

**BENEVOLENT HEALTHCARE
FOUNDATION
DBA PROJECT C.U.R.E.
FINANCIAL STATEMENTS
MAY 31, 2012**

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Independent Auditor's Report

Board of Directors
Benevolent Healthcare Foundation dba Project C.U.R.E.
Centennial, Colorado

We have audited the accompanying statements of financial position of Benevolent Healthcare Foundation dba Project C.U.R.E. as of May 31, 2012 and 2011, 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 U.S. generally accepted auditing standards 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 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 Benevolent Healthcare Foundation dba Project C.U.R.E. as of May 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2012 on our consideration of Benevolent Healthcare Foundation dba Project C.U.R.E.'s internal controls 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 control 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.

Poysti & Adams, LLC

September 7, 2012

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BENEVOLENT HEALTHCARE FOUNDATION DBA PROJECT C.U.R.E.
STATEMENTS OF FINANCIAL POSITION

May 31,	2012	2011
<u>Assets</u>		
Cash and cash equivalents	\$ 1,184,925	\$ 989,104
Accounts receivable	96,223	151,602
Investments	98,684	55,466
Inventory	47,568,021	53,018,654
Prepaid expenses	72,864	58,594
Restricted cash	1,048,186	1,081,264
Land and buildings held for sale	1,730,971	2,511,228
Land, buildings and equipment, net of accumulated depreciation	6,963,706	7,076,393
Other assets	<u>201,257</u>	<u>194,222</u>
Total Assets	<u>\$ 58,964,837</u>	<u>\$ 65,136,527</u>
<u>Liabilities and Net Assets</u>		
Accounts payable and accrued liabilities	\$ 506,594	\$ 440,835
Deferred revenue	67,241	75,210
Notes payable	1,048,242	1,005,409
Bonds payable	7,905,000	7,905,000
Tenant security deposits	<u>35,918</u>	<u>15,918</u>
Total liabilities	<u>9,562,995</u>	<u>9,442,372</u>
Net Assets		
Unrestricted	49,271,027	55,610,925
Temporarily restricted	<u>130,815</u>	<u>83,230</u>
Total net assets	<u>49,401,842</u>	<u>55,694,155</u>
Total Liabilities and Net Assets	<u>\$ 58,964,837</u>	<u>\$ 65,136,527</u>

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

BENEVOLENT HEALTHCARE FOUNDATION DBA PROJECT C.U.R.E.
STATEMENTS OF ACTIVITIES

For the Years Ended May 31,	2012	2011
Changes in unrestricted net assets:		
<u>Support, revenue and other gains</u>		
Contributions – non-cash	\$ 62,525,202	\$ 47,077,482
Contributions – other	2,971,369	2,717,765
Rental income	218,992	201,931
Federal Government grants	941,070	467,259
Investment income	3,412	16,709
Loss on sale of fixed assets	(719,515)	0
Special events and other income, net	253,383	245,538
Net assets released from restrictions	<u>52,415</u>	<u>134,137</u>
Total unrestricted support, revenue and other gains	<u>66,246,328</u>	<u>50,860,821</u>
<u>Expenses and losses</u>		
Program	71,670,344	50,035,137
Rental expenses	227,161	225,364
General and administrative	183,365	164,969
Fundraising	<u>505,356</u>	<u>509,627</u>
Total expenses	<u>72,586,226</u>	<u>50,935,097</u>
Changes in unrestricted net assets	<u>(6,339,898)</u>	<u>(74,276)</u>
Changes in temporarily restricted net assets:		
<u>Support, revenue and other gains</u>		
Contributions	100,000	84,700
Net assets released from restrictions	<u>(52,415)</u>	<u>(134,137)</u>
Changes in temporarily restricted net assets	<u>47,585</u>	<u>(49,437)</u>
Total changes in net assets	(6,292,313)	(123,713)
Net assets at beginning of year	<u>55,694,155</u>	<u>55,817,868</u>
Net assets at end of year	<u>\$ 49,401,842</u>	<u>\$ 55,694,155</u>

