

**MENDING KIDS INTERNATIONAL
DBA MENDING KIDS**

Financial Statements

Year ended December 31, 2019

(With Independent Auditor's Report Thereon)

MENDING KIDS INTERNATIONAL

Financial Statements

Year ended December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Mending Kids International
Glendale, California**

Report on the Financial Statements

We have audited the accompanying financial statements of Mending Kids International ("MKI"), which comprise the statement of financial position as of December 31, 2019, 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.

Auditor's 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 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 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.

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, 2019, 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.

Emphasis of Matter

As described further in note 11 to the financial statements, MKI has reported a decrease of net assets for the last two fiscal years. Additionally, MKI's operations have been subsequently impacted by the COVID-19 pandemic as described further in note 12 to the financial statements. Our opinion is not modified with respect to these matters.

Report on Summarized Comparative Information

We have previously audited Mending Kids International's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has derived.

A handwritten signature in blue ink that reads "Davis Fan UP". The signature is written in a cursive, flowing style.

Irvine, California
September 2, 2020

MENDING KIDS INTERNATIONAL

Statement of Financial Position

December 31, 2019
(with comparative totals as of December 31, 2018)

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 211,457	119,601
Contributions receivable	11,365	-
Accounts receivable	-	1,600
Investments	467,388	615,108
Inventory	89,054	96,741
Prepays and other assets	9,537	55,916
Total current assets	<u>788,801</u>	<u>888,966</u>
Fixed assets, net	<u>1,542</u>	<u>6,167</u>
Total assets	<u>\$ 790,343</u>	<u>895,133</u>
<u>Liabilities and net assets</u>		
Liabilities		
Accounts payable	\$ 62,484	56,802
Accrued liabilities	8,462	15,522
Deferred revenue	17,552	84,505
Total liabilities	<u>88,498</u>	<u>156,829</u>
Net assets:		
Without donor restrictions	397,109	316,068
With donor restrictions	304,736	422,236
Total net assets	<u>701,845</u>	<u>738,304</u>
Total liabilities and net assets	<u>\$ 790,343</u>	<u>895,133</u>

See accompanying notes to financial statements.

MENDING KIDS INTERNATIONAL

Statement of Activities

Year ended December 31, 2019
(with comparative totals for the year ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	Totals	
			2019	2018
Support and revenue:				
In-kind contributions	\$ 1,706,188	-	1,706,188	1,959,436
Contributions	311,714	-	311,714	468,506
Special events, net	216,695	-	216,695	191,326
Mission team fees	136,663	-	136,663	114,952
Investment income (loss)	90,785	-	90,785	(8,119)
Loss on write-off of artwork	-	-	-	(400,000)
Other income	77	-	77	679
Subtotal support and revenue	2,462,122	-	2,462,122	2,326,780
Net assets released from donor restrictions	117,500	(117,500)	-	-
Total support and revenue	2,579,622	(117,500)	2,462,122	2,326,780
Expenses:				
Program services	2,337,053	-	2,337,053	2,628,587
Support services:				
Management and general	95,670	-	95,670	162,319
Fundraising	65,858	-	65,858	153,822
Total expenses	2,498,581	-	2,498,581	2,944,728
Change in net assets	81,041	(117,500)	(36,459)	(617,948)
Net assets at beginning of year	316,068	422,236	738,304	1,356,252
Net assets at end of year	\$ 397,109	304,736	701,845	738,304

See accompanying notes to financial statements.

MENDING KIDS INTERNATIONAL

Statement of Functional Expenses

Year ended December 31, 2019
(with comparative totals for the year ended December 31, 2018)

	Program Services	Management and General	Fundraising	Total Expenses	
				2019	2018
Surgical expenses:					
Surgical missions	\$ 1,314,664	-	-	1,314,664	1,658,789
Hometown missions	483,318	-	-	483,318	355,695
United States surgeries	89,662	-	-	89,662	94,937
International surgeries	95,418	-	-	95,418	96,246
	<u>1,983,062</u>	<u>-</u>	<u>-</u>	<u>1,983,062</u>	<u>2,205,667</u>
Salaries and employee benefits	231,099	61,807	42,996	335,902	557,687
Rent	40,019	10,703	7,445	58,167	61,523
Advertising and marketing	8,612	2,303	2,348	13,263	14,053
Consultants	12,401	3,317	2,307	18,025	10,558
Miscellaneous expenses	8,714	2,330	1,621	12,665	18,181
Professional fees	13,958	3,733	84,179	101,870	28,389
Insurance	13,499	3,610	2,511	19,620	24,504
Bank charges and merchant fees	11,412	3,052	2,123	16,587	14,279
Communication	7,987	2,136	1,486	11,609	11,595
Depreciation and amortization	3,182	851	592	4,625	3,809
Supplies	1,386	371	2,697	4,454	7,889
Mileage and parking	63	17	12	92	280
Meals and entertainment	920	246	43,619	44,785	11,923
Conferences and meetings	-	996	-	996	2,558
Postage	739	198	3,894	4,831	6,418
	<u>739</u>	<u>198</u>	<u>3,894</u>	<u>4,831</u>	<u>6,418</u>
Total 2019	<u>\$ 2,337,053</u>	<u>95,670</u>	197,830	<u>2,630,553</u>	
Less direct benefit to donors at special events			(131,972)		
			<u>65,858</u>		
Total 2018	<u>\$ 2,628,587</u>	<u>162,319</u>	<u>188,407</u>		<u>2,979,313</u>

