

**MENDING KIDS INTERNATIONAL
DBA MENDING KIDS**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED DECEMBER 31, 2021

VASIN, HEYN & COMPANY

ABOVE THE BRIGHT LINE

AN ACCOUNTANCY CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS | AUDITORS AND ADVISERS



**MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
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CERTIFIED PUBLIC ACCOUNTANTS | AUDITORS AND ADVISERS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mending Kids International
(A California Non-Profit Corporation)
Woodland Hills, California

We have audited the accompanying financial statements of Mending Kids International (A California Non-Profit Corporation), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mending Kids International as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mending Kids International and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Mending Kids International's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

INDEPENDENT AUDITORS' REPORT - Continued

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Mending Kids International's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Mending Kids International's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

INDEPENDENT AUDITORS' REPORT - Continued

Report on Summarized Comparative Information

We previously audited Mending Kids International's 2020 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated November 16, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

The summary financial statements do not contain all the disclosures required by accounting principles generally accepted in the United States of America. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Mending Kids International.

Vorlein, Hryn + Co.

Calabasas, California
November 11, 2022

MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021
(WITH COMPARATIVE TOTALS FOR 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 317,514	\$ 165,693
Accounts and other receivables	4,901	-
Deposits and prepaid expenses	5,214	-
Inventory	86,398	118,760
Investments	<u>544,571</u>	<u>597,169</u>
Total assets	<u>\$ 958,598</u>	<u>\$ 881,622</u>
LIABILITIES		
Accounts payable	\$ 8,372	\$ 6,851
Accrued payroll and related liabilities	<u>13,228</u>	<u>18,681</u>
Total liabilities	21,600	25,532
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Without donor restrictions:		
Designated for long-term investing	156,882	145,042
Undesignated	569,508	441,603
With donor restrictions	<u>210,608</u>	<u>269,445</u>
Total net assets	<u>936,998</u>	<u>856,090</u>
Total liabilities and net assets	<u>\$ 958,598</u>	<u>\$ 881,622</u>

See accompanying auditors' report and notes to financial statements

MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH COMPARATIVE TOTALS FOR 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE, SUPPORT AND RESTRICTIONS RELEASED				
Contributions and grants	\$ 296,250	\$ 41,625	\$ 337,875	\$ 270,966
Forgiveness of Paycheck Protection Program loan	58,952	-	58,952	58,900
Forgiveness of interest on Paycheck Protection Program loan	504	-	504	407
Mission team fees	3,565	-	3,565	797
Interest and investment income, net of expenses	6,474	-	6,474	12,342
Realized gain/(loss) on investments	143,703	-	143,703	30,762
Unrealized gain/(loss) on investments	(85,245)	-	(85,245)	20,813
Other income	-	-	-	1,590
In-kind contributions	652,088	-	652,088	733,447
Special events	170,517	-	170,517	353,831
Restrictions released	<u>100,462</u>	<u>(100,462)</u>	<u>-</u>	<u>-</u>
 Total revenue, support and restrictions released	 1,347,270	 (58,837)	 1,288,433	 1,483,855
EXPENSES				
Program services	1,012,066	-	1,012,066	1,035,510
Support services	74,522	-	74,522	84,730
Fundraising expenses	<u>120,937</u>	<u>-</u>	<u>120,937</u>	<u>209,370</u>
Total expenses	<u>1,207,525</u>	<u>-</u>	<u>1,207,525</u>	<u>1,329,610</u>
 CHANGE IN NET ASSETS	 139,745	 (58,837)	 80,908	 154,245
 NET ASSETS - beginning of year	 <u>586,645</u>	 <u>269,445</u>	 <u>856,090</u>	 <u>701,845</u>
 NET ASSETS - end of year	 <u>\$ 726,390</u>	 <u>\$ 210,608</u>	 <u>\$ 936,998</u>	 <u>\$ 856,090</u>

See accompanying auditors' report and notes to financial statements

MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH COMPARATIVE TOTALS FOR 2020)

