



dōTERRA Healing Hands Foundation

**Financial Statements with Independent
Auditor's Report**

For the Year Ended December 31, 2018

dōTERRA Healing Hands Foundation

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299 South Main Street, 10th Floor
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Independent Auditor's Report

Board of Directors
dōTERRA Healing Hands Foundation
Pleasant Grove, UT

We have audited the accompanying financial statements of dōTERRA Healing Hands Foundation, which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of dōTERRA Healing Hands Foundation as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

BDO USA, LLP
Salt Lake City, UT
August 5, 2019

dōTERRA Healing Hands Foundation
Statement of Financial Position
At December 31, 2018

	2018
ASSETS	
Cash and cash equivalents	\$ 2,494,705
Accounts receivable	763,691
Pledges receivable, net	3,117,752
Donated products	468,281
Intangible assets, net	42,450
Total assets	\$ 6,886,879
 LIABILITIES AND NET ASSETS	
Accrued expenses	\$ 34,315
Grants payable, net	4,690,314
Total liabilities	\$ 4,724,629
 Net Assets	
Without donor restrictions	\$ 1,795,425
With donor restrictions	366,825
Total net assets	2,162,250
Total liabilities and net assets	\$ 6,886,879

See accompanying notes to the financial statements

dōTERRA Healing Hands Foundation
Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Public contributions:			
Cash	\$ 1,759,018	\$ 4,638,829	\$ 6,397,847
In-kind	903,440	-	903,440
	2,662,458	4,638,829	7,301,287
dōTERRA contributions:			
Cash	455,328	-	455,328
Proceeds from Hope Oil sales	-	1,241,078	1,241,078
Proceeds from Rose Lotion sales	833,831	-	833,831
Proceeds from sales of other products	247,740	-	247,740
Intangible assets	47,756	-	47,756
In-kind	1,078,291	1,321	1,079,612
	2,662,946	1,242,399	3,905,345
Total contributions	5,325,404	5,881,228	11,206,632
Net assets released from restrictions	7,009,189	(7,009,189)	-
Total support and revenue	12,334,593	(1,127,961)	11,206,632
Expenses			
Program services	11,322,257	-	11,322,257
General and administrative paid by dōTERRA	165,386	-	165,386
Fundraising paid by dōTERRA	128,509	-	128,509
Total expenses	11,616,152	-	11,616,152
Change in net assets	718,441	(1,127,961)	(409,520)
Net assets as of beginning of year	1,076,984	1,494,786	2,571,770
Net assets as of end of year	\$ 1,795,425	\$ 366,825	\$ 2,162,250

See accompanying notes to the financial statements

dōTERRA Healing Hands Foundation
Statement of Cash Flows
For the Year Ended December 31, 2018

	2018
Cash Flows from Operating Activities	
Change in net assets	\$ (409,520)
Adjustments to reconcile change in net assets to net cash from operating activities:	
Amortization	5,306
Change in assets and liabilities	
Accounts receivable	409,870
Pledges receivable	(2,103,325)
Donated products	127,559
Accrued expenses	1,315
Grants payable	2,436,226
Net cash provided by operating activities	467,431
 Cash Flows from Investing Activities	
Capitalization of intangible assets	(47,756)
Net cash used in investing activities	(47,756)
 Net change in cash and cash equivalents	419,675
 Cash and cash equivalents as of beginning of year	2,075,030
 Cash and cash equivalents as of end of year	\$ 2,494,705
 Non-Cash Operating and Investing Activities	
Donated products	\$ 127,559
Capitalization of intangible assets donated by dōTERRA	\$ (47,756)

See accompanying notes to the financial statements

dōTERRA Healing Hands Foundation
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 1. NATURE OF OPERATIONS

