

HEALING THE CHILDREN,
NATIONAL OFFICE AND
AFFILIATED CHAPTERS

COMBINED FINANCIAL REPORT

December 31, 2016 and 2015

C O N T E N T S

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 and 2
COMBINED FINANCIAL STATEMENTS	
Combined Statements of Financial Position.....	3 and 4
Combined Statements of Activities.....	5
Combined Statements of Functional Expenses.....	6 and 7
Combined Statements of Net Assets	8
Combined Statements of Cash Flows.....	9 and 10
NOTES TO COMBINED FINANCIAL STATEMENTS	11 to 16



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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, 2016 and 2015 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 \$346,709 and \$313,413 as of December 31, 2016 and 2015, respectively, and total support and revenues of \$1,252,722 and \$1,293,357, 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 \$473,045 and \$403,141 as of December 31, 2016 and 2015, respectively, and total support and revenues of \$4,121,689 and \$4,285,494, 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 \$392,138 and \$343,336 as of December 31, 2016 and 2015, respectively, and total support and revenues of \$1,653,793 and \$2,308,298, 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 \$351,931 and \$262,772 as of December 31, 2016 and 2015, respectively, and total support and revenues of \$4,287,850 and \$3,551,227, 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, 2016 and 2015, 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

Spokane, Washington
November 3, 2017

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
COMBINED STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,433,451	\$ 1,190,835
Marketable securities	264,665	252,615
Prepaid expenses	<u>66,970</u>	<u>44,392</u>
Total current assets	<u>1,765,086</u>	<u>1,487,842</u>
PROPERTY AND EQUIPMENT		
Land	33,900	33,900
Building and improvements	214,791	214,791
Medical equipment	224,728	189,325
Office furniture and equipment	<u>61,925</u>	<u>117,130</u>
	535,344	555,146
Less accumulated depreciation	<u>(273,112)</u>	<u>(294,927)</u>
Net property and equipment	<u>262,232</u>	<u>260,219</u>
Total assets	<u>\$ 2,027,318</u>	<u>\$ 1,748,061</u>

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

<u>LIABILITIES AND NET ASSETS</u>	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 120,758	\$ 69,357
Current portion of long-term debt	<u>3,712</u>	<u>3,539</u>
Total current liabilities	124,470	72,896
 LONG-TERM DEBT, net of current portion	 <u>81,302</u>	 <u>84,987</u>
Total liabilities	 <u>205,772</u>	 <u>157,883</u>
 NET ASSETS		
Unrestricted	1,444,997	1,231,359
Temporarily restricted	354,049	336,994
Permanently restricted	<u>22,500</u>	<u>21,825</u>
Total net assets	 <u>1,821,546</u>	 <u>1,590,178</u>
Total liabilities and net assets	 <u>\$ 2,027,318</u>	 <u>\$ 1,748,061</u>

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
COMBINED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions in-kind	\$ 14,444,768	\$ 13,835,062
Public contributions	747,643	696,533
Grant income	44,067	37,500
Fundraising activities	220,122	207,936
Special event income, less cost of direct benefit to donors of \$23,600 and \$46,697, respectively	69,762	119,207
Other income	5,978	4,902
Loss on disposal of equipment	(6,769)	-
Investment gain (loss)	10,585	(1,131)
	<u>15,536,156</u>	<u>14,900,009</u>
Net assets released from restrictions	<u>120,235</u>	<u>134,592</u>
Total unrestricted support and revenue	<u>15,656,391</u>	<u>15,034,601</u>
EXPENSES		
Program services	15,175,924	14,646,538
Management and general	164,909	202,658
Fundraising	97,721	143,525
Interest	4,199	4,351
	<u>15,442,753</u>	<u>14,997,072</u>
Total expenses	<u>15,442,753</u>	<u>14,997,072</u>
Increase in unrestricted net assets	<u>213,638</u>	<u>37,529</u>
TEMPORARILY RESTRICTED NET ASSETS		
Contributions subject to restrictions	137,290	178,513
Investment gain (loss)	-	(1,930)
Net assets released from restrictions	<u>(120,235)</u>	<u>(134,592)</u>
Increase in temporarily restricted net assets	<u>17,055</u>	<u>41,991</u>
PERMANENTLY RESTRICTED NET ASSETS		
Investment gain (loss)	<u>675</u>	<u>(675)</u>
INCREASE IN NET ASSETS	<u>\$ 231,368</u>	<u>\$ 78,845</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, 2016 and 2015

	Year Ended December 31, 2016			
	Program Services	Management and General	Fund- raising	Total
Advertising	\$ 5,166	\$ 660	\$ -	\$ 5,826
Depreciation	17,636	5,404	3,580	26,620
Donated medical and travel	13,295,494	-	-	13,295,494
Donated supplies and other	1,149,274	-	-	1,149,274
Dues and subscriptions	1,099	784	-	1,883
Equipment maintenance	-	3,665	-	3,665
Fundraising	-	-	46,287	46,287
Insurance	7,942	8,791	78	16,811
Medical trips and travel	331,201	-	-	331,201
Office expense	13,674	28,643	1,793	44,110
Other	8,910	10,540	2,951	22,401
Payroll, taxes and benefits	189,471	54,055	34,543	278,069
Professional fees	11,442	28,941	3,349	43,732
Programs expense	119,218	-	-	119,218
Rent	16,332	7,259	4,009	27,600
Shipping and postage	1,482	5,450	187	7,119
Telephone	7,583	10,717	944	19,244
Total expenses	\$ 15,175,924	\$ 164,909	\$ 97,721	\$ 15,438,554

