

HEALING THE CHILDREN,
NATIONAL OFFICE AND
AFFILIATED CHAPTERS

COMBINED FINANCIAL REPORT

December 31, 2013 and 2012

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CERTIFIED PUBLIC ACCOUNTANTS & FINANCIAL CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Executive Committee
Healing the Children,
National Office and Affiliated Chapters
Spokane, Washington

Report on the Financial Statements

We have audited the accompanying combined financial statements of Healing the Children, National Office (a nonprofit organization) and affiliated chapters, which comprise the combined statements of financial position as of December 31, 2013 and 2012 and the related combined statements of activities, functional expenses, net assets, 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 combined 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 combined financial statements based on our audit. We did not audit the financial statements of Healing the Children, Florida, an affiliated chapter, which reflect total assets of \$341,075 and \$350,055 as of December 31, 2013 and 2012, respectively, and total support and revenues of \$1,594,678 and \$1,359,462, for the years then ended. We did not audit the financial statements of Healing the Children, Michigan/Ohio, an affiliated chapter, which reflect total assets of \$336,443 and \$360,279 as of December 31, 2013 and 2012, respectively, and total support and revenues of \$3,736,130 and \$3,928,250, for the years then ended. We did not audit the financial statements of Healing the Children, New Jersey, an affiliated chapter, which reflect total assets of \$417,758 and \$401,371 as of December 31, 2013 and 2012, respectively, and total support and revenues of \$2,320,985 and \$1,592,184, for the years then ended. We did not audit the financial statements of Healing the Children, Northeast, an affiliated chapter, which reflect total assets of \$181,733 and \$118,800 as of December 31, 2013 and 2012, respectively, and total support and revenues of \$3,243,028 and \$3,999,160, for the years then ended. We did not audit the financial statements of Healing the Children, Southwest, an affiliated chapter, which reflect total assets of \$50,619 as of December 31, 2012, and total support and revenues \$314,817, for the year then ended.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditor's Responsibility (continued)

The statements for each of the above named affiliated chapters were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the affiliated chapters named above, is based solely on the reports of the other auditors. 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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, based on our audit and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of Healing the Children, National Office and Affiliated Chapters as of December 31, 2013 and 2012, 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.

Heiskell MacGillivray & Associates PS

Heiskell MacGillivray & Associates, PS
Spokane, Washington
October 10, 2014

HEALING THE CHILDREN
 NATIONAL OFFICE AND AFFILIATED CHAPTERS
 COMBINED STATEMENTS OF FINANCIAL POSITION
 December 31, 2013 and 2012

<u>ASSETS</u>	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,406,933	\$ 1,421,925
Prepaid expenses	<u>24,639</u>	<u>17,139</u>
Total current assets	<u>1,431,572</u>	<u>1,439,064</u>
PROPERTY AND EQUIPMENT		
Land	33,900	33,900
Building and improvements	214,791	214,791
Medical equipment	159,866	129,756
Office furniture and equipment	<u>181,286</u>	<u>175,627</u>
	589,843	554,074
Less accumulated depreciation	<u>(295,834)</u>	<u>(262,557)</u>
Net property and equipment	<u>294,009</u>	<u>291,517</u>
Total assets	<u>\$ 1,725,581</u>	<u>\$ 1,730,581</u>

See Independent Auditors' Report.

The Notes to the Financial Statements are an integral part of this statement.

<u>LIABILITIES AND NET ASSETS</u>	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 57,177	\$ 43,600
Current portion of long-term debt	<u>3,201</u>	<u>3,052</u>
Total current liabilities	60,378	46,652
LONG-TERM DEBT		
Long-term debt, net of current portion	<u>91,886</u>	<u>100,087</u>
Total liabilities	<u>152,264</u>	<u>146,739</u>
NET ASSETS		
Unrestricted	1,486,365	1,537,758
Temporarily restricted	64,452	23,584
Permanently restricted	<u>22,500</u>	<u>22,500</u>
Total net assets	<u>1,573,317</u>	<u>1,583,842</u>
Total liabilities and net assets	<u><u>\$ 1,725,581</u></u>	<u><u>\$ 1,730,581</u></u>