See accompanying notes to financial statements.

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Statement of Cash Flows

**Year ended December 31, 2019
(with comparative totals for the year ended December 31, 2018)**

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (36,459)	(617,948)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation expense	4,625	3,809
Write-off of artwork	-	400,000
Net unrealized and realized (gain) loss on investments	74,765	23,061
(Increase) decrease in contributions receivable	(11,365)	10,000
(Increase) decrease in accounts receivable	1,600	188
(Increase) decrease in inventory	7,687	(41,691)
(Increase) decrease in prepaids and other assets	46,379	(40,702)
Increase (decrease) in accounts payable	5,682	(153,156)
Increase (decrease) in accrued liabilities	(7,060)	402
Increase (decrease) in deferred revenue	(66,953)	74,505
	<u>18,901</u>	<u>(341,532)</u>
Cash flows from investing activities:		
Purchase of fixed assets	-	(7,873)
Purchase of investments	(360,245)	(120,954)
Proceeds from sale of investments	433,200	511,012
	<u>72,955</u>	<u>382,185</u>
Net cash flows provided (used) by investing activities		
	<u>91,856</u>	<u>40,653</u>
Net increase (decrease) in cash and cash equivalents		
	<u>119,601</u>	<u>78,948</u>
Cash and cash equivalents at beginning of year		
	<u>\$ 211,457</u>	<u>119,601</u>
Cash and cash equivalents at end of year		

There were no significant noncash financing or investing activities for the years ended December 31, 2019 or December 31, 2018.

See accompanying notes to financial statements.

MENDING KIDS INTERNATIONAL

Notes to the Financial Statements

Year ended December 31, 2019

(1) Nature of Organization

Mending Kids International dba Mending Kids ("MKI" or "Organization") 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

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(b) Cash and Cash Equivalents

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. MKI maintains cash balances at several financial institutions. Deposit accounts at each bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account. The balances occasionally exceed those limits.

(c) Contributions Receivable

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

MENDING KIDS INTERNATIONAL

Notes to the Financial Statements

Year ended December 31, 2019

(2) Summary of Significant Accounting Policies (Continued)

or for specific purposes are reported as increases in net assets with donor restrictions. 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 restricted until the payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. 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. There was no allowance for uncollectible accounts reserved at December 31, 2019.

(d) Investments

MKI invests cash in excess of its immediate needs in accordance with its investment policy. Certain investments are reported at fair value. Net appreciation (depreciation) in the fair value of investments, which consists of the realized and unrealized gains or losses on those investments, is shown in the Statement of Activities. Investment expenses are reported net of investment income.

(e) Fixed Assets

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. Depreciation is recorded using the straight-line method over the estimated useful lives of the related assets which are:

Furniture and equipment	5 years
Computer software and website	3 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.

(f) Fair Value Measurements

MKI follows a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure 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). The three levels of the fair value hierarchy are described below:

- Level 1* - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2* - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

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Notes to the Financial Statements

Year ended December 31, 2019

(2) Summary of Significant Accounting Policies (Continued)

Level 3 - Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument, as well as the effects of market, interest and credit risk. Instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the MKI financial statements.

(g) 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 these net assets are the broad limits resulting for the nature of the organization, 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. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

MKI's unspent contributions are included 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

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Notes to the Financial Statements

Year ended December 31, 2019

(2) Summary of Significant Accounting Policies (Continued)

is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

(h) Donated Materials 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. Donated assets, services, materials, and medical facilities of \$1,706,188 for the year ended December 31, 2019, are reflected in these financial statements.

(i) Income Taxes

MKI is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d of the California Revenue and Taxation Code, except on net income derived from unrelated business activities. Contributions to the organization are tax deductible to donors under Section 170 of the IRC. MKI is not classified as a private foundation.

(j) 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.

(k) Advertising

MKI uses advertising to promote its programs. Advertising costs are expensed as incurred. For the year ended December 31, 2019, MKI incurred \$12,900 in advertising expenses.

(l) 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.

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Notes to the Financial Statements

Year ended December 31, 2019

(2) Summary of Significant Accounting Policies (Continued)

(m) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with MKI's prior year financial statements, from which this selected financial data was derived.

