

ReSurge International

Financial Statements

Years Ended June 30, 2015
(With Comparative Totals
For the Year Ended June 30, 2014)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
ReSurge International
Sunnyvale, California

We have audited the accompanying financial statements of ReSurge International (a nonprofit organization), which comprise the statement of financial position as of June 30, 2015, 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, 2015, 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.

Prior Period Financial Statements

The financial statements of ReSurge International as of and for the year ended June 30, 2014, were audited by Berger Lewis Accountancy Corporation, whose practice became part of Armanino^{LLP} as of January 1, 2015, and whose report dated October 14, 2014, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respected, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

November 11, 2015

RESURGE INTERNATIONAL
Statement of Financial Position
June 30, 2015
(With Comparative Totals as of June 30, 2014)

<u>ASSETS</u>		
	2015	2014
Current assets		
Cash and cash equivalents	\$ 513,344	\$ 538,233
Investments (see Note 6)	360,279	442,586
Grants receivable	190,516	118,814
Bequests and pledges receivable, current portion (see Note 8)	1,121,333	106,000
Inventory (see Note 9)	218,929	313,692
Prepaid expenses and current deposits	10,330	13,301
Total current assets	2,414,731	1,532,626
Property and equipment, net (see Note 10)	159,537	257,696
Other assets		
Bequests and pledges receivable, net of current portion (see Note 8)	401,052	-
Deposits, net of current portion	14,167	14,167
Endowment investments (see Notes 6 and 17)	1,096,829	1,092,571
Total other assets	1,512,048	1,106,738
Total assets	\$ 4,086,316	\$ 2,897,060
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payable	\$ 260,661	\$ 344,806
Accrued liabilities	261,272	103,194
Deferred revenue	10,680	4,050
Deferred rent, current portion	7,190	14,591
Total current liabilities	539,803	466,641
Long-term liabilities		
Deferred rent, net of current portion	30,872	8,881
Total liabilities	570,675	475,522
Net assets		
Unrestricted net assets		
Undesignated (operating account)	1,014,282	429,857
Designated by the board for special purposes (see Note 12)	-	294,581
Designated by the board for operating reserves (see Note 12)	4,400	104,548
Invested in property and equipment, net	159,537	257,696
Total unrestricted net assets	1,178,219	1,086,682
Temporarily restricted net assets (see Note 13)	1,587,233	587,969
Permanently restricted net assets (see Notes 14 and 17)	750,189	746,887
Total net assets	3,515,641	2,421,538
Total liabilities and net assets	\$ 4,086,316	\$ 2,897,060

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

RESURGE INTERNATIONAL
Statement of Activities
Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue					
Support					
Contributions, gifts, grants	\$ 2,107,231	\$ 2,354,829	\$ 3,302	\$ 4,465,362	\$ 3,012,356
In-kind contributions (see Note 15)	4,990,632	-	-	4,990,632	3,747,048
Special events	725,119	-	-	725,119	790,717
Less: special event costs	(149,771)	-	-	(149,771)	(148,672)
Total support	<u>7,673,211</u>	<u>2,354,829</u>	<u>3,302</u>	<u>10,031,342</u>	<u>7,401,449</u>
Revenue					
Operating investment gain, net	15,846	-	-	15,846	74,359
Endowment investment gain, net	-	58,656	-	58,656	176,290
Net loss on sale/disposal of equipment	(29,145)	-	-	(29,145)	-
Other revenue	2,965	-	-	2,965	-
Total revenue	<u>(10,334)</u>	<u>58,656</u>	<u>-</u>	<u>48,322</u>	<u>250,649</u>
Total support and revenue	7,662,877	2,413,485	3,302	10,079,664	7,652,098
Net assets released from restrictions (see Note 13)	<u>1,414,221</u>	<u>(1,414,221)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restrictions	<u>9,077,098</u>	<u>999,264</u>	<u>3,302</u>	<u>10,079,664</u>	<u>7,652,098</u>
Expenses					
Program services (see Note 3)	<u>7,577,264</u>	<u>-</u>	<u>-</u>	<u>7,577,264</u>	<u>6,202,211</u>
Supporting services					
Management and general	750,302	-	-	750,302	493,906
Fundraising (see Note 3)	657,995	-	-	657,995	779,694
Total supporting services	<u>1,408,297</u>	<u>-</u>	<u>-</u>	<u>1,408,297</u>	<u>1,273,600</u>
Total expenses	<u>8,985,561</u>	<u>-</u>	<u>-</u>	<u>8,985,561</u>	<u>7,475,811</u>
Change in net assets	91,537	999,264	3,302	1,094,103	176,287
Net assets, beginning 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>
Net assets, end of year	<u>\$ 1,178,219</u>	<u>\$ 1,587,233</u>	<u>\$ 750,189</u>	<u>\$ 3,515,641</u>	<u>\$ 2,421,538</u>

