

**WHEELCHAIR FOUNDATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2004 AND 2003**

**ARMANINO MCKENNA LLP**

Certified Public Accountants & Consultants



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### INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Wheelchair Foundation  
Danville, California

We have audited the accompanying statement of financial position of Wheelchair Foundation (the "Foundation") as of December 31, 2004, and the related statements of activities and changes in net assets and cash flows for the year 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 audit. The financial statements of the Foundation as of December 31, 2003 were audited by other auditors, whose report dated April 23, 2004, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 the Foundation as of December 31, 2004, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.





In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2005 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in black ink that reads "Armanino McKenna LLP". The signature is written in a cursive, flowing style.

ARMANINO McKENNA LLP

May 20, 2005

WHEELCHAIR FOUNDATION  
Statements of Financial Position  
December 31, 2004 and 2003

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	<u>ASSETS</u>	
	<u>2004</u>	<u>2003</u>
Current assets		
Cash and cash equivalents	\$ 4,019,377	\$ 3,484,286
Contributions receivable	58,800	-
Grants receivable	1,457,250	1,215,056
Prepaid expenses	221,748	154,476
Total current assets	<u>5,757,175</u>	<u>4,853,818</u>
Property and equipment, net	441,880	249,355
Other assets	<u>11,982</u>	<u>168,977</u>
Total assets	<u>\$ 6,211,037</u>	<u>\$ 5,272,150</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 736,843	\$ 786,333
Deferred revenue	86,450	112,700
Total liabilities	<u>823,293</u>	<u>899,033</u>
Net assets		
Unrestricted	3,107,675	2,156,352
Temporarily restricted	2,280,069	2,216,765
Total net assets	<u>5,387,744</u>	<u>4,373,117</u>
Total liabilities and net assets	<u>\$ 6,211,037</u>	<u>\$ 5,272,150</u>

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

WHEELCHAIR FOUNDATION  
Statements of Activities and Changes in Net Assets  
For the Years Ended December 31, 2004 and 2003

	2004			2003		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Operations</b>						
Revenue and other support						
Contributions	\$ 5,003,405	\$ 1,825,155	\$ 6,828,560	\$ 4,534,654	\$ 1,928,765	\$ 6,463,419
Contributed services	3,036,133	-	3,036,133	2,729,186	-	2,729,186
Government grants	4,986,680	-	4,986,680	7,230,563	-	7,230,563
Contract revenue	548,940	-	548,940	518,425	-	518,425
Interest and dividend income	21,139	-	21,139	30,348	-	30,348
Special events (net of expenses of \$495,965 in 2004 and \$179,984 in 2003)	725,371	-	725,371	1,170,273	-	1,170,273
Net assets released from restrictions	1,761,851	(1,761,851)	-	1,663,959	(1,663,959)	-
Total revenue and other support	16,083,519	63,304	16,146,823	17,877,408	264,806	18,142,214
<b>Program expenses</b>						
Wheelchair costs	6,020,945	-	6,020,945	5,783,150	-	5,783,150
Wheelchair delivery	3,703,520	-	3,703,520	3,380,895	-	3,380,895
Salaries and related benefits	1,481,028	-	1,481,028	1,186,348	-	1,186,348
Supplies, materials, and other	730,848	-	730,848	628,067	-	628,067
Total program expenses	11,936,341	-	11,936,341	10,978,460	-	10,978,460
Change in net assets from operations	4,147,178	63,304	4,210,482	6,898,948	264,806	7,163,754
<b>Support services</b>						
Management and general expenses	1,856,577	-	1,856,577	1,516,383	-	1,516,383
Fund-raising expenses	1,339,278	-	1,339,278	1,921,100	-	1,921,100
Total support services	3,195,855	-	3,195,855	3,437,483	-	3,437,483
Change in net assets	951,323	63,304	1,014,627	3,461,465	264,806	3,726,271
Net assets (deficit) as of beginning of year	2,156,352	2,216,765	4,373,117	(1,305,113)	1,951,959	646,846
Net assets as of end of year	\$ 3,107,675	\$ 2,280,069	\$ 5,387,744	\$ 2,156,352	\$ 2,216,765	\$ 4,373,117

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

WHEELCHAIR FOUNDATION  
Statements of Cash Flows  
For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Change in net assets	\$ 1,014,627	\$ 3,726,271
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	79,113	44,432
Loss on disposal of equipment	17,324	-
Donated equipment	(72,830)	-
Changes in operating assets and liabilities		
Contributions and grants receivable	(300,994)	(1,163,177)
Prepaid expenses	(67,272)	(37,208)
Other assets	156,995	(166,666)
Accounts payable and accrued expenses	(49,490)	213,731
Deferred revenue	(26,250)	(451,438)
Net cash provided by operating activities	<u>751,223</u>	<u>2,165,945</u>
Cash flows from investing activities		
Purchases of property and equipment	(216,432)	(169,810)
Proceeds from equipment sold	300	-
Net cash used in investing activities	<u>(216,132)</u>	<u>(169,810)</u>
Cash flows from financing activities		
Related party repayments	-	(1,338,236)
Net cash used in financing activities	<u>-</u>	<u>(1,338,236)</u>
Net increase in cash and cash equivalents	535,091	657,899
Cash and cash equivalents at beginning of year	<u>3,484,286</u>	<u>2,826,387</u>
Cash and cash equivalents at end of year	<u>\$ 4,019,377</u>	<u>\$ 3,484,286</u>

