

**PROSTHETICS OUTREACH
FOUNDATION**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2011 AND 2010



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Prosthetics Outreach Foundation
Seattle, Washington

We have audited the accompanying statements of financial position of Prosthetics Outreach Foundation (the Foundation) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Jones & Associates LLC, CPAs

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June 26, 2012

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PROSTHETICS OUTREACH FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 182,958	\$ 131,292
Investments	697,883	781,908
Interest and other receivables	2,552	2,952
Pledges receivable, net	125,000	135,000
Prepays and deposits	17,115	16,406
Total current assets	1,025,508	1,067,558
LONG-TERM ASSETS		
Investments, long-term	95,000	198,022
Pledges receivable, long-term	481,745	723,553
	\$ 1,602,253	\$ 1,989,133
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 6,570	\$ 6,799
Vacation payable	10,379	8,166
Total current liabilities	16,949	14,965
NET ASSETS		
Unrestricted	243,001	365,947
Temporarily restricted	1,342,303	1,608,221
	1,585,304	1,974,168
	\$ 1,602,253	\$ 1,989,133

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

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants	\$ 152,950	\$ 50,102	\$ 203,052
Contributions	100,863	92,279	193,142
In-kind contributions	65,915	-	65,915
Program fees	22,719	-	22,719
Special events income, net of expenses of \$43,164	245,228	-	245,228
Investment return	7,358	-	7,358
	<u>595,033</u>	<u>142,381</u>	<u>737,414</u>
Net assets released from restrictions			
Satisfaction of program restrictions	408,299	(408,299)	-
	<u>1,003,332</u>	<u>(265,918)</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	(122,946)	(265,918)	(388,864)
NET ASSETS			
Beginning of the year	<u>365,947</u>	<u>1,608,221</u>	<u>1,974,168</u>
End of the year	<u>\$ 243,001</u>	<u>\$ 1,342,303</u>	<u>\$ 1,585,304</u>

**PROSTHETICS OUTREACH FOUNDATION
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2010**

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants	\$ -	\$ 1,114,693	\$ 1,114,693
Contributions	124,144	148,119	272,263
In-kind contributions	101,691	-	101,691
Program fees	21,484	-	21,484
Special events income, net of expenses of \$70,313	273,578	-	273,578
Investment return	14,713	-	14,713
	<u>535,610</u>	<u>1,262,812</u>	<u>1,798,422</u>
Net assets released from restrictions			
Satisfaction of program restrictions	284,141	(284,141)	-
	<u>819,751</u>	<u>978,671</u>	<u>1,798,422</u>
EXPENSES			
Program services	733,774	-	733,774
Management and general	56,693	-	56,693
Fundraising	128,819	-	128,819
Total expenses	<u>919,286</u>	<u>-</u>	<u>919,286</u>
CHANGE IN NET ASSETS	(99,535)	978,671	879,136
NET ASSETS			
Beginning of the year	465,482	629,550	1,095,032
End of the year	<u>\$ 365,947</u>	<u>\$ 1,608,221</u>	<u>\$ 1,974,168</u>

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

	Program Services					Support Services			
	Clinical Services	Component Development	Club Foot	Technical Assistance and Education	Total	Management and General	Fund- raising	Total	Total
Salaries	\$ 78,760	\$ 13,766	\$ 93,668	\$ 86,066	\$ 272,260	\$ 35,599	\$ 33,746	\$ 69,345	\$ 341,605
Benefits	5,487	803	8,748	17,513	32,551	5,396	4,959	10,355	42,906
Payroll taxes	5,813	1,183	6,506	9,963	23,465	2,812	2,938	5,750	29,215
Accounting fees	-	-	-	-	-	19,431	-	19,431	19,431
Consultants	3,692	628	4,447	10,810	19,577	2,176	53,011	55,187	74,764
Materials and supplies	10,719	678	1,913	1,644	14,954	871	5,167	6,038	20,992
Equipment	6,128	364	2,593	3,340	12,425	941	892	1,833	14,258
Postage and shipping	2,723	133	311	477	3,644	92	2,203	2,295	5,939
Communications	1,254	219	2,310	3,826	7,609	588	537	1,125	8,734
Maintenance, repairs and rentals	762	133	906	1,051	2,852	344	327	671	3,523
Donated supplies	21,862	-	-	-	21,862	-	10,000	10,000	31,862
Donated program services	33,500	-	-	-	33,500	-	-	-	33,500
Rent and utilities	12,294	2,149	14,622	13,435	42,500	5,557	5,268	10,825	53,325
Printing	267	28	438	173	906	71	9,094	9,165	10,071
Trainings and meetings	128	22	402	1,168	1,720	65	287	352	2,072
Travel and transportation	3,647	6,992	10,852	17,036	38,527	545	1,375	1,920	40,447
Advertising	202	35	240	220	697	91	1,336	1,427	2,124
Community relations	-	-	-	-	-	-	150	150	150
Foreign grants	118,239	17,931	183,423	50,000	369,593	-	-	-	369,593
Insurance	565	99	672	618	1,954	256	242	498	2,452
Taxes, fees, dues and bank charges	3,072	516	3,193	3,507	10,288	1,227	7,800	9,027	19,315
	<u>\$ 309,114</u>	<u>\$ 45,679</u>	<u>\$ 335,244</u>	<u>\$ 220,847</u>	<u>\$ 910,884</u>	<u>\$ 76,062</u>	<u>\$ 139,332</u>	<u>\$ 215,394</u>	<u>\$ 1,126,278</u>