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

RESURGE INTERNATIONAL
Statement of Functional Expenses
Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	Program Services			Supporting Services			Totals	
		Management and General	Fundraising	Total	2015	2014		
Expenses								
Salaries and wages	\$ 603,844	\$ 338,621	\$ 422,241	\$ 760,862	\$ 1,364,706	\$ 1,337,284		
Employee benefits	109,374	59,576	27,727	87,303	196,677	182,157		
Payroll taxes	40,739	22,225	31,747	53,972	94,711	110,037		
Total salaries and related expenses	753,957	420,422	481,715	902,137	1,656,094	1,629,478		
Donated medical services	4,132,050	-	-	-	4,132,050	3,650,892		
Medical education/empowerment	1,158,847	-	-	-	1,158,847	920,770		
Supplies donated to other organizations	779,283	-	-	-	779,283	-		
Overseas surgical trips	260,769	-	-	-	260,769	206,644		
Occupancy	105,542	24,834	24,834	49,668	155,210	155,210		
Professional services, including in-kind of \$71,008 in 2015 and \$50,444 in 2014	8,948	114,867	25,194	140,061	149,009	134,598		
Medical supplies, including in-kind	101,927	-	-	-	101,927	105,720		
Recruiting	-	85,581	-	85,581	85,581	-		
Depreciation	68,616	529	839	1,368	69,984	81,397		
Public education	60,152	-	-	-	60,152	89,620		
Utilities	31,125	7,041	7,323	14,364	45,489	62,555		
Taxes and licenses	10,506	10,161	11,756	21,917	32,423	23,908		
Insurance	13,540	16,913	-	16,913	30,453	31,210		
Repairs and maintenance	18,530	4,552	4,437	8,989	27,519	32,119		
Postage and shipping	1,588	420	25,142	25,562	27,150	22,902		
Travel, including in-kind	276	10,923	15,700	26,623	26,899	73,125		
Office supplies	3,666	7,563	14,861	22,424	26,090	26,386		
Bank charges	38	25,554	-	25,554	25,592	24,212		
Dues and subscriptions	12,447	1,282	5,668	6,950	19,397	16,244		
Volunteer recruitment and training	8,590	5,674	2,415	8,089	16,679	15,233		
Equipment rental	8,087	2,365	4,413	6,778	14,865	12,143		
Administration fees	6,807	2,066	3,281	5,347	12,154	13,931		
Awards	-	-	11,719	11,719	11,719	9,854		
Miscellaneous	2,845	3,105	4,905	8,010	10,855	14,806		
Conferences, conventions and meeting, including in-kind	8,828	-	-	-	8,828	-		
Janitorial	5,788	1,362	1,362	2,724	8,512	7,502		
Payroll fees	4,743	1,096	2,193	3,289	8,032	9,659		
Telephone	3,734	2,740	1,555	4,295	8,029	12,438		
Newsletter	3,306	-	3,527	3,527	6,833	16,320		
Letterhead and envelopes	2,459	93	560	653	3,112	10,550		
Advertising	-	-	2,731	2,731	2,731	-		
Donor's stewardship	-	-	1,715	1,715	1,715	2,408		
Staff education	241	1,159	150	1,309	1,550	3,557		
Volunteer recognition	29	-	-	-	29	40		
Special education project	-	-	-	-	-	935		
Warehouse expense	-	-	-	-	-	379		
Moving expenses	-	-	-	-	-	59,066		
Total functional expenses	\$ 7,577,264	\$ 750,302	\$ 657,995	\$ 1,408,297	\$ 8,985,561	\$ 7,475,811		
Percentage of total	84.3 %	8.4 %	7.3 %	15.7 %	100.0 %			

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

RESURGE INTERNATIONAL
Statement of Cash Flows
Year Ended June 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