Organization and Nature of Activities

Founded as a public charity in June 2012, dōTERRA Healing Hands Foundation (the “Foundation”) is a Utah nonprofit corporation that began operations to serve people and communities in need. They do this by partnering with organizations and dōTERRA Wellness Advocates to offer hope to millions around the world. Through the Foundation’s efforts, lives are freed of disease and poverty, and communities are empowered with the tools needed to become self-reliant. The Foundation is affiliated with dōTERRA International, LLC (“dōTERRA”), which provides significant support; including contributions of proceeds from Hope Oil and Rose Lotion sales, and sales of other inventory products, matching contributions and paying all administrative and fundraising costs for the Foundation.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The Foundation prepares its financial statements on the accrual basis of accounting and follows accounting principles generally accepted in the United States of America (“U.S. GAAP”) for nonprofit organizations. The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions, and net assets without donor restrictions. Classification of restricted net assets is determined by the nature of donor-imposed restrictions. The Foundation 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

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 the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

As of December 31, 2018, the Foundation had a receivable from dōTERRA of \$763,691, which is comprised primarily of proceeds on the sale of dōTERRA products such as Hope Oil and Rose Lotion, which had not yet been contributed to the Foundation as of year-end.

An allowance for doubtful accounts is recorded based on historical experience and management’s analysis of specific balances. Accounts receivable are considered fully collectible; accordingly, no allowance for uncollectible accounts receivable has been recorded as of December 31, 2018.

dōTERRA Healing Hands Foundation
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable that are to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated discounted future cash flows, using a 4% discount rate:

Pledges receivable, gross	\$ 3,299,828
Present value adjustment	<u>(182,076)</u>
Pledges receivable, net	<u>\$ 3,117,752</u>

As of December 31, 2018, based on pledge agreements, amounts are expected to be received in the following years:

2019	\$ 1,706,750
2020	975,052
2021	222,249
2022	213,701
Thereafter	<u>-</u>
	<u>\$ 3,117,752</u>

An allowance for doubtful accounts is recorded based on historical experience and management’s analysis of specific balances. Pledges receivable are considered fully collectible; accordingly, no allowance for uncollectible pledges receivable has been recorded as of December 31, 2018. Conditional pledges or indications of intentions to give are not reported until the conditions are met.

Contributions

Contributions are recognized when the donor makes a pledge to give to the Foundation that is, in substance, unconditional. Contributions are recorded without donor restrictions, or with donor restrictions depending on the existence and nature of any donor-imposed restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Conditional pledges are not recognized until the conditions on which they depend have been substantially met.

In-kind Contributions

Donated products, services, property, and other noncash donations are recorded as contributions at their estimated fair value at the date of donation. The Foundation determines estimated fair value in accordance with fair value measurement accounting standards. Public in-kind contributions received by the Foundation are product contributions of emergency relief hygiene kits. dōTERRA provides in-kind donations of both products and services. dōTERRA product donations include various inventory items. In-kind services contributions include salaries and wages, payroll taxes, employee benefits and facilities associated with dōTERRA employees supporting the Foundation. In-kind services contributions are recorded at the estimated cost recognized by dōTERRA in accordance with ASC 958. Refer to Note 7 for more in-kind contribution details.

Grant Expenditures

Grant expenditures are recognized in the period the grant is approved, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions.

dōTERRA Healing Hands Foundation
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Refer to Note 8 for a detailed analysis.

Concentrations

The Foundation maintains its cash and cash equivalents in financial institution accounts, which may, at times, exceed the federally insured limit. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash held in such institutions.

The Foundation relies upon donations from corporate and private donors. For the year ended December 31, 2018, dōTERRA contributions comprised 34.8% of all contributions. The Foundation may be vulnerable to concentration risk should dōTERRA cease to support the Foundation.

Income Taxes

The Foundation is a Utah nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (vii), and has been determined not to be a private foundation under Sections 509(a)(1) and (3), respectively.

The Foundation's Returns of Organization Exempt from Income Tax (Form 990) are subject to examination by the IRS generally for three years after they were filed. The Foundation believes it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. Tax years that remain subject to examination are for the tax years 2015 and forward.

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Application to interim financial statements is permitted but not required in the initial year of application. Early application of the amendments is permitted. This ASU was effective for the Foundation beginning on January 1, 2018.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2018, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Foundation is currently evaluating the impact of the new standard on the financial statements.

dōTERRA Healing Hands Foundation
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which amends the accounting guidance related to (1) evaluating whether transactions should be accounted for as contributions or exchange transactions, and (2) determining whether a contribution is conditional. For resource providers, the ASU is effective for annual periods beginning after December 15, 2019, with early adoption permissible. The Foundation is currently evaluating the impact of the new standard on the financial statements.

