



(a California Nonprofit Public Benefit Corporation)

REPORT ON AUDIT OF FINANCIAL STATEMENTS
for the year ended June 30, 2011

RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

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RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

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Building your future

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
ReSurge International
Mountain View, California

We have audited the accompanying statement of financial position of ReSurge International (a nonprofit organization) (the Organization) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 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 Organization's internal control over financial reporting. Accordingly, we express no such opinion. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ReSurge International as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Burr Pilger Mayer, cba.

East Palo Alto, California
October 27, 2011

Member of The Leading Edge Alliance

RESURGE INTERNATIONAL
STATEMENT OF FINANCIAL POSITION

June 30, 2011

ASSETS

Current assets:	
Cash and cash equivalents	\$ 607,022
Investments	102,523
Inventory	896,685
Deposits	<u>27,547</u>
Total current assets	<u>1,633,777</u>
Property and equipment, net	<u>137,464</u>
Other assets:	
Deposits, net of current portion	10,500
Endowment investments	<u>855,018</u>
Total other assets	<u>865,518</u>
Total assets	<u><u>\$ 2,636,759</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 96,150
Accrued vacation	121,453
Deferred revenue	10,280
Grant advances	<u>97,011</u>
Total current liabilities	<u>324,894</u>
Net assets:	
Unrestricted net assets:	
Designated for program services in the next fiscal year	675,058
Designated by the board for special purposes	111,269
Designated by the board for operating reserves	434,418
Invested in property and equipment, net	<u>137,464</u>
Total unrestricted net assets	1,358,209
Temporarily restricted net assets	215,271
Permanently restricted net assets	<u>738,385</u>
Total net assets	<u>2,311,865</u>
Total liabilities and net assets	<u><u>\$ 2,636,759</u></u>

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

RESURGE INTERNATIONAL

STATEMENT OF ACTIVITIES

for the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Support:				
Contributions, gifts, and grants	\$ 2,069,004	\$ 1,083,016	\$ 1,898	\$ 3,153,918
In-kind contributions	3,787,762	-	-	3,787,762
Special events	780,396	-	-	780,396
Less special event costs	(140,661)	-	-	(140,661)
Total support	6,496,501	1,083,016	1,898	7,581,415
Revenue:				
Operating investment gain	20,477	-	-	20,477
Endowment investment gain	-	167,721	-	167,721
Net loss on sale/disposal of equipment	(6,851)	-	-	(6,851)
Total revenue	13,626	167,721	-	181,347
Total support and revenue	6,510,127	1,250,737	1,898	7,762,762
Net assets released from restrictions	1,236,828	(1,236,828)	-	-
Total support, revenue, and net assets released from restrictions	7,746,955	13,909	1,898	7,762,762
Expenses:				
Program services	6,701,199	-	-	6,701,199
Support services:				
General and administrative	536,151	-	-	536,151
Fundraising	676,944	-	-	676,944
Total support services	1,213,095	-	-	1,213,095
Total expenses	7,914,294	-	-	7,914,294
Change in net assets	(167,339)	13,909	1,898	(151,532)
Net assets, beginning of year	1,525,548	201,362	736,487	2,463,397
Net assets, end of year	\$ 1,358,209	\$ 215,271	\$ 738,385	\$ 2,311,865

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

RESURGE INTERNATIONAL
STATEMENT OF FUNCTIONAL EXPENSES
for the year ended June 30, 2011