(3) Investments and Investment Income

Investments at December 31, 2019 consisted of the following:

Equities	\$ 210,493
Mutual Funds	256,895
	<u>\$ 467,388</u>

Fair values of investments at December 31, 2019 are categorized as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equities	\$ 210,493	-	-	210,493
Mutual Funds:				
Bond Funds	73,419	-	-	73,419
Equity Funds	183,476	-	-	183,476
	<u>\$ 467,388</u>	<u>-</u>	<u>-</u>	<u>467,388</u>

The fair values of mutual funds, common stock, and treasury bills, have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

Investment income for the year ended December 31, 2019 consisted of the following:

Interest and dividends	\$ 19,868
Investment fees	(3,848)
Net realized and unrealized gain	74,765
	<u>\$ 90,785</u>

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Notes to the Financial Statements

Year ended December 31, 2019

(4) Inventory

In 2019, 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, 2019. The valuation of inventory held for program use is determined based on the replacement method using fair market values. At December 31, 2019, the value of inventory was \$89,054.

(5) Fixed Assets

Property and equipment consisted of the following at December 31, 2019:

Furniture and equipment	\$ 14,783
Subtotal	14,783
Less accumulated depreciation and amortization	(13,241)
Total fixed assets, net	<u>\$ 1,542</u>

Depreciation expense for the year ended December 31, 2019 was \$4,625.

(6) Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019 are as follows:

Financial assets:	
Cash and cash equivalents	\$ 211,457
Contributions receivable	11,365
Investments	<u>467,388</u>
Total financial assets	<u>690,210</u>
Less financial assets held to meet donor-imposed restrictions:	
Purpose restricted net assets	(304,736)
Less board-designated funds	<u>(138,420)</u>
Amount available for general expenditures within one year	<u>\$ 257,528</u>

The above table reflects donor-restricted and board-designated funds as unavailable because it is MKI's intention to invest those resources for the long-term support of the organization. However, in the case of need, the Board of Directors could appropriate resources from the board-designated funds available for general use (\$138,420).

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Notes to the Financial Statements

Year ended December 31, 2019

(7) Commitments

MKI leases certain facilities and equipment under operating leases with various terms. On April 30, 2020, MKI terminated their office lease. All remaining leases are month to month.

Lease expense under operating leases for the year ended December 31, 2019 was \$58,167.

(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, 2019 are as follows:

Balance at beginning of year	\$ 147,351
Contributions	130,500
Investment earnings (loss)	(9,431)
Board approved distributions	<u>(130,000)</u>
Balance at end of year	<u><u>\$ 138,420</u></u>

(9) Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following at December 31, 2019:

Purpose restrictions, available for spending:	
Surgical mission projects	<u>\$ 304,736</u>
Total purpose restricted net assets	<u>304,736</u>
Total net assets with donor restrictions	<u><u>\$ 304,736</u></u>

(10) Concentrations of Risk

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 the Organization'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.

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Notes to the Financial Statements

Year ended December 31, 2019

(11) Decrease in Net Assets

The year ended December 31, 2019 and 2018 reported a decrease in net assets of \$36,459 and \$617,948, respectively. In 2018, after attempts to sell it, MKI wrote off donated art originally valued at \$400,000. In 2019, following a leadership change, MKI revised the budget and met their goals by the end of the fiscal year. In 2020, MKI is budgeting an increase in net assets.

(12) Subsequent Events

Subsequent events have been evaluated by management through September 2, 2020, which is the date the financial statements were available to be issued. Due to the COVID-19 outbreak, as of March 16, 2020 MKI has experienced a decrease in program fees and contributions. MKI has reorganized and reprioritized its mission to be able to deliver mission supplies to DHS and provide personal protective equipment (PPE) to clinics in vulnerable communities, becoming a boutique relief organization in the process. As international missions will likely be grounded for a while, MKI has begun delivering online symposiums to provide the exchange of knowledge that was expected from visiting missions as well as sponsor additional surgeries in the mission countries to foster self-sustainment in keeping with the organization's mission. The impact has been extensive and several more symposiums are planned for the remainder of 2020. Additionally, MKI was able to terminate their office lease at the negligible penalty of one month of rent, which will save the organization approximately \$130,000 over the original life of the lease. In keeping with the reduction in programming and working 100% remotely, MKI modestly furloughed the staff.

Management has not yet been able to determine the potential outcome or impairment to the MKI as of the date of the issuance of the financial statements. MKI has not included any contingencies in the financial statements specific to the COVID-19 pandemic.

On April 8, 2020, MKI received loan proceeds in the amount of \$58,900 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after 24 weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the 24 week period.

The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first six months. MKI intends to use the proceeds for purposes consistent with the PPP. MKI currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan.