

HEALING THE CHILDREN,  
NATIONAL OFFICE AND  
AFFILIATED CHAPTERS

COMBINED FINANCIAL REPORT

December 31, 2015 and 2014

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Combined 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, 2015 and 2014 and the related combined statements of activities, functional expenses, net assets, and cash flows for the years then ended, and the related notes to combined financial statements.

### Management's Responsibility for the Combined 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 combined 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 \$313,413 and \$340,423 as of December 31, 2015 and 2014, respectively, and total support and revenues of \$1,293,357 and \$2,546,348, 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 \$403,141 and \$338,810 as of December 31, 2015 and 2014, respectively, and total support and revenues of \$4,285,494 and \$2,948,576, 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 \$343,336 and \$314,607 as of December 31, 2015 and 2014, respectively, and total support and revenues of \$2,308,298 and \$2,033,215, 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 \$262,772 and \$196,973 as of December 31, 2015 and 2014, respectively, and total support and revenues of \$3,551,227 and \$3,974,227, for the years then ended.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

**Auditors' Responsibility (continued)**

The statements for each of the affiliated chapters named on page 1 were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these affiliated chapters, 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 auditors' 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, 2015 and 2014, 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.

*HMA CPA, PS*

HMA CPA, PS  
Spokane, Washington  
September 26, 2016

HEALING THE CHILDREN,  
NATIONAL OFFICE AND AFFILIATED CHAPTERS  
COMBINED STATEMENTS OF FINANCIAL POSITION  
December 31, 2015 and 2014

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,136,020	\$ 1,056,619
Marketable securities	307,430	311,166
Prepaid expenses	<u>44,392</u>	<u>23,142</u>
Total current assets	<u>1,487,842</u>	<u>1,390,927</u>
PROPERTY AND EQUIPMENT		
Land	33,900	33,900
Building and improvements	214,791	214,791
Medical equipment	189,325	159,125
Office furniture and equipment	<u>117,130</u>	<u>176,909</u>
	555,146	584,725
Less accumulated depreciation	<u>(294,927)</u>	<u>(315,996)</u>
Net property and equipment	<u>260,219</u>	<u>268,729</u>
Total assets	<u><u>\$ 1,748,061</u></u>	<u><u>\$ 1,659,656</u></u>

The Notes to Combined Financial Statements are an integral part of these statements.

<u>LIABILITIES AND NET ASSETS</u>	<u>2015</u>	<u>2014</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 69,357	\$ 56,436
Current portion of long-term debt	<u>3,539</u>	<u>3,358</u>
Total current liabilities	72,896	59,794
<b>LONG-TERM DEBT, net of current portion</b>	<u>84,987</u>	<u>88,529</u>
Total liabilities	<u>157,883</u>	<u>148,323</u>
<b>NET ASSETS</b>		
Unrestricted	1,099,005	1,061,476
Temporarily restricted	469,348	427,357
Permanently restricted	<u>21,825</u>	<u>22,500</u>
Total net assets	<u>1,590,178</u>	<u>1,511,333</u>
Total liabilities and net assets	<u><u>\$ 1,748,061</u></u>	<u><u>\$ 1,659,656</u></u>

HEALING THE CHILDREN,  
NATIONAL OFFICE AND AFFILIATED CHAPTERS  
COMBINED STATEMENTS OF ACTIVITIES  
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions in-kind	\$ 13,835,062	\$ 15,031,748
Public contributions	696,533	717,761
Grant income	37,500	25,000
Fundraising activities	207,936	166,037
Special event income, less cost of direct benefit to donors of \$46,697 and \$35,221, respectively	119,207	170,542
Other income	4,902	2,618
Investment loss	(1,131)	(1,113)
	<u>14,900,009</u>	<u>16,112,593</u>
Net assets released from restrictions	134,592	66,099
	<u>15,034,601</u>	<u>16,178,692</u>
EXPENSES		
Program services	14,646,538	15,934,790
Management and general	202,658	217,747
Fundraising	143,525	175,168
Interest	4,351	4,510
	<u>14,997,072</u>	<u>16,332,215</u>
Total expenses	<u>14,997,072</u>	<u>16,332,215</u>
Increase (decrease) in unrestricted net assets	<u>37,529</u>	<u>(153,523)</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions subject to restrictions	178,513	143,380
Investment gain (loss)	(1,930)	14,258
Net assets released from restrictions	(134,592)	(66,099)
	<u>41,991</u>	<u>91,539</u>
Increase in temporarily restricted net assets	<u>41,991</u>	<u>91,539</u>
PERMANENTLY RESTRICTED NET ASSETS		
Investment loss	(675)	-
	<u>(675)</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 78,845</u>	<u>\$ (61,984)</u>