See accompanying notes to financial statements.

**PROSTHETICS OUTREACH FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2010**

	Program Services					Support Services			
	Clinical Services	Component Development	Club Foot	Technical Assistance and Education	Total	Management and General	Fund- raising	Total	Total
Salaries	\$ 95,155	\$ 9,777	\$ -	\$ 136,135	\$ 241,067	\$ 34,078	\$ 40,890	\$ 74,968	\$ 316,035
Benefits	8,705	562	-	17,346	26,613	5,187	3,993	9,180	35,793
Payroll taxes	8,852	875	-	11,915	21,642	3,031	4,116	7,147	28,789
Accounting fees	5,725	800	-	6,694	13,219	3,220	2,242	5,462	18,681
Consultants	4,945	572	-	24,064	29,581	4,036	38,735	42,771	72,352
Materials and supplies	13,136	640	-	2,711	16,487	978	3,857	4,835	21,322
Equipment	6,379	300	-	3,050	9,729	701	840	1,541	11,270
Postage and shipping	3,366	63	-	770	4,199	159	2,761	2,920	7,119
Communications	2,225	240	-	3,568	6,033	560	672	1,232	7,265
Maintenance, repairs and rentals	1,223	171	-	1,431	2,825	399	1,298	1,697	4,522
Donated program supplies	20,746	-	-	-	20,746	-	-	-	20,746
Donated program services	48,408	-	-	-	48,408	-	-	-	48,408
Rent and utilities	7,464	1,043	-	8,729	17,236	2,438	2,924	5,362	22,598
Printing	1,952	32	-	270	2,254	75	15,129	15,204	17,458
Trainings and meetings	593	83	-	1,892	2,568	229	344	573	3,141
Travel and transportation	10,212	27	-	29,404	39,643	147	1,242	1,389	41,032
Advertising	140	20	-	164	324	46	63	109	433
Community relations	158	22	-	686	866	52	226	278	1,144
Foreign grants	219,558	-	-	-	219,558	-	-	-	219,558
Insurance	769	107	-	899	1,775	251	301	552	2,327
Taxes, fees, dues and bank charges	4,058	473	-	4,470	9,001	1,106	9,186	10,292	19,293
	<u>\$ 463,769</u>	<u>\$ 15,807</u>	<u>\$ -</u>	<u>\$ 254,198</u>	<u>\$ 733,774</u>	<u>\$ 56,693</u>	<u>\$ 128,819</u>	<u>\$ 185,512</u>	<u>\$ 919,286</u>

See accompanying notes to financial statements.

PROSTHETICS OUTREACH FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants and contributions	\$ 893,230	\$ 810,574
Cash received from program fees	22,719	21,484
Cash received from investments	10,277	13,469
Cash paid to employees and suppliers	(1,064,117)	(821,980)
	(137,891)	23,547
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(10,443)	-
Sale of investments	200,000	71,152
	189,557	71,152
 NET CHANGE IN CASH AND CASH EQUIVALENTS	51,666	94,699
 CASH AND CASH EQUIVALENTS		
Beginning of the year	131,292	36,593
End of the year	\$ 182,958	\$ 131,292

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

Nature of Activities – Prosthetics Outreach Foundation (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.

