

**MENDING KIDS INTERNATIONAL**

Financial Statements  
With Independent Auditors' Report

December 31, 2012 and 2011

# MENDING KIDS INTERNATIONAL

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Mending Kids International  
Burbank, California

We have audited the accompanying financial statements of Mending Kids International (MKI), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MKI's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MKI's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors  
Mending Kids International  
Burbank, California

**Opinion**

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, 2012 and 2011, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

Tarzana, California  
February 12, 2014

# MENDING KIDS INTERNATIONAL

## Statements of Financial Position

	December 31,	
	2012	2011
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 332,089	\$ 37,268
Investments	3,005,533	2,150,956
Contribution receivable, net of allowance for uncollectible	43,237	5,160
Other assets	12,731	13,224
	<u>3,393,590</u>	<u>2,206,608</u>
Fixed assets, net	<u>12,729</u>	<u>18,562</u>
Total Assets	<u>\$ 3,406,319</u>	<u>\$ 2,225,170</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 233,201	\$ 110,087
Accrued expenses	20,399	10,846
	<u>253,600</u>	<u>120,933</u>
Net assets:		
Unrestricted	2,298,350	1,665,593
Temporarily restricted	854,369	438,644
	<u>3,152,719</u>	<u>2,104,237</u>
Total Liabilities and Net Assets	<u>\$ 3,406,319</u>	<u>\$ 2,225,170</u>

See notes to financial statements

# MENDING KIDS INTERNATIONAL

## Statements of Activities

	Year Ended December 31,					
	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>SUPPORT, REVENUE, AND RECLASSIFICATIONS:</b>						
Contributions in-kind	\$ 2,121,735	\$ -	\$ 2,121,735	\$ 1,751,729	\$ -	\$ 1,751,729
Contributions	1,426,249	817,563	2,243,812	853,760	62,218	915,978
Special events	563,903	-	563,903	163,801	-	163,801
Investment income	49,777	-	49,777	13,300	-	13,300
	4,161,664	817,563	4,979,227	2,782,590	62,218	2,844,808
Net assets released from restrictions:						
Satisfaction of program restrictions	401,838	(401,838)	-	1,036,665	(1,036,665)	-
<b>Total Support, Revenue, and Reclassifications</b>	<b>4,563,502</b>	<b>415,725</b>	<b>4,979,227</b>	<b>3,819,255</b>	<b>(974,447)</b>	<b>2,844,808</b>
<b>EXPENSES:</b>						
Program services	3,545,580	-	3,545,580	3,154,206	-	3,154,206
Supporting activities:						
Management and general	128,153	-	128,153	93,182	-	93,182
Fund-raising	257,012	-	257,012	209,919	-	209,919
<b>Total Expenses</b>	<b>3,930,745</b>	<b>-</b>	<b>3,930,745</b>	<b>3,457,307</b>	<b>-</b>	<b>3,457,307</b>
Change in Net Assets	632,757	415,725	1,048,482	361,948	(974,447)	(612,499)
Net Assets, Beginning of Year	1,665,593	438,644	2,104,237	1,303,645	1,413,091	2,716,736
<b>Net Assets, End of Year</b>	<b>\$ 2,298,350</b>	<b>\$ 854,369</b>	<b>\$ 3,152,719</b>	<b>\$ 1,665,593</b>	<b>\$ 438,644</b>	<b>\$ 2,104,237</b>

See notes to financial statements

# MENDING KIDS INTERNATIONAL

## Statement of Functional Expenses

For Year Ended December 31, 2012

	Program Services	Supporting Activities		Total
		Management and General	Fundraising	
Surgical expenses:				
United States surgeries	\$ 1,197,112	\$ -	\$ -	\$ 1,197,112
International surgeries	975,736	-	-	975,736
Surgical missions	896,617	-	-	896,617
Subtotal surgical expenses	3,069,465	-	-	3,069,465
Salaries and employee benefits	293,417	47,744	30,494	371,655
Advertising	9,998	690	5,198	15,886
Mileage and parking	9,846	1,334	1,304	12,484
Bad debts	-	13,180	-	13,180
Bank charges and merchant fees	35	5,905	-	5,940
Communication	5,528	900	558	6,986
Conferences and meetings	234	1,416	-	1,650
Consultants	42,597	5,269	16,328	64,194
Depreciation and amortization	-	5,833	-	5,833
Donor development	35,600	-	192,095	227,695
Insurance	4,903	798	496	6,197
Meals and entertainment	1,119	218	528	1,865
Other expense	2,761	5,733	1,516	10,010
Postage	1,681	49	124	1,854
Professional fees	675	28,331	1,575	30,581
Rent	63,160	10,277	6,386	79,823
Supplies	4,040	476	280	4,796
Corporate travel	521	-	130	651
Total expenses	<u>\$ 3,545,580</u>	<u>\$ 128,153</u>	<u>\$ 257,012</u>	<u>\$ 3,930,745</u>

