

MIRACLEFEET

Carrboro, North Carolina

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016
(With Comparative Totals for the
Year Ended June 30, 2015)



BLACKMAN
 **& SLOOP**
CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

	<u>PAGES</u>
Independent Auditor's Report	2-3
Exhibits:	
"A" Statements of Financial Position	4
"B" Statement of Activities and Changes in Net Assets	5
"C" Statements of Cash Flows	6
"D" Statement of Functional Expenses	7
Notes to Financial Statements	8-15

Carla G. Daniel, EA
Andrea Woodell Eason, CPA
Robin H. McDuffie, CPA
M. Neely McLaughlin, CPA, MBA
Joan C. Pharr, CPA



MEMBERS:

American Institute of
Certified Public Accountants

North Carolina Association of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Page 1 of 2

The Board of Directors
miraclefeet
Carrboro, North Carolina

We have audited the accompanying financial statements of miraclefeet (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets, 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.

BLACKMAN & SLOOP, CPAs, P.A.

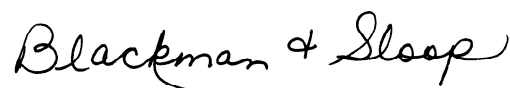
Phone/919.942.8700 • Fax/919.968.4766 • Toll Free/877.854.7530
The Exchange West at Meadowmont • 1414 Raleigh Road, Suite 300 • Chapel Hill, North Carolina 27517
www.blackmansloop.com • email: cpa@blackmansloop.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of miraclefeet as of June 30, 2016, 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.

Report on Summarized Comparative Information

We have previously audited miraclefeet's 2015 financial statements, and our report dated October 16, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Blackman & Sloop". The script is cursive and fluid, with the ampersand clearly visible.

Chapel Hill, North Carolina
October 10, 2016

MIRACLEFEET

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

June 30, 2016 and 2015

	<u>ASSETS</u>	
	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 1,126,968	\$ 769,710
Promises to give	1,672,677	692,032
Inventory	41,994	28,778
Prepaid expenses	13,483	11,669
TOTAL CURRENT ASSETS	<u>2,855,122</u>	<u>1,502,189</u>
PROPERTY AND EQUIPMENT:		
Property and equipment, net of accumulated depreciation	<u>108,619</u>	<u>129,774</u>
OTHER ASSETS:		
Promises to give, net	<u>611,889</u>	<u>172,014</u>
TOTAL ASSETS	<u><u>\$ 3,575,630</u></u>	<u><u>\$ 1,803,977</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 16,560	\$ 17,998
Grants payable	388,528	559,339
Accrued vacation	<u>10,726</u>	<u>9,162</u>
TOTAL CURRENT LIABILITIES	<u>415,814</u>	<u>586,499</u>
LONG-TERM LIABILITIES:		
Grants payable, net	<u>-</u>	<u>193,375</u>
TOTAL LIABILITIES	<u>415,814</u>	<u>779,874</u>
NET ASSETS:		
Unrestricted	307,358	169,511
Temporarily restricted	<u>2,852,458</u>	<u>854,592</u>
TOTAL NET ASSETS	<u>3,159,816</u>	<u>1,024,103</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,575,630</u></u>	<u><u>\$ 1,803,977</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

MIRACLEFEET

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

EXHIBIT B

For the Year Ended June 30, 2016

(With Comparative Totals for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	2016 Totals	2015 Totals
SUPPORT AND REVENUE:				
SUPPORT:				
Contributions - nonprofits, foundations, trusts	\$ 1,482,536	\$ 2,375,052	\$ 3,857,588	\$ 1,827,871
Contributions - individuals	303,035	121,740	424,775	321,534
Contributions - businesses	50,283	125,912	176,195	188,831
In-kind contributions	124,679	16,491	141,170	99,076
TOTAL SUPPORT	1,960,533	2,639,195	4,599,728	2,437,312
REVENUE:				
Investment income (loss)	(459)	-	(459)	2,297
SUBTOTAL SUPPORT AND REVENUE	1,960,074	2,639,195	4,599,269	2,439,609
Net assets released from restrictions	641,329	(641,329)	-	-
TOTAL SUPPORT AND REVENUE	2,601,403	1,997,866	4,599,269	2,439,609
EXPENSES:				
Program services	1,844,023	-	1,844,023	1,875,995
Management and general	73,261	-	73,261	54,824
Fundraising	546,272	-	546,272	460,805
TOTAL EXPENSES	2,463,556	-	2,463,556	2,391,624
CHANGES IN NET ASSETS	137,847	1,997,866	2,135,713	47,985
NET ASSETS - BEGINNING NET ASSETS	169,511	854,592	1,024,103	976,118
NET ASSETS - END OF YEAR	\$ 307,358	\$ 2,852,458	\$ 3,159,816	\$ 1,024,103

The accompanying Notes to Financial Statements are an integral part of these statements.