	Program Services	Support Services	Fundraising Expenses	2021 Total Expenses	2020 Total Expenses
SALARIES AND RELATED EXPENSES					
Salaries	\$ 125,376	\$ 40,112	\$ 41,706	\$ 207,194	\$ 242,084
Payroll taxes	10,457	3,156	3,533	17,146	22,083
Employee benefits	28,659	9,018	9,313	46,990	29,249
	<u>164,492</u>	<u>52,286</u>	<u>54,552</u>	<u>271,330</u>	<u>293,416</u>
OTHER EXPENSES					
Advertising	-	-	2,063	2,063	1,191
Bank charges	6,728	2,120	2,183	11,031	12,484
Conferences	-	-	-	-	373
Consultants	320	-	30,596	30,916	34,246
Dues and subscriptions	5,778	1,818	2,689	10,285	7,659
Facility rental and catering	-	-	1,348	1,348	43,376
Hometown missions	231,899	-	-	231,899	1,620
Insurance	9,145	2,852	2,998	14,995	15,263
International surgeries	69,584	-	-	69,584	49,374
Meals and entertainment	383	120	4,234	4,737	784
Miscellaneous expenses	(10)	(10)	3,892	3,872	41,704
Parking	745	234	342	1,321	163
Postage and delivery	245	77	943	1,265	1,129
Printing	190	60	2,807	3,057	9,516
Professional fees	2,339	10,295	2,296	14,930	25,740
Rent	7,495	2,352	2,443	12,290	41,800
Supplies	327	103	5,264	5,694	2,110
Surgical expenses	394,324	-	-	394,324	552,149
Telephone	7,040	2,215	2,287	11,542	11,366
United States surgeries	111,042	-	-	111,042	182,355
Utilities	-	-	-	-	250
	<u>1,012,066</u>	<u>74,522</u>	<u>120,937</u>	<u>1,207,525</u>	<u>1,328,068</u>
Depreciation	-	-	-	-	1,542
Total expenses	<u>\$ 1,012,066</u>	<u>\$ 74,522</u>	<u>\$ 120,937</u>	<u>\$ 1,207,525</u>	<u>\$ 1,329,610</u>

See accompanying auditors' report and notes to financial statements

MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(WITH COMPARATIVE TOTALS FOR 2020)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 80,908	\$ 154,245
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	-	1,542
Realized (gain)/loss on investments	(143,703)	(30,762)
Unrealized (gain)/loss on investments	85,245	(20,813)
Forgiveness of Paycheck Protection Program loan	(58,952)	(58,900)
(Increase) decrease in:		
Accounts and other receivables	(4,901)	1,365
Deposits and prepaid expenses	(5,214)	9,537
Inventory	32,362	(29,706)
Increase (decrease) in:		
Accounts payable	1,521	(55,633)
Accrued payroll and related liabilities	(5,453)	10,219
Deferred revenue	-	(7,552)
Total adjustments	(99,095)	(180,703)
Net Cash Provided (Used) by Operating Activities	(18,187)	(26,458)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Dividends and interest reinvested	36,129	(58)
Proceeds from sale of investments	438,995	58,852
Purchase of investments	(364,068)	(137,000)
Net Cash Provided (Used) by Investing Activities	111,056	(78,206)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings from Paycheck Protection Program loan	58,952	58,900
Net Cash Provided (Used) by Financing Activities	58,952	58,900
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	151,821	(45,764)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	165,693	211,457
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 317,514	\$ 165,693
Supplementary disclosure of non-cash investing activities:		
In-kind contributions	\$ 652,088	\$ 733,447
Forgiveness of Paycheck Protection Program loan	\$ 58,952	\$ 58,900
Forgiveness of interest on Paycheck Protection Program loan	\$ 504	\$ 407

See accompanying auditors' report and notes to financial statements

MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

1. ORGANIZATION

Mending Kids International dba Mending Kids (“MKI”) is a nonprofit public benefit corporation chartered by the State of California in 1993 to provide donated surgical services and transportation to sick and injured children worldwide who otherwise could not afford such treatment.

MKI provides the following areas of service:

International In-Bound Program – Transports foreign children with correctable surgical conditions to the United States of America where they can be treated by local physicians and medical facilities.