See notes to financial statements

# MENDING KIDS INTERNATIONAL

## Statement of Functional Expenses

For Year Ended December 31, 2011

	Program Services	Supporting Activities		Total
		Management and General	Fundraising	
Surgical expenses:				
United States surgeries	\$ 971,403	\$ -	\$ -	\$ 971,403
International surgeries	831,249	-	-	831,249
Surgical missions	810,297	-	-	810,297
Subtotal surgical expenses	2,612,949	-	-	2,612,949
Salaries and employee benefits	362,231	26,185	48,006	436,422
Advertising	19,657	640	6,027	26,324
Mileage and parking	18,105	901	2,950	21,956
Bank charges and merchant fees	(426)	1,495	4,667	5,736
Communication	8,213	594	1,089	9,896
Conferences and meetings	1,029	360	88	1,477
Consultants	32,312	4,803	9,789	46,904
Depreciation and amortization	-	2,036	-	2,036
Donor development	10,055	32	124,852	134,939
Insurance	7,692	556	1,019	9,267
Meals and entertainment	1,465	238	452	2,155
Other expense	9,481	8,153	1,598	19,232
Postage	3,471	288	290	4,049
Professional fees	24	41,236	-	41,260
Rent	61,105	4,417	8,098	73,620
Supplies	6,843	1,248	994	9,085
Total expenses	<u>\$ 3,154,206</u>	<u>\$ 93,182</u>	<u>\$ 209,919</u>	<u>\$ 3,457,307</u>

See notes to financial statements

# MENDING KIDS INTERNATIONAL

## Statements of Cash Flows

	Year Ended December 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,048,482	\$ (612,499)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized loss on investments	22,489	30,138
Bad debt expense	13,180	-
Depreciation	5,833	2,036
Net change in:		
Contribution receivable	(51,257)	41,452
Other assets	493	6,254
Accounts payable	123,114	47,368
Accrued expenses	9,553	3,231
Net Cash Provided by (Used in) Operating Activities	1,171,887	(482,020)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	896,200	2,142,593
Purchase of investments	(1,773,266)	(1,675,111)
Purchase of fixed assets	-	(12,918)
Net Cash Provided by (Used in) Investing Activities	(877,066)	454,564
Change in Cash and Cash Equivalents	294,821	(27,456)
Cash and Cash Equivalents, Beginning of Year	37,268	64,724
Cash and Cash Equivalents, End of Year	\$ 332,089	\$ 37,268

See notes to financial statements

# MENDING KIDS INTERNATIONAL

## Notes to Financial Statements

December 31, 2012 and 2011

1. NATURE OF ORGANIZATION:

Mending Kids International (MKI), is a non-profit public benefit corporation formed in August 1993 to provide donated surgical services, including transportation, to sick and injured children worldwide who otherwise could not afford such treatment. MKI is primarily supported by contributions.

MKI provides the following areas of service:

*International In-Bound Program* - Transports foreign children with correctible, surgical conditions to the United States of America where they can be treated by local doctors and hospitals.

*International Surgeries* - Facilitates and funds the "matchmaking" between specialized surgeons and the children who need surgery.

*Medical Teams Abroad Program* - Transports medical teams to developing countries where they are able to provide specialized medical care to prescreened children.

*Special Projects* - Provide supplies and training to local surgeons in developing countries that enable them to provide medical care to their own patients.