The Notes to Combined Financial Statements are an integral part of these statements.

HEALING THE CHILDREN,  
NATIONAL OFFICE AND AFFILIATED CHAPTERS  
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES  
Years Ended December 31, 2015 and 2014

	Year Ended December 31, 2015			Total
	Program Services	Management and General	Fund- raising	
Advertising	\$ 7,797	\$ 383	\$ 725	\$ 8,905
Depreciation	18,212	6,454	4,068	28,734
Donated medical and travel	12,693,312	1,355	-	12,694,667
Donated supplies and other	1,140,395	-	-	1,140,395
Dues and subscriptions	-	2,169	-	2,169
Equipment maintenance	-	4,261	-	4,261
Fundraising	-	-	102,059	102,059
Insurance	16,201	6,748	576	23,525
Medical trips and travel	346,245	-	-	346,245
Office expense	15,999	30,175	974	47,148
Other	10,024	7,008	1,278	18,310
Payroll, taxes and benefits	212,776	87,734	29,159	329,669
Professional fees	9,390	32,355	3,185	44,930
Programs expense	146,495	-	-	146,495
Rent	19,455	8,054	-	27,509
Shipping and postage	2,258	3,414	332	6,004
Telephone	7,979	12,548	1,169	21,696
 Total expenses	 <u>\$ 14,646,538</u>	 <u>\$ 202,658</u>	 <u>\$ 143,525</u>	 <u>\$ 14,992,721</u>

The Notes to Combined Financial Statements are an integral part of these statements.



	Year Ended December 31, 2014			
	Program Services	Management and General	Fund- raising	Total
Advertising	\$ 1,868	\$ 14	\$ 1,859	\$ 3,741
Depreciation	13,792	10,520	2,760	27,072
Donated medical and travel	13,332,775	-	-	13,332,775
Donated supplies and other	1,698,133	-	-	1,698,133
Dues and subscriptions	-	627	-	627
Equipment maintenance	-	8,592	-	8,592
Fundraising	-	-	113,167	113,167
Insurance	7,089	14,403	-	21,492
Medical trips and travel	379,242	1,512	-	380,754
Office expense	18,985	24,825	661	44,471
Other	7,263	13,301	3,354	23,918
Payroll, taxes and benefits	274,871	92,971	47,012	414,854
Professional fees	11,390	27,947	2,993	42,330
Programs expense	145,203	-	-	145,203
Rent	28,203	7,600	2,020	37,823
Shipping and postage	7,801	3,604	468	11,873
Telephone	8,175	11,831	874	20,880
Total expenses	<u>\$ 15,934,790</u>	<u>\$ 217,747</u>	<u>\$ 175,168</u>	<u>\$ 16,327,705</u>

HEALING THE CHILDREN,  
NATIONAL OFFICE AND AFFILIATED CHAPTERS  
COMBINED STATEMENTS OF NET ASSETS  
December 31, 2015 and 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
NET ASSETS, December 31, 2013	\$ 1,214,999	\$ 335,818	\$ 22,500	\$ 1,573,317
Increase (decrease) in net assets	<u>(153,523)</u>	<u>91,539</u>	<u>-</u>	<u>(61,984)</u>
NET ASSETS, December 31, 2014	1,061,476	427,357	22,500	1,511,333
Increase (decrease) in net assets	<u>37,529</u>	<u>41,991</u>	<u>(675)</u>	<u>78,845</u>
NET ASSETS, December 31, 2015	<u>\$ 1,099,005</u>	<u>\$ 469,348</u>	<u>\$ 21,825</u>	<u>\$ 1,590,178</u>

The Notes to Combined Financial Statements are an integral part of these statements.