	Support Services			Total Support Services	Total
	Program Services	General and Administrative	Fundraising		
Expenses:					
Salaries and related expenses:					
Salaries and wages	\$ 1,008,612	\$ 157,868	\$ 448,984	\$ 606,852	\$ 1,615,464
Employee benefits	223,915	22,906	64,347	87,253	311,168
Payroll taxes	73,931	9,776	31,501	41,277	115,208
Total salaries and related expenses	1,306,458	190,550	544,832	735,382	2,041,840
Other expenses:					
Medical:					
Donated medical services	3,581,762	-	-	-	3,581,762
Education/empowerment, including in-kind	986,159	-	-	-	986,159
Overseas surgical trips, including in-kind	362,220	-	-	-	362,220
Professional services, including in-kind of \$181,711 in 2011	3,898	249,943	6,015	255,958	259,856
Occupancy	67,150	16,150	18,700	34,850	102,000
Medical supplies, including in-kind	82,439	-	-	-	82,439
Public education	51,255	612	611	1,223	52,478
Postage and shipping	5,568	748	41,741	42,489	48,057
Travel, including in-kind	23,690	15,330	4,954	20,284	43,974
Repairs and maintenance	20,917	6,385	6,801	13,186	34,103
Insurance	15,634	15,079	-	15,079	30,713
Newsletter	18,947	-	9,472	9,472	28,419
Volunteer recruitment and training	18,268	6,681	1,078	7,759	26,027
Special education project	20,658	-	-	-	20,658
Utilities	12,893	3,050	3,171	6,221	19,114
Bank charges	-	16,973	833	17,806	17,806
Taxes and licenses	6,375	1,500	6,034	7,534	13,909
Office supplies	3,758	2,731	7,181	9,912	13,670
Telephone	6,969	2,851	3,111	5,962	12,931
Equipment rental	5,799	1,582	3,163	4,745	10,544
Janitorial	6,375	1,294	1,406	2,700	9,075
Payroll fees	5,127	1,387	2,370	3,757	8,884
Dues and subscriptions	6,898	526	1,402	1,928	8,826
Awards	-	-	8,393	8,393	8,393
Letterhead and envelopes	4,538	342	2,049	2,391	6,929
Miscellaneous	3,377	1,012	1,294	2,306	5,683
Warehouse expense	2,031	-	-	-	2,031
Staff recruitment	-	1,292	315	1,607	1,607
Volunteer recognition	1,107	-	-	-	1,107
Staff education	300	102	515	617	917
Donor's stewardship	-	-	562	562	562
Total expenses before depreciation	6,630,570	536,120	676,003	1,212,123	7,842,693
Depreciation	70,629	31	941	972	71,601
Total functional expenses	\$ 6,701,199	\$ 536,151	\$ 676,944	\$ 1,213,095	\$ 7,914,294
Percentage of total	84.7%	6.8%	8.6%	15.3%	100%

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

RESURGE INTERNATIONAL

STATEMENT OF CASH FLOWS

for the year ended June 30, 2011

Cash flows from operating activities:	
Change in net assets	\$ (151,532)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Change in value of split-interest agreements	11,684
Depreciation	71,601
Donated medical equipment	(6,996)
Net loss on sale/disposal of equipment	6,851
Net realized and unrealized gain on investments	(169,318)
(Increase) decrease in operating assets:	
Pledges receivable	36,726
Inventory	35,337
Deposits	22
Increase (decrease) in operating liabilities:	
Accounts payable	82,136
Accrued vacation	(14,953)
Deferred revenue	210
Grant advances	(53,489)
Net cash used in operating activities	<u>(151,721)</u>
Cash flows from investing activities:	
Purchase of property and equipment	(15,814)
Purchase of investments	(42,131)
Proceeds from sale of investments	88,875
Proceeds from dissolution of charitable trusts	23,959
Net cash provided by investing activities	<u>54,889</u>
Net decrease in cash and cash equivalents	(96,832)
Cash and cash equivalents, beginning of year	<u>703,854</u>
Cash and cash equivalents, end of year	<u>\$ 607,022</u>

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

RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

1. Organization

ReSurge International (the Organization) is the first humanitarian organization to provide free reconstructive surgery for children with clefts, disabling burns, and hand injuries. Formerly named Interplast, the Organization changed their name to ReSurge International as of November 2010. During the year ended June 30, 2011, ReSurge International, a nonprofit public benefit corporation, provided more than 4,000 life-changing surgeries for those who have no other access to care. Working in underserved regions of 13 countries throughout Africa, Asia, and Latin America, ReSurge International teaches, empowers, and partners with volunteers and overseas medical professionals so every child living in poverty has free access to the safest and highest-quality care—now and in the future.