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

BENEVOLENT HEALTHCARE FOUNDATION DBA PROJECT C.U.R.E.
STATEMENTS OF CASH FLOWS

For the Years Ended May 31,	2012	2011
Cash flows from operating activities		
Received from contributions	\$ 3,126,748	\$ 2,657,488
Federal grants received	938,101	203,609
Other cash received	459,001	648,141
Rental income received	233,992	138,731
Interest paid	(646,176)	(640,419)
Interest received	12,642	11,443
Paid to suppliers and employees	(3,827,874)	(3,467,791)
Net cash provided by (used in) operating activities	<u>296,434</u>	<u>(448,798)</u>
Cash flows from investing activities		
Purchase of fixed assets	(124,076)	(196,090)
Purchase of investments	(115,203)	0
Sale of investments	62,755	0
Change in restricted investments	33,078	(1,703)
Net cash used in investing activities	<u>(143,446)</u>	<u>(197,793)</u>
Cash flows from financing activities		
Proceeds from issuance of long term debt	105,609	119,278
Principal payments on long term debt	(62,776)	(23,486)
Net cash provided by financing activities	<u>42,833</u>	<u>95,792</u>
Net increase (decrease) in cash and cash equivalents	195,821	(550,799)
Cash and cash equivalents at beginning of year	<u>989,104</u>	<u>1,539,903</u>
Cash and cash equivalents at end of year	<u>\$ 1,184,925</u>	<u>\$ 989,104</u>
Reconciliation of changes in net assets to net cash provided by (used in) operating activities:		
Changes in net assets	\$ (6,292,313)	\$ (123,713)
Reconciling adjustments		
Depreciation and amortization	310,470	302,898
Non-cash investments	0	(50,200)
Non-cash change in inventory	5,450,633	(117,054)
Loss on disposal of fixed assets	719,515	0
Unrealized gain on investment	9,230	(5,266)
Change in operating assets and liabilities		
Accounts receivable	55,379	(144,977)
Prepaid expense and other assets	(14,270)	5,654
Accounts payable and accrued liabilities	57,790	(316,140)
Net cash provided by (used in) operating activities	<u>\$ 296,434</u>	<u>\$ (448,798)</u>
Non-cash investing activities		
Fixed asset additions	<u>\$ 0</u>	<u>\$ 90,000</u>

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

BENEVOLENT HEALTHCARE FOUNDATION DBA PROJECT C.U.R.E.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Benevolent Healthcare Foundation, dba Project C.U.R.E., Centennial, Colorado was formed and organized as a nonprofit organization in Colorado during 2000. Project C.U.R.E. was formed in 1987 and operated under Benevolent Brotherhood Foundation until June 2001. At that time the assets of Project C.U.R.E. were transferred into the Benevolent Healthcare Foundation. Project C.U.R.E. is the sole member of two Colorado limited liability companies, Benevolent Healthcare Foundation of Denver, LLC and Benevolent Healthcare Foundation of Nashville, LLC. These entities are included in the accompanying financial statements.

Project C.U.R.E. provides medical equipment and supplies to communities throughout the world that have a need for these items. Project C.U.R.E. currently delivers its products to over 120 countries and averages over two 40 foot cargo container shipments each week. At May 31, 2012, Project C.U.R.E. either owned or leased warehouses in Colorado, Tennessee, Texas, and New York. Additionally, Project C.U.R.E. utilized donated warehouse space in Arizona, Colorado, Indiana, Kentucky, New Mexico, Pennsylvania, Texas, and Oregon.

Project C.U.R.E. is exempt from income tax under Section 501(c)(3) of the U. S. Internal Revenue Code and comparable state law, and contributions to it are deductible within the limitations prescribed by the Code. The Organization has been classified as a publicly supported organization which is not a private foundation under section 509(a) of the Code. The Organization did not have any material unrelated business income tax liability or significant uncertain tax positions for the years ended May 31, 2012 and 2011.

Basis of Presentation

The financial statements are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly actual results could differ from those estimates.

Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged.

Project C.U.R.E. 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.

Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support in the statement of activities.

BENEVOLENT HEALTHCARE FOUNDATION DBA PROJECT C.U.R.E.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Project C.U.R.E. reports gifts of land, buildings, and 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, Project C.U.R.E. reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of services shall be recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Allocation of Expenses

The costs of providing the various programs and supporting activities of Project C.U.R.E. have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting activities.

Investments

Investments are carried at fair value. Donated investments are initially recorded at fair value on the date of donation. Realized and unrealized gains and losses are reflected in the statement of activities.

Cash and Cash Equivalents

Project C.U.R.E. considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Restricted cash and cash equivalents are limited in use as a result of the bond issue. A bond reserve totaling \$790,500 is required to be maintained and be used only for the payment of any delinquent principal or interest. The bond indentures also require monthly payments into a restricted account in order to satisfy the next scheduled principal and interest payment, of which \$194,927 was funded as of May 31, 2012. Restricted cash and cash equivalents are invested in the Colorado Surplus Asset Fund Trust (CSAFE). CSAFE is operated similarly to a money market fund and each share is equal in value to \$1.00. A designated custodial bank provides safekeeping and depository services in connection with the direct investment and withdrawal functions of each pooled investment. CSAFE invests in U.S. agencies, commercial paper and money market funds. Restricted cash invested with CSAFE total \$985,427 at May 31, 2012.