HEALING THE CHILDREN,  
NATIONAL OFFICE AND AFFILIATED CHAPTERS  
COMBINED STATEMENTS OF CASH FLOWS  
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from support and revenue	\$ 1,244,591	\$ 1,225,338
Cash paid to suppliers and employees	(1,137,254)	(1,268,129)
Interest paid	<u>(4,351)</u>	<u>(4,510)</u>
Net cash provided (used) by operating activities	<u>102,986</u>	<u>(47,301)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(20,224)	(2,004)
Purchase of investments	-	(5,321)
Proceeds from sale of equipment	<u>-</u>	<u>212</u>
Net cash used by investing activities	<u>(20,224)</u>	<u>(7,113)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	<u>(3,361)</u>	<u>(3,200)</u>
Net cash used by financing activities	<u>(3,361)</u>	<u>(3,200)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>79,401</b>	<b>(57,614)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>1,056,619</u>	<u>1,114,233</u>
End of year	<u><u>\$ 1,136,020</u></u>	<u><u>\$ 1,056,619</u></u>

The Notes to Combined Financial Statements are an integral part of these statements.

	<u>2015</u>	<u>2014</u>
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 78,845	\$ (61,984)
Adjustments to reconcile-		
Depreciation	28,734	27,072
(Gain) loss on investments	3,736	(13,145)
(Increase) decrease in assets-		
Prepaid expenses	(21,250)	1,497
Increase (decrease) in liabilities-		
Accounts payable and accrued expenses	<u>12,921</u>	<u>(741)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 102,986</u>	<u>\$ (47,301)</u>

HEALING THE CHILDREN,  
NATIONAL OFFICE AND AFFILIATED CHAPTERS  
NOTES TO COMBINED FINANCIAL STATEMENTS  
December 31, 2015 and 2014

**NOTE 1. ORGANIZATION AND BASIS OF COMBINATION**

Healing the Children, National Office (the National Office or the Organization) is a Washington nonprofit corporation that is a voluntary health and welfare entity, located in Spokane, Washington. The Organization's mission is to provide free medical care to children, domestically and internationally through its five affiliated chapters and nine branches located across the United States of America. The Organization's primary sources of support and revenue 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 Office 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, 2015 and 2014. 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, Florida
- Healing the Children, Michigan/Ohio
- Healing the Children, New Jersey
- Healing the Children, Northeast

The branches consist of the following:

- Healing the Children, Arizona
- Healing the Children, Austin
- Healing the Children, Greater Philadelphia
- Healing the Children, Illinois/Indiana
- Healing the Children, Inland Northwest
- Healing the Children, Kentucky
- Healing the Children, Northern California, formed during 2015
- Healing the Children, Rocky Mountains
- Healing the Children, Southern California, formed during 2015
- Healing the Children, Southwest
- Healing the Children, Wisconsin

HEALING THE CHILDREN,  
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NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014

**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 combined 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 \$21,825 and \$22,500 as of December 31, 2015 and 2014, respectively, is invested and the interest is used to fund an annual nurse recognition award. During 2015, investment losses of \$675 decreased the permanently restricted net assets. During 2015 and 2014, no permanently restricted net assets were released from restrictions.

**Accounting Estimates:**

The preparation of combined 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 combined 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 combined statements of cash flows, the Organization considers all unrestricted highly liquid investments with maturity dates of three months or less to be cash equivalents.

Certificates of deposit totaling approximately \$207,255 and \$205,724 at December 31, 2015 and 2014, respectively, are included as cash and cash equivalents in the accompanying combined statements of financial position. The certificates bear interest ranging from .594% to 1.25% and have maturities through 2017.