MKI is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). It is also exempt from California state income taxes under Section 23701d of the California Revenue and Taxation Code. MKI has been classified as a publicly supported organization, which is not a private foundation under Section 509(a) of the Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

MKI's financial statements are prepared on the accrual basis of accounting. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from these estimates. The significant accounting policies followed are described below.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include checking and other depository accounts with maturities of less than ninety days from the date of purchase. These accounts may, at times, exceed federally insured limits. MKI has not experienced any losses in such accounts.

### INVESTMENTS

Investments consist of a money market fund, mutual funds, and corporate and government bonds. The money market fund is carried at cost which approximates fair value. All other investments are carried at fair market value. Interest income is reported as unrestricted income.

# MENDING KIDS INTERNATIONAL

## Notes to Financial Statements

December 31, 2012 and 2011

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### CONTRIBUTION RECEIVABLE

Unconditional contributions receivable that are expected to be collected within one year are recorded at estimated net realizable value. MKI believes the contribution receivable is fully collectible, therefore no allowance for doubtful accounts has been recorded. Furthermore, the contribution receivable is expected to be collected within one year, so no discount has been recorded.

#### FIXED ASSETS

Expenditures for fixed assets that are major improvements enhancing the function and/or useful life are capitalized at cost. Donated items are recorded at the fair market value on the date of the gift. The useful life of office furniture and equipment is 5 years. The useful life of capitalized website costs is 3 years.

#### NET ASSETS

The financial statements report amounts by class of net assets:

*Unrestricted net assets* are currently available at the discretion of the board for use in the operations of MKI, and those resources invested in fixed assets.

*Temporarily restricted net assets* are contributed with donor stipulations for the benefit of surgeries, mission trips, and miscellaneous project funds.

#### PUBLIC SUPPORT, REVENUE, AND EXPENSES

Contributions are recorded when cash or unconditional promises-to-give have been received or ownership of donated assets is transferred to MKI. MKI records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions, or both. When donor restrictions expire, that is when the purpose restriction is fulfilled or the time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

MKI received 70% and 77% of its contributions (excluding contributions in-kind) from one donor for the years ended December 31, 2012 and 2011, respectively.

# MENDING KIDS INTERNATIONAL

## Notes to Financial Statements

December 31, 2012 and 2011

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### PUBLIC SUPPORT, REVENUE, AND EXPENSES, continued

Donations of hospital facilities and services, materials, and supplies are recorded as contributions at their estimated fair value at the date of the donation less the amount paid for by MKI. In some cases, hospitals provide information on the value of contributed facilities and services. In other cases, MKI uses other available data regarding hospital fees, the cost of materials, and estimated salaries of health professionals. Donated services that create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased if not provided by donation, are recorded at fair values in the period received. Volunteers may provide other services that are not recognized as contributions in the financial statements since the recognition criteria has not been satisfied.

Revenue is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

#### FUNCTIONAL ALLOCATION OF EXPENSE

The costs of providing the various program services and supporting activities have been summarized on a functional basis. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program and supporting activities. All costs that contain any fundraising appeal are required to be allocated to fundraising unless all of the following three tests are met: purpose, audience, and content. Since all three tests were not met, all costs have been allocated to fundraising for the years ended December 31, 2012 and 2011.

#### ADVERTISING

Advertising is used to inform the public about MKI. Advertising expense for the years ended December 31, 2012 and 2011, was \$15,886 and \$24,269, respectively. Advertising costs are expensed as incurred.

#### UNCERTAIN TAX POSITIONS

The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of December 31, 2012 and 2011, MKI had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

MKI files information tax returns in the U.S. and California. MKI is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

#### RECLASSIFICATIONS

Certain amounts previously reported in the financial statements have been reclassified to conform to the current year presentation.

# MENDING KIDS INTERNATIONAL

## Notes to Financial Statements

December 31, 2012 and 2011

3. INVESTMENTS:

Investments consist of the following:

	December 31,	
	2012	2011
Money market funds	\$ 908,179	\$ 277,061
Mutual funds	281,204	104,411
Corporate bonds	1,002,677	1,183,089
Government bonds	813,473	586,395
	<u>\$ 3,005,533</u>	<u>\$ 2,150,956</u>

Investment income consists of the following:

Interest and dividends	\$ 72,266	\$ 43,438
Realized and unrealized losses on investments	(22,489)	(30,138)
	<u>\$ 49,777</u>	<u>\$ 13,300</u>

