

HealthRight International, Inc. and Subsidiary

Financial Statements and
OMB Circular A-133 Financial Report
Together with Independent Auditors' Report

December 31, 2012

HealthRight International, Inc. and Subsidiary

Financial Statements and OMB Circular A-133 Financial Report Together with Independent Auditors' Report

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Independent Auditors' Report

**Board of Directors
HealthRight International, Inc.**

We have audited the accompanying consolidated financial statements of HealthRight International, Inc. and Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011 and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

O'CONNOR DAVIES, LLP
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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HealthRight International, Inc. and Subsidiary as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards and Schedule of Indirect Cost Rate are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2013 on our consideration of HealthRight International, Inc. and Subsidiary'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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HealthRight International, Inc. and Subsidiary's internal control over financial reporting and compliance.

O'Connor Davies, LLP
July 23, 2013
New York, New York

HealthRight International, Inc. and Subsidiary

Consolidated Statements of Financial Position

	December 31,	
	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 966,796	\$ 1,041,994
Receivables, net	858,950	433,429
Prepaid expenses and other assets	<u>35,862</u>	<u>12,648</u>
Total Current Assets	1,861,608	1,488,071
Property and equipment, net	7,087	86,229
Security deposits	<u>5,000</u>	<u>58,756</u>
	<u>\$ 1,873,695</u>	<u>\$ 1,633,056</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 25,435	\$ 13,608
Deferred rent	-	56,219
Unearned revenue	<u>248,680</u>	<u>260,390</u>
Total Current Liabilities	274,115	330,217
Notes payable to related parties	<u>125,000</u>	<u>125,000</u>
Total Liabilities	<u>399,115</u>	<u>455,217</u>
Net Assets		
Unrestricted	299,104	258,318
Temporarily restricted	<u>1,175,476</u>	<u>919,521</u>
Total Net Assets	<u>1,474,580</u>	<u>1,177,839</u>
	<u>\$ 1,873,695</u>	<u>\$ 1,633,056</u>

See notes to consolidated financial statements

HealthRight International, Inc. and Subsidiary

Consolidated Statements of Activities

	Year Ended December 31, 2012			Year Ended December 31, 2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES						
United States government grants	\$ 1,312,819	\$ -	\$ 1,312,819	\$ 1,652,538	\$ -	\$ 1,652,538
Foreign government grants	-	4,137	4,137	-	10,220	10,220
International organizations grants	-	227,364	227,364	-	47,397	47,397
Foundation grants	23,081	1,128,618	1,151,699	25,750	996,918	1,022,668
Corporate contributions	37,625	80,000	117,625	20,750	316,000	336,750
Individual contributions	229,912	6,247	236,159	221,005	271,780	492,785
Donated goods and services	-	1,060,899	1,060,899	-	1,173,855	1,173,855
Special events and promotions (net of expenses of \$83,311)	-	-	-	327,706	-	327,706
Other income, net	14,795	-	14,795	25,389	-	25,389
Net assets released from restrictions	2,251,310	(2,251,310)	-	2,520,686	(2,520,686)	-
Total Revenues	3,869,542	255,955	4,125,497	4,793,824	295,484	5,089,308
EXPENSES						
Program services	3,534,955	-	3,534,955	4,289,801	-	4,289,801
Supporting Services						
Management and general	154,324	-	154,324	171,673	-	171,673
Fundraising	93,672	-	93,672	214,477	-	214,477
Total Expenses	3,782,951	-	3,782,951	4,675,951	-	4,675,951
Change in Net Assets before Other Losses	86,591	255,955	342,546	117,873	295,484	413,357
Other Losses	(45,805)	-	(45,805)	-	-	-
Change in Net Assets	40,786	255,955	296,741	117,873	295,484	413,357
NET ASSETS						
Beginning of year	258,318	919,521	1,177,839	140,445	624,037	764,482
End of year	\$ 299,104	\$ 1,175,476	\$ 1,474,580	\$ 258,318	\$ 919,521	\$ 1,177,839

See notes to consolidated financial statements

HealthRight International, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended December 31, 2012