**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.

HEALING THE CHILDREN,  
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NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 services, 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.

**Advertising Expense:**

Advertising expense is recorded in the period in which the advertising takes place. Advertising expense was \$8,905 and \$3,741 for the years ended December 31, 2015 and 2014, 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 combined financial statements. Additionally, no provision for income taxes is reflected in these combined financial statements. There is no interest or penalties recognized in the combined statements of activities or combined statements of financial position. The tax returns of the Organization for the years 2014, 2013, and 2012 are subject to examination by federal tax authorities, generally for three years after they were filed.

**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 Organization. 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 2015 and 2014, respectively, the Organization received \$12,694,667 and \$13,332,775 of donated medical services and travel, and \$1,140,395 and \$1,698,133 of donated supplies and assistance.

**Marketable Securities:**

Investments in marketable debt and equity securities are classified as available for sale. Available for sale securities are recorded at fair value on the combined statements of financial position, investment income and realized and unrealized gains and losses are reported as increases or decreases in unrestricted net assets absent any donor restrictions. Donor restricted investments totaled \$282,354 and \$285,036 at December 31, 2015 and 2014, respectively.

HEALING THE CHILDREN,  
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NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reclassifications:**

Certain amounts in the 2014 combined financial statements have been reclassified for comparative purposes to conform to the 2015 presentation.

**NOTE 3. FAIR VALUE MEASUREMENTS**

The Organization measures its marketable securities at fair value on a recurring basis in accordance with generally accepted accounting principles in the United States (GAAP). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP provides a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

Level 1: defined as observable inputs such as quoted prices for identical instruments in active markets;

Level 2: defined as inputs other than quoted prices in active markets that are directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

Level 3: defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant value drivers are observable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value of the Organization's marketable securities at December 31, 2015 and 2014 are based on Level 1 inputs.



HEALING THE CHILDREN,  
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NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014

**NOTE 4. MARKETABLE SECURITIES**

Marketable securities consist of debt and equity securities which have been classified as available for sale based on management's intent. The amortized cost of the securities and their approximate fair values are as follows at December 31:

	<u>2015</u>	<u>2014</u>
Cost	\$ 312,158	\$ 313,505
Gross unrealized holding gains	-	729
Gross unrealized holding losses	<u>(4,728)</u>	<u>(3,068)</u>
Fair value	<u>\$ 307,430</u>	<u>\$ 311,166</u>

The components of investment gain (loss) included in unrestricted net assets in the combined statements of activities are as follows for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Dividends reinvested	\$ -	\$ 14,551
Unrealized losses	(4,728)	(2,339)
Dividends and interest	<u>992</u>	<u>933</u>
Total	<u>\$ (3,736)</u>	<u>\$ 13,145</u>

In evaluating unrealized losses for other than temporary impairment, management considers the severity of the unrealized loss for the individual securities. There are no investments that experienced declines in value that management believes are other than temporary in nature.

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NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2015 and 2014

**NOTE 5. LONG-TERM DEBT**

Long-term debt consisted of the following at December 31:

	<u>2015</u>	<u>2014</u>
Healing the Children, New Jersey:		
Note payable to Columbia Bank, monthly payments of \$643, including interest at 4.75% through September 1, 2022, at which time a balloon payment is due, secured by a building.	\$ 88,526	\$ 91,887
Current portion of long-term debt	<u>(3,539)</u>	<u>(3,358)</u>
	<u>\$ 84,987</u>	<u>\$ 88,529</u>

The aggregate amount of required principal payments maturing after December 31, 2015 is as follows:

Year ending December 31,	
2016	\$ 3,539
2017	3,713
2018	3,896
2019	4,087
2020	4,289
Thereafter	<u>69,002</u>
	<u>\$ 88,526</u>

**NOTE 6. SUBSEQUENT EVENTS**

Management has evaluated potential subsequent events through September 26, 2016, the date the combined financial statements were available to be issued, and concluded that no events have arisen which require disclosure.