

RESURGE INTERNATIONAL
(A California Nonprofit Public Benefit Corporation)

FINANCIAL STATEMENTS

Year Ended June 30, 2014 with Comparative Totals
for the Year Ended June 30, 2013

RESURGE INTERNATIONAL
(A California Nonprofit Public Benefit Corporation)

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FOUNDERS

Alexander W. Berger (1916-2005)
Griffith R. Lewis (1930-2012)



CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Daniel C. Moors
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Todd W. Robinson
David R. Sheets
Robert W. Smiley

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
ReSurge International
(A California Nonprofit Public Benefit Corporation)
Sunnyvale, California

We have audited the accompanying financial statements of ReSurge International (a California nonprofit public benefit corporation), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, 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 ReSurge International as of June 30, 2014, 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.

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Report on Summarized Comparative Information

We have previously audited ReSurge International's financial statements for the year ended June 30, 2013, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 7, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Berger Lewis Accountancy Corporation

BERGER LEWIS ACCOUNTANCY CORPORATION
San Jose, California
October 14, 2014

RESURGE INTERNATIONAL
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION

June 30, 2014 with Comparative Totals as of June 30, 2013

ASSETS		<u>2014</u>	<u>2013</u>
CURRENT ASSETS:			
Cash and Cash Equivalents	\$	538,233	\$ 250,704
Investments (See Note 6)		442,586	610,671
Grants Receivable		118,814	96,627
Pledges Receivable		106,000	172,000
Inventory (See Note 8)		313,692	370,273
Deposits		<u>13,301</u>	<u>31,367</u>
Total Current Assets		<u>1,532,626</u>	<u>1,531,642</u>
PROPERTY AND EQUIPMENT, NET (See Note 9)		<u>257,696</u>	<u>265,808</u>
OTHER ASSETS:			
Deposits - Long-Term		14,167	31,855
Endowment Investments (See Notes 6 and 15)		<u>1,092,571</u>	<u>968,736</u>
Total Other Assets		<u>1,106,738</u>	<u>1,000,591</u>
TOTAL ASSETS	\$	<u>2,897,060</u>	<u>\$ 2,798,041</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts Payable	\$	344,806	\$ 427,283
Accrued Vacation		103,194	108,627
Deferred Revenue		<u>4,050</u>	<u>16,880</u>
Total Current Liabilities		<u>452,050</u>	<u>552,790</u>
LONG-TERM LIABILITIES:			
Deferred Rent		<u>23,472</u>	<u>-</u>
Total Liabilities		<u>475,522</u>	<u>552,790</u>
NET ASSETS:			
Unrestricted Net Assets:			
Undesignated (Operating Account)		429,857	84,860
Designated by the Board for Special Purposes (See Note 11)		294,581	574,990
Designated by the Board for Operating Reserves (See Note 11)		104,548	184,622
Invested in Property and Equipment, Net		<u>257,696</u>	<u>265,808</u>
Total Unrestricted Net Assets		1,086,682	1,110,280
Temporarily Restricted Net Assets (See Note 12)		587,969	392,571
Permanently Restricted Net Assets (See Notes 13 and 15)		<u>746,887</u>	<u>742,400</u>
Total Net Assets		<u>2,421,538</u>	<u>2,245,251</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>2,897,060</u>	<u>\$ 2,798,041</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

RESURGE INTERNATIONAL
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	2014			2013	
	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTAL	TOTAL
SUPPORT AND REVENUE:					
Support:					
Contributions, Gifts, Grants	\$ 2,103,864	\$ 904,005	\$ 4,487	\$ 3,012,356	\$ 3,127,743
In-Kind Contributions (See Note 14)	2,409,615	-	-	2,409,615	2,962,134
Special Events	790,717	-	-	790,717	666,313
Less: Special Event Costs	<u>(148,672)</u>	<u>-</u>	<u>-</u>	<u>(148,672)</u>	<u>(147,719)</u>
Total Support	<u>5,155,524</u>	<u>904,005</u>	<u>4,487</u>	<u>6,064,016</u>	<u>6,608,471</u>
Revenue:					
Operating Investment Gain, Net	74,359	-	-	74,359	69,365
Endowment Investment Gain, Net	<u>-</u>	<u>176,290</u>	<u>-</u>	<u>176,290</u>	<u>133,488</u>
Total Revenue	<u>74,359</u>	<u>176,290</u>	<u>-</u>	<u>250,649</u>	<u>202,853</u>
Total Support and Revenue	5,229,883	1,080,295	4,487	6,314,665	6,811,324
Net Assets Released from Restrictions (See Note 12)					
	<u>884,897</u>	<u>(884,897)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Support, Revenue and Net Assets Released from Restrictions	<u>6,114,780</u>	<u>195,398</u>	<u>4,487</u>	<u>6,314,665</u>	<u>6,811,324</u>
EXPENSES:					
Program Services (See Note 3)					
	<u>4,864,778</u>	<u>-</u>	<u>-</u>	<u>4,864,778</u>	<u>6,011,271</u>
Supporting Services:					
Management and General	493,906	-	-	493,906	448,281
Fundraising (See Note 3)	<u>779,694</u>	<u>-</u>	<u>-</u>	<u>779,694</u>	<u>569,750</u>
Total Supporting Services	<u>1,273,600</u>	<u>-</u>	<u>-</u>	<u>1,273,600</u>	<u>1,018,031</u>
Total Expenses	<u>6,138,378</u>	<u>-</u>	<u>-</u>	<u>6,138,378</u>	<u>7,029,302</u>
CHANGE IN NET ASSETS	(23,598)	195,398	4,487	176,287	(217,978)
NET ASSETS, Beginning of Year	<u>1,110,280</u>	<u>392,571</u>	<u>742,400</u>	<u>2,245,251</u>	<u>2,463,229</u>
NET ASSETS, End of Year	<u>\$ 1,086,682</u>	<u>\$ 587,969</u>	<u>\$ 746,887</u>	<u>\$ 2,421,538</u>	<u>\$ 2,245,251</u>

The Accompanying Notes are an Integral Part of these Financial Statements.

RESURGE INTERNATIONAL
(A California Nonprofit Public Benefit Corporation)

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	PROGRAM SERVICES	SUPPORTING SERVICES			TOTALS	
		Management and General	Fundraising	Total	2014	2013
EXPENSES:						
Salaries and Wages	\$ 667,307	\$ 161,007	\$ 508,970	\$ 669,977	\$ 1,337,284	\$ 1,401,570
Employee Benefits	102,937	26,847	52,373	79,220	182,157	246,835
Payroll Taxes	59,875	10,885	39,277	50,162	110,037	98,555
Total Salaries and Related Expenses	830,119	198,739	600,620	799,359	1,629,478	1,746,960
Donated Medical Services	2,313,459	-	-	-	2,313,459	2,888,668
Medical						
Education/Empowerment	920,770	-	-	-	920,770	973,733
Overseas Surgical Trips	206,644	-	-	-	206,644	336,478
Occupancy	105,542	24,834	24,834	49,668	155,210	108,000
Professional Services, Including In-Kind of \$50,444 in 2014 and \$64,744 in 2013	7,833	92,659	34,106	126,765	134,598	144,047
Medical Supplies, Including In-Kind	105,720	-	-	-	105,720	211,002
Public Education	78,630	5,495	5,495	10,990	89,620	121,157
Travel, Including In-Kind	49,201	12,002	11,922	23,924	73,125	21,743
Utilities	42,537	10,009	10,009	20,018	62,555	16,987
Moving Expenses	-	59,066	-	59,066	59,066	2,057
Repairs and Maintenance	17,196	6,688	8,235	14,923	32,119	10,404
Insurance	12,583	18,627	-	18,627	31,210	28,408
Office Supplies	4,619	10,987	10,780	21,767	26,386	21,919
Bank Charges	187	24,000	25	24,025	24,212	22,851
Taxes and Licenses	12,034	4,196	7,678	11,874	23,908	13,451
Postage and Shipping	2,895	490	19,517	20,007	22,902	60,257
Newsletter	10,881	-	5,439	5,439	16,320	8,175
Dues and Subscriptions	7,491	5,853	2,900	8,753	16,244	12,304
Volunteer Recruitment and Training	10,990	4,009	234	4,243	15,233	24,216
Miscellaneous	4,640	6,233	3,933	10,166	14,806	13,491
Administration Fees	7,802	2,368	3,761	6,129	13,931	-
Telephone	7,462	1,866	3,110	4,976	12,438	11,537
Equipment Rental	6,679	1,821	3,643	5,464	12,143	13,658
Letterhead and Envelopes	5,354	272	4,924	5,196	10,550	1,193
Awards	-	-	9,854	9,854	9,854	444
Payroll Fees	5,703	1,319	2,637	3,956	9,659	8,409
Janitorial	4,990	1,396	1,116	2,512	7,502	7,827
Staff Education	989	506	2,062	2,568	3,557	497
Donor's Stewardship	-	-	2,408	2,408	2,408	773
Special Education Project	935	-	-	-	935	25,000
Warehouse Expense	379	-	-	-	379	81
Volunteer Recognition	40	-	-	-	40	23
Staff Recruitment	-	-	-	-	-	65,895
Total Expenses Before Depreciation	4,784,304	493,435	779,242	1,272,677	6,056,981	6,921,645
Depreciation	80,474	471	452	923	81,397	107,657
Total Functional Expenses	\$ 4,864,778	\$ 493,906	\$ 779,694	\$ 1,273,600	\$ 6,138,378	\$ 7,029,302
Percentage of Total	79.3 %	8.0 %	12.7 %	20.7 %	100.0 %	

The Accompanying Notes are an Integral Part of these Financial Statements.

RESURGE INTERNATIONAL
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STATEMENT OF CASH FLOWS

Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 176,287	\$ (217,978)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation	81,397	107,657
Donated Furniture	(23,979)	-
Contributions Restricted for Long-Term Purposes	(4,487)	(2,388)
Net Realized and Unrealized Gain on Investments	(228,863)	(178,060)
(Increase) Decrease in Assets:		
Accounts Receivable	-	2,500
Grants Receivable	(22,187)	(17,652)
Pledges Receivable	66,000	(147,000)
Inventory	56,581	155,854
Deposits	35,754	(42,008)
Increase (Decrease) in Liabilities:		
Accounts Payable	(82,477)	353,742
Accrued Vacation	(5,433)	(6,090)
Deferred Revenue	(12,830)	7,380
Deferred Rent	23,472	-
Grant Advances	-	(117,531)
Net Cash Provided (Used) by Operating Activities	59,235	(101,574)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Property and Equipment	(49,306)	-
Purchase of Investments	(103,772)	(115,047)
Proceeds from Sale of Investments	376,885	-
Net Cash Provided (Used) by Investing Activities	223,807	(115,047)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contributions Restricted for Long-Term Purposes	4,487	2,388
Net Cash Provided by Financing Activities	4,487	2,388
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	287,529	(214,233)
CASH AND CASH EQUIVALENTS, Beginning of Year	250,704	464,937
CASH AND CASH EQUIVALENTS, End of Year	\$ 538,233	\$ 250,704

The Accompanying Notes are an Integral Part of these Financial Statements.

RESURGE INTERNATIONAL
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION:

ReSurge International (formerly Interplast, Inc.) (the Organization) provides free reconstructive surgeries for the poor and builds year-round medical access and capacity in developing countries. During the year ended June 30, 2014, ReSurge International, a nonprofit public benefit corporation, provided nearly 4,500 life-changing surgeries on nearly 2,900 patients - so they can go to school, provide for their families, and be productive members of society. Working in 13 countries in Africa, Asia and Latin America, ReSurge International also empowers local doctors to increase year-round access to medical care in underserved areas and provides comprehensive reconstructive surgery and follow-up care. By doing so, ReSurge International impacts the world by reducing suffering and poverty, giving more patients a second chance for a normal, productive life.

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 partners to both provide surgical care and to educate and empower local medical professionals so that high-quality surgical access is available year-round—now and for generations to come. ReSurge International’s mission is two-fold: to provide reconstructive surgical care for poor children and adults who lack access and to build surgical capacity in developing countries.

Since 1969, ReSurge International has provided nearly 105,000 reconstructive surgeries and built health care capacity to serve the poor worldwide. 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 International philosophy and deeply influences the manner in which the Organization conducts itself as ambassadors.

NOTE 2 - INDIA SUBSIDIARY:

On March 29, 2012 the Organization established a subsidiary in Andhra Pradesh, India. Reconstructive Surgery India (the Subsidiary) is a not for profit company registered under Section 25 of the Indian Companies Act, 1956 and is in the process of registering for India Foreign Contribution Registration Act (FCRA) authorization. Registration under FCRA gives Indian charitable organizations the authorization to receive donations from foreign sources. As of and for the year ended June 30, 2014 Reconstructive Surgery India had no material financial activity (no material assets, liabilities, income or expenditures).

RESURGE INTERNATIONAL
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 - DECREASE IN PROGRAM SERVICES EXPENSES AND INCREASE IN FUNDRAISING EXPENSES:

Program Services - Total program services expenses for the year ended June 30, 2014 decreased from the prior year by \$1,146,493. Due to a revenue shortfall in the year ended June 30, 2013, the Organization prudently and temporarily constricted the more expensive portion of its program activities (team trips, Visiting Educator trips), thereby preserving the highest ROI and most important program services (surgeries performed at Surgical Outreach Programs). The variance in expenses from 2013 to 2014 was due to the decrease in the value of service from sending fewer volunteers abroad on team and Visiting Educator trips.

Fundraising - Total fundraising expenses for the year ended June 30, 2014 increased from the prior year by \$209,944. During the year ended June 30, 2013 the Organization was without a Chief Development Officer and was actively conducting a search. During the year ended June 30, 2014 the Organization had a full-time Chief Development Officer and other open development positions were filled. In the year ended June 30, 2014, the newly-built team added nearly \$700,000 in contributed (non-bequest, earned) funds to the revenue stream.

NOTE 4 - PROGRAM SERVICES:

During the year ended June 30, 2014, ReSurge International provided medical programs in 18 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, Ecuador, Ghana, Guatemala, India, Malawi, Nepal, Nicaragua, Peru, Sri Lanka, Thailand, Vietnam and Zambia during the year ended June 30, 2014. During the year ended June 30, 2014, ReSurge International also provided support to 10 year-round Surgical Outreach Programs (SOP) in Bangladesh, 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 88% of all of ReSurge International's surgeries are performed by developing world surgical partners through the Surgical Outreach Program.

ReSurge International programs provide reconstructive plastic surgery and related integrated care for people with congenital deformities such as cleft lips or palates, severe burns 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 7 volunteer medical teams to perform 473 life-transforming surgeries on 336 patients last year.

RESURGE INTERNATIONAL
(A California Nonprofit Public Benefit Corporation)

NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 - PROGRAM SERVICES (Continued):

- Providing educational training and medical interchange. ReSurge International taught 265 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 10 permanent Surgical Outreach Programs in eight countries, where more than 4,000 surgeries on nearly 2,500 patients were performed this past year; this model of empowerment, sustainability and self-sufficiency creates long-term surgical care where it never existed before.

NOTE 5 - 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. 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.

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 non-expiring donor restriction, such as endowments.

RESURGE INTERNATIONAL
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Comparative Financial Information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class or functional expense categories. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

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.

Revenue Recognition - The Organization recognizes support and revenue on the accrual basis of accounting. Revenue from grants which have been classified as "exchange transactions" and program fees are recognized as revenue in the period in which the service is provided.

Contributions - 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. When the restriction is met the amount is shown as a reclassification of restricted net assets to unrestricted net assets.

In-Kind Contributions - 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.

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 unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

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."

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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.

Pledges Receivable - 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.

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 discounted rate and actuarial assumptions provided in Internal Revenue Service guidelines and actuarial tables. Change in the value of split-interest agreements is recorded as a change in value of split-interest agreements in the statement of activities.

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.

RESURGE INTERNATIONAL
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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 5 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property and Equipment - Property and equipment are recorded at cost or estimated fair value for donated items. Medical equipment with an estimated useful life of 5 years or more 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 3 to 5 years. Depreciation is charged to the activity benefiting from the use of the property or equipment.

Subsequent Events - Management of the Organization has evaluated events and transactions subsequent to June 30, 2014 for potential recognition or disclosure in the financial statements. The Organization had no subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2014. Subsequent events have been evaluated through the date the financial statements became available to be issued, October 14, 2014. The Organization has not evaluated subsequent events after October 14, 2014.

Accrued Vacation - Accrued vacation represents vacation earned, but not taken as of June 30, 2014 and 2013. The accrued vacation balance as of June 30, 2014 and 2013 was \$103,194 and \$108,627, respectively.

Allocation of Indirect Functional Expenses - Directly identifiable expenses are charged to program 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 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 Internal Revenue Code and has been classified as an organization that is not a private foundation under Section 509(a)(1) of the Internal Revenue Code.