	Program Services					Supporting Services				
	Russia Projects	Ukraine Projects	Kenya Projects	Nepal & Vietnam Projects	Human Rights Clinic and Other Domestic Projects	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 181,029	\$ 262,641	\$ 269,692	\$ 146,652	\$ 158,044	\$ 1,018,058	\$ 122,986	\$ 54,393	\$ 177,379	\$ 1,195,437
Benefits	38,325	89,231	89,628	42,700	35,811	295,695	20,963	9,901	30,864	326,559
Volunteers/program consultants	11,925	61,443	31,014	38,313	482,051	624,746	1,152	12,724	13,876	638,622
Professional fees	6,098	8,789	11,986	8,665	3,497	39,035	2,256	1,369	3,625	42,660
Rent, maintenance, security, cleaning and utilities	12,598	31,867	15,026	11,154	88,184	158,829	1,567	951	2,518	161,347
Materials and supplies	15,695	20,354	77,431	509,722	6,058	629,260	237	2,190	2,427	631,687
Furniture and equipment	1,209	5,447	11,228	3,470	873	22,227	447	3,648	4,095	26,322
Vehicle rental /maintenance/fuel	363	-	91,265	4,850	-	96,478	-	-	-	96,478
Travel	8,631	15,042	17,139	15,118	224	56,154	124	75	199	56,353
Insurance	2,213	2,410	2,899	2,525	12,045	22,092	621	377	998	23,090
Postage and delivery	1,063	1,279	1,021	1,062	998	5,423	140	2,598	2,738	8,161
Telephone	4,480	4,470	7,700	2,839	4,067	23,556	688	800	1,488	25,044
Internet/email	1,389	1,355	4,890	2,077	1,611	11,322	541	1,550	2,091	13,413
Training and workshops	2,327	76,714	68,678	124,204	5,829	277,752	-	-	-	277,752
Staff and field management training	1,054	-	836	1,042	90	3,022	-	-	-	3,022
Recruiting	247	628	1,776	310	212	3,173	92	126	218	3,391
Meals and refreshments	34	3,569	1,951	1,115	222	6,891	13	8	21	6,912
Memberships and subscriptions	719	64	775	882	705	3,145	17	1,305	1,322	4,467
Donations	-	-	236	-	-	236	-	-	-	236
Gifts and entertainment	18	25	29	207	10	289	6	154	160	449
Subcontract grant expenses	122,667	2,629	30,632	32,099	-	188,027	-	-	-	188,027
Fees, charges and taxes	4,170	6,722	4,903	6,667	1,500	23,962	872	529	1,401	25,363
Other	587	865	987	740	337	3,516	213	132	345	3,861
Depreciation	3,751	5,359	6,301	4,505	2,151	22,067	1,389	842	2,231	24,298
Total	\$ 420,592	\$ 600,903	\$ 748,023	\$ 960,918	\$ 804,519	\$ 3,534,955	\$ 154,324	\$ 93,672	\$ 247,996	\$ 3,782,951

HealthRight International, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended December 31, 2011

	Program Services					Supporting Services				
	Russia Projects	Ukraine Projects	Kenya Projects	Nepal & Vietnam Projects	Human Rights Clinic and Other Domestic Projects	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 224,983	\$ 263,352	\$ 227,860	\$ 295,441	\$ 164,462	\$ 1,176,098	\$ 121,578	\$ 152,340	\$ 273,918	\$ 1,450,016
Benefits	52,886	94,694	66,228	80,401	34,245	328,454	32,508	21,678	54,186	382,640
Volunteers/program consultants	7,547	32,155	13,578	52,756	488,939	594,975	783	9,166	9,949	604,924
Professional fees	8,091	9,750	10,526	14,432	5,692	48,491	2,256	2,817	5,073	53,564
Rent, maintenance, security, cleaning and utilities	42,116	54,119	37,273	77,889	12,379	223,776	8,743	10,922	19,665	243,441
Materials and supplies	23,356	30,075	699,288	108,346	3,729	864,794	162	5,196	5,358	870,152
Furniture and equipment	1,549	5,328	8,319	15,764	595	31,555	845	3,803	4,648	36,203
Vehicle rental /maintenance/fuel	39	912	74,774	2,417	-	78,142	-	-	-	78,142
Travel	11,480	20,010	33,615	21,357	1,173	87,635	11	217	228	87,863
Insurance	1,750	1,787	1,647	3,509	9,819	18,512	492	615	1,107	19,619
Postage and delivery	601	2,108	1,784	1,426	1,708	7,627	154	2,179	2,333	9,960
Telephone	4,195	6,313	13,036	2,410	738	26,692	1,037	155	1,192	27,884
Internet/email	1,129	1,552	6,436	2,755	691	12,563	136	334	470	13,033
Training and workshops	15,034	80,682	46,137	191,043	8,618	341,514	-	-	-	341,514
Staff and field management training	-	-	45	1,968	-	2,013	-	-	-	2,013
Recruiting	177	178	1,601	343	251	2,550	50	487	537	3,087
Meals and refreshments	178	1,027	2,636	535	3	4,379	3	3	6	4,385
Memberships and subscriptions	185	302	1,005	1,309	523	3,324	17	1,315	1,332	4,656
Donations	-	-	6,412	49	-	6,461	-	-	-	6,461
Gifts and entertainment	101	57	433	1,502	23	2,116	17	20	37	2,153
Subcontract grant expenses	218,939	5,936	14,621	121,751	-	361,247	-	-	-	361,247
Fees, charges and taxes	8,714	6,609	5,982	16,140	1,774	39,219	1,355	1,323	2,678	41,897
Other	240	180	-	352	-	772	-	-	-	772
Depreciation	5,426	5,372	5,106	8,827	2,161	26,892	1,526	1,907	3,433	30,325
Total	\$ 628,716	\$ 622,498	\$ 1,278,342	\$ 1,022,722	\$ 737,523	\$ 4,289,801	\$ 171,673	\$ 214,477	\$ 386,150	\$ 4,675,951