ReSurge International's mission is to provide free reconstructive surgery for people in developing countries, and to help improve health care worldwide. ReSurge International envisions a world in which no human being suffers physically or emotionally from a repairable congenital deformity or injury. To reach that vision, ReSurge International partners with volunteers and overseas medical colleagues to educate and empower local communities so that medical access is available year-round.

Founded in 1969, ReSurge International was the first organization of its kind. Since then, ReSurge International volunteers and international medical partners have provided more than 90,000 free surgeries for people in need. The Organization's work is humanitarian in nature; no political or religious affiliations are maintained, and no financial support is accepted from government agencies. Sensitivity to, and respect for, other cultures as equals pervades the ReSurge philosophy.

2. Increase in Program Services Expenses, and Management and General Expenses

Program Services

Total program services expenses for the year ended June 30, 2011 increased from the prior year by \$176,211. The increase was due in part to payroll and employee benefit related increases, as well as increases in donated services.

General and Administrative

Total general and administrative expenses for the year ended June 30, 2011 increased from the prior year by \$24,154. The increase was due in part to the increase in pro-bono (noncash) professional services of \$25,076 (pro-bono professional services were valued at \$181,711 during the year ended June 30, 2011).

3. Program Services

ReSurge International manages medical programs in nearly 40 different sites around the world. Performing surgery and/or providing and supporting advanced medical training for local physicians and nurses, ReSurge International worked in Bangladesh, Bolivia, China, Ecuador, Ghana, India, Mali, Malawi, Nepal, Nicaragua, Peru, Sri Lanka, Vietnam, and Zambia during the fiscal year ended June 30, 2011. ReSurge International also provided support in 2011 to 11 year-round Surgical Outreach Centers (SOC) in Bangladesh, Bolivia, Ecuador, Ghana, India (2), Nepal, Nicaragua, Peru (2), and Zambia; this support included funding for free surgeries for the poor, quality review, technological support, and advanced medical training. More than 75% of all of ReSurge International's surgeries are performed by developing world surgical partners through the SOC program.

Continued

RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

3. Program Services, continued

ReSurge International's programs provide reconstructive plastic surgery and related integrated care for people with congenital deformities such as cleft lips or palates, other birth defects, severe burns, hand injuries, and other disabling injuries.

The Organization's scope of services includes:

- Providing direct patient care-reconstructive surgery and integrated care services (such as speech, orthodontics, or physical therapy) to those with no other resources. ReSurge International sent nine volunteer medical teams to perform 924 life-transforming surgeries last year.
- Providing educational training and medical interchange. ReSurge International taught nearly 317 medical professionals overseas last year to perform surgeries and related integrated care safely, effectively, and efficiently on their own. In addition, ReSurge International's innovative web-based technology, ReSurge Grand Rounds, allows for surgery training to continue after visiting medical instructors return home, and for doctors in all of the Organization's partner sites to confer and share relevant information, experiences, and advice. It also allows outreach cases to be discussed for quality and safety assurances. ReSurge International adheres to rigorous quality assurance policies and training so patients receive the safest, highest-quality medical care, even in the compromised conditions that often prevail in developing countries.
- Assisting host-country medical colleagues toward medical independence. ReSurge International supported 11 permanent Surgical Outreach Centers in nine countries, where more than 3,500 surgeries were performed this past year; this model of empowerment, sustainability, and self-sufficiency creates long-term surgical care where it never existed before.

4. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of ReSurge International have been prepared on the accrual basis of accounting.