The Foundation 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.

The Foundation 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.

The Foundation 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. The Foundation'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 2011, the Foundation's main geographic areas of activity were in Vietnam, Sierra Leone, Bangladesh, and Haiti. The Foundation continued to invest in building local capacity by providing technical assistance, infrastructure support, treatment support, and clinical training.

Key accomplishments include:

- Establishment of a prosthetics center in Haiti.
- Restoration of mobility for 163 amputees in Sierra Leone.
- Surgical correction of limb deformities for 100 children and adults.
- Support of clubfoot treatment programs in Vietnam, Bangladesh and Sierra Leone, serving more than 2,500 children.

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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, 2011 and 2010.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. It is the Foundation’s policy to recognize restricted contributions in the unrestricted net asset class if the restrictions have been met in the same year.

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. Investment return is included in unrestricted net assets in the accompanying statements of activities.

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; |

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

Fair Value Measurements – (Continued)

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.

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 3 to 5 years. All property and equipment is fully depreciated at December 31, 2011 and 2010.

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.

Donated Equipment and Services – Donations of equipment and services are recorded as support at their estimated fair value at the date of donation. Donated equipment and facilities consists of the following for the years ended December 31:

	2011	2010
Outreach equipment and supplies	\$ 31,862	\$ 20,946
Outreach services	34,053	80,745
	\$ 65,915	\$ 101,691

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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

Functional Expenses – The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Directly identifiable expenses are charged to program, management and general, and fundraising services. Payroll and related expenses related to more than one function are charged to program, management and general, and fundraising expenses based on time spent on each activity. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

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.

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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>2011</u>	<u>2010</u>
Change in net assets	\$ (388,864)	\$ 879,136
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Unrealized loss (gain) on investments	2,519	(2,636)
Donated stock	(5,029)	-
Change in:		
Interest and other receivables	400	985
Pledges receivable	251,808	(849,553)
Prepays and deposits	(709)	(6,273)
Accounts payable	(229)	2,084
Vacation payable	2,213	(196)
	<u>\$ (137,891)</u>	<u>\$ 23,547</u>

Note 3 – Pledges Receivable

Pledges receivable are as follows at December 31:

	<u>2011</u>	<u>2010</u>
Receivable in one year or less	\$ 125,000	\$ 135,000
Receivable in one to five years	500,000	750,000
	<u>625,000</u>	<u>885,000</u>
Less discounts to net present value	(18,255)	(26,447)
	<u>\$ 606,745</u>	<u>\$ 858,553</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, 2011 AND 2010

Note 4 – Investments

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

	<u>2011</u>	<u>2010</u>
Money funds	\$ 229,192	\$ 263,720
Certificates of deposit	548,376	701,088
Equities	15,315	15,122
	<u>\$ 792,883</u>	<u>\$ 979,930</u>

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

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 10,139	\$ 15,642
Realized loss	(262)	(3,565)
Unrealized (loss)/gain	(2,519)	2,636
	<u>\$ 7,358</u>	<u>\$ 14,713</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 \$53,325 and \$22,597 for the years ended December 31, 2011 and 2010, respectively.

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

2012	47,323
2013	49,242
2014	51,160
2015	53,079
	<u>\$ 200,804</u>

PROSTHETICS OUTREACH FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

Note 6 – Temporarily Restricted Net Assets

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

	2011	2010
Outreach Projects in Liberia	\$ 516	\$ 19,200
Outreach Projects in Bangladesh	6,981	15,733
Bagby Family Fund	374,372	433,675
American Academy of Orthotists & Prosthetists	-	1,717
Bagby Orthopedic Programs	43,735	49,898
CHS Children Treatment Programs	90,466	90,466
Haiti Prosthetics Program	84,910	39,780
Worldwide Club Foot Programs	741,323	957,752
	<u>\$ 1,342,303</u>	<u>\$ 1,608,221</u>

Note 7 – Employee Benefit Plan

The Foundation offers a 403(b) retirement plan. Employees may elect to defer discretionary pre-tax contributions up to the legal limits for a given year. No contributions to the plan were made by the Foundation for the years ended December 31, 2011 and 2010.

Note 8 – Subsequent Events

Subsequent events were evaluated through June 26, 2012, which is the date the financial statements were available to be issued.