HealthRight International, Inc. and Subsidiary

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 296,741	\$ 413,357
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	24,298	30,325
Losses	27,141	-
Changes in operating assets and liabilities		
Receivables	(425,521)	(155,678)
Prepaid expenses	(23,214)	10,876
Accounts payable and accrued expenses	11,827	(17,687)
Deferred rent	(56,219)	6,329
Unearned income	(11,710)	(155,019)
Net Cash From Operating Activities	(156,657)	132,503
CASH FLOWS FROM INVESTING ACTIVITIES		
Security deposit received	58,756	-
Security deposit paid	(5,000)	-
Proceeds from sale of property and equipment	27,703	-
	81,459	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable to related parties	-	125,000
Net Change in Cash and Cash Equivalents	(75,198)	257,503
CASH AND CASH EQUIVALENTS		
Beginning of year	1,041,994	784,491
End of year	\$ 966,796	\$ 1,041,994

See notes to consolidated financial statements

HealthRight International, Inc. and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

1. Organization and Tax Status

HealthRight International, Inc. ("HealthRight"), formerly Doctors of the World-U.S.A., Inc., is an international health and human rights organization founded in 1990 by a group of volunteer physicians including the late Dr. Jonathan Mann, a pioneer in the field of health and human rights. In December 2, 2008, the Organization amended its Certificate of Incorporation to change its name to HealthRight International, Inc.

Working with local partners, HealthRight's projects build long-term solutions focused on ending TB and HIV epidemics, caring for neglected and abandoned children, maternal and infant health, and assistance to torture survivors. In addition to the U.S., HealthRight has operated programs in over 30 countries.

Ukrainian Foundation for Public Health ("Ukrainian Foundation"), a wholly owned subsidiary, facilitates related efforts to improve health and support services for vulnerable populations for the purpose of resource mobilization for developing, supporting, and providing charitable care and support to vulnerable and at-risk population groups, including, but not limited to, women, children, youth, and families in a difficult life situation through access to social, psychological, pedagogical and other types of services in order to enhance their medical, psychosocial, or material condition and to gain equal opportunities for development and participation in society. Ukrainian Foundation is a charitable organization incorporated by HealthRight in Ukraine and is regulated by the Constitution of Ukraine and the Law of Ukraine on charity and charitable organizations.

HealthRight qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of Healthright International, Inc. and Ukrainian Foundation (collectively, the "Organization"). All significant intercompany balances and transactions are eliminated.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

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

HealthRight International, Inc. and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Organization considers all highly liquid investments and investment instruments with a maturity of three months or less at the time of purchase to be cash equivalents. Cash and cash equivalents include demand deposits and temporary investments with high credit financial institution are readily convertible to cash.

Property, Equipment and Depreciation

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets which range from three to ten years.

Net Assets Presentation

The consolidated financial statements report amounts separately by class of net assets based on the presence or absence of donor restrictions. Unrestricted amounts are those currently available at the discretion of the board for use in the Organization's operations. Temporarily restricted amounts are those that are restricted by donors for specific purposes or particular time periods. Permanently restricted amounts are those that are established by donor restricted gifts and bequests to provide a permanent endowment. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. The Organization has no permanently restricted net assets.

Revenue Recognition

Contributions received and unconditional promises to give that are reasonably determinable are recorded as contributions at fair value in the period received and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recorded net of estimated uncollectible amounts. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met. The Organization records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, provided by individuals possessing those skills, and that would typically need to be purchased if not provided by donation, are recorded at their fair values in the period services are rendered.

HealthRight International, Inc. and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Government grants are recognized as the related expenses are incurred. Amounts received from these grants, which have not yet been earned under the terms of the agreement are recorded as unearned revenue in the accompanying consolidated financial statements. Advances on other grants which are on a reimbursement basis are also recorded as unearned revenue in the accompanying consolidated financial statements.