Inventory

Inventory substantially consists of donated medical supplies that, by law, can no longer be used, nor sold, for medical purposes in the United States of America. The inventory has been valued at wholesale prices obtained from professional supply books and catalogs dated with values from the year 2006 for equipment and 2011 for consumable products. All of the inventory on hand is held exclusively for shipment to developing countries at no charge to them.

BENEVOLENT HEALTHCARE FOUNDATION DBA PROJECT C.U.R.E.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

Advertising and promotion costs are expensed as incurred.

Land, Buildings, Equipment and Depreciation

Expenditures for land, buildings and equipment are capitalized at cost. Donated assets are capitalized at their fair value on the date of gift. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Project C.U.R.E. does not have a capitalization policy.

Subsequent Events

Project C.U.R.E.'s financial statements were available to be issued on September 26, 2012, and this is the date through which subsequent events were evaluated. Project C.U.R.E. did not identify any subsequent events requiring disclosure.

Other Matters

Management has determined that current operational cash needs will occasionally result in cash and money market accounts balances in excess of insured limits.

NOTE 2 – INVESTMENTS

	<u>2012</u>	<u>2011</u>
Equities	\$ <u>98,684</u>	\$ <u>55,466</u>
Composition of investment return:		
Interest and dividends	\$ 12,642	\$ 11,443
Realized and unrealized gain (loss)	<u>(9,230)</u>	<u>5,266</u>
	\$ <u>3,412</u>	\$ <u>16,709</u>

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, all of the Organization's investments are valued using Level 1, Quoted Prices in Active Markets for Identical Assets inputs. Project C.U.R.E. reviews its holdings on a regular basis to determine if any investment has experienced an other-than-temporary decline in fair value.

NOTE 3 – LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION

	<u>2012</u>	<u>2011</u>
Buildings and improvements	\$ 6,616,793	\$ 6,629,786
Machinery and equipment	156,954	151,804
Vehicles	<u>298,538</u>	<u>189,812</u>
	7,072,285	6,971,402
Accumulated depreciation	<u>(1,286,579)</u>	<u>(1,073,009)</u>
	5,785,706	5,898,393
Land	<u>1,178,000</u>	<u>1,178,000</u>
	\$ <u>6,963,706</u>	\$ <u>7,076,393</u>

BENEVOLENT HEALTHCARE FOUNDATION DBA PROJECT C.U.R.E.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – LAND, BUILDINGS, EQUIPMENT AND DEPRECIATION (CONTINUED)

Depreciation expense for the years ended May 31, 2012 and 2011 was \$231,580 and \$224,098.

NOTE 4 – LAND AND BUILDINGS HELD FOR SALE

Project C.U.R.E. has capital assets in both Denver and Nashville which are actively being marketed. These assets are classified as held for sale on the Statement of Financial Position. During the year ended May 31, 2012, these assets were written down to reflect the pending sales price. The building is also being leased to a third party. Accumulated depreciation as of May 31, 2012 was \$261,029. Because of the inherent uncertainties in estimating the fair value of these assets, it is at least reasonably possible that the estimates used will change within the near term.

NOTE 5 – NOTES PAYABLE

	<u>2012</u>	<u>2011</u>
Mortgage payable to a bank dated February 2010 in the amount of \$912,614, collateralized by a first deed of trust on real property, with a variable interest rate currently at the minimum rate of 6%. Monthly payment requirement of \$6,591 include interest and principal, with a balloon payment due at maturity in February 2013.	\$ 860,116	\$ 886,130
Note payable to a bank dated January 2012 in the amount of \$39,665, not to exceed \$50,000, collateralized by a vehicle, with a fixed interest rate of 6.5%. Interest only quarterly payments with 20% principal payments annually. Matures January 2016.	29,665	39,665
Note payable to a bank dated January 2011 in the amount of \$39,665, not to exceed \$50,000, collateralized by a vehicle, with a fixed interest rate of 6.5%. Interest only quarterly payments with 20% principal payments annually. Matures January 2016.	29,665	39,665
Note payable to a bank dated January 2011 in the amount of \$39,949, not to exceed \$50,000, collateralized by a vehicle, with a fixed interest rate of 6.5%. Quarterly interest only payments with 20% principal payments annually. Matures January 2016.	29,948	39,949
Note payable to a bank dated November 2011 in the amount of \$63,934, collateralized by a vehicle, with a fixed interest rate of 3.99%. Monthly payment requirement of \$1,000 includes interest and principal. Matures November 2017.	59,124	0

BENEVOLENT HEALTHCARE FOUNDATION DBA PROJECT C.U.R.E.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – NOTES PAYABLE (CONTINUED)