NOTE 3. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year of December 31, 2018 are as follows:

Cash and cash equivalents	\$ 2,494,705
Accounts receivable	763,691
Financial assets available within one year	<u>\$ 3,258,396</u>

The Foundation manages its financial assets to be liquid and available as liabilities and project expenses become due. The Foundation's available financial assets exclude donor-restricted pledges receivable, product donations, and intangible assets, as the Foundation would not be able to use these assets for general expenditures. All pledges receivable as of December 31, 2018 had donor-imposed restrictions for specific purposes.

NOTE 4. INTANGIBLE ASSETS

During the year ended December 31, 2018, dōTERRA paid for the design and development of a new logo and a new website on behalf of the Foundation. These intangible assets were donated to the Foundation, and placed in service as of September 1, 2018. The cost of these assets has been capitalized and will be amortized on a straight-line basis over a three-year period. The total intangible assets balance and accumulated amortization at December 31, 2018 is as follows:

Capitalization of intangible assets	\$ 47,756
Less: Accumulated amortization	(5,306)
Intangible assets, net	<u>\$ 42,450</u>

Amortization expense of intangibles totaled \$5,306 for the year ended December 31, 2018. Estimated amortization over the next three years related to existing intangible assets is expected to be \$15,919, \$15,919, and \$10,612.

dōTERRA Healing Hands Foundation
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 5. GRANTS PAYABLE

Grants payable consists of approved grant commitments. Grants payable that are to be paid within one year are recorded at the committed value. Grants payable that are expected to be paid in future years are recorded at the present value of their estimated discounted future cash flows, using a 4% discount rate:

Grants payable, gross	\$ 4,972,664
Present value adjustment	<u>(282,350)</u>
Grants payable, net	<u>\$ 4,690,314</u>

As of December 31, 2018, based on approved grant commitments, amounts are expected to be paid in the following years:

2019	\$ 3,049,432
2020	1,204,932
2021	222,249
2022	213,701
Thereafter	-
	<u>\$ 4,690,314</u>

NOTE 6. NET ASSETS WITH DONOR RESTRICTIONS

Assets released from restrictions during the year ended December 31, 2018 were as follows:

Anti-sex trafficking initiatives	\$ 3,525,416
Corporate select projects	3,160,418
dōTERRA Wellness Advocate partner projects	172,605
Other corporate partner projects	150,750
	<u>\$ 7,009,189</u>

Net assets with donor restrictions are available for the following purposes at December 31, 2018:

Anti-sex trafficking initiatives	\$ 326,163
Projects in Bulgaria, Greece, and Uganda	28,615
Czech Republic project	10,000
Various other	2,047
	<u>\$ 366,825</u>

dōTERRA Healing Hands Foundation
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 7. IN-KIND CONTRIBUTIONS

Total donated products as of December 31, 2018 was comprised of in-kind product contributions from both public donors and dōTERRA, and was as follows:

	Public	dōTERRA	Total Donated Products
On-hand at December 31, 2017	\$ 595,840	\$ -	\$ 595,840
In-kind product contributions	903,440	313,142	1,216,582
Less: Product donations	(1,032,320)	(311,821)	(1,344,141)
On-hand at December 31, 2018	<u>\$ 466,960</u>	<u>\$ 1,321</u>	<u>\$ 468,281</u>

In-Kind Contributions - Public

During the year ended December 31, 2018, the Foundation received public in-kind product contributions of emergency relief hygiene kits totaling \$903,440, and the Foundation distributed kits to emergency relief efforts totaling \$1,032,320. As of December 31, 2018, the value of these donated products remaining on hand was \$466,960.

In-Kind Contributions - dōTERRA

During the year ended December 31, 2018, the Foundation received in-kind product contributions of various dōTERRA products totaling \$313,142, and the Foundation distributed products to partner organizations and dōTERRA Wellness Advocate partner projects totaling \$311,821. As of December 31, 2018, the value of these donated products remaining on hand was \$1,321.