	2015	2014
Cash flows from operating activity		
Change in net assets	\$ 1,094,103	\$ 176,287
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	69,984	81,397
Donated furniture	-	(23,979)
Contributions restricted for long-term purposes	(3,302)	(4,487)
Net loss on sale/disposal of equipment	29,145	-
Net realized and unrealized gain on investments	(53,985)	(228,863)
Changes in operating assets and liabilities		
Grants receivable	(71,702)	(22,187)
Pledges receivable	(1,416,385)	66,000
Inventory	94,763	56,581
Prepaid expenses and deposits	2,971	35,754
Accounts payable	96,496	(82,477)
Accrued liabilities	(22,563)	(5,433)
Deferred revenue	6,630	(12,830)
Deferred rent	14,590	23,472
Net cash provided by (used in) operating activities	(159,255)	59,235
Cash flows from investing activities		
Purchase of property and equipment	(970)	(49,306)
Purchase of investments	(19,892)	(103,772)
Proceeds from sale of investments	151,926	376,885
Net cash provided by investing activities	131,064	223,807
Cash flows from financing activities		
Contributions restricted for long-term purposes	3,302	4,487
Net cash provided by financing activities	3,302	4,487
Net (decrease) increase in cash and cash equivalents	(24,889)	287,529
Cash and cash equivalents, beginning of year	538,233	250,704
Cash and cash equivalents, end of year	\$ 513,344	\$ 538,233

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

RESURGE INTERNATIONAL
Notes to Financial Statements
June 30, 2015

1. Organization

ReSurge International (formerly Interplast, Inc.) (the Organization) provides free reconstructive surgeries for the poor and builds year-round surgical access and capacity in developing countries. During the year ended June 30, 2015, ReSurge International, a nonprofit public benefit corporation, provided nearly 5,000 life-changing surgeries on nearly 3,000 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 surgical 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 to provide reconstructive surgical care and build surgical capacity in developing countries.

Since 1969, ReSurge International has provided nearly 110,000 reconstructive surgeries and built surgical capacity to serve the poor worldwide. The Organization works to ensure that vulnerable children and adults do not have to suffer from repairable deformities or injuries due to a lack of resources or access. The Organization seeks to restore the functionality and productivity of the children and adults it treats. ReSurge International strives to increase access to surgical care by training and empowering medical professionals in developing countries. The Organization partners with overseas medical colleagues to help fulfill the priorities and needs of their local communities. 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. ReSurge International maintains no political or religious affiliations.

2. India Subsidiary

On March 29, 2012 the Organization established a subsidiary in Telegana (formerly 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, 2015 Reconstructive Surgery India had no material financial activity (no material assets, liabilities, income or expenditures).

RESURGE INTERNATIONAL
Notes to Financial Statements
June 30, 2015

3. Increase in Program Service Expenses and Decrease in Fundraising Expenses

Program services

Total program services expenses for the year ended June 30, 2015 increased from the prior year by \$1,375,053. The increase was due in part to the increase in donated services in the Visiting Educator program, as well as an increase from in-kind donations of medical supplies received for the Nepal earthquake disaster relief.

Fundraising

Total fundraising expenses for the year ended June 30, 2015 decreased from the prior year by \$121,699. The decrease was due to a reduction in staffing.

4. Program Services

During the year ended June 30, 2015, ReSurge International provided medical programs in 25 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, India, Nepal, Nicaragua, Peru, Vietnam and Zambabwe during the year ended June 30, 2015. ReSurge had to suspend its activities in Mali during the year ended June 30, 2015 due to conditions on the ground but continues to communicate with local partners. During the year ended June 30, 2015, ReSurge International also provided support to 12 year-round Surgical Outreach Programs (SOP) in Bangladesh, Ecuador, Ghana, India (4), Nepal, Nicaragua, Peru (2) and Zambia; this support included funding for free surgeries for the poor, quality review, technological support and advanced medical training. Approximately 85% 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 658 life-transforming surgeries on 335 patients last year.

RESURGE INTERNATIONAL
Notes to Financial Statements
June 30, 2015

4. Program Services (continued)

- Providing educational training and medical interchange. ReSurge International taught 317 medical professionals overseas last year including 77 who received intensive one-on-one surgical training in order 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 12 permanent Surgical Outreach Programs in eight countries, where more than 4,000 surgeries on nearly 2,400 patients were performed this past year; this model of empowerment, sustainability and self-sufficiency creates long-term surgical care where it never existed before.

