

**MENDING KIDS INTERNATIONAL**

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**FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

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## INDEPENDENT AUDITORS' REPORT

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To the Board of Directors  
Mending Kids International

### Report on the Financial Statements

We have audited the accompanying financial statements of Mending Kids International (a nonprofit organization), which comprise the Statement of Financial Position as December 31, 2013, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year 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 audit. We conducted our audit 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 auditors' 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 auditors consider internal control relevant to the entity'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 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 financial statements.

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

## INDEPENDENT AUDITORS' REPORT

continued

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### 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, 2013, 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.

### Other Matter

#### *Summarized Comparative Information*

The financial statements of Mending Kids International as of December 31, 2012, were audited by other auditors whose report dated February 12, 2014, expressed an unmodified opinion on those statements.

*Harrington Group*

Pasadena, California  
November 10, 2014

# MENDING KIDS INTERNATIONAL

## STATEMENT OF FINANCIAL POSITION

December 31, 2013

With comparative totals at December 31, 2012

	<u>2013</u>	<u>2012</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 267,649	\$ 332,089
Contributions receivable, net (Note 2)	86,850	43,237
Investments (Note 3)	2,625,727	3,005,533
Other assets	6,000	12,731
	<u>2,986,226</u>	<u>3,393,590</u>
<b>Fixed assets, net (Note 4)</b>	<u>12,606</u>	<u>12,729</u>
<b>Total assets</b>	<u>\$ 2,998,832</u>	<u>\$ 3,406,319</u>
<b>Liabilities and net assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 178,580	\$ 233,201
Accrued liabilities	41,655	20,399
Deferred revenue	42,000	-
	<u>262,235</u>	<u>253,600</u>
<b>Total liabilities</b>	<u>262,235</u>	<u>253,600</u>
<b>Commitments (Note 5)</b>		
<b>Net assets</b>		
Unrestricted:		
Undesignated	1,802,786	2,164,411
Board-designated	134,143	121,210
Equity in fixed assets - net	12,606	12,729
	<u>1,949,535</u>	<u>2,298,350</u>
Temporarily restricted (Note 6)	<u>787,062</u>	<u>854,369</u>
<b>Total net assets</b>	<u>2,736,597</u>	<u>3,152,719</u>
<b>Total liabilities and net assets</b>	<u>\$ 2,998,832</u>	<u>\$ 3,406,319</u>

The accompanying notes are an integral part of these financial statements.

## MENDING KIDS INTERNATIONAL

### STATEMENT OF ACTIVITIES

For the year ended December 31, 2013

With comparative totals for the year ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2013</u>	<u>2012</u>
<b>Revenue and support</b>				
In-kind contributions (Note 2)	\$ 3,864,399	\$ -	\$ 3,864,399	\$ 2,121,735
Special events income	1,176,174		1,176,174	563,903
Contributions	278,940	29,400	308,340	2,243,812
Investment income	79,694		79,694	49,777
Mission team fees	21,200		21,200	-
Other income	2,233		2,233	-
Net assets released from program restrictions	96,707	(96,707)	-	-
<b>Total revenue and support</b>	<u>5,519,347</u>	<u>(67,307)</u>	<u>5,452,040</u>	<u>4,979,227</u>
<b>Expenses</b>				
Program services	\$ 5,356,501	\$ -	\$ 5,356,501	\$ 3,545,580
Support services				
Management and general	138,855		138,855	128,153
Fundraising	372,806		372,806	257,012
<b>Total expenses</b>	<u>5,868,162</u>	<u>-</u>	<u>5,868,162</u>	<u>3,930,745</u>
<b>Change in net assets</b>	(348,815)	(67,307)	(416,122)	1,048,482
<b>Net assets, beginning of year</b>	<u>2,298,350</u>	<u>854,369</u>	<u>3,152,719</u>	<u>2,104,237</u>
<b>Net assets, end of year</b>	<u>\$ 1,949,535</u>	<u>\$ 787,062</u>	<u>\$ 2,736,597</u>	<u>\$ 3,152,719</u>

The accompanying notes are an integral part of these financial statements.

