments (Note 5)		
Net Assets		
Unrestricted		
Operating reserve (Note 2a)	300,000	300,000
Other	<u>517,658</u>	<u>476,760</u>
Total Unrestricted	817,658	776,760
Temporarily restricted (Note 2b)	<u>25,000</u>	<u>-</u>
Total Net Assets	<u><u>842,658</u></u>	<u><u>776,760</u></u>
Total Liabilities and Net Assets	<u><u>\$ 870,390</u></u>	<u><u>\$ 805,511</u></u>

See notes to financial statements.

ONLY MAKE BELIEVE, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Changes in Unrestricted Net Assets		
Revenue, Grants and Contributions		
Contributions (Notes 1c and 7b)	\$ 400,640	\$ 367,632
Benefit income (Note 9)	710,550	854,022
Less: Direct expenses	(89,448)	(93,140)
Donated services (Note 8)	3,419	8,000
Interest and other income	246	336
	<u>1,025,407</u>	<u>1,136,850</u>
Net Assets released from restrictions		
Satisfaction of time and program restrictions	<u>-</u>	<u>12,000</u>
Total Revenue, Grants and Contributions	<u>1,025,407</u>	<u>1,148,850</u>
Expenses		
Program Services (Note 8)		
Performances	<u>595,608</u>	<u>553,927</u>
Supporting Services		
Management and general	170,270	127,178
Fundraising	<u>218,631</u>	<u>200,995</u>
Total Supporting Services	<u>388,901</u>	<u>328,173</u>
Total Expenses	<u>984,509</u>	<u>882,100</u>
Increase in Unrestricted Net Assets	<u>40,898</u>	<u>266,750</u>
Changes in Temporarily Restricted Net Assets		
Contributions	25,000	-
Net assets released from restrictions	<u>-</u>	<u>(12,000)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>25,000</u>	<u>(12,000)</u>
Increase in net assets	65,898	254,750
Net assets, beginning of year	<u>776,760</u>	<u>522,010</u>
Net Assets, End of Year	<u><u>\$ 842,658</u></u>	<u><u>\$ 776,760</u></u>

See notes to financial statements.

ONLY MAKE BELIEVE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities		
Increase in net assets	\$ 65,898	\$ 254,750
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation expense	4,858	8,995
(Increase) decrease in:		
Unconditional promises to give	(22,020)	30,667
Prepaid expenses	5,728	(10,309)
Security deposits	(859)	-
Increase (decrease) in accounts payable and accrued expenses	(1,019)	2,442
Net Cash Provided By Operating Activities	<u>52,586</u>	<u>286,545</u>
 Cash Flows From Investing Activities		
Acquisition of property and equipment	<u>-</u>	<u>(4,431)</u>
Net increase in cash	52,586	282,114
Cash, beginning of year	<u>748,595</u>	<u>466,481</u>
 Cash, End of Year	 <u><u>\$ 801,181</u></u>	 <u><u>\$ 748,595</u></u>

See notes to financial statements.

ONLY MAKE BELIEVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

Only Make Believe, Inc. ("OMB") is a unique interactive program that delivers the magical world of theater to children living with chronic illnesses in New York City medical facilities. OMB started in October 1999 as a project of The James and Dena Hammerstein Foundation. It is dedicated to the principle that freeing a child's creative spirit is a valuable part of the healing process. Each child takes an active part in creating a world of fantasy and fun that transcends the boundaries of the hospital walls, and as a result they are able to gain a new sense of self-esteem and joy. Combining the magic of theater with the power of a child's imagination enables them for the first time to see a world of possibilities rather than disabilities.

b - Financial Statement Presentation

OMB reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

c - Contributions and Unconditional Promises to Give

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

OMB uses the allowance method to determine uncollectable promises to give. The allowance, when necessary, is based on prior years' experience and managements' analysis of specific promises made.

d - Property and Equipment

Property and equipment are recorded at cost. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.

e - Estimates

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 those estimates.

ONLY MAKE BELIEVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

f - Tax Status

Only Make Believe, Inc. is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation. Management has evaluated all income tax positions and concluded that no disclosures relating to uncertain tax positions are required in the financial statements. OMB's tax returns for years prior to 2009 are generally no longer subject to examination by the taxing authorities.

g - Subsequent Events

OMB has evaluated subsequent events through August 20, 2013, the date that the financial statements are considered available to be issued.

Note 2 - Net Assets

a - Board Designated Operating Reserves

In 2011, the Board allocated \$300,000 as an operating reserve.

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for future programs and periods.