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
Notes to Financial Statements
June 30, 2015

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, 2014, 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 donated medical services, equipment, supplies and inventory.

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.

5. Summary of Significant Accounting Policies (continued)

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. Endowment investment income other investment income restricted by a donor are reported as increases in temporarily restricted net assets. When endowment investment income is appropriated and or when other donor restrictions are met the amount is shown as a reclassification of temporarily restricted net assets to unrestricted 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.

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.

RESURGE INTERNATIONAL
Notes to Financial Statements
June 30, 2015

5. Summary of Significant Accounting Policies (continued)

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.

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 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, 2015 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, 2015. Subsequent events have been evaluated through the date the financial statements became available to be issued, November 11, 2015. The Organization has not evaluated subsequent events after November 11, 2015.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2015 and 2014. The accrued vacation balance as of June 30, 2015 and 2014 was \$80,631 and \$103,194, respectively and is included in "accrued liabilities" on the statement of statement of financial position.

RESURGE INTERNATIONAL
Notes to Financial Statements
June 30, 2015

5. Summary of Significant Accounting Policies (continued)

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, 2012 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2011 and beyond remain subject to possible examination by the Franchise Tax Board.

Reclassifications

During the year ended June 30, 2015 the Organization recorded \$1,306,693 of in-kind contributions representing the difference between the amounts paid to physicians for surgeries and the estimated fair value of the services. This change was to bring the Organization's policy in line with industry standards for other similar organizations. In order to be consistent with the current year presentation, the Organization recorded a similar entry in the amount of \$1,337,433 for the year ended June 30, 2014.

RESURGE INTERNATIONAL
Notes to Financial Statements
June 30, 2015

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:

	2015	2014
Investments at fair value		
Equity mutual fund	\$ 422,104	\$ 1,099,247
Short-term fixed income mutual fund	1,034,482	435,910
Cash and cash equivalents	522	-
Total investments at fair value	\$ 1,457,108	\$ 1,535,157

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

	2015	2014
Investments at fair value		
Current investments	\$ 360,279	\$ 442,586
Endowment investments	1,096,829	1,092,571
Total investments at fair value	\$ 1,457,108	\$ 1,535,157
Net investment income		
Dividends/interest income	\$ 20,517	\$ 21,786
Net realized and unrealized gain	53,985	228,863
Total net investment income	\$ 74,502	\$ 250,649

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, 2015 and 2014 totaled \$300,000 and \$450,000, respectively. The \$300,000 conditional pledge to support the Nepal Burn Institute is due in equal installments of \$150,000 over two years and is contingent upon the donor's annual commitment. During the year ended June 30, 2015 the condition was met for the \$150,000 installment and the Organization received and recognized the \$150,000 installment.

8. Bequests and Pledges Receivable

Unconditional promises to give are reported at net realizable value if at the time the promise is made payment is expected to be received in one year or less. Unconditional promises that are expected to be collected in more than one year are reported at fair value. Present value is measured using a risk-adjusted discount rate of return at initial recognition and is not revised later.

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8. Bequests and Pledges Receivable (continued)

Bequests and pledges receivable as of June 30, consisted of the following:

	2015	2014
Receivable in less than one year	\$ 1,134,425	\$ 106,000
Receivable in one to five years	210,000	-
Receivable in more than five years	250,000	-
Total bequests and pledges receivable	1,594,425	106,000
Less discounts to net present value	(72,040)	-
Total net present value of bequests and pledges receivable	1,522,385	106,000
Current portion of bequests and pledges receivable	(1,121,333)	(106,000)
Long-term portion of bequests and pledges receivable	\$ 401,052	\$ -

Bequests and pledges receivable in more than one year were discounted under the fair value calculation at 3.2% as of June 30, 2015.

9. 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:

	2015	2014
Surgical instruments and supplies	\$ 156,494	\$ 254,061
Post ambulatory care unit supplies	29,785	31,003
Anesthesia instruments and supplies	32,650	28,628
Total inventory	\$ 218,929	\$ 313,692

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10. Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Surgical equipment	\$ 211,955	\$ 211,908
Anesthesia equipment	197,988	197,988
Post ambulatory care unit equipment	47,697	47,697
Software	7,810	7,810
Furniture and fixtures	30,987	30,987
Computers	20,891	19,481
Non-consumable equipment	<u>255,658</u>	<u>259,110</u>
	772,986	774,981
Less: accumulated depreciation	<u>(613,449)</u>	<u>(517,285)</u>
Property and equipment, net	<u>\$ 159,537</u>	<u>\$ 257,696</u>

Depreciation expense for the years ended June 30, 2015 and 2014 was \$69,984 and \$81,397, respectively.