Basis of Presentation

The Organization follows standards of accounting and financial reporting for voluntary health and welfare organizations as prescribed by the American Institute of Certified Public Accountants. In accordance with generally accepted accounting principles, the Organization reports its financial position and operating activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. Under this category, the Organization maintains an operating fund, property and equipment fund, plus any net assets designated by the Board for specific purposes.

Continued

RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

4. Summary of Significant Accounting Policies, continued

Basis of Presentation, continued

Temporarily restricted net assets include those assets which are subject to donor restriction and for which the applicable restriction was not met as of the year end of the current reporting period.

Permanently restricted net assets include those assets which are subject to a nonexpiring donor restriction, such as endowments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of support, revenue, and expenses during the period. Accordingly, actual results could differ from those estimates. The most significant estimates made by management affect the valuation of inventory and donated medical services, equipment, and supplies.

Cash and Cash Equivalents

Cash and cash equivalents include highly-liquid investments and investments with a maturity of three months or less. The Organization maintains its cash in bank deposit accounts which, at times, may exceed Federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in temporarily restricted net assets.

Fair Value Measurements

Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”

A hierarchy has been established to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization’s assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Continued

RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

4. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1—Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2—Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads, and yield curves.

Level 3—Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Revenue Recognition - Contributions and Pledges Receivable

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature of donor restrictions. Restricted contributions are reported as increases in restricted net assets. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions.

Unconditional promises to give, less an allowance for uncollectible amounts, are recognized as support in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. Conditional promises to give, if any, are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. As of June 30, 2011, there was a \$375,000 conditional promise to give outstanding for the performance of certain medical procedures.

Grant Advances

On occasion, the Organization receives funding from grants where explicit donor conditions have not been met at year end. These funds are accounted for as grant advances until the conditions on which they depend are substantially met and the promises become unconditional.

Split-Interest Agreements

The Organization is occasionally notified by donors that they are named as a beneficiary of split-interest agreements, such as charitable remainder trusts. The Organization recognizes these gifts as receivables and contributions if they are irrevocable, unconditional, and measurable. Beneficial interests are recorded at estimated present value, using the discount rate and actuarial assumptions provided in Internal Revenue Service guidelines and actuarial tables. Changes in the value of split-interest agreements are recorded as a change in value of split-interest agreements in the statement of activities.

Continued

RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

4. **Summary of Significant Accounting Policies, continued**

Inventory

Inventory consists of donated and purchased medical supplies and instruments. The inventory is valued at fair value for donated items and at lower of cost or market for purchased items.

Property and Equipment

Property and equipment are recorded at cost or estimated fair value for donated items. Medical equipment with an estimated useful life over one year is capitalized. Non-medical assets over \$1,000 are capitalized. The cost of repairs and maintenance which do not improve or extend the lives of the respective assets are expensed currently. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets, which range from three to five years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Accrued Vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2011. The accrued vacation balance as of June 30, 2011 is \$121,453.

Contributions In-Kind

Donated equipment and other donated goods are recorded at their estimated fair value as of the date of the donation. Contributed services, which require a specialized skill and which the Organization would have paid for if not donated, are recorded at the estimated fair value at the time the services are rendered.

Allocation of Indirect Functional Expenses

Directly identifiable expenses are charged to programs and supporting services. Indirect functional expenses are allocated to program and supporting services based on an analysis of personnel time, square footage, and estimated supplies and services usage.

Income Taxes

ReSurge International is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and state income taxes under Section 23701(d) of the California Revenue Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying statements. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the IRC and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the IRC.

Continued

RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

4. Summary of Significant Accounting Policies, continued

Uncertainty in Taxes

The Organization reviews and assesses tax positions taken or expected to be taken against more-likely-than-not recognition threshold and measurement attributes for financial statement recognition. Accordingly, an entity shall initially recognize the financial statement effects of a tax position when it is more-likely-than-not, based on the technical merits, that the position will be sustained upon examination. Accounting for uncertainties in taxes also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Organization believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's federal and state tax returns for 2008, 2009, 2010, and 2011 are subject to examination. The Organization recognizes interest and penalties accrued related to unrecognized tax benefits in administrative expenses on the statement of activities. No interest and penalties have been accrued as of June 30, 2011.

