

**PROSTHETICS OUTREACH
FOUNDATION**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2012 AND 2011



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Prosthetics Outreach Foundation
Seattle, Washington

We have audited the accompanying financial statements of Prosthetics Outreach Foundation (a nonprofit organization), 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 of 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 Prosthetics Outreach Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jones & Associates LLC, CPAs

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June 24, 2013

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PROSTHETICS OUTREACH FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 45,599	\$ 182,958
Investments	732,274	697,883
Accounts and other receivables	2,671	2,552
Pledges receivable, current	250,000	125,000
Prepays and deposits	11,261	17,115
Total current assets	1,041,805	1,025,508
LONG-TERM ASSETS		
Investments, long-term	-	95,000
Pledges receivable, long-term	242,666	481,745
	\$ 1,284,471	\$ 1,602,253
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 8,849	\$ 6,570
Accrued expenses	18,498	10,379
Total current liabilities	27,347	16,949
NET ASSETS		
Unrestricted	116,144	234,265
Temporarily restricted	1,140,980	1,351,039
	1,257,124	1,585,304
	\$ 1,284,471	\$ 1,602,253

See accompanying notes to financial statements.

PROSTHETICS OUTREACH FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants	\$ 62,531	\$ 129,500	\$ 192,031
Contributions	68,677	103,470	172,147
Special events income, net of expenses of \$49,431	202,669	-	202,669
In-kind contributions	244,128	-	244,128
Program fees	25,940	-	25,940
Investment return	4,509	-	4,509
	<u>608,454</u>	<u>232,970</u>	<u>841,424</u>
Net assets released from restrictions			
Satisfaction of program restrictions	443,029	(443,029)	-
	<u>1,051,483</u>	<u>(210,059)</u>	<u>841,424</u>
EXPENSES			
Program services	916,236	-	916,236
Management and general	94,218	-	94,218
Fundraising	159,150	-	159,150
Total expenses	<u>1,169,604</u>	<u>-</u>	<u>1,169,604</u>
CHANGE IN NET ASSETS	(118,121)	(210,059)	(328,180)
NET ASSETS			
Beginning of the year	<u>234,265</u>	<u>1,351,039</u>	<u>1,585,304</u>
End of the year	<u>\$ 116,144</u>	<u>\$ 1,140,980</u>	<u>\$ 1,257,124</u>

PROSTHETICS OUTREACH FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2011

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants	\$ 142,950	\$ 60,102	\$ 203,052
Contributions	42,972	150,170	193,142
Special events income, net of expenses of \$43,164	245,228	-	245,228
In-kind contributions	65,915	-	65,915
Program fees	22,719	-	22,719
Investment return	7,358	-	7,358
	<u>527,142</u>	<u>210,272</u>	<u>737,414</u>
Net assets released from restrictions			
Satisfaction of program restrictions	467,454	(467,454)	-
	<u>994,596</u>	<u>(257,182)</u>	<u>737,414</u>
EXPENSES			
Program services	910,884	-	910,884
Management and general	76,062	-	76,062
Fundraising	139,332	-	139,332
Total expenses	<u>1,126,278</u>	<u>-</u>	<u>1,126,278</u>
CHANGE IN NET ASSETS	(131,682)	(257,182)	(388,864)
NET ASSETS			
Beginning of the year	365,947	1,608,221	1,974,168
End of the year	<u>\$ 234,265</u>	<u>\$ 1,351,039</u>	<u>\$ 1,585,304</u>