11. 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.

12. 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 donor non-restricted bequests.

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13. Temporarily Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Purpose restrictions		
Surgical outreach Ecuador	\$ 427,960	\$ -
Burn outreach program	300,000	1,186
Nepal quake fund	150,670	-
Visiting education trips	137,916	20,000
Gala event	133,250	86,750
Laub fund for special purposes	62,160	62,160
Team trips	28,387	6,250
Special projects	200	54,939
Cleft outreach program	50	-
Surgical care fund	-	11,000
Time restrictions		
Endowment accumulated earnings - unappropriated	<u>346,640</u>	<u>345,684</u>
Total temporarily restricted net assets	<u>\$ 1,587,233</u>	<u>\$ 587,969</u>

During the year ended June 30, 2015, net assets were released by incurring expenses satisfying the purpose restriction as follows:

	<u>2015</u>
Purpose restrictions	
Cleft outreach program	\$ 594,700
Burn outreach program	314,886
Surgical care fund	85,525
Visiting education trips	82,750
Gala event	68,750
Special projects	68,602
Team trips	59,053
Endowment appropriations for operations	57,700
Nepal quake fund	44,193
Zambia	20,000
Site visits	10,262
Leadership	<u>7,800</u>
Total net assets released from restrictions	<u>\$ 1,414,221</u>

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14. Permanently Restricted Net Assets

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

	2015	2014
The Albert Wilson Fund	\$ 600,000	\$ 600,000
Baker Foundation	100,000	100,000
Zlotnick endowment	50,189	46,887
Total permanently restricted net assets	\$ 750,189	\$ 746,887

15. In-Kind Contributions

The estimated fair value of expert services, supplies, property and 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:

	2015	2014
Medical services	\$ 4,132,050	\$ 3,650,892
Medical supplies	780,283	19,463
Professional services	71,008	50,444
Events	4,575	-
Travel and lodging	2,716	2,070
Food and entertainment	-	200
Furniture	-	23,979
Total contribution in-kind	\$ 4,990,632	\$ 3,747,048

The value of donated medical services is based on survey salary rates for the positions in the teams and include surgeons, anesthesiologists, pediatricians, nurses, coordinators / translators and speech / language pathologists.

16. Concentrations and Related Party Transactions

Approximately 21%, 11% and 10% of total contributions, gifts, grants support for the year ended June 30, 2015 were provided by three donors. Approximately 56% and 25% of total pledges receivable and grants receivable at June 30, 2015 were due from two of these three donors. A member of the Organization's board of directors is the president of the company who made one of these gifts.

During the year ended June 30, 2015 \$177,920 of the contributions, gifts and grants support was received from members of the Organization's Board of Directors.

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17. Endowment

ReSurge International's endowment consists of three individual funds (see note 14). 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:

- (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, 2015 and 2014.

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 Finance 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.

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17. Endowment (continued)

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 Finance 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, 2015 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 346,640</u>	<u>\$ 750,189</u>	<u>\$ 1,096,829</u>

Changes in endowment net assets for the year ended June 30, 2015 consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 345,684	\$ 746,887	\$ 1,092,571
Contributions	-	-	3,302	3,302
Investment gain	-	58,656	-	58,656
Amounts appropriated for expenditure	<u>-</u>	<u>(57,700)</u>	<u>-</u>	<u>(57,700)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 346,640</u>	<u>\$ 750,189</u>	<u>\$ 1,096,829</u>

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18. 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, 2015 and 2014 the Organization provided a 4% match. Organization contributions for the years ended June 30, 2015 and 2014 were \$36,534 and \$31,708, respectively.

19. Lease Commitments

In March 2013, the Organization entered into a 7 year lease for 12,335 square feet of office and warehouse space, commencing July 2013. Monthly rent began 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.

Future minimum lease payments are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 148,020
2017	155,421
2018	162,822
2019	170,223
2020	<u>177,624</u>
Total future minimum lease payments	<u>\$ 814,110</u>