

WHEELCHAIR FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

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 statements of financial position of Wheelchair Foundation (the "Foundation") as of December 31, 2005 and 2004, and the related statements of activities 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 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 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 the Foundation as of December 31, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2006 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.

Armanino McKenna LLP
ARMANINO MCKENNA LLP

June 30, 2006



WHEELCHAIR FOUNDATION
Statements of Financial Position
December 31, 2005 and 2004

	<u>ASSETS</u>	
	<u>2005</u>	<u>2004</u>
Current assets		
Cash and cash equivalents	\$ 4,834,677	\$ 4,019,377
Contributions receivable	-	58,800
Grants and contracts receivable	1,419,510	1,457,250
Prepaid expenses	<u>51,509</u>	<u>221,748</u>
Total current assets	6,305,696	5,757,175
Property and equipment, net	426,759	441,880
Other assets	<u>24,629</u>	<u>11,982</u>
Total assets	<u>\$ 6,757,084</u>	<u>\$ 6,211,037</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable and accrued expenses	\$ 908,220	\$ 736,843
Deferred revenue	<u>7,500</u>	<u>86,450</u>
Total current liabilities	<u>915,720</u>	<u>823,293</u>
Net assets		
Unrestricted	3,246,444	3,107,675
Temporarily restricted	<u>2,594,920</u>	<u>2,280,069</u>
Total net assets	<u>5,841,364</u>	<u>5,387,744</u>
Total liabilities and net assets	<u>\$ 6,757,084</u>	<u>\$ 6,211,037</u>

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

WHEELCHAIR FOUNDATION
Statements of Activities
For the Years Ended December 31, 2005 and 2004

	2005			2004		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and other support						
Special event revenue	\$ 1,191,882	\$ -	\$ 1,191,882	\$ 1,221,336	-	\$ 1,221,336
Less cost of direct benefits to donors	(206,746)	-	(206,746)	(495,965)	-	(495,965)
Net revenues from special events	985,136	-	985,136	725,371	-	725,371
Contributions	3,020,901	2,290,921	5,311,822	5,003,405	1,825,155	6,828,560
Contributed services	1,437,800	-	1,437,800	3,036,133	-	3,036,133
Government grants	4,764,400	-	4,764,400	4,986,680	-	4,986,680
Contract revenue	1,092,870	-	1,092,870	548,940	-	548,940
Interest and dividend income	90,371	-	90,371	21,139	-	21,139
Net assets released from restrictions	1,976,070	(1,976,070)	-	1,761,851	(1,761,851)	-
Total revenue and other support	13,367,548	314,851	13,682,399	16,083,519	63,304	16,146,823
Expenses						
Program expenses						
Wheelchair costs	5,325,320	-	5,325,320	6,020,945	-	6,020,945
Wheelchair delivery	2,744,377	-	2,744,377	3,703,520	-	3,703,520
Salaries and related benefits	1,356,343	-	1,356,343	1,481,028	-	1,481,028
Supplies, materials, and other	451,969	-	451,969	730,848	-	730,848
Donations to affiliates	163,047	-	163,047	-	-	-
Total program expenses	10,041,056	-	10,041,056	11,936,341	-	11,936,341
Supporting services						
Management and general expenses	1,762,131	-	1,762,131	1,856,577	-	1,856,577
Fund-raising expenses	1,425,592	-	1,425,592	1,339,278	-	1,339,278
Total supporting services	3,187,723	-	3,187,723	3,195,855	-	3,195,855
Total expenses	13,228,779	-	13,228,779	15,132,196	-	15,132,196
Change in net assets	138,769	314,851	453,620	951,323	63,304	1,014,627
Net assets as of beginning of year	3,107,675	2,280,069	5,387,744	2,156,352	2,216,765	4,373,117
Net assets as of end of year	\$ 3,246,444	\$ 2,594,920	\$ 5,841,364	\$ 3,107,675	\$ 2,280,069	\$ 5,387,744

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

WHEELCHAIR FOUNDATION
Statements of Cash Flows
For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Change in net assets	\$ 453,620	\$ 1,014,627
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	103,536	79,113
Loss on disposal of equipment	30,134	17,324
Donated equipment	-	(72,830)
Changes in operating assets and liabilities		
Contributions and grants receivable	96,540	(300,994)
Prepaid expenses	170,239	(67,272)
Other assets	(12,647)	156,995
Accounts payable and accrued expenses	171,377	(49,490)
Deferred revenue	(78,950)	(26,250)
Net cash provided by operating activities	<u>933,849</u>	<u>751,223</u>
Cash flows from investing activities		
Purchases of property and equipment	(111,137)	(216,432)
Proceeds from equipment sold	800	300
Net cash used in investing activities	<u>(110,337)</u>	<u>(216,132)</u>
Net increase in cash and cash equivalents	823,512	535,091
Cash and cash equivalents at beginning of year	<u>4,019,377</u>	<u>3,484,286</u>
Cash and cash equivalents at end of year	<u>\$ 4,842,889</u>	<u>\$ 4,019,377</u>

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

WHEELCHAIR FOUNDATION
Notes to Financial Statements
December 31, 2005 and 2004

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, 2005 and 2004, the Foundation delivered 105,177 and 116,451 wheelchairs, respectively.