**PROSTHETICS OUTREACH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012**

	Program Services	Support Services			Total
		Management and General	Fundraising	Total	
Salaries	\$ 198,577	\$ 42,444	\$ 68,044	\$ 110,488	\$ 309,065
Benefits	28,263	10,086	17,178	27,264	55,527
Payroll taxes	16,162	3,359	5,289	8,648	24,810
	243,002	55,889	90,511	146,400	389,402
Foreign grants	316,140	-	-	-	316,140
In-kind services	212,128	314	1,251	1,565	213,693
Consultants	18,706	6,940	34,113	41,053	59,759
Rent and utilities	40,315	8,284	6,627	14,911	55,226
Travel and transportation	33,317	300	530	830	34,147
In-kind supplies	28,682	-	1,752	1,752	30,434
Accounting fees	-	19,149	-	19,149	19,149
Taxes, fees, dues and bank charges	2,685	398	9,993	10,391	13,076
Communications	7,030	741	572	1,313	8,343
Printing	1,258	81	6,304	6,385	7,643
Materials and supplies	2,686	1	3,014	3,015	5,701
Office equipment and computers	3,545	728	583	1,311	4,856
Postage and shipping	1,143	157	2,939	3,096	4,239
Trainings and meetings	2,721	593	482	1,075	3,796
Insurance	1,545	317	254	571	2,116
Advertising	1,019	261	173	434	1,453
Maintenance, repairs and rentals	314	65	52	117	431
Community relations	-	-	-	-	-
	<u>\$ 916,236</u>	<u>\$ 94,218</u>	<u>\$ 159,150</u>	<u>\$ 253,368</u>	<u>\$ 1,169,604</u>

**PROSTHETICS OUTREACH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2011**

	Program Services	Support Services			Total
		Management and General	Fundraising	Total	
Salaries	\$ 272,260	\$ 35,599	\$ 33,746	\$ 69,345	\$ 341,605
Benefits	32,551	5,396	4,959	10,355	42,906
Payroll taxes	23,465	2,812	2,938	5,750	29,215
	<u>328,276</u>	<u>43,807</u>	<u>41,643</u>	<u>85,450</u>	<u>413,726</u>
Foreign grants	369,593	-	-	-	369,593
In-kind services	33,500	-	-	-	33,500
Consultants	19,577	2,176	53,011	55,187	74,764
Rent and utilities	42,500	5,557	5,268	10,825	53,325
Travel and transportation	38,527	545	1,375	1,920	40,447
In-kind supplies	21,862	-	10,000	10,000	31,862
Accounting fees	-	19,431	-	19,431	19,431
Taxes, fees, dues and bank charges	10,288	1,227	7,800	9,027	19,315
Communications	7,609	588	537	1,125	8,734
Printing	906	71	9,094	9,165	10,071
Materials and supplies	14,954	871	5,167	6,038	20,992
Office equipment and computers	12,425	941	892	1,833	14,258
Postage and shipping	3,644	92	2,203	2,295	5,939
Trainings and meetings	1,720	65	287	352	2,072
Insurance	1,954	256	242	498	2,452
Advertising	697	91	1,336	1,427	2,124
Maintenance, repairs and rentals	2,852	344	327	671	3,523
Community relations	-	-	150	150	150
	<u>\$ 910,884</u>	<u>\$ 76,062</u>	<u>\$ 139,332</u>	<u>\$ 215,394</u>	<u>\$ 1,126,278</u>

PROSTHETICS OUTREACH FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants and contributions	\$ 673,486	\$ 888,201
Cash received from program fees	25,940	22,719
Cash received from investments	4,826	10,277
Cash paid to employees and suppliers	(909,224)	(1,059,088)
	(204,972)	(137,891)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(22,387)	(10,443)
Sale of investments	90,000	200,000
	67,613	189,557
 NET CHANGE IN CASH AND CASH EQUIVALENTS	(137,359)	51,666
 CASH AND CASH EQUIVALENTS		
Beginning of the year	182,958	131,292
End of the year	\$ 45,599	\$ 182,958

See accompanying notes to financial statements.

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities – Prosthetics Outreach Foundation (POF or the Foundation), established in 1989, is a non-profit international foundation, based in Seattle, Washington, whose mission is to provide mobility and independence to physically disabled children and adults in developing countries.

POF seeks to strengthen the local capacity of developing countries to provide prosthetics, orthopedic surgery and clubfoot treatment for amputees and other disabled children and adults by training local medical personnel, and assisting with the in-country fabrication of prosthetic and orthotic components.