5. Investments

All of the following investments are classified as Level 1 investments (see Note 4). The fair value of investments as of June 30, 2011 was as follows:

Investments, at fair value:	
Equity mutual fund	\$ 687,603
Short term fixed income mutual fund	<u>269,938</u>
Total investments, at fair value	<u>\$ 957,541</u>

Investments are classified as both current and long-term endowment investments as follows:

Current investments	\$ 102,523
Endowment investments	<u>855,018</u>
	<u>\$ 957,541</u>

Investment return for June 30, 2011 is as follows:

Net investment income:	
Dividends and interest income	\$ 18,880
Net realized and unrealized gain	<u>169,318</u>
Total investment income	<u>\$ 188,198</u>

Continued

RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

6. Inventory

Inventory consists of donated and purchased surgical instruments and supplies, anesthesia instruments and supplies, and post ambulatory care unit supplies. Donated inventory is measured at fair value and purchased inventory is valued at the lower of cost or market.

Inventory as of June 30, 2011 consisted of the following:

Surgical instruments and supplies	\$ 693,736
Anesthesia instruments and supplies	152,719
Post ambulatory care unit supplies	<u>50,230</u>
Total inventory	<u>\$ 896,685</u>

7. Property and Equipment

The cost and related accumulated depreciation of the property and equipment as of June 30, 2011 consisted of the following:

Surgical equipment	\$ 258,748
Anesthesia equipment	257,162
Post ambulatory care unit equipment	59,371
Software	34,851
Furniture and fixtures	32,160
Computers	<u>24,800</u>
	667,092
Less accumulated depreciation	<u>(529,628)</u>
Property and equipment, net	<u>\$ 137,464</u>

Depreciation expense for the year ended June 30, 2011 was \$71,601.

8. Temporarily Restricted Net Assets

The Organization's temporarily restricted net assets as of June 30, 2011 consisted of the following:

Endowment accumulated earnings—unappropriated	\$ 116,633
Laub Fund for special purposes	62,161
2012 Gala event income	27,721
Africa program support	5,000
Medical equipment support	2,256
Patient transportation support	<u>1,500</u>
Total temporarily restricted net assets	<u>\$ 215,271</u>

Continued

RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

8. Temporarily Restricted Net Assets, continued

During the year ended June 30, 2011, net assets were released by incurring expenses satisfying the purpose restriction as follows:

Purpose restrictions:	
Burn outreach program	\$ 452,896
Cleft outreach program	255,151
Surgical team trips	190,632
Visiting educator program	75,463
Ancillary services	73,500
Earnings from endowment used for general operations	62,500
Special projects	46,000
Split-interest agreements	35,643
Webster fellow program	25,000
Medical equipment fund	<u>20,043</u>
Total net assets released from restrictions	<u><u>\$ 1,236,828</u></u>

9. Permanently Restricted Net Assets

The Organization's permanently restricted net assets as of June 30, 2011 consisted of the following:

The Albert Wilson Fund	\$ 600,000
Baker Foundation	100,000
Zlotnick Endowment	<u>38,385</u>
Total permanently restricted net assets	<u><u>\$ 738,385</u></u>

10. Contributions In-Kind

The estimated fair value of expert services, supplies, equipment, and travel and lodging received are recorded as contributions. During the year ended June 30, 2011, the following in-kind contributions were received by the Organization:

Donated medical services	\$ 3,581,762
Professional services	181,711
Medical supplies/equipment	21,671
Travel and lodging	<u>2,618</u>
Total contributions in-kind	<u><u>\$ 3,787,762</u></u>

The value of donated medical services is based on salary rates for the positions in the teams of approximately two surgeons, three anesthesiologists, one pediatrician, four nurses, one secretary, and two translators for nine and sixteen two-week trips for the year ended June 30, 2011.