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



WHEELCHAIR FOUNDATION  
Notes to Financial Statements  
December 31, 2004 and 2003

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1. Organization and Summary of Significant Accounting Policies

Organization

The Wheelchair Foundation (the "Foundation") was incorporated on February 15, 2000. The Foundation is a not-for-profit 501(c)(3) corporation dedicated to creating awareness of the needs and abilities of people with physical disabilities, providing wheelchairs to needy people throughout the world, and carrying on other educational activities. The Foundation's primary sources of revenue are grants and contributions. Its headquarters are located in Danville, Contra Costa County, California.

During the years ended December 31, 2004 and 2003, the Foundation delivered 116,451 and 116,555 wheelchairs, respectively.

Basis of accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting under which revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

Financial statement presentation

The Foundation reflects net assets and changes therein into the following classes:

- Unrestricted Net Assets - net assets represent unrestricted resources available to support the Foundation's operations and temporarily restricted resources that have become available for use by the Foundation in accordance with the intentions of the donors.
- Temporarily Restricted Net Assets - net assets subject to donor-imposed stipulations that may expire with time or may be satisfied by the actions of the Foundation according to the intention of the donor.
- Permanently Restricted Net Assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. The income from these contributions may be available to support activities of the Foundation as designated by the donors. The Foundation has no permanently restricted net assets.

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 and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.



WHEELCHAIR FOUNDATION  
Notes to Financial Statements  
December 31, 2004 and 2003

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1. Organization and Summary of Significant Accounting Policies (continued)

Contributions and contributions receivable

Contributions received are reported as unrestricted, temporarily restricted, or permanently restricted, depending upon donor restrictions, if any. Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions that are promised in one year, but are not expected to be collected until after the end of that year are recorded as contributions receivable. Contributions to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions received with donor-imposed restrictions which are met in the same year as received are reported as unrestricted revenue.

Contributions of property and equipment without donor restrictions concerning use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues. The restrictions are considered to be released at the time such long-lived assets are placed in service.

Donated materials and equipment are recorded as contributions based on the estimated fair value at the date the contribution is made. The Foundation received \$72,830 of donated equipment in 2004.

Contributed services

Contributed services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that would have been purchased by the Foundation if they had not been provided by contribution. The Foundation received contributed services consisting of wheelchair transportation and air travel of \$3,036,133 and \$2,729,186 during the years ended December 31, 2004 and 2003, respectively. These contributions have been recorded as in-kind contributions in the accompanying statements of activities.

WHEELCHAIR FOUNDATION  
Notes to Financial Statements  
December 31, 2004 and 2003

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1. Organization and Summary of Significant Accounting Policies (continued)

Government grant revenue

During the year ended December 31, 2004, the Foundation received a \$4,970,500 grant from the United States Department of State to fund a \$15,844,500 project. The term of the 2004 grant is July 1, 2004 through June 30, 2005. During the year ended December 31, 2003, the Foundation received a \$4,967,500 grant from the United States Department of State to fund a \$9,935,000 project. The term of the 2003 grant was July 1, 2003 through June 30, 2004.

The Foundation recognized revenues of \$4,936,975 in 2004, whereby \$752,725 is attributable to the 2003 grant and \$4,184,250 to the 2004 grant. The Foundation recognized revenues of \$6,927,125 in 2003, whereby \$2,712,350 is attributable to the 2002 grant and \$4,214,775 to the 2003 grant.

Revenues related to the government grant are recognized for each chair purchased and then delivered to a qualified country; cash received from the federal funding agency in advance is accounted for as deferred revenue.

Cash and cash equivalents

Cash and cash equivalents include cash balances due from banks and money market funds. The cash equivalents are readily convertible to known amounts of cash and present insignificant risk of changes in value due to maturity dates of 90 days or less.

Property and equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is recorded on a straight-line method over the estimated useful lives as follows:

Equipment and computers	3 - 5 years
Furniture and fixtures	3 - 7 years
Leasehold improvements	5 - 39 years

The Foundation capitalizes all property and equipment with a cost or value in excess of \$500 and an estimated useful life in excess of one year. The Foundation reviews property and equipment for impairment wherever events or changes in circumstances indicate that the carrying value of furniture and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the years ended December 31, 2004 and 2003, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.



WHEELCHAIR FOUNDATION  
Notes to Financial Statements  
December 31, 2004 and 2003

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1. Organization and Summary of Significant Accounting Policies (continued)

Fund-raising expenses

Fund-raising expenses include costs related to public education and partnership outreach. The Foundation seeks partnerships with individuals and organizations willing to participate in their global mission. The Foundation relies on numerous qualified partners to voluntarily import and distribute shipments of wheelchairs worldwide.