**MENDING KIDS INTERNATIONAL**

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2013

With comparative totals for the year end December 31, 2012

	Program Services	Management and General	Fundraising	Total Expenses	
				2013	2012
Surgical expenses					
Surgical missions	\$ 2,154,599	\$ -	\$ -	\$ 2,154,599	\$ 896,617
United States surgeries	1,410,631			1,410,631	1,197,112
International surgeries	655,722			655,722	975,736
Hometown missions	591,006			591,006	-
	<u>4,811,958</u>	<u>-</u>	<u>-</u>	<u>4,811,958</u>	<u>3,069,465</u>
Salaries and employee benefits	379,597	52,855	48,051	480,503	371,655
Donor development			263,572	263,572	227,695
Rent	46,478	6,386	5,806	58,670	79,823
Consultants	13,132	3,438	36,050	52,620	64,194
Professional fees	7,090	43,425	897	51,412	30,581
Advertising and marketing	39,791		10,577	50,368	15,886
Miscellaneous expenses	27,117	4,856	3,262	35,235	10,010
Bank charges and merchant fees		13,454		13,454	5,940
Communication	9,007	1,254	1,140	11,401	6,986
Insurance	7,478	1,041	947	9,466	6,197
Mileage and parking	6,525	908	826	8,259	12,484
Depreciation and amortization		6,285		6,285	5,833
Supplies	4,775	666	604	6,045	4,796
Conferences and meetings		3,759		3,759	1,650
Meals and entertainment	2,099	292	266	2,657	1,865
Postage	1,454	203	184	1,841	1,854
Corporate travel		33	624	657	651
Bad debts				-	13,180
	<u>5,356,501</u>	<u>138,855</u>	<u>372,806</u>	<u>5,868,162</u>	
<b>Total 2013 functional expenses</b>	<b>\$ 5,356,501</b>	<b>\$ 138,855</b>	<b>\$ 372,806</b>	<b>\$ 5,868,162</b>	
Total 2012 functional expenses	\$ 3,545,580	\$ 128,153	\$ 257,012		\$ 3,930,745

The accompanying notes are an integral part of these financial statements.

# MENDING KIDS INTERNATIONAL

## STATEMENT OF CASH FLOWS

December 31, 2013

With comparative totals for the year ended December 31, 2012

	2013	2012
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (416,122)	\$ 1,048,482
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization expense	6,285	5,833
Change in allowance for uncollectible accounts	(12,680)	-
Loss on disposal of property and equipment	2,486	-
Reinvested investment interest and dividends	(54,343)	-
Realized and unrealized (gain) loss on investments	(25,351)	22,489
Bad debt expense	-	13,180
Changes in operating assets and liabilities		
(Increase) in contributions receivable	(30,933)	(51,257)
Decrease in other assets	6,731	493
(Decrease) increase in accounts payable	(54,621)	123,114
Increase in accrued liabilities	21,256	9,553
Increase in deferred revenue	42,000	-
	<b>(515,292)</b>	<b>1,171,887</b>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(201,000)	(1,773,266)
Proceeds from sale of investments	660,500	896,200
Purchase of property and equipment	(8,648)	-
	<b>450,852</b>	<b>(877,066)</b>
<b>Net (decrease) increase in cash</b>	<b>(64,440)</b>	<b>294,821</b>
<b>Cash, beginning of year</b>	<b>332,089</b>	<b>37,268</b>
<b>Cash, end of year</b>	<b>\$ 267,649</b>	<b>\$ 332,089</b>

The accompanying notes are an integral part of these financial statements.



# MENDING KIDS INTERNATIONAL

## NOTES TO FINANCIAL STATEMENTS

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### 1. **Organization**

Mending Kids International (“MKI”) is a nonprofit public benefit corporation chartered by the State of California in 1993 to provide donated surgical services, in 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 and the children who need surgery.

*Surgical Missions* – Transports medical teams to developing countries where they are able to provide specialized surgical care to prescreened children.

*Hometown Missions Program* – Provides free 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**

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

#### **Basis of Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting.

#### **Accounting**

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of MKI are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

**Unrestricted.** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

# MENDING KIDS INTERNATIONAL

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

**Unrestricted – Board Designated and Equity in Fixed Net Assets.** These are comprised of resources that the Board of Directors has established as being designated for future program operations and those resources invested in its fixed assets. For purposes of complying with net assets accounting, these assets are included in the unrestricted net assets at December 31, 2013.

**Temporarily Restricted.** MKI reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions.

**Permanently Restricted.** These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit MKI to expend all of the income (or other economic benefits) derived from the donated assets. MKI had no permanently restricted net assets at December 31, 2013.

#### Contributions Receivable

Contributions receivable are unconditional promises to give that are expected to be collected within one year. MKI uses the allowance method to reserve for potentially uncollectible contributions receivable. Conditional promises to give are not included as support until the conditions are substantially met. The allowance for uncollectible accounts at December 31, 2013 was \$500.

#### Investments

MKI values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or loss on investments. Short-term, highly liquid money market deposits that are not used for operations are treated as an investment.

#### Concentration of Credit Risks

MKI places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. MKI has not incurred losses related to these investments.

Approximately 70% of the revenue and support generated by MKI for the year ended December 31, 2013 was derived from in-kind contributions.

# MENDING KIDS INTERNATIONAL

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation, if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets which are:

Furniture and equipment	5 years
Computer software and website	3 years

#### Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

MKI is required to measure certain investments and non-cash contributions at fair value. The specific techniques used to measure fair value for each element are described in the notes below that relate to each element.