HEALING THE CHILDREN
NATIONAL OFFICE AND AFFILIATED CHAPTERS
COMBINED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions in kind	\$ 15,645,653	\$ 16,565,319
Public contributions	806,555	792,551
Fundraising activities	189,420	108,640
Special event income less cost of direct benefit to donors of \$51,156 and \$53,891, respectively	191,174	157,666
Grant income	136,061	114,350
Interest income	10,787	23,783
	<u>16,979,650</u>	<u>17,762,309</u>
Net assets released from restrictions	<u>25,338</u>	<u>77,980</u>
Total unrestricted support and revenue	<u>17,004,988</u>	<u>17,840,289</u>
EXPENSES		
Program services	16,646,246	17,539,628
Management and general	207,086	207,130
Fundraising	198,390	142,052
Interest	4,659	6,267
	<u>17,056,381</u>	<u>17,895,077</u>
Total expenses	<u>17,056,381</u>	<u>17,895,077</u>
Decrease in unrestricted net assets	<u>(51,393)</u>	<u>(54,788)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions subject to restrictions	66,206	50,656
Net assets released from restrictions	<u>(25,338)</u>	<u>(77,980)</u>
Increase (decrease) in temporarily restricted net assets	<u>40,868</u>	<u>(27,324)</u>
DECREASE IN COMBINED NET ASSETS	<u>\$ (10,525)</u>	<u>\$ (82,112)</u>

See Independent Auditors' Report.

The Notes to the Financial Statements are an integral part of this statement.

HEALING THE CHILDREN
 NATIONAL OFFICE AND AFFILIATED CHAPTERS
 COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
 Years Ended December 31, 2013 and 2012

	Year Ended December 31, 2013			
	Program Services	Management and General	Fund Raising	Total
Advertising	\$ 3,975	\$ 26	\$ 3,975	\$ 7,976
Depreciation	17,963	12,754	2,560	33,277
Donated medical and travel	14,466,218	-	-	14,466,218
Donated supplies and other	1,179,435	-	-	1,179,435
Dues and subscriptions	1,917	2,151	-	4,068
Equipment maintenance	132	3,689	-	3,821
Fundraising	-	-	125,823	125,823
Insurance	13,870	15,572	-	29,442
Medical trips and travel	432,168	6,341	208	438,717
Office expense	27,442	26,235	829	54,506
Other	14,866	7,960	8,278	31,104
Payroll, taxes and benefits	302,959	76,807	49,828	429,594
Professional fees	11,395	31,121	2,292	44,808
Programs expense	130,816	2,816	2,055	135,687
Rent	27,290	9,506	1,935	38,731
Shipping and postage	6,244	4,687	249	11,180
Telephone	9,556	6,271	358	16,185
Training	-	1,150	-	1,150
	\$ 16,646,246	\$ 207,086	\$ 198,390	\$ 17,051,722
Total expenses	\$ 16,646,246	\$ 207,086	\$ 198,390	\$ 17,051,722

See Independent Auditors' Report.

The Notes to the Financial Statements are an integral part of this statement.

Year Ended December 31, 2012				
	Program	Management	Fund	
	Services	and General	Raising	Total
Advertising	\$ 2,824	\$ 1,440	\$ 1,563	\$ 5,827
Depreciation	15,094	12,805	1,156	29,055
Donated medical and travel	15,380,653	-	-	15,380,653
Donated supplies and other	1,184,666	-	-	1,184,666
Dues and subscriptions	200	2,108	-	2,308
Equipment maintenance	80	345	-	425
Fundraising	-	-	78,107	78,107
Insurance	8,048	14,373	-	22,421
Medical trips and travel	368,391	11,242	238	379,871
Office expense	29,664	30,246	1,201	61,111
Other	12,454	11,052	2,666	26,172
Payroll, taxes and benefits	300,519	84,999	49,778	435,296
Professional fees	31,382	7,386	1,816	40,584
Programs expense	160,384	2,817	2,902	166,103
Rent	29,816	7,603	1,947	39,366
Shipping and postage	4,042	6,020	359	10,421
Telephone	11,411	8,341	319	20,071
Training	-	6,353	-	6,353
Total expenses	<u>\$ 17,539,628</u>	<u>\$ 207,130</u>	<u>\$ 142,052</u>	<u>\$ 17,888,810</u>

HEALING THE CHILDREN
 NATIONAL OFFICE AND AFFILIATED CHAPTERS
 COMBINED STATEMENTS OF NET ASSETS
 December 31, 2013 and 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
COMBINED NET ASSETS, December 31, 2011	\$ 1,386,048	\$ 44,152	\$ 22,500	\$ 1,452,700
Merger of branches during 2012 (Note 3)	206,498	6,756	-	213,254
Decrease in combined net assets	<u>(54,788)</u>	<u>(27,324)</u>	<u>-</u>	<u>(82,112)</u>
COMBINED NET ASSETS, December 31, 2012	1,537,758	23,584	22,500	1,583,842
Increase (decrease) in combined net assets	<u>(51,393)</u>	<u>40,868</u>	<u>-</u>	<u>(10,525)</u>
COMBINED NET ASSETS, December 31, 2013	<u>\$ 1,486,365</u>	<u>\$ 64,452</u>	<u>\$ 22,500</u>	<u>\$ 1,573,317</u>

See Independent Auditors' Report.