Foreign Currency Translation

The Organization's functional currency is the United States Dollar. As such, assets and liabilities denominated in foreign currencies are translated at year-end exchange rates and revenue and expenses are translated at average exchange rates during the year. Gains and losses from foreign currency translation for the period are included in the statement of activities.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program and support services are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated in accordance with grant provisions and/or other equitable bases.

Accounting for Uncertainty in Income Taxes

The Organization recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the Organization had no uncertain tax positions that would require financial statement recognition. The Organization is no longer subject to audits by the applicable taxing jurisdictions for periods prior to 2009.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is July 23, 2013.

HealthRight International, Inc. and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

3. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Organization maintains its cash balances in various domestic and foreign institutions. Those funds that are held by a major brokerage firm are insured by the Securities Investor Protection Corporation (SIPC). The funds held by banks are insured by the Federal Deposit Insurance Corporation (FDIC). At times, such deposits may be in excess of the insurance limits. Concentrations of credit risk with respect to receivables are generally diversified due to large number of entities and individuals composing the Organization's program and donor base and generally short collection period.

4. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31:

	<u>2012</u>	<u>2011</u>
Domestic banks	\$ 647,559	\$ 681,844
Money market	8,411	4,901
Foreign banks and field accounts	<u>310,826</u>	<u>355,249</u>
	<u>\$ 966,796</u>	<u>\$ 1,041,994</u>

5. Receivables

Receivables as of December 31 are as follows:

	<u>2012</u>	<u>2011</u>
Foundations	\$ 707,059	\$ 138,685
Government	101,063	54,816
Individuals	28,337	229,928
Corporation and others	<u>40,125</u>	<u>10,000</u>
	876,584	433,429
Discount to present value (4.25% in 2012)	<u>(17,634)</u>	<u>-</u>
	<u>\$ 858,950</u>	<u>\$ 433,429</u>

Collections on the outstanding receivables (before discount to present value) at December 31, 2012 are scheduled to be received as follows:

2013	\$ 536,313
2014	244,054
2015	<u>96,217</u>
	<u>\$ 876,584</u>

HealthRight International, Inc. and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

6. Property and Equipment

As of December 31, property and equipment consisted of the following:

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ -	\$ 110,315
Furniture and fixtures	11,813	45,131
Equipment	<u>75,548</u>	<u>75,548</u>
	87,361	230,994
Less accumulated depreciation	<u>80,274</u>	<u>144,765</u>
	<u>\$ 7,087</u>	<u>\$ 86,229</u>

7. Donated Goods and Services

Donated goods and services reported in the statements of activities consisted of the following:

	<u>2012</u>	<u>2011</u>
Medical supplies	\$ 497,332	\$ 686,720
Medical services	475,618	487,135
Rent	85,755	-
Others	<u>2,194</u>	<u>-</u>
	<u>\$ 1,060,899</u>	<u>\$ 1,173,855</u>

8. Notes payable to Related Parties

In 2011, the Organization obtained unsecured non-interest bearing loans from members of the Board. There are no periodic payments required under these loans, and the maturity date of these loans payable is February 28, 2014.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes as of December 31:

<u>Project/Program Location</u>	<u>2012</u>	<u>2011</u>
Russia	\$ 90,640	\$ 219,343
Kenya	85,826	49,394
Vietnam	46,754	329
Nepal	7,853	68,900
Ukraine	707,683	348,080
Human Rights Clinic	29,625	26,380
Strategic planning	7,095	7,095
Kaiser Children's Fund	<u>200,000</u>	<u>200,000</u>
	<u>\$ 1,175,476</u>	<u>\$ 919,521</u>

HealthRight International, Inc. and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2012 and 2011

9. Temporarily Restricted Net Assets *(continued)*

Net assets released from restrictions in the years ended December 31 are as follows:

<u>Project/Program Location</u>	<u>2012</u>	<u>2011</u>
Russia	\$ 395,208	\$ 502,087
Kenya	94,931	758,590
Vietnam	28,575	76,602
Nepal	516,779	-
Ukraine	620,073	627,618
Human Rights Clinic	595,744	530,135
Other programs	-	25,654
	<u>\$ 2,251,310</u>	<u>\$ 2,520,686</u>

10. Operating Leases

The Organization had an operating lease for its New York City office that expires in March 2017. The Organization terminated this lease in June, 2012 at no cost.

On July 1, 2012, the Organization entered into an operating lease for a new office space in New York City that expires on July 31, 2013. The Organization also leases office space in other locations internationally. These operating leases are renewed monthly or annually. Rent expense covering all locations for 2012 and 2011 was \$55,402 and \$224,427, respectively.