Note 3 - Unconditional Promises to Give

Unconditional promises are due within one year. Uncollectible promises to give are expected to be insignificant.

Note 4 - Property and Equipment

Property and equipment consists of the following:

	<u>Life</u>	<u>2012</u>	<u>2011</u>
Furniture and equipment	5 years	\$19,662	\$19,662
Website	3 years	10,185	10,185
Software	3 years	<u>5,913</u>	<u>5,913</u>
		35,760	35,760
Less: Accumulated depreciation		<u>(28,946)</u>	<u>(24,088)</u>
		<u>\$ 6,814</u>	<u>\$11,672</u>

ONLY MAKE BELIEVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 4 - Property and Equipment (continued)

Depreciation expense for the years ended December 31, 2012 and 2011 was \$4,858 and \$8,995, respectively.

Note 5 - Commitments

OMB occupies office space in New York and Washington, D.C. under lease agreements expiring March 5, 2018, with minimum annual rentals as follows:

<u>Year Ending December 31,</u>	
2013	\$80,886
2014	90,485
2015	90,954
2016	89,439
2017	92,122
2018	23,200

Rent expense for the years ended December 31, 2012 and 2011 was \$50,223 and \$49,476, respectively.

Note 6 - Functional Allocation of Expenses

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

Note 7 - Concentration of Credit Risk

a - OMB maintains cash balances in a financial institution located in New York. The balances are insured up to \$250,000 by the Federal Deposit Insurance Corporation.

b - OMB received 14% of its contribution income in 2012 and 2011 from a single Board member.

ONLY MAKE BELIEVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 8 - Donated Services

During the years ended December 31, 2012 and 2011, OMB received donated legal services of \$3,419 and \$8,000 for video production and information technology support, respectively. The donated services are reflected in the financial statements using fair values provided by the donors.

OMB is the beneficiary of the efforts of a dedicated team of volunteers who assist in the running of its programs. Through the commitment of the Sewing Circle volunteers, who include gifted artists and crafts people, OMB is able to create the children's costumes for the trunks and design props and costumes for the actors at no cost. The Organization is also thankful to the OMB Buddy volunteers who provide assistance at the hospitals. These volunteers accompany the actors on site and help facilitate the program by pairing up with children who need extra assistance and/or special attention.

OMB is unable to determine the value of these services, and accordingly, they have not been included in the accompanying financial statements.

Note 9 - Fundraising Benefit

OMB's annual fundraising benefit, which is the primary source of event revenue, is conducted in November of each year. Proceeds are used throughout the year to fund hospital workshops and offset administrative expenses. Year-end cash at hand is directly impacted by this annual event.

SUPPLEMENTARY INFORMATION



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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors of
Only Make Believe, Inc.

We have audited the financial statements of Only Make Believe, Inc. as of and for the years ended December 31, 2012 and 2011, and our report thereon dated August 20, 2013, which expressed an unmodified opinion on those financial statements, appears on pages one and two. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2012 with comparative totals for 2011 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
August 20, 2013

ONLY MAKE BELIEVE, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012 WITH COMPARATIVE TOTALS FOR 2011

	Program Services	Supporting Services		2012 Total Expenses	2011 Total Expenses
		Management and General	Fundraising		
Salaries	\$419,358	\$ 67,280	\$ 113,287	\$599,925	\$514,259
Employee benefit and payroll taxes	72,143	11,336	19,582	103,061	88,453
Occupancy	35,156	5,525	9,542	50,223	49,476
Professional fees	6,000	40,818	22,488	69,306	62,801
Indirect benefit expense	-	-	30,054	30,054	31,543
Website	-	198	712	910	535
Printing and publication	943	6,402	1,844	9,189	13,786
Supplies	18,735	12,036	698	31,469	29,801
Telephone, internet and webhosting	3,399	534	922	4,855	4,151
Insurance	5,147	809	1,397	7,353	4,431
Postage	451	2,199	50	2,700	7,097
Subscriptions, dues and fees	391	1,896	15,238	17,525	13,547
Travel	22,265	3,419	774	26,458	22,493
Marketing	320	718	100	1,138	6,151
Depreciation	3,401	534	923	4,858	8,995
Miscellaneous	7,899	16,566	1,020	25,485	24,581
Total Expenses, 2012	<u>\$595,608</u>	<u>\$ 170,270</u>	<u>\$ 218,631</u>	<u>\$984,509</u>	
Total Expenses, 2011	<u>\$553,927</u>	<u>\$ 127,178</u>	<u>\$ 200,995</u>		<u>\$882,100</u>

See independent auditors' report on supplementary information.