	<u>2012</u>	<u>2011</u>
Note payable to a bank dated January 2012 in the amount of \$41,675, collateralized by a vehicle, with a fixed interest rate of 6.34%. Monthly payment requirement of \$697 includes interest and principal. Matures January 2018.	<u>39,724</u>	<u>0</u>
	<u>\$ 1,048,242</u>	<u>\$ 1,005,409</u>
Annual aggregate principal payments applicable to notes payable for the five years subsequent to May 31, 2012 are:		
2013	\$ 899,808	
2014	40,483	
2015	39,379	
2016	37,987	
2017	19,264	

Interest expense for notes payable for the years ended May 31, 2012 and 2011 was \$62,902 and \$57,218.

NOTE 6 – BONDS PAYABLE

During 2008, the Colorado Health Facilities Authority (COHFA) issued health facilities revenue bonds, totaling \$7,905,000 on behalf of Project C.U.R.E. As collateral for the bonds, Project C.U.R.E. entered into a loan agreement with COHFA providing a deed of trust on certain property owned in Denver, Colorado. The bonds mature on February 15, 2028. Interest is paid semi-annually at a rate of 7.375%. Project C.U.R.E. will make interest only payments until 2014. Beginning in 2015, Project C.U.R.E. may redeem the bonds early, with a redemption price of 103% of the bond. This percentage decreases 1% each year until the bonds may be redeemed in 2018 for 100% of the bond's face value.

Annual aggregate principal payments applicable to bonds payable for the five years subsequent to May 31, 2012 are:

2013	\$ 0
2014	275,000
2015	295,000
2016	320,000
2017	340,000

Interest expense for each year ended May 31, 2012 and 2011 was \$583,274 and \$583,201.

BENEVOLENT HEALTHCARE FOUNDATION DBA PROJECT C.U.R.E.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – NON-CASH CONTRIBUTIONS

Non-cash contributions consist of the following donated goods, services, and facilities:

	<u>2012</u>	<u>2011</u>
C.U.R.E. Kits	\$ 1,212,100	\$ 586,500
Medical Supplies	61,030,750	46,023,130
Transportation	105,102	81,415
Warehouse and office rental space	177,250	336,237
Donated stock	<u>0</u>	<u>50,200</u>
	<u>\$ 62,525,202</u>	<u>\$ 47,077,482</u>

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

	<u>2012</u>	<u>2011</u>
Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose as follows:		
Belize PICU unit	\$ 9,700	\$ 0
Chicago C.U.R.E. Community	0	50,000
C.U.R.E. clinics – educational donations	2,715	1,470
Medical equipment and supplies	40,000	76,000
Need assessment	<u>0</u>	<u>6,667</u>
	<u>\$ 52,415</u>	<u>\$ 134,137</u>

Temporarily restricted net assets are available for the following purposes:

Belize PICU unit	\$ 0	\$ 9,700
C.U.R.E. clinics	30,815	33,530
Philadelphia C.U.R.E. Community	100,000	0
Medical equipment and supplies	<u>0</u>	<u>40,000</u>
	<u>\$ 130,815</u>	<u>\$ 83,230</u>

NOTE 9 – ENDOWMENTS

The Organization's endowments consist of various term-endowment funds. As required by the generally accepted accounting principles, net assets associated with the endowment funds, including term-endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted and temporarily restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent

BENEVOLENT HEALTHCARE FOUNDATION DBA PROJECT C.U.R.E.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – ENDOWMENTS (CONTINUED)

gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time

the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted and term-endowment funds:

1. The duration and preservation of the fund.
2. The purpose of the Organization and the donor restricted endowment fund.
3. General economic conditions.
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Organization.
7. The investment policies of the Organization.

Changes in term-endowment net assets for the years ended May 31, 2012 and 2011 are reflected in the statements of activities.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Project C.U.R.E. leases warehouses and office space under verbal agreements that the monthly rent will be an in-kind donation to Project C.U.R.E. Lease expense for 2012 and 2011 was \$177,250 and \$336,237.

Project C.U.R.E. also leases two warehouse spaces under month-to-month operating leases. Rental expense under operating leases for the years ended May 31, 2012 and May 31, 2011, was \$84,000 and \$37,630.

Project C.U.R.E. recognizes as revenue grant monies received as reimbursement for costs incurred in certain Federal programs it administers. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of Project C.U.R.E. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time.

NOTE 11 – RETIREMENT PLAN

Project C.U.R.E. has a tax-sheltered annuity plan under Internal Revenue Code Section 403(b) available to its employees. There were no employer contributions for the years ended May 31, 2012 and 2011.