The Notes to the Financial Statements are an integral part of this statement.

HEALING THE CHILDREN
NATIONAL OFFICE AND AFFILIATED CHAPTERS
COMBINED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from support and revenue	\$ 1,389,416	\$ 1,261,093
Cash paid to suppliers and employees	(1,366,715)	(1,382,462)
Interest paid	(4,659)	(6,267)
Interest received	<u>10,787</u>	<u>23,783</u>
Net cash provided (used) by operating activities	<u>28,829</u>	<u>(103,853)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(35,769)	-
Merger with branch offices (Note 3)	<u>-</u>	<u>219,469</u>
Net cash provided (used) by investing activities	<u>(35,769)</u>	<u>219,469</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(8,052)	(3,434)
Proceeds of long-term debt	<u>-</u>	<u>5,000</u>
Net cash provided (used) by financing activities	<u>(8,052)</u>	<u>1,566</u>
NET INCREASE (DECREASE) IN CASH	(14,992)	117,182
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,421,925</u>	<u>1,304,743</u>
End of year	<u><u>\$ 1,406,933</u></u>	<u><u>\$ 1,421,925</u></u>

See Independent Auditors' Report.

The Notes to the Financial Statements are an integral part of this statement.

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Decrease in combined net assets	\$ (10,525)	\$ (82,112)
Adjustments to reconcile-		
Depreciation	33,277	29,055
Donation of furniture and office equipment	-	(34,052)
(Increase) decrease in assets-		
Prepaid expenses	(7,500)	31,485
Unconditional promises to give	-	37,230
Increase (decrease) in liabilities-		
Accounts payable and accrued expenses	<u>13,577</u>	<u>(85,459)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 28,829</u>	<u>\$ (103,853)</u>

HEALING THE CHILDREN
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2013 and 2012

NOTE 1. ORGANIZATION AND BASIS OF COMBINATION

Healing the Children, National is a Washington nonprofit corporation that is a voluntary health and welfare entity, located in Spokane, Washington. Healing the Children's mission is to provide free medical care to children, domestically and internationally through its affiliated chapters and branches located across the United States of America. The Organization's primary sources of revenue and support are in-kind contributions of medical services and supplies as well as contributions from the public. Volunteer medical teams travel throughout the world providing donated surgeries and other medical care to children. The organization also welcomes children from their native countries to the United States to receive donated medical care.

The combined financial statements present the combined financial information for Healing the Children, National and its affiliated chapters (collectively, the Organization). The statements are not those of a legal entity, but those of entities that have a common mandate and cooperate and coordinate their activities. The affiliated chapters are separately incorporated and governed by independent boards and provide free medical care to children. The National office serves each chapter by coordinating care and international medical trips. The board of directors of the National Office and the affiliated chapters voted to report on combined financial information for the years ended December 31, 2013 and 2012. The combined financial statements are more meaningful than separate financial statements because of the common mandate and coordination of activities among all chapters and branches. All significant intercompany transactions and balances have been eliminated in the combination. The affiliated chapters consist of the following:

- Healing the Children, Oregon/Western Washington
- Healing the Children, Michigan/Ohio
- Healing the Children, Florida
- Healing the Children, New Jersey
- Healing the Children, Northeast

During 2013 and 2012, previously autonomous chapters were merged into National and ceased their separate existence. See Note 3. The merged chapters are as follows:

- Healing the Children, Greater Philadelphia (2012)
- Healing the Children, Kentucky (2012)
- Healing the Children, Illinois/Indiana (2012)
- Healing the Children, Inland Northwest (2012)
- Healing the Children, Arizona (2012)
- Healing the Children, Southwest (2013)
- Healing the Children, Wisconsin (2013)

Effective September 15, 2013, Healing the Children, Austin branch was formed.

HEALING THE CHILDREN
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Contributions and Presentation:

All contributions are considered available for the general programs of the Organization unless specifically restricted by the donor. The Organization reports monetary gifts as temporarily restricted support if they are received with donor stipulations that limit the use of donated assets or are subject to time restriction. A donor restriction expires when a stipulated time restriction ends or when a purpose restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as released from restrictions.

Permanently restricted net assets are those assets for which donors require the principal of the gift to be maintained in perpetuity. An endowment fund has been established to fund an annual Nurses Honor Program at the Healing the Children, New Jersey chapter. The principal of \$22,500 is invested and the interest is used to fund an annual nurse recognition award. There were no permanently restricted net assets released from restrictions during 2013 or 2012.

Accounting Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 support and revenue and expenses during the reporting period. Significant estimates consist of the fair values of donated medical services, donated supplies and other donated items including airfare. Actual results could differ from those estimates.

Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, the Organization considers all unrestricted highly liquid investments with maturity dates of three months or less to be cash equivalents.