11. Retirement Plan

The Organization sponsors a 403(b) retirement savings plan for all eligible employees. Retirement plan expense was approximately \$7,869 and \$8,261 for 2012 and 2011.

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HealthRight International, Inc. and Subsidiary

Supplemental Information

December 31, 2012

HealthRight International, Inc. and Subsidiary

Schedule of Indirect Cost Rate Single Rate System January 1, 2012 - December 31, 2012

DIRECT COSTS

Russia Projects	\$ 420,592
Ukraine Projects	600,903
Kenya Projects	748,023
Nepal, Vietnam and Other Projects	960,918
Human Rights Clinic and Other Domestic Projects	804,519
Fundraising	93,672
Donated goods and services	(1,060,899)
Allocated administrative expenses	<u>(312,018)</u>
Total Direct Costs	<u>2,255,710</u>

INDIRECT COSTS

Management and general	154,324
Donations/contributions	(236)
Gifts and entertainment	(449)
Allocated administrative expenses	<u>312,018</u>
Total Indirect Costs	<u>465,657</u>
Total Costs	<u>\$ 2,721,367</u>

Rate = Total Indirect Costs	\$ 465,657
Divided by Total Direct Costs	<u>\$ 2,255,710</u>
	<u>20.64%</u>

HealthRight International, Inc. and Subsidiary

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor/ Program Title	Pass-through Entity Identifying Number	CFDA Number	Federal Expenditures
U.S. Agency for International Development (USAID)			
USAID Foreign Assistance for Programs Overseas		98.001	
Direct Programs:			
Russia At Risk Families - Yakaterinberg	N/A		\$ 78,939
Partnership for the Prevention and Treatment of Malaria in the North Rift Valley Province, Kenya	N/A		542,165
Partnership for Maternal and Neonatal Health in Nepal	N/A		360,365
Partnership for Maternal and Neonatal Health Plus in Kenya	N/A		<u>50,438</u>
Total Direct Programs			1,031,907
Pass-through World Learning:			
Intergrating Family Planning and Maternal and Newborn Care Services in Rural Nepal	GSM-082		<u>59,726</u>
Total USAID			1,091,633
U.S. Department of Health and Human Services			
Assistance for Torture Victims	N/A	93.604	<u>221,186</u>
Total Expenditures of Federal Awards			<u>\$ 1,312,819</u>

See independent auditors' report and notes to schedule of expenditure of federal awards

HealthRight International, Inc. and Subsidiary

Notes to Schedule of Expenditure of Federal Awards
Year Ended December 31, 2012

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (“the Schedule”) includes the federal grant activity of the Organization under programs of the federal government for the year ended December 31, 2012. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated statement of financial position, changes in net assets or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

3. Subrecipients

For the year ended December 31, 2012, the Organization provided \$148,448 of funds received from CFDA 98.001, Foreign Assistance for Programs Overseas to subrecipients.

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Independent Auditors' Report

**Board of Directors
HealthRight International, Inc.**

We have audited, in accordance with the 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, the consolidated financial statements of HealthRight International, Inc. and Subsidiary ("the Organization"), which comprise the consolidated statement of financial position as of December 31, 2012 and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor Davies, LLP

July 23, 2013
New York, New York

**Report on Compliance For Each Major Federal Program and Report on Internal Control
Over Compliance as Required by OMB Circular A-133**

Independent Auditors' Report

**Board of Directors
HealthRight International, Inc.**

Report on Compliance for Each Major Federal Program

We have audited HealthRight International, Inc. and Subsidiary's ("the Organization") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2012. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, HealthRight International, Inc. and Subsidiary complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

O'Connor Davies, LLP

July 23, 2013
New York, NY

HealthRight International, Inc. and Subsidiary

Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified
Internal control over financial reporting:
Material weakness(es) identified? _____ yes x no
Significant deficiency(ies) identified? _____ yes x none reported
Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:
Material weakness(es) identified? _____ yes x no
Significant deficiency(ies) identified? _____ yes x none reported
Type of auditors' report issued on compliance
for major programs: Unmodified
Any audit findings disclosed that are required
to be reported in accordance with OMB Circular
A-133, Section .510(a)? _____ yes x no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
98.001	USAID Foreign Assistance for Programs Overseas

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000
Auditee qualified as low-risk auditee? _____ yes x no

Section II – Financial Statement Findings

During our audit, we noted no material findings for the year ended December 31, 2012.

Section III – Federal Award Findings and Questioned Costs

During our audit, we noted no instance of noncompliance and none of the costs reported in the federal financially assisted programs are questioned costs or recommended to be disallowed.