POF works in some of the poorest countries of the world: Haiti, Sierra Leone, Bangladesh and Vietnam. Haiti, the poorest country in the Americas, experienced widespread destruction by a powerful earthquake that left thousands of amputees. Sierra Leone was devastated by a brutal decade-long civil war in the 1990s in which many people lost limbs. In Vietnam, people still suffer from landmine/UXO explosions and lose limbs in work and traffic accidents. Bangladesh continues to struggle with overpopulation, widespread poverty and a high rate of accidents, often resulting in amputations. Parents of children born with clubfoot (one to three per 1,000 globally) often do not have resources, including money or transportation, to obtain treatment for their children.

POF targets services to benefit people living in hard-to-reach, rural areas where clinical services are very limited, and where local capacity can be strengthened with the goal of sustainability. POF's programs are implemented through strategic partnerships with governments and other non-profit organizations. A key strategy is the strengthening of developing countries' healthcare systems by training local medical personnel, and transferring appropriate technology with the goal of sustaining physical rehabilitation programs with local resources to the greatest extent possible. Enabling local partners to invest in their systems opens the door to make those services accessible, affordable and sustainable.

In 2012, POF's main geographic areas of activity were in Vietnam, Sierra Leone, Bangladesh, and Haiti. POF continued to invest in building local capacity by providing technical assistance, infrastructure support, treatment support, and clinical training.

Key accomplishments for 2012 include:

- Official opening of a prosthetics and orthotics center at a government hospital in Haiti
- Vietnam National Clubfoot Program website launched, in English and Vietnamese
- Local prosthetic component development in Sierra Leone, in collaboration with the Sierra Leone Ministry of Health
- Vietnam National Clubfoot Training, sponsored by POF and Ponseti International Association
- Sierra Leone National Clubfoot Training, sponsored by POF and CURE International
- Hundreds of amputees and children served in Haiti, Sierra Leone, Bangladesh and Vietnam

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Basis of Accounting and Presentation – The financial statements of the Foundation have been prepared on the accrual basis of accounting and report information regarding its financial position and activities according to three classes of net assets, depending on the existence and nature of donor restrictions: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently restricted net assets at December 31, 2012 and 2011.

Cash and Cash Equivalents – For purpose of the statements of cash flows, the Foundation considers all bank accounts and unrestricted highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents include checking accounts deposited with major financial institutions.

Investments – The Foundation carries investments with readily determinable fair values at their fair values in the statements of financial position. Investments consist of money market funds, certificates of deposit and equity securities. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Fair Value Measurements – The Foundation has adopted Statement of Financial Accounting Standards Board Codification 820-10, Fair Value Measurements (“FASB ASC 820-10”). FASB ASC 820-10 defines fair value, establishes a framework for measuring fair value and expands disclosures about financial instruments. In addition, FASB ASC 820-10 establishes a hierarchy that classifies the inputs used to calculate fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not considered to be active for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and inputs other than quoted prices that are directly observable or indirectly through corroboration with observable market data;

Level 3 Inputs that are both significant to the fair value measurement and unobservable, including investment specific inputs that are not derived from market data and inputs that cannot be corroborated by market data. The determination of fair value for investments included in the level 3 category requires considerable subjectivity and estimation.

Fair value measurements apply to the Foundation’s equity securities, which are classified within level 1 of the fair value hierarchy.

Pledges Receivable – Pledges receivable are unconditional promises to give that are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of benefits received. No allowance for uncollectible balances has been established by management based on the Foundation’s historical experience in the collection of balances due.

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Property and Equipment – Purchased property and equipment are carried at cost. Donated property and equipment are recorded at fair value at the date of the gift. Depreciation is calculated using the straight-line method over the estimated useful lives of three to five years. The Foundation follows a policy whereby it capitalizes acquisitions of property and equipment over \$5,000 that provide future benefits over a period of longer than one year. All property and equipment is fully depreciated at December 31, 2012 and 2011.

Revenue Recognition – Grants and contributions are recorded as increases in unrestricted or restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires, that is, when a purpose restriction is accomplished or a stipulated time period has passed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-kind Contributions – In-kind supplies are recognized as revenue and corresponding expense at the estimated fair value at the date of donation. In-kind services are recognized as revenue and corresponding expense if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation.