Property, Equipment and Depreciation:

Property and equipment are stated at cost for purchased items and fair value for donated items. Cost for purchased items is the amount paid and for donated items is the fair value at the time of acquisition. Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Property and equipment are depreciated using the straight-line method, over estimated useful lives of five to seven years.

Functional Expenses:

The expenses of providing for the organizations' activities have been summarized on a functional basis in the combined statements of activities and in detail on the combined statements of functional expenses. Direct expenses are charged directly to the program, fundraising, or management and general categories based on specific identification. Indirect expenses have been allocated based on management's estimates of benefit to the related activity.

HEALING THE CHILDREN
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Expense:

Advertising expense is recorded in the period in which the advertising takes place. Advertising expense was \$7,976 and \$5,827 for the years ended December 31, 2013 and 2012, respectively.

Income Taxes:

Healing the Children, National Office and affiliated chapters are nonprofit corporations, which are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Management has determined there are no material uncertain tax positions that require recognition in the financial statements. Additionally, no provision for income taxes is reflected in these financial statements. There is no interest or penalties recognized in the statement of activities or statement of financial position. The Organization's past three years income tax returns remain open for possible examination by the federal tax authorities.

Donated Services and Supplies:

The Organization recognizes the fair value of donated services that require specialized skills and would have otherwise been purchased by the chapters. The Organization also receives donated supplies, airfare and other specialized services. These contributed services and supplies are reflected as expenses and contributions at their estimated fair value at date of the donation. The fair values were determined primarily using information obtained from the participating doctors, hospitals and suppliers based on rates they would have otherwise charged. During 2013 and 2012, respectively, the Organization received \$14,466,218 and \$15,380,653 of donated medical services and travel, \$1,179,435 and \$1,184,666 of donated supplies and assistance.

NOTE 3. MERGERS

The financial statements for the year ended December 31, 2012 was the first year the National Office began presenting a combined financial statement with all of the affiliated chapters. Previously, Healing the Children, National Office presented financial statements that did not include the financial information for any of the affiliated chapters. During 2012, several of the chapters dissolved their separate corporation and became branches of the National Office, as follows:

- Healing the Children, Greater Philadelphia became a branch effective January 1, 2012.
- Healing the Children, Kentucky became a branch effective January 1, 2012.
- Healing the Children, Illinois/Indiana became a branch effective May 1, 2012.
- Healing the Children, Inland Northwest became a branch effective July 1, 2012.
- Healing the Children, Arizona became a branch effective August 15, 2012.

HEALING THE CHILDREN
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 3. MERGERS (CONTINUED)

No consideration was transferred as a part of the transactions described. The amounts recognized by National at the merger dates approximated fair value and consisted of cash totaling \$219,469, other assets of \$4,374, liabilities of \$10,589, and net assets of \$213,254 for 2012. The Combined Statement of Activities includes financial information for each branch for the period from the date they became a branch to December 31, 2012.

Healing the Children, Southwest dissolved its separate corporation and became a branch of National effective January 1, 2013. Healing the Children, Wisconsin dissolved its separate corporation and became a branch of National effective April 8, 2013. No consideration was transferred as a part of these transactions. The amounts recognized by National at the merger dates approximate fair value and consist of cash and net assets totaling \$141,182. These transactions had no effect on the combined financial statements during the year ended December 31, 2013 as these chapters were included in the combined financial statements during 2012.

NOTE 4. LONG-TERM DEBT

Long term debt consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Healing the Children, New Jersey:		
Note payable to Columbia Bank, including monthly payments of \$863, including interest at 4.75% through September 1, 2022, at which time a balloon payment is due, secured by a building.	\$ 95,087	\$ 98,139
Healing the Children, Oregon/Western Washington:		
Unsecured, non-interest bearing note payable to its executive director.	-	5,000
	<u>95,087</u>	<u>103,139</u>
Current portion of long-term debt	<u>(3,201)</u>	<u>(3,052)</u>
	<u>\$ 91,886</u>	<u>\$ 100,087</u>

See Independent Auditors' Report.

HEALING THE CHILDREN
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2013 and 2012

NOTE 4. LONG-TERM DEBT (CONTINUED)

The aggregate amount of required principal payments maturing after December 31, 2013 is as follows:

Year ending December 31,	
2014	\$ 3,201
2015	3,358
2016	3,539
2017	3,713
2018	3,896
Thereafter	<u>77,380</u>
	<u><u>\$ 95,087</u></u>

NOTE 5. SUBSEQUENT EVENTS

Effective May 29, 2014, Healing the Children, Rocky Mountains was formed as a branch of National.

Subsequent events have been evaluated through October 10, 2014, which is the date the financial statements were available to be issued.