International Surgeries – Facilitates and funds the “matchmaking” between specialized surgeons or medical facilities and the children who need surgery.

Surgical Missions –Transports medical teams to developing countries where they can provide specialized surgical care to prescreened children, training and exchange of experience to local medical staff.

Hometown Missions Program – Provides free out-patient surgical care to children all over the United States and abroad performed at domestic volunteer surgical centers with volunteer surgeons.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

MKI prepares its financial statements in accordance with generally accepted accounting principles (GAAP) promulgated in the United States of America. The significant accounting and reporting policies used by MKI are described below to enhance the usefulness and understandability of the financial statements.

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

- *Net assets without donor restrictions.* Net assets without donor restrictions are resources available to support operations. The only limits on the use of net assets without donor restrictions are the broad limits resulting for the nature of MKI, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- *Net assets with donor restrictions.* Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. MKI’s unspent contributions are classified in this class if the donor limited their use. When a donor’s restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by MKI, unless the donor provides more specific directions about the period of its use.

**MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets - Continued

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the use of the related resources is subject to donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions.

Cash and Cash Equivalents

Cash and cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature.

Accounts and Other Receivables

Accounts and other receivables are primarily unsecured non-interest bearing amounts due from grantors on a cost reimbursement or performance grants and customers on performance contracts. MKI considers all accounts receivables to be fully collectible at December 31, 2021. Accordingly, no allowance for doubtful accounts was deemed necessary.

Deposits and Prepaid Expenses

Prepaid deposits and other costs are expensed ratably over their respective terms of agreement.

Inventory

Inventory is recorded at the lower of cost or market on a first-in, first-out basis.

Investments and Investment Income

MKI carries its investments in marketable securities at fair value in the Statement of Financial Position.

Realized and unrealized gains and losses are included in the accompanying Statement of Activities in the appropriate class of net assets. Investment income and gains or losses restricted by donors are reported as changes in net assets without donor restrictions. Nevertheless, any appreciation in the value of these restricted assets continues to be treated as restricted, consistent with the original restriction of the funds to be used only for the construction of the new building.

The fair values of investments are based on quoted market price therefore, they have been classified as Level 1 investments in the valuation hierarchy.

**MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment, Net

MKI capitalizes all material expenditures for fixed assets. Property and equipment is capitalized at cost or, if donated, as the estimated fair market value at the time of donation. Equipment is capitalized if it has a cost of \$1,000 or more and a useful life when acquired of more than 1 year. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets which are:

Computer software and website	3 years
Furniture and equipment	5 years

Property and equipment are reviewed for impairment when a significant change in the asset's use or another indicator of possible impairment is present. No impairment losses were recognized in the financial statements in the current period.

Vacation Policy

Accrued vacation benefits are accrued on a monthly basis. Full-time employees accrue vacation time based upon years of service to MKI as follows:

Years Employed	Annualized Accrual
0-2 years	5 days
2-4 years	10 days
4-6 years	15 days
6+ years	20 days

Unused vacation leave will be paid at the time of termination. Total accrued vacation at December 31, 2021, was \$13,228.

**MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as net assets with donor restrictions until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with donor-restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Contributed Goods and Services

MKI received significant contributions of materials and services from individuals, medical facilities, and other organizations. Contributions of donated non-cash assets are measured on a non-recurring basis and are recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation, are recorded at fair value at the date of donation. Contributed goods and services are reflected in these financial statements, and consist of the following at December 31, 2021:

	Amount
Donated services - discounted airfare	\$ 5,203
Donated services - discounted medical facility fee	282,264
Donated services - surgeon and medical team services	312,669
Donated medical supplies and equipment	51,952
Total	\$ 652,088

Revenue and Support

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions.

Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, that is, when a stipulated time restriction ends or the purpose for a restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions that are received in the same period for which the restrictions are met are recorded as net assets without donor restrictions.

**MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

MKI is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California income taxes under section 23701(d) of the California Revenue and Taxation Code. The IRS classified MKI as one that is not a private foundation within the meaning of section 509(a) of the Code because it is an organization described in section(s) 509(a)(1) and 170(b)(1)(A)(vi).