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

	Year Ended December 31, 2015			
	Program	Management	Fund-	Total
	Services	and	raising	
		General		
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>

HEALING THE CHILDREN,
 NATIONAL OFFICE AND AFFILIATED CHAPTERS
 COMBINED STATEMENTS OF NET ASSETS
 December 31, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
NET ASSETS, December 31, 2014	\$ 1,193,830	\$ 295,003	\$ 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	1,231,359	336,994	21,825	1,590,178
Increase in net assets	<u>213,638</u>	<u>17,055</u>	<u>675</u>	<u>231,368</u>
NET ASSETS, December 31, 2016	<u><u>\$ 1,444,997</u></u>	<u><u>\$ 354,049</u></u>	<u><u>\$ 22,500</u></u>	<u><u>\$ 1,821,546</u></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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from support and revenue	\$ 1,218,093	\$ 1,244,591
Cash paid to suppliers and employees	(931,574)	(1,137,254)
Interest paid	(4,199)	(4,351)
	<u>282,320</u>	<u>102,986</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(35,402)	(20,224)
Purchase of marketable securities	(8,107)	-
Proceeds on sale of marketable securities	7,317	-
	<u>(36,192)</u>	<u>(20,224)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(3,512)	(3,361)
	<u>(3,512)</u>	<u>(3,361)</u>
NET INCREASE IN CASH	242,616	79,401
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,190,835</u>	<u>1,111,434</u>
End of year	<u>\$ 1,433,451</u>	<u>\$ 1,190,835</u>

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

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Increase in net assets	\$ 231,368	\$ 78,845
Adjustments to reconcile-		
Depreciation	26,620	28,734
Loss on disposal of equipment	6,769	-
Unrealized (gain) loss on investments	(11,260)	3,736
Increase in assets-		
Prepaid expenses	(22,578)	(21,250)
Increase in liabilities-		
Accounts payable and accrued expenses	<u>51,401</u>	<u>12,921</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 282,320</u>	<u>\$ 102,986</u>

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2016 and 2015

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 eleven 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, 2016 and 2015. 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,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

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 \$22,500 and \$21,825 as of December 31, 2016 and 2015, respectively, is invested and the interest is used to fund an annual nurse recognition award. During 2016, investment gains of \$675 increased the permanently restricted net assets. During 2016 and 2015, 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 \$209,127 and \$207,255 at December 31, 2016 and 2015, 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 5 to 39 years.

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

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 \$5,826 and \$8,905 for the years ended December 31, 2016 and 2015, 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 2015, 2014, and 2013 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 2016 and 2015, respectively, the Organization received \$13,295,494 and \$12,694,667 of donated medical services and travel, and \$1,149,274 and \$1,140,395 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 marketable securities totaled \$150,000 at both December 31, 2016 and 2015. Unrestricted marketable securities totaled \$114,665 and \$102,615 at December 31, 2016 and 2015, respectively.

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications:

Certain amounts in the 2015 combined financial statements have been reclassified for comparative purposes to conform to the 2016 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 are summarized as follows:

	As of December 31, 2016			
	Total	Level 1	Level 2	Level 3
Mutual funds	\$ 264,665	\$ 264,665	\$ -	\$ -

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 3. FAIR VALUE MEASUREMENTS (CONTINUED)

	As of December 31, 2015			
	Total	Level 1	Level 2	Level 3
Mutual funds	\$ 252,615	\$ 252,615	\$ -	\$ -

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:

	2016	2015
Cost	\$ 250,737	\$ 255,004
Gross unrealized holding gains	14,310	-
Gross unrealized holding losses	(382)	(2,389)
Fair value	\$ 264,665	\$ 252,615

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:

	2016	2015
Change in unrealized gains (losses)	\$ 9,200	\$ (4,728)
Realized losses	(988)	-
Dividends and interest	3,048	992
Total	\$ 11,260	\$ (3,736)

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.

HEALING THE CHILDREN,
NATIONAL OFFICE AND AFFILIATED CHAPTERS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016 and 2015

NOTE 5. LONG-TERM DEBT

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

	<u>2016</u>	<u>2015</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.	\$ 85,014	\$ 88,526
Current portion of long-term debt	<u>(3,712)</u>	<u>(3,539)</u>
	<u>\$ 81,302</u>	<u>\$ 84,987</u>

The aggregate amount of required principal payments maturing after December 31, 2016 is as follows:

Year ending December 31,	
2017	\$ 3,712
2018	3,894
2019	4,086
2020	4,287
2021	4,498
Thereafter	<u>64,537</u>
	<u>\$ 85,014</u>

NOTE 6. SUBSEQUENT EVENTS

Effective June 12, 2017, Healing the Children, Northern Virginia was formed as a chapter of the National Office.

Management has evaluated potential subsequent events through November 3, 2017, the date the combined financial statements were available to be issued, and concluded that no other events have arisen which require disclosure.