MIRACLEFEET

STATEMENTS OF CASH FLOWS

EXHIBIT C

For the Years Ending June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,135,713	\$ 47,985
Adjustments to reconcile changes in net assets to cash provided by (used in) operating activities:		
Depreciation	37,049	18,350
Increase (decrease) in cash arising from changes in assets and liabilities:		
Promises to give	(1,420,520)	(441,565)
Inventory	(13,216)	(28,778)
Prepaid expenses	(1,814)	33,222
Accounts payable	(1,438)	(7,550)
Grants payable	(364,186)	71,622
Accrued vacation	1,564	9,162
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>373,152</u>	<u>(297,552)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(15,894)</u>	<u>(142,102)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	357,258	(439,654)
CASH AND EQUIVALENTS - BEGINNING OF YEAR	<u>769,710</u>	<u>1,209,364</u>
CASH AND EQUIVALENTS - END OF YEAR	<u><u>\$ 1,126,968</u></u>	<u><u>\$ 769,710</u></u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Non-cash activity:		
In-kind contributions	<u><u>\$ 141,170</u></u>	<u><u>\$ 99,076</u></u>

The accompanying Notes to Financial Statements are an integral part of these statements.

MIRACLEFEET

STATEMENT OF FUNCTIONAL EXPENSES

EXHIBIT D

For the Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	Program Services	Management and General	Fundraising	2016 Totals	2015 Totals
Program treatment and training	\$ 953,446	\$ -	\$ -	\$ 953,446	\$ 1,157,176
Salaries	547,286	38,124	281,569	866,979	662,815
Travel	96,428	426	21,609	118,463	96,189
Advertising and social media	23,138	-	78,446	101,584	102,536
Contract services	38,896	7,371	26,808	73,075	108,083
Payroll taxes	41,497	4,384	25,233	71,114	50,093
Accounting	28,734	4,398	19,080	52,212	43,487
Facilities and equipment	28,493	2,032	16,665	47,190	47,632
Employee benefits	28,444	2,029	16,635	47,108	17,330
Depreciation	14,820	7,409	14,820	37,049	18,350
Miscellaneous	6,673	2,793	17,368	26,834	23,680
Outreach and education	11,533	-	14,806	26,339	29,814
Insurance	5,793	3,716	3,629	13,138	6,806
Telecommunications	5,049	260	2,136	7,445	6,197
Printing and copying	4,152	177	2,416	6,745	6,541
Special events	4,219	-	1,808	6,027	1,979
Supplies	2,730	97	1,241	4,068	8,701
Postage	1,115	45	1,327	2,487	3,208
Website	1,577	-	676	2,253	1,007
	<u>\$ 1,844,023</u>	<u>\$ 73,261</u>	<u>\$ 546,272</u>	<u>\$ 2,463,556</u>	<u>\$ 2,391,624</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

MIRACLEFEET**NOTES TO FINANCIAL STATEMENTS**

Page 1 of 8

NATURE OF ACTIVITIES

miraclefeet (the “Organization”) is dedicated to providing proper treatment for children born with clubfoot in developing countries. The Organization partners with local orthopedic surgeons working in public hospitals to establish and support clubfoot clinics within the existing public health system. The Organization believes this is the most effective, efficient, and sustainable approach to prevent the significant disability caused by untreated clubfoot around the world.

The Organization was created in 2008 by a group of concerned parents of clubfoot children and orthopedic surgeons who wanted to ensure that all children born with clubfoot had access to proper treatment. The Organization operated under the fiscal sponsorship of the Community Foundation of New Jersey until October 2011.

SIGNIFICANT ACCOUNTING POLICIES**A. Basis of Accounting.**

The Organization’s financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which require the use of certain estimates made by the Organization’s management. Accordingly, revenue and support are recognized when earned, and expenses are recognized when the obligation is incurred.

The Organization reports gifts of cash and other assets as 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 purpose 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 restrictions.

B. Cash and Equivalents.

Cash and equivalents consist of monies on deposit at a financial institution and other highly liquid investments with maturities of three months or less. At times, the Organization places deposits with high-quality financial institutions that may be in excess of federally insured amounts. The Organization has not experienced any financial loss related to such deposits.

C. Promises to Give.

Unconditional promises to give are recorded at net realizable value and are recognized as support and assets in the period received. Conditional promises to give are recognized when the conditions upon which they depend are substantially met. The Organization provides an allowance for doubtful accounts equal to the estimated losses that are expected to be incurred in their collection. As of June 30, 2016 and 2015, all promises to give were deemed collectible by management.

MIRACLEFEET

NOTES TO FINANCIAL STATEMENTS

Page 2 of 8

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Inventory.