MKI has adopted Financial Accounting Standards Board Accounting Standards Codification (ASC) Section 740-10, which clarifies the accounting for uncertainty in income taxes. ASC Section 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Section 740-10 requires that an organization recognize in the financial statements the impact of the tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. As of and for the year ended December 31, 2021, MKI had no material unrecognized tax benefits, tax penalties or interest.

MKI's Forms 990, *Return of Organization Exempt from Income Tax*, the tax years ended December 31, 2020, 2019, 2018 are subject to examination by the IRS, generally for 3 years after they were filed.

MKI's Forms 199, *California Exempt Organization Return*, for each of the tax years ended December 31, 2020, 2019, 2018, and 2017 are subject to examination by the Franchise Tax Board, generally for 4 years after they were filed.

Expense Recognition and Allocation

The cost of providing MKI's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of MKI.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. MKI generally does not conduct its fundraising activities in conjunction with its other activities.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, MKI's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. MKI's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements

MKI reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal or most advantageous market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

- *Level 1* - Quoted prices for identical assets or liabilities in active markets to which MKI has access at the measurement date.
- *Level 2* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:
 - quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets in markets that are not active;
 - observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
 - inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- *Level 3* - Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The carrying amounts of cash and cash equivalents and accounts receivable approximate fair value because of the terms and relatively short maturity of these financial instruments. The alternative instruments, equities, and mutual funds are valued at quoted market prices, which represent the net asset value of shares held by MKI at year end.

The carrying amounts of liabilities approximate fair value because of the relatively short maturity of these financial instruments.

When available, MKI measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(CONTINUED)

3. INVENTORY

In 2021, MKI recognized medical supplies and equipment, most of which were donated, and a small amount were purchased at a discounted rate. Inventory is based on physical counts as of December 31, 2021. The valuation of inventory held for program use is determined based on the replacement method using fair market values.

At December 31, 2021, the value of inventory was \$86,398.

4. INVESTMENTS

MKI measures fair value in accordance with FASB ASC 820-10. FASB ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels; Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs, other than the quoted prices in active markets, are observable either directly or indirectly, and Level 3 unobservable inputs in which there is little or no market data, which requires MKI to develop its own assumptions. MKI uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, MKI measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. All assets reported at fair value at December 31, 2021, are Level 1 inputs.

	<u>Total</u>	<u>Level 1</u>
Alternative instruments	\$ 16,082	\$ 16,082
Equities	66,165	66,165
Mutual funds:		
Bond funds	238,544	238,544
Equity funds	<u>223,780</u>	<u>223,780</u>
Total investments	<u>\$ 544,571</u>	<u>\$ 544,571</u>

At December 31, 2021, MKI does not have any investments measured using Level 2 or Level 3 inputs.

The composition of the investment return reported in the statement of activities is as follows:

	<u>Amount</u>
Interest and investment income, net of expenses	\$ 6,474
Realized gain (loss) on investments	143,703
Unrealized gain (loss) on investments	<u>(85,245)</u>
Total investments	<u>\$ 64,932</u>

These securities are not held for trading purposes. Market values for the marketable securities are from quoted prices as of December 31, 2021, provided by third party sources, and the fair value measurements of level 1. These estimates are not necessarily indicative of the amounts that MKI could realize in a current market exchange.

MENDING KIDS INTERNATIONAL
(A California Non-Profit Corporation)
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
(CONTINUED)

5. PROPERTY AND EQUIPMENT, NET

Property and equipment at December 31, 2021 consists of the following:

	<u>Amount</u>
Furniture and equipment	\$ 14,783
	14,783
Less: accumulated depreciation	<u>(14,783)</u>
Property and equipment, net	<u>\$ -</u>

Property and equipment were fully depreciated at December 31, 2021 therefore there was no depreciation expense during the year.

6. PAYCHECK PROTECTION PROGRAM LOAN

During the year ended December 31, 2021 MKI received a Paycheck Protection Program (PPP) loan for \$58,952 to address the impact of the COVID-19 pandemic described in Note 10.

The PPP, which was established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying organizations for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying organization. The loan and accrued interest is forgivable after either eight weeks or twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes such as payroll, benefits, rent and utilities, and maintains its payroll levels.