#### Donated Materials and Services

MKI received significant contributions for materials and services from individuals, medical facilities and other organizations. Contributions of donated non-cash assets are measured on a non-recurring basis and 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. Donated services, materials, travel and lodging of \$3,864,399 for the year ended December 31, 2013 are reflected in the accompanying financial statement at their fair value at the date of donation (see Note 7).

continued

# MENDING KIDS INTERNATIONAL

## NOTES TO FINANCIAL STATEMENTS

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### 2. Summary of Significant Accounting Policies, continued

#### **Income Taxes**

MKI is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by MKI in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. MKI's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

#### **Functional Allocation of Expenses**

MKI allocates its expense on a functional basis among its various programs, management and general and fundraising services. Expenses that can be identified with a specific program or supporting services are allocated directly according to their natural expenditure classification. Other expenses common to several functions are allocated accordingly.

#### **Use of Estimates**

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 of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results may differ from those estimates.

#### **Comparative Totals**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with MKI's financial statements for the year ended December 31, 2012, from which the summarized information was derived.

#### **Reclassification**

Certain amounts from the December 31, 2012 financial statements have been reclassified to conform to the presentation for the year ended December 31, 2013.

#### **Subsequent Events**

Management has evaluated subsequent events through November 10, 2014, the date the financial statements were available.

continued

# MENDING KIDS INTERNATIONAL

## NOTES TO FINANCIAL STATEMENTS

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### 3. Investments

Investments at December 31, 2013 consist of the following:

Corporate bonds	\$ 931,608
Government bonds	711,858
Money market funds	498,250
Mutual funds	301,328
Common stocks	<u>182,683</u>
	<u>\$2,625,727</u>

Investment income consists of the following:

Interest and dividends	\$54,343
Net realized and unrealized gains and losses	<u>25,351</u>
	<u>\$79,694</u>

### 4. Fixed Assets

Property and equipment at December 31, 2013 consist of the following:

Furniture and equipment	\$ 23,766
Capitalized website costs	<u>3,333</u>
	27,099
Less: accumulated depreciation and amortization	<u>(14,493)</u>
	<u>\$ 12,606</u>

Depreciation and amortization expense for the year ended December 31, 2013 was \$6,285.

### 5. Commitments

#### Obligations Under Operating Leases

MKI leases certain facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended December 31,</u>	
2014	\$ 48,042
2015	49,485
2016	50,964
2017	52,488
2018	<u>13,218</u>
	<u>\$214,197</u>

Lease expense under operating leases for the year ended December 31, 2013 was \$55,393.

continued

# MENDING KIDS INTERNATIONAL

## NOTES TO FINANCIAL STATEMENTS

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### 6. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2013 consist of the following:

International surgery	\$729,624
Cedar Sinai hospital	44,167
Iraqi children	9,560
HANS	<u>3,711</u>
	<u>\$824,062</u>

### 7. Fair Value Measurements

The table below presents the balances of assets measured at fair value at December 31, 2013 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Fixed income	\$105,178	\$ -	\$ -	\$105,178
Ultrashort bond	101,320			101,320
Large blend	50,925			50,925
Foreign large blend	16,834			16,834
Diversified emerging markets	9,800			9,800
Foreign stocks	9,599			9,599
Small growth	<u>7,672</u>			<u>7,672</u>
	<u>\$301,328</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$301,328</u>
Common stocks	<u>\$182,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$182,683</u>
Corporate bonds				
A credit rating	\$ -	\$419,328	\$ -	\$419,328
A- credit rating		357,151		357,151
BBB+ credit rating		<u>155,129</u>		<u>155,129</u>
	<u>\$ -</u>	<u>\$931,608</u>	<u>\$ -</u>	<u>\$931,608</u>
U.S. Government securities				
Municipal bonds	\$611,697	\$ -	\$ -	\$611,697
Federal agency bonds	<u>100,161</u>			<u>100,161</u>
	<u>\$711,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$711,858</u>

The fair values of mutual funds, common stocks and U.S. Government securities have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

The fair values of corporate bonds have been measured on a recurring basis using quoted prices for identical assets in inactive markets (Level 2 inputs).

continued

## MENDING KIDS INTERNATIONAL

### NOTES TO FINANCIAL STATEMENTS

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#### 7. Fair Value Measurements, continued

The table below presents the balances of assets measured at fair value at December 31, 2013 on a non-recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Donated facilities	\$ -	\$1,540,227	\$ -	\$1,540,227
Donated physician services		1,208,008		1,208,008
Medical supplies		731,451		731,451
Pharmaceuticals		<u>384,713</u>		<u>384,713</u>
	<u>\$ -</u>	<u>\$3,864,399</u>	<u>\$ -</u>	<u>\$3,864,399</u>

The fair value of contributed services, facilities and materials has been measured on a non-recurring basis using quoted prices for similar assets in inactive markets (Level 2 inputs).

#### 8. Related Party Transactions

For the year ended December 31, 2013, MKI paid immediate family members of employees or board members \$12,925 for website design, office remodeling and general consulting projects.