Inventory consists of brace materials. Inventory is stated based on lower of cost or market using the first-in, first-out method.

E. Property and Equipment.

Property and equipment are stated at cost for purchased assets and at market value on the date of the gift for donated assets. Property and equipment are capitalized if the life is expected to be greater than one year and if the cost exceeds \$750. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets of three to seven years. Maintenance, repairs, and small equipment purchases are expensed as incurred.

The Organization reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

F. Net Assets.

Net assets are classified as follows:

Unrestricted – Resources of the Organization that are not restricted by donors or grantors as to use or purpose. These resources include amounts generated from operations, undesignated gifts, and investments in property and equipment.

Temporarily Restricted – Resources that carry a donor-imposed restriction that permits the Organization to use or expend the donated assets for a specific purpose. The restrictions are satisfied by the passage of time or by actions of the Organization.

Permanently Restricted – Resources that carry a donor-imposed restriction that stipulates that donated assets be maintained in perpetuity, but may permit the Organization to use or expend part or all of the income derived from the donated assets.

MIRACLEFEET

NOTES TO FINANCIAL STATEMENTS

Page 3 of 8

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Estimates.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

H. Tax Status.

miraclefeet is an exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is classified as other than a private foundation. It is also exempt from North Carolina income and franchise taxes under the North Carolina Non-Profit Corporation Act. If applicable, miraclefeet reports interest and penalties related to unrecognized tax positions as interest expense under general and administrative expenses.

PROMISES TO GIVE

Promises to give consist of the following at June 30:

	2016	2015
Receivable in less than one year	\$ 1,672,677	\$ 692,032
Receivable in one to five years	623,927	175,944
Total gross promises to give	2,296,604	867,976
Discount at a rate of 1.8% and 2.0%	(12,038)	(3,930)
Net present value of promises to give	<u>\$ 2,284,566</u>	<u>\$ 864,046</u>

PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	2016	2015
Machinery and equipment	\$ 70,648	\$ 70,648
Website	77,100	68,900
Computer equipment	18,480	10,786
Computer software	1,253	1,253
Office equipment	1,000	1,000
	168,481	152,587
Less accumulated depreciation	(59,862)	(22,813)
Net property and equipment	<u>\$ 108,619</u>	<u>\$ 129,774</u>

MIRACLEFEET

NOTES TO FINANCIAL STATEMENTS

Page 4 of 8

GRANTS

Grants made by the Organization are fully expensed at the time they are awarded and executed. During 2016 and 2015, the Organization awarded \$1,018,210 and \$1,052,917, respectively, in new grants to various international clinics to provide treatment for individuals with clubfoot.

Grants payable consist of the following at June 30:

	2016	2015
Payable in less than one year	\$ 388,528	\$ 559,339
Payable in one to five years	-	198,333
Total gross grants payable	388,528	757,672
Discount at a rate of 2.5%	-	(4,958)
Net present value of grants payable	<u>\$ 388,528</u>	<u>\$ 752,714</u>

OPERATING LEASES

In April 2014, the Organization signed a rental agreement for office space. This agreement expires April 2017. Monthly rent for year one totaled \$2,600 and increases \$200 per month in year two and year three. Rental expense for the years ended June 30, 2016 and 2015, totaled \$37,000 and \$31,700, respectively. Minimum future rental payments are as follows:

Year Ending June 30,	
2017	<u>\$ 30,000</u>

CONDITIONAL PROMISES TO GIVE

A foundation has promised to give the Organization \$500,000 in funds restricted for technology development conditional upon the Organization meeting certain project milestones over the next two years. If the foundation's conditions are met by the Organization, the contribution will be recorded at that time.

A foundation has promised to give the Organization \$5,000,000 in unrestricted funds over a five year period conditional upon matching requirements, approval of annual financial and performance data, and annual approval by the foundation's trustees.

MIRACLEFEET

NOTES TO FINANCIAL STATEMENTS

Page 5 of 8

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30:

	2016	2015
Purpose restricted:		
Google technology grant	\$ 427,490	\$ -
Zimbabwe Clubfoot Program	332,785	-
India Clubfoot Program	113,304	30,000
Nicaragua Clubfoot Program	60,653	-
Ecuador Clubfoot Program	46,896	57,033
Phillipines Clubfoot Program	27,608	-
Nepal Clubfoot Program	17,105	-
Stanford Clubfoot Connect Program	7,815	7,815
Conference expenses	2,500	-
Tanzania Clubfoot Program	-	26,488
Process Evaluation	-	15,119
Fundraising strategy	-	2,184
	<u>1,036,156</u>	<u>138,639</u>
Time restricted:		
Unconditional promises to give	<u>1,816,302</u>	<u>715,953</u>
	<u>\$ 2,852,458</u>	<u>\$ 854,592</u>