4. FIXED ASSETS:

Fixed assets consist of the following:

	December 31,	
	2012	2011
Capitalized website costs	\$ 12,918	\$ 12,918
Office furniture and equipment	15,118	15,118
	28,036	28,036
Less accumulated depreciation	(15,307)	(9,474)
	<u>\$ 12,729</u>	<u>\$ 18,562</u>

# MENDING KIDS INTERNATIONAL

## Notes to Financial Statements

December 31, 2012 and 2011

5. NET ASSETS:

Net assets consist of the following:

	December 31,	
	2012	2011
Unrestricted:		
Board designated	\$ 121,210	\$ 110,275
Undesignated	2,164,411	1,536,756
Net investment in fixed assets	12,729	18,562
	\$ 2,298,350	\$ 1,665,593

Temporarily restricted net assets are available for the following purpose:

International surgery	\$ 800,000	\$ -
Cedar Sinai hospital	35,207	377,569
Hans	9,602	9,602
Iraqi children	9,560	9,560
Ethiopia	-	24,690
China	-	800
Philippines	-	16,423
	\$ 854,369	\$ 438,644

# MENDING KIDS INTERNATIONAL

## Notes to Financial Statements

December 31, 2012 and 2011

6. OPERATING LEASE:

MKI leases office space and equipment with total monthly payments of \$6,100, with maturities ranging from April 2013 to October 2013. Subsequent to year-end, MKI entered into a five-year office lease calling for initial payments of \$3,915 per month. The lease runs through March 2018.

As of December 31, 2012, the future minimum lease payments are:

<u>Year Ending December 31,</u>	
2013	\$ 20,096

Lease expense under cancelable and non-cancelable agreements for the years ended December 31, 2012 and 2011, was \$79,823 and \$76,057, respectively.

7. CONTRIBUTIONS IN-KIND:

Contributions in-kind are comprised of the following:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Donated facilities	\$ 682,373	\$ 840,830
Pharmaceuticals	328,440	402,898
Donated time for professionals	432,798	192,690
Medical supplies	676,590	315,311
Donated other	1,534	-
	<u>\$ 2,121,735</u>	<u>\$ 1,751,729</u>

In 2010, in an effort to mitigate rising health care costs in the United States, MKI added an international surgical program where indigent children who have highly qualified surgeons available to them in their home country or in a neighboring country would be transported to them for their care. MKI provides all of the fees associated with these surgeries and the costs are a fraction of those same procedures performed in the U.S. This program has allowed MKI to provide more surgeries to children while reducing overall costs.

Due to the restricted contributions of a donor in prior years to Children's Hospital of Los Angeles (CHLA), CHLA set up the International Craniofacial Children's Fund (ICCF). This fund is available exclusively to MKI to pay for surgeries for children in their programs. The balance in the fund at December 31, 2012 and 2011, was \$196,891 and \$242,553, respectively.

# MENDING KIDS INTERNATIONAL

## Notes to Financial Statements

December 31, 2012 and 2011

### 8. FAIR VALUE MEASUREMENTS:

MKI uses appropriate valuation techniques to determine fair value based on inputs available. 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 were not available.

Fair values of assets measured on a recurring basis at December 31, 2012, are as follows:

	<u>Fair Value Measurements Using:</u>
	Quoted Prices in Active Markets for Identical Assets (Level 1)
Investments:	
Mutual funds:	
Growth funds	\$ 71,663
Fixed income funds	209,541
	<u>\$ 281,204</u>
Corporate Bonds:	
AA+ credit rating	\$ 101,427
AA- credit rating	271,105
A+ credit rating	125,372
A- credit rating	246,268
BBB+ credit rating	130,201
BBB- credit rating	128,304
	<u>\$ 1,002,677</u>
U. S. Government securities:	
Federal agency bonds	\$ 305,706
Municipal bonds	507,767
	<u>\$ 813,473</u>



# MENDING KIDS INTERNATIONAL

## Notes to Financial Statements

December 31, 2012 and 2011

9. RELATED PARTY TRANSACTIONS:

For the years ended December 31, 2012 and 2011, MKI paid immediate family members of employees or board members \$9,953 and \$23,828, for website design, office relocation related expenses, and general consulting projects.

10. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.