The Paycheck Protection Program loan was forgiven by the Small Business Administration on November 24, 2021.

7. SPECIAL EVENTS

MKI conducts various special events and fundraising activities during the year. The revenue and expenses from special events for the year ended December 31, 2021 were as follows:

	<u>Revenue</u>	<u>Expenses</u>	<u>Net Revenue</u>
Hike to Mend	\$ 44,895	\$ (3,992)	\$ 40,903
Imagine Gala and Other events	<u>125,622</u>	<u>(23,768)</u>	<u>101,854</u>
Special events, net	<u>\$ 170,517</u>	<u>\$ (27,760)</u>	<u>\$ 142,757</u>

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8. BOARD-DESIGNATED FUNDS

After receiving an unrestricted bequest in 2009, the Board voluntarily started the Cris Embleton Fund, named after the Organization's founder. The Cris Embleton fund is currently comprised of board-designated funds which are held in an investment account for the purpose of providing support to MKI's programs. Changes in the board-designated funds for the year ended December 31, 2021 are as follows:

	<u>Amount</u>
Balance at beginning of year	\$ 145,042
Contributions	-
Investment earnings/(loss)	11,840
Board approved distributions	<u>-</u>
Total	<u>\$ 156,882</u>

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions for the year ended December 31, 2021 are as follows:

	<u>Balance at 12/31/20</u>	<u>Income</u>	<u>Expenditures</u>	<u>Balance at 12/31/21</u>
HANS fund	\$ 1,907	\$ -	\$ (1,759)	\$ 148
Individual surgical care – international	219,746	-	(70,000)	149,746
Individual surgical care – United States	9,880	12,333	(18,713)	3,500
Overseas surgical missions	<u>37,912</u>	<u>29,292</u>	<u>(9,990)</u>	<u>57,214</u>
Total	<u>\$ 269,445</u>	<u>\$ 41,625</u>	<u>\$ (100,462)</u>	<u>\$ 210,608</u>

10. CONTINGENCIES

Contracts and Grants

Costs recorded under public grants and contracts are subject to disallowance upon audits directed by funding agencies.

COVID-19

On March 11, 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time.

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11. LIQUIDITY AND FUNDS AVAILABLE

The total financial assets held MKI at December 31, 2021 and the amount of those financial assets that could be made available for general expenditure within one year of the date of the statement of financial position are summarized in the following table:

	<u>December 31, 2021</u>
Financial assets:	
Cash and cash equivalents	\$ 317,514
Accounts and other receivables	4,901
Inventory	86,398
Investments	<u>544,571</u>
Total financial assets	953,384
Less restrictions:	
Board-designated funds	(156,882)
Less donor-imposed restrictions:	
Net assets with donor restrictions	<u>(210,608)</u>
Net financial assets after donor-imposed restrictions	<u>585,894</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 585,594</u>

In addition to existing financial assets available to meet general expenditures within one year MKI receives significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. MKI's goal is generally to maintain financial assets to meet 60 days of operating expenses (approximately \$75,000). MKI does not have a line of credit available to meet cash flow needs.

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13. CONCENTRATION RISK

The majority of MKI's contributions and grants are received from corporations, foundations, and individuals located in the greater Los Angeles County area and from agencies of the state of California. As such, MKI's ability to generate resources via contributions and grants is dependent upon the economic health of that area and of the state of California. An economic downturn could cause a decrease in contributions and grants that coincides with an increase in demand for MKI's services.

MKI's investments are subject to various risks, such as interest rate, credit, and overall market volatility risks. Further, because of the significance of the investments to MKI's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management is of the opinion that the diversification of its invested assets among the various asset classes should mitigate the impact of changes in any one class.

MKI maintains bank accounts at two financial institutions. Accounts are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2021 MKI had no amounts that exceeded the FDIC limits.

14. SUBSEQUENT EVENTS

MKI has evaluated events subsequent to December 31, 2021, to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through November 11, 2022, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required. Based upon this evaluation, it was determined that no other subsequent events occurred that require recognition or additional disclosure in the financial statements.