In addition to in-kind product contributions, dōTERRA provided in-kind contributions of salaries and wages, payroll taxes, employee benefits and facilities associated with dōTERRA employees supporting the Foundation. Wages, payroll taxes, and benefits were allocated across functional categories based on estimated time spent supporting each category. Aggregate in-kind contributions provided by dōTERRA during the year ended December 31, 2018 were comprised of the following:

	Capitalization of Assets	Program Services	General and Administrative	Fundraising	Total dōTERRA
Product contributions	\$ 1,321	\$ 311,821	\$ -	\$ -	\$ 313,142
In-kind products	1,321	311,821	-	-	313,142
Wages and benefits	-	632,545	74,417	37,208	744,170
Facilities	-	-	22,300	-	22,300
In-kind services	-	632,545	96,717	37,208	766,470
Total in-kind	<u>\$ 1,321</u>	<u>\$ 944,366</u>	<u>\$ 96,717</u>	<u>\$ 37,208</u>	<u>\$ 1,079,612</u>

dōTERRA Healing Hands Foundation
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 8. ANALYSIS OF EXPENSES

The Foundation's functional expenses for the year ending December 31, 2018 are summarized below:

	Program Services Expense	Supporting Services Expense			Total Expenses
	Program Services	General and Administrative	Fundraising	Total Supporting Services	
Grants	\$ 9,345,571	\$ -	\$ -	\$ -	\$ 9,345,571
Donated products - public	1,032,320	-	-	-	1,032,320
Marketing and advertising*	-	-	85,995	85,995	85,995
Professional services*	-	43,411	-	43,411	43,411
Other supporting services*	-	25,258	5,306	30,564	30,564
	<u>10,377,891</u>	<u>68,669</u>	<u>91,301</u>	<u>159,970</u>	<u>10,537,861</u>
From dōTERRA in-kind contributions:					
Wages and benefits	632,545	74,417	37,208	111,625	744,170
Donated products	311,821	-	-	-	311,821
Facilities	-	22,300	-	22,300	22,300
	<u>944,366</u>	<u>96,717</u>	<u>37,208</u>	<u>133,925</u>	<u>1,078,291</u>
Total functional expenses	<u>\$11,322,257</u>	<u>\$ 165,386</u>	<u>\$ 128,509</u>	<u>\$293,895</u>	<u>\$11,616,152</u>

*Paid by dōTERRA

Grants are charitable costs expended for the benefit of others. Refer to Note 7 for more information on donated products. Wages, payroll taxes, and benefits are associated with employees of dōTERRA that support the Foundation, and are allocated across functional categories based on estimated time spent supporting each category (refer to Note 7). Marketing and advertising, professional services, and other supporting services are paid by dōTERRA on behalf of the Foundation. Other supporting services includes administrative and operational costs supporting the Foundation.

NOTE 9. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2018, the Foundation received contributions of \$3,905,345 from dōTERRA, whose members of the Board of Directors are also the members of the Board of Directors of the Foundation. dōTERRA made cash contributions of \$2,777,977 which includes proceeds contributed from the sales of dōTERRA products, contributions for specific projects or events, and the payment of all fundraising and administrative costs including marketing and advertising, professional services, and other supporting services (refer to Note 8). dōTERRA paid \$47,756 for the design and development of a new logo and a new website on behalf of the Foundation, and donated these intangible assets to the Foundation (refer to Note 4). dōTERRA made in-kind contributions of \$1,079,612, which was comprised of both product contributions and services. Product contributions had a fair value of \$313,142 and services contributions had an estimated fair value of \$766,470. In-kind services contributions included salaries and wages, payroll taxes, employee benefits and facilities (refer to Note 7). Members of the Board of Directors made contributions of \$1,919,158 to the Foundation.

dōTERRA Healing Hands Foundation
Notes to Financial Statements
For the Year Ended December 31, 2018

NOTE 9. RELATED PARTY TRANSACTIONS (Continued)

For the year ended December 31, 2018, the Foundation made grants of \$108,240 to a charitable trust for which a member of the Board of Directors that oversees the trust, is also a member of the Board of Directors of the Foundation.

NOTE 10. SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through August 5, 2019, which is the date the financial statements were available to be issued, to determine if there are any subsequent events that provide additional information about conditions that existed at the financial position date.