Income taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Franchise Tax Board. Accordingly, no provision for federal or state income taxes is required.

Functional allocation of expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities and changes in net assets.

Use of estimates

Management of the Foundation has made a number of estimates and assumptions related to the reporting of assets and liabilities, including disclosure of contingent assets and liabilities, and revenue and expenses to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2003 financial data to conform to the 2004 presentation.

2. Contributions Receivable

Unconditional promises to give, which are not expected to be collected until after the year pledged, are reflected in the accompanying financial statements as contributions receivable and revenue in the appropriate net asset category. Contributions receivable at December 31, 2004 and 2003 totaled \$58,800 and \$0, respectively. Contributions received are expected to be collected in less than one year. As of December 31, 2004, an allowance for doubtful accounts was not deemed necessary by management.



WHEELCHAIR FOUNDATION  
Notes to Financial Statements  
December 31, 2004 and 2003

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3. Property and Equipment

Property and equipment as of December 31, 2004 and 2003 consists of the following:

	<u>2004</u>	<u>2003</u>
Equipment and computers	\$ 322,146	\$ 230,814
Furniture and fixtures	248,189	82,162
Leasehold improvements	<u>49,204</u>	<u>48,207</u>
	619,539	361,183
Less accumulated depreciation	<u>(177,659)</u>	<u>(111,828)</u>
Property and equipment, net	<u>\$ 441,880</u>	<u>\$ 249,355</u>

Depreciation expense for the years ended December 31, 2004 and 2003 was \$79,113 and \$44,432, respectively.

4. Deferred revenue

Deferred revenue represents amounts received on contracts for the manufacture and delivery of wheelchairs, whereby the wheelchairs had not been delivered as of December 31, 2004 and 2003. Deferred revenue totaled \$86,450 and \$112,700 at December 31, 2004 and 2003, respectively.

5. Temporarily restricted net assets

Temporarily restricted net assets are restricted for the purpose of wheelchair delivery to specific countries throughout the world.

6. Delivery costs

The program delivery costs for wheelchairs do not reflect costs incurred by unrelated organizations and individuals that may assist in the delivery of chairs. Such costs cannot be readily quantified and are not included in these financial statements. However, management believes the amounts are immaterial to the overall financial statements.

WHEELCHAIR FOUNDATION  
Notes to Financial Statements  
December 31, 2004 and 2003

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7. Operating Leases

The Foundation leases certain property and equipment under non-cancelable operating leases with terms ranging from 1 to 5 years. The leases currently require monthly payments ranging from \$38 to \$2,655 and expire at various dates through June 2009. Future minimum rental payments required under the non-cancelable operating leases as of December 31, 2004 are as follows:

<u>Year Ending December 31,</u>	
2005	\$18,581
2006	1,360
2007	1,360
2008	1,360
2009	<u>680</u>
	<u>\$23,341</u>

Rent expense for the years ended December 31, 2004 and 2003 amounted to \$45,354 and \$10,902, respectively.

8. Related Party Transactions

The founder, and current Chairman, of the Foundation contributed air travel to the Foundation. During the years ended December 31, 2004 and 2003, the Foundation received in-kind air travel contributions of \$1,390,125 and \$1,116,500, respectively. These in-kind contributions have been recorded as revenue and expense in the accompanying statements of activities.

During the years ended December 31, 2004 and 2003, various family members of the founder contributed \$110,749 and \$9,920, respectively, to the Foundation.

The Foundation rents office and museum space on a month-to-month basis from entities in which the Foundation's founder and current Chairman has ownership interests. Rent expense for these facilities for the years ended December 31, 2004 and 2003 amounted to \$480,000 and \$245,000, respectively. Additionally, these entities provide the Foundation management, personnel, and other services. Payment for these services totaled \$420,885 and \$438,025 for the years ended December 31, 2004 and 2003, respectively.

In 2004, the founder and Chairman of the Foundation contributed a collection of preserved animal trophies to the Foundation. The fair market value has not yet been determined; as such the contributions have not been reflected in the statement of activities.

WHEELCHAIR FOUNDATION  
Notes to Financial Statements  
December 31, 2004 and 2003

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9. Concentrations

The Foundation maintains its cash and cash equivalents with various banks and financial institutions. At December 31, 2004, the Foundation had cash and cash equivalents on deposit with banks and financial institutions in excess of federally insured limits of approximately \$4,100,000.

The Foundation is dependent to some extent upon grants, donations, and other support (including services contributed) from the Department of State, individuals, organizations, clubs, and other entities. If the level of this support varies, there may be a resulting effect upon the number of wheelchairs distributed by the Foundation.

For the years ended December 31, 2004 and 2003, the Foundation received 31% and 40%, respectively, of its operating revenue from a grant funded by the United States Department of State. The operations of the Foundation could be adversely affected in the event that this grant funding is discontinued.

For the years ended December 31, 2004 and 2003, the Foundation received 11% and 10%, respectively, of its operating revenue from one organization.