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RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

11. Endowment

ReSurge International's endowment consists of three individual funds (see Note 9). Its endowment includes donor-restricted endowment funds. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation

The Board of Directors of ReSurge International has interpreted the California version of 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, ReSurge International classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent 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 net assets 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 the California version of UPMIFA. In accordance with the California version of UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes 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

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the permanently restricted net assets balance. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. During the year ended June 30, 2011, there were no deficiencies of this nature.

Investment Return Objectives, Risk Parameters, and Strategies

ReSurge International has adopted investment and spending policies for its endowment assets that attempt to preserve the inflation adjusted value of the assets after payout. Safety of principal and preservation of capital is based on prudent investment principles. While short-term stability is desirable, achieving superior long-term returns takes precedence as an investment objective. To achieve the investment objectives, the Organization will pursue a broad asset allocation approach that seeks to minimize management and transactional costs. Unless otherwise determined by ReSurge International's Board Investment Sub-Committee, the target asset allocation balance is 70% equity and 30% fixed income, with specific investments to be determined by ReSurge International's Investment Sub-Committee.

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RESURGE INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

11. Endowment, continued

Spending Policy

ReSurge International has a general policy of appropriating 5% of the endowment assets fiscal year-end balance for distribution for operational expenses each year, but in no case invading the fund principal unless specifically instructed to do so by the donor. Distributions of earnings shall be set from time-to-time by ReSurge International's Investment Sub-Committee to:

- (1) conform to donor intent or instruction;
- (2) provide funding for operations; or
- (3) other purposes as determined by the Sub-Committee.

Distribution of principal, except as required by donors, shall be made only on authorization of the Board, consistent with donor restrictions on those funds. This is consistent with the Organization's objective to preserve the inflation-adjusted value of the endowment assets after payout.

Endowment net asset composition by type of fund as of June 30, 2011 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted:				
Endowment funds	\$ -	\$ 116,633	\$ 738,385	\$ 855,018

Changes in endowment net assets for the fiscal year ended June 30, 2011 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 11,412	\$ 736,487	\$ 747,899
Contributions	-	-	1,898	1,898
Investment gain, net	-	167,721	-	167,721
Amounts appropriated for expenditure	-	(62,500)	-	(62,500)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 116,633</u>	<u>\$ 738,385</u>	<u>\$ 855,018</u>

12. Retirement Plan

The Organization maintains a tax deferred 401(k) retirement plan to provide retirement benefits for all eligible employees. The plan provides for Organization matching contributions of up to 4% of eligible employee compensation. Organization contributions to the retirement plan for the year ended June 30, 2011 were \$50,728.

Continued

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13. Lease Commitments

The Organization is currently leasing 9,930 square feet of office and warehouse space for \$8,500 per month. The original lease term was for five years and ended on June 30, 2010. On April 23, 2010, the lease was extended for three more years with an expiration date of June 30, 2013. According to the new lease agreement, the Organization is responsible for its share of common area maintenance costs.

Future minimum lease payments are as follows:

	<u>Amount</u>
Year ending June 30:	
2012	\$ 104,400
2013	<u>108,000</u>
Total future minimum lease payments	<u>\$ 212,400</u>

14. *Subsequent Events*

Management of the Organization has evaluated events for recognition and disclosure through October 27, 2011, the date which these financial statements were available to be issued. Management concluded the following material subsequent events have occurred since June 30, 2011, the required recognition or disclosure in the financial statements.

Subsequent to June 30, 2011, the Organization has experienced a decrease in the market value of its investments due to the recent volatility in financial markets. The Organization believes that the decrease is consistent with overall financial market fluctuations.