Functional Expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Tax Status – The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as a Foundation other than a private foundation under Section 509(a)(1).

The Foundation files information and tax returns in the U.S. federal jurisdiction, and state and local jurisdictions. The Foundation is subject to U.S. federal, state and local examinations by tax authorities for the current year and certain prior years based on applicable laws and regulations.

Reclassifications – Certain amounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements.

Subsequent Events – Subsequent events were evaluated through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 2 – Cash Flow Information

The following reconciles the change in net assets to net cash used by operating activities for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Change in net assets	\$ (328,180)	\$ (388,864)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Unrealized loss on investments	436	2,519
Donated stock	(7,440)	(5,029)
Change in:		
Accounts and other receivables	(119)	400
Pledges receivable	114,079	251,808
Prepays and deposits	5,854	(709)
Accounts payable	2,279	(229)
Accrued expenses	8,119	2,213
	<u>\$ (204,972)</u>	<u>\$ (137,891)</u>

Note 3 – Pledges Receivable

Pledges receivable are as follows at December 31:

	<u>2012</u>	<u>2011</u>
Receivable in one year or less	\$ 250,000	\$ 125,000
Receivable in one to five years	250,000	500,000
	<u>500,000</u>	<u>625,000</u>
Less discounts to net present value	(7,334)	(18,255)
	<u>\$ 492,666</u>	<u>\$ 606,745</u>

The Foundation uses a rate of 1.5% to calculate the present value of receivables due in more than one year.

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 4 – Investments

Investments are stated at fair value and consist of the following as of December 31:

	2012	2011
Money funds	\$ 618,417	\$ 229,192
Certificates of deposit	96,432	548,376
Equity securities	17,425	15,315
	<u>\$ 732,274</u>	<u>\$ 792,883</u>

Investment return is summarized as follows for the years ended December 31:

	2012	2011
Interest and dividends	\$ 5,342	\$ 10,139
Realized loss	(397)	(262)
Unrealized loss	(436)	(2,519)
	<u>\$ 4,509</u>	<u>\$ 7,358</u>

Note 5 – Operating Leases

The Foundation has an operating lease for its office space. The lease requires the Foundation to pay all executory costs such as taxes, maintenance, and insurance. The lease expires December 31, 2015. There is a term option beginning in 2013 which requires 90 days' notice and a cancellation payment of three months' rent. Rent expense under the lease was \$55,226 and \$53,325 for the years ended December 31, 2012 and 2011, respectively.

Future minimum lease payments under operating leases are as follows for the years ending December 31:

2013	\$ 49,242
2014	51,160
2015	53,079
	<u>\$ 153,481</u>

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

Note 6 – Temporarily Restricted Net Assets

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

	2012	2011
Global	\$ 632,165	\$ 866,126
Bangladesh	377,135	381,353
Haiti	78,394	85,060
Sierra Leone	38,893	10,750
Vietnam	14,393	7,750
	<u>\$ 1,140,980</u>	<u>\$ 1,351,039</u>

Note 7 – In-kind Contributions

In-kind contributions consist of the following for the year ended December 31:

	2012	2011
Outreach services	\$ 210,600	\$ 34,053
Outreach supplies	28,682	31,862
Legal services	2,094	-
Fundraising goods	1,752	-
Fundraising services	1,000	-
	<u>\$ 244,128</u>	<u>\$ 65,915</u>

Note 8 – Change in Accounting Principle

In 2012 the Foundation changed its accounting policy related to the treatment of temporarily restricted contributions. In prior years, restricted contributions were recognized as unrestricted net assets if the restrictions were met in the same year. In 2012, the Foundation adopted the policy that all temporarily restricted contributions are reported as increases in temporarily restricted net assets and released when the restriction is met. The new method more accurately reports the financial results of the Foundation's activities. The change in accounting principle has been retrospectively applied. Temporarily restricted grants and contributions, and corresponding releases, have been increased by \$59,155 in the statement of activities for the year ending December 31, 2011. There is no effect on the total change in net assets.