MIRACLEFEET

NOTES TO FINANCIAL STATEMENTS

Page 6 of 8

NET ASSETS RELEASED FROM RESTRICTIONS

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. The amounts released during the year ended June 30, 2016 and 2015, are as follows:

	2016	2015
Purpose restricted:		
Zimbabwe Clubfoot Program	\$ 117,111	\$ -
Google technology grant	72,510	-
Tanzania Clubfoot Program	53,428	124,335
Nepal Clubfoot Program	18,801	28,000
Process Evaluation	15,119	9,881
India Clubfoot Program	15,000	125,511
Brace Project	14,410	51,207
Ecuador Clubfoot Program	10,137	37,662
Paraguay Clubfoot Treatment	3,381	-
Conference expenses	2,500	-
Fundraising strategy	2,184	2,816
Liberia Clubfoot Program	639	4,221
Nicaragua Clubfoot Program	448	42,174
Philippines Clubfoot Program	-	30,000
Brazil Clubfoot Program	-	12,375
Stanford Clubfoot Connect Program	-	5,060
	<u>325,668</u>	<u>473,242</u>
Time restricted:		
Unconditional promise to give	315,661	200,000
	<u>\$ 641,329</u>	<u>\$ 673,242</u>

RELATED PARTY TRANSACTIONS

During the years ended June 30, 2016 and 2015, the Organization received contributions from current board of directors' members totaling \$57,280 and \$69,321, respectively, for support of general operations.

CONCENTRATION

Contributions from two nonprofit organizations represent approximately 42% and 50% of total contributions for the years ending June 30, 2016 and 2015, respectively. A promise to give from one nonprofit organization represents approximately 45% and 73% of the balance in promises to give at June 30, 2016 and 2015, respectively.

MIRACLEFEET**NOTES TO FINANCIAL STATEMENTS**

Page 7 of 8

DONATED SERVICES

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, and would typically need to be purchased if not provided by donation. Donated services related to advertising, website maintenance, legal services, brace prototype design services, and administrative services total \$124,532 and \$88,030, for the years ending June 30, 2016 and 2015, respectively. The remaining in-kind donations received, totaling \$16,638 and \$11,046, for the years ended June 30, 2016 and 2015, respectively, represent donated braces, shoes, and supplies.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the 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 based on management's estimates.

PRIOR YEAR INFORMATION

The statements of activities and changes in net assets, and functional expenses include certain prior-year summarized comparative information in total but not by net asset class and functional category, respectively. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

SUBSEQUENT EVENTS

In July 2016, the Organization entered into a grant agreement to fund clubfoot care programs in Bolivia totaling \$22,071 over a twelve-month period. Payments will be made in quarterly installments.

In July 2016, the Organization entered into a grant agreement to fund clubfoot care programs in Ecuador totaling \$21,679 over a twelve-month period. Payments will be made in quarterly installments.

In July 2016, the Organization entered into a grant agreement to fund clubfoot care programs in Liberia totaling \$114,668 over a twelve-month period. Payments will be made in quarterly installments.

In July 2016, the Organization entered into a grant agreement to fund clubfoot care programs in Nepal totaling \$100,396 over a twelve-month period. Payments will be made in quarterly installments.

In July 2016, the Organization entered into a grant agreement to fund clubfoot care programs in Nicaragua totaling \$14,364 over a twelve-month period. Payments will be made in quarterly installments.

In July 2016, the Organization entered into a grant agreement to fund clubfoot care programs in Paraguay totaling \$63,434 over a twelve-month period. Payments will be made in quarterly installments.

MIRACLEFEET**NOTES TO FINANCIAL STATEMENTS**

Page 8 of 8

SUBSEQUENT EVENTS (CONTINUED)

In July 2016, the Organization entered into a grant agreement to fund clubfoot care programs in Zimbabwe totaling \$132,525 over a twelve-month period. Payments will be made in quarterly installments.

In July 2016, the Organization entered into four grant agreements to fund clubfoot care programs in India totaling \$439,344 over a twelve-month period. Payments will be made in quarterly installments.

In September 2016, the Organization entered into a grant agreement to fund clubfoot care programs in Tanzania totaling \$79,292 over a six-month period. Payments will be made in quarterly installments.

In July 2016, the Organization entered into an agreement with third party technology consultants to create a Clubfoot Management Platform, an information management system to increase the use of data at the clinic level. The estimated fee under this agreement is \$162,000 to be paid over a proposed eighteen-month period.

Management has evaluated subsequent events for recognition or disclosure through October 10, 2016, which was the date that the financial statements were available to be issued. Management did not identify any events that occurred subsequent to year-end that require disclosure in the financial statements other than items noted above.