Uncertainty in Income Taxes - Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination.

The Organization files information returns in the U.S. federal jurisdiction and state of California. The Organization's federal returns for the years ended June 30, 2011 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2010 and beyond remain subject to possible examination by the Franchise Tax Board.

Reclassifications - Certain amounts in the prior year have been reclassified in order to be consistent with the current year presentation.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 6 - INVESTMENTS:

All of the following investments are classified as Level 1 investments (see Note 5). The fair value of investments as of June 30, was as follows:

	<u>2014</u>	<u>2013</u>
Investments at Fair Value:		
Equity Mutual Fund	\$ 1,099,247	\$ 1,179,807
Short-Term Fixed Income Mutual Fund	<u>435,910</u>	<u>399,600</u>
Total Investments at Fair Value	<u>\$ 1,535,157</u>	<u>\$ 1,579,407</u>

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

	<u>2014</u>	<u>2013</u>
Investments at Fair Value:		
Current Investments	\$ 442,586	\$ 610,671
Endowment Investments	<u>1,092,571</u>	<u>968,736</u>
Total Investments at Fair Value	<u>\$ 1,535,157</u>	<u>\$ 1,579,407</u>

	<u>2014</u>	<u>2013</u>
Net Investment Income:		
Dividends/Interest Income	\$ 21,786	\$ 24,793
Net Realized and Unrealized Gain	<u>228,863</u>	<u>178,060</u>
Total Net Investment Income	<u>\$ 250,649</u>	<u>\$ 202,853</u>

NOTE 7 - CONDITIONAL PROMISES TO GIVE:

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Conditional promises to give which are not recognized in the financial statements as of June 30, 2014 and 2013 totaled \$450,000 and \$600,000, respectively. The \$450,000 conditional pledge to support the Nepal Burn Institute is due in equal installments of \$150,000 over three years and is contingent upon the donor's annual commitment. During the year ended June 30, 2014 the condition was met for the \$150,000 installment and the Organization received and recognized the \$150,000 installment.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 8 - 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 lower of cost or market. All donated inventory is classified as Level 2 and all purchased inventory is classified as Level 1 (see Note 5).

Inventory as of June 30, consisted of the following:

	<u>2014</u>	<u>2013</u>
Surgical Instruments and Supplies	\$ 254,061	\$ 304,858
Post Ambulatory Care Unit Supplies	31,003	34,720
Anesthesia Instruments and Supplies	<u>28,628</u>	<u>30,695</u>
Total Inventory	<u>\$ 313,692</u>	<u>\$ 370,273</u>

NOTE 9 - PROPERTY AND EQUIPMENT:

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

	<u>2014</u>	<u>2013</u>
Surgical Equipment	\$ 351,147	\$ 355,652
Anesthesia Equipment	308,634	320,789
Post Ambulatory Care Unit Equipment	56,922	56,922
Software	7,810	34,851
Furniture and Fixtures	30,987	29,459
Computers	<u>19,481</u>	<u>19,564</u>
	774,981	817,237
Less: Accumulated Depreciation	<u>(517,285)</u>	<u>(551,429)</u>
Property and Equipment, Net	<u>\$ 257,696</u>	<u>\$ 265,808</u>

Depreciation expense for the years ended June 30, 2014 and 2013 was \$81,397 and \$107,657, respectively.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 10 - CONTINGENCIES:

Grants and contracts awarded to ReSurge International are subject to the funding agencies' criteria, contract terms and regulations under which expenditures may be charged and are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred in connection with the grants do not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to a reduction of future funding in the amount of the costs.

Management does not anticipate any material questioned costs for the contracts and grants administered during the period. The Organization would be responsible for the absorption of any over-expenditure of its restricted grants which cannot be covered by additional grant funds or contributions from other sources.