The Foundation is affiliated with other not-for-profit entities throughout the world, which share its name and mission. Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, requires a not-for-profit organization with both control and an economic interest in another not-for-profit organization to consolidate that organization as long as the control is not temporary, in which case consolidation would be prohibited. The financial position and results of operations of the entities affiliated with the Foundation have not been consolidated into the Foundation's financial statements as the Foundation is not expected to maintain control over these entities.

A summary of revenue received and expenses incurred by the Foundation from these entities during 2005 is as follows:

Wheelchair Foundation Australia	\$ 18,080	\$ 10,247
Wheelchair Foundation Canada	310,007	138,057
Wheelchair Foundation UK	<u>124,004</u>	<u>14,743</u>
	<u>\$452,091</u>	<u>\$ 163,047</u>

Basis of accounting

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

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.

WHEELCHAIR FOUNDATION
Notes to Financial Statements
December 31, 2005 and 2004

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

Financial statement presentation (continued)

- 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.

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. An allowance for doubtful contributions receivable is established based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable.

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.

WHEELCHAIR FOUNDATION
Notes to Financial Statements
December 31, 2005 and 2004

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

Contributions and contributions receivable (continued)

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. There were no such donations made in 2005.

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 \$1,437,800 and \$3,036,133 during the years ended December 31, 2005 and 2004, respectively. These contributions have been recorded as contributed services in the accompanying statements of activities.

Government grant revenue

During the year ended December 31, 2005, the Foundation received a \$4,960,000 grant from the United States Department of State. The term of the 2005 grant is July 1, 2005 through June 30, 2006. During the year ended December 31, 2004, the Foundation received a \$4,970,500 grant from the United States Department of State. The term of the 2004 grant was July 1, 2004 through June 30, 2005.

The Foundation recognized revenues of \$4,764,400 in 2005, whereby \$786,250 is attributable to the 2004 grant and \$3,978,150 to the 2005 grant. 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.

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.

WHEELCHAIR FOUNDATION
Notes to Financial Statements
December 31, 2005 and 2004

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

Property and equipment

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. 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 reviews property and equipment for impairment wherever events or changes in circumstances indicate that the carrying value of long-lived assets 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, 2005 and 2004, there were no events or changes in circumstances indicating that the carrying amount of the property and equipment may not be recoverable.

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 Foundation's various programs and activities have been allocated between program services, fund-raising, and management and general functional expenses based upon time and other determinations made by the Foundation.

WHEELCHAIR FOUNDATION

Notes to Financial Statements

December 31, 2005 and 2004

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

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.

2. Contributions Receivable

Unconditional promises to give, which are not expected to be collected until after the year promised, are reflected in the accompanying financial statements as contributions receivable and revenue in the appropriate net asset category. Contributions receivable at December 31, 2005 and 2004 totaled \$0 and \$58,800, respectively. Contributions receivable 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.

3. Property and Equipment

Property and equipment at December 31 consists of the following:

	<u>2005</u>	<u>2004</u>
Equipment and computers	\$ 331,448	\$ 322,146
Furniture and fixtures	251,482	248,189
Leasehold improvements	<u>120,423</u>	<u>49,204</u>
	703,353	619,539
Less accumulated depreciation	<u>(276,594)</u>	<u>(177,659)</u>
Property and equipment, net	<u>\$ 426,759</u>	<u>\$ 441,880</u>

Depreciation expense totaled \$103,536 and \$79,113 for the years ended December 31, 2005 and 2004, 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, 2005 and 2004. Deferred revenue totaled \$7,500 and \$86,450 at December 31, 2005 and 2004, respectively.

WHEELCHAIR FOUNDATION
Notes to Financial Statements
December 31, 2005 and 2004

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.

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 \$95 to \$6,500 and expire at various dates through June 2009. Future minimum rental payments required under the non-cancelable operating leases as of December 31, 2005 are as follows:

Year Ending December 31,

2006	\$ 86,552
2007	79,366
2008	20,860
2009	<u>680</u>
	<u>\$187,458</u>

Rent expense totaled \$71,574 and \$45,354 for the years ended December 31, 2005 and 2004, respectively. The Foundation has the option to renew one of their facilities leases for one three-year period at the end of the lease term.

8. Related Party Transactions

The founder, and current Chairman of the Foundation contributed air travel to the Foundation. During the years ended December 31, 2005 and 2004, the Foundation received in-kind air travel contributions of \$1,437,800 and \$1,390,125, respectively. These in-kind contributions have been recorded as revenue and expense in the accompanying statements of activities.

During the years ended December 31, 2005 and 2004, various family members of the founder contributed \$26,570 and \$110,749, respectively, to the Foundation.

WHEELCHAIR FOUNDATION
Notes to Financial Statements
December 31, 2005 and 2004

8. Related Party Transactions (continued)

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 totaled \$450,000 and \$480,000 for the years ended December 31, 2005 and 2004, respectively. Additionally, these entities provide the Foundation management, personnel, and other services. Payment for these services totaled \$388,064 and \$420,885 for the years ended December 31, 2005 and 2004, respectively.

In 2005 and 2004, the founder and Chairman of the Foundation contributed a collection of preserved animal trophies to the Foundation. The fair market value has not been determined; as such the contributions have not been reflected in the statements of activities.

9. Concentrations

The Foundation places its cash and temporary cash investments with high credit quality institutions. Periodically, such investments may be in excess of federally insured limits.

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, 2005 and 2004, the Foundation received 35% and 31%, 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, 2005 and 2004, the Foundation received 12% and 11%, respectively, of its operating revenue from one organization.