NOTE 11 - BOARD DESIGNATED NET ASSETS:

Board Designated Funds were established by the ReSurge International Board of Directors to provide:

1. Stability for the Organization through a secure resource base;
2. Reserve fund for ReSurge International, to be available in exigent circumstances;
3. Long-time funds that result from a capital campaign, or one-time gifts such as non-donor-restricted bequests.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS:

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

	<u>2014</u>	<u>2013</u>
Purpose Restrictions:		
Gala Event	\$ 84,000	\$ 72,000
Laub Fund for Special Purposes	62,160	62,160
Surgical Team Trips	36,114	28,250
South East Asia Conference	35,000	-
Cleft Outreach Program	20,000	-
Photography	3,625	3,625
Nepal and India Team Trips	1,186	-
Special Projects	200	200
Africa Program Support	-	-
Time Restrictions:		
Endowment Accumulated Earnings - Unappropriated	<u>345,684</u>	<u>226,336</u>
Total Temporarily Restricted Net Assets	<u>\$ 587,969</u>	<u>\$ 392,571</u>

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS (Continued):

During the year ended June 30, 2014, net assets were released by incurring expenses satisfying the purpose restriction as follows:

	<u>2014</u>
Purpose Restrictions:	
Burn Outreach Program	\$ 330,532
2013 Gala Event	149,000
Surgical Team Trips	136,760
Cleft Outreach Program	55,075
India Program	55,000
Medical Supplies	52,526
Special Projects	18,952
Visiting Educator Program	13,914
Medical Education	13,500
Ancillary Services	2,696
Endowment Appropriations for Operations	<u>56,942</u>
Total Net Assets Released from Restrictions	<u>\$ 884,897</u>

NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS:

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

	<u>2014</u>	<u>2013</u>
The Albert Wilson Fund	\$ 600,000	\$ 600,000
Baker Foundation	100,000	100,000
Zlotnick Endowment	<u>46,887</u>	<u>42,400</u>
Total Permanently Restricted Net Assets	<u>\$ 746,887</u>	<u>\$ 742,400</u>

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 14 - IN-KIND CONTRIBUTIONS:

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

	<u>2014</u>	<u>2013</u>
Medical Services	\$ 2,313,459	\$ 2,888,668
Professional Services	50,444	64,744
Furniture	23,979	-
Medical Supplies	19,463	6,527
Travel and Lodging	2,070	2,195
Food and Entertainment	<u>200</u>	<u>-</u>
Total Contribution In-Kind	<u>\$ 2,409,615</u>	<u>\$ 2,962,134</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 eight and seven two-weeks trips for the years ended June 30, 2014 and 2013, respectively.

NOTE 15 - ENDOWMENT:

ReSurge International's endowment consists of three individual funds (see Note 13). 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 of Relevant Law - 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:

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - ENDOWMENT (Continued):

- (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. There were no deficiencies of this nature that would be required to be reported in unrestricted net assets as of June 30, 2014 and 2013.

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% debt, with specific investments to be determined by ReSurge International's Investment Sub-Committee.

Spending Policy - ReSurge International has a general policy of appropriating 5% of the endowment assets previous 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, 2014 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds	\$ -	\$ 345,684	\$ 746,887	\$ 1,092,571

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 15 - ENDOWMENT (Continued):

Changes in endowment net assets for the fiscal year ended June 30, 2014 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	\$ -	\$ 226,336	\$ 742,400	\$ 968,736
Contributions	-	-	4,487	4,487
Investment Gain	-	176,290	-	176,290
Amounts Appropriated for Expenditure	-	(56,942)	-	(56,942)
Endowment Net Assets, End of Year	\$ -	\$ 345,684	\$ 746,887	\$ 1,092,571

NOTE 16 - 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 discretionary matching contributions for up to 4% of eligible employee compensation. During the years ended June 30, 2014 and 2013 the Organization provided a 4% match. Organization contributions for the years ended June 30, 2014 and 2013 were \$31,708 and \$36,156, respectively.

NOTE 17 - LEASE COMMITMENTS:

During the year ended June 30, 2013 the Organization leased 9,930 square feet of office and warehouse space at the rate of \$8,700 per month. The original lease term was for 5 years and ended on June 30, 2010. On April 23, 2010, the lease was extended for 3 more years with an expiration date of June 30, 2013.

In March 2013, the Organization entered into a 7 year lease for 12,335 square feet of new office and warehouse space, commencing July 2013. Monthly rent begins at \$10,978 with annual increases over the term of the lease to \$14,802 per month in the final year. The Organization is additionally responsible for its share of common area operating expenses.

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NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 17 - LEASE COMMITMENTS (Continued):

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 140,619
2016	148,020
2017	155,421
2018	162,822
2019	170,223
Thereafter	<u>177,624</u>
Total Future Minimum Lease Payments	<u>\$ 954,729</u>