

ReSurge International

Financial Statements

June 30, 2017
(With Comparative Totals for 2016)



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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 California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2017, 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.

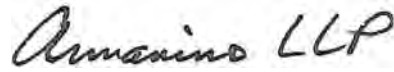
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017, 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.

Report on Summarized Comparative Information

We have previously audited ReSurge International's 2016 financial statements, and our report dated February 10, 2017 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

December 29, 2017

ReSurge International
Statement of Financial Position
June 30, 2017
(With Comparative Totals for 2016)

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 321,928	\$ 569,641
Investments	242,951	382,207
Grants receivable	70,552	54,600
Bequests and pledges receivable, current portion	125,037	228,846
Inventory	153,583	114,335
Prepaid expenses and current deposits	45,496	42,316
Total current assets	959,547	1,391,945
Property and equipment, net	66,910	108,534
Other assets		
Bequests and pledges receivable, net of current portion	308,111	357,945
Deposits, net of current portion	13,000	13,000
Endowment investments	1,114,576	1,048,735
Total other assets	1,435,687	1,419,680
Total assets	\$ 2,462,144	\$ 2,920,159
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 277,832	\$ 325,713
Accrued liabilities	64,094	75,895
Deferred revenue	-	13,650
Deferred rent, current portion	7,613	211
Total current liabilities	349,539	415,469
Deferred rent, net of current portion	37,428	45,041
Total liabilities	386,967	460,510
Net assets		
Unrestricted		
Undesignated	434,926	447,899
Board designated	4,400	4,400
Investment in property and equipment, net	66,910	108,534
Total unrestricted	506,236	560,833
Temporarily restricted	814,493	1,146,193
Permanently restricted	754,448	752,623
Total net assets	2,075,177	2,459,649
Total liabilities and net assets	\$ 2,462,144	\$ 2,920,159

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

ReSurge International
Statement of Activities
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Support and revenue					
Support					
Contributions, gifts, grants	\$ 2,094,159	\$ 323,051	\$ 1,825	\$ 2,419,035	\$ 1,996,752
In-kind contributions (Note 16)	4,601,054	-	-	4,601,054	4,248,996
Special events	728,399	-	-	728,399	771,628
Less: special event costs	<u>(210,095)</u>	<u>-</u>	<u>-</u>	<u>(210,095)</u>	<u>(239,006)</u>
Total support	<u>7,213,517</u>	<u>323,051</u>	<u>1,825</u>	<u>7,538,393</u>	<u>6,778,370</u>
Revenue					
Operating investment gain, net	15,527	-	-	15,527	2,679
Endowment investment gain, net	<u>-</u>	<u>142,526</u>	<u>-</u>	<u>142,526</u>	<u>25,576</u>
Total revenue	<u>15,527</u>	<u>142,526</u>	<u>-</u>	<u>158,053</u>	<u>28,255</u>
Total support and revenue	7,229,044	465,577	1,825	7,696,446	6,806,625
Net assets released from restriction	<u>797,277</u>	<u>(797,277)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restriction	<u>8,026,321</u>	<u>(331,700)</u>	<u>1,825</u>	<u>7,696,446</u>	<u>6,806,625</u>
Functional expenses					
Program services	<u>7,019,331</u>	<u>-</u>	<u>-</u>	<u>7,019,331</u>	<u>6,690,978</u>
Support services					
Management and general	598,943	-	-	598,943	682,410
Fundraising	<u>462,644</u>	<u>-</u>	<u>-</u>	<u>462,644</u>	<u>489,229</u>
Total support services	<u>1,061,587</u>	<u>-</u>	<u>-</u>	<u>1,061,587</u>	<u>1,171,639</u>
Total functional expenses	<u>8,080,918</u>	<u>-</u>	<u>-</u>	<u>8,080,918</u>	<u>7,862,617</u>
Change in net assets (Note 17)	(54,597)	(331,700)	1,825	(384,472)	(1,055,992)
Net assets, beginning of year	<u>560,833</u>	<u>1,146,193</u>	<u>752,623</u>	<u>2,459,649</u>	<u>3,515,641</u>
Net assets, end of year	<u>\$ 506,236</u>	<u>\$ 814,493</u>	<u>\$ 754,448</u>	<u>\$ 2,075,177</u>	<u>\$ 2,459,649</u>

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

ReSurge International
Statement of Functional Expenses
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	Program Services	Support Services		Total Support Services	2017 Total	2016 Total
		Management and General	Fundraising			
Personnel expenses						
Salaries and wages	\$ 465,184	\$ 311,798	\$ 281,194	\$ 592,992	\$ 1,058,176	\$ 1,114,299
Employee benefits	72,469	35,842	23,486	59,328	131,797	154,927
Payroll taxes	34,287	22,982	20,726	43,708	77,995	86,940
Total personnel expenses	571,940	370,622	325,406	696,028	1,267,968	1,356,166
Donated medical services	4,509,051	-	-	-	4,509,051	4,139,651
Medical education/empowerment	1,236,526	-	-	-	1,236,526	1,206,431
Professional services, including in-kind of \$71,916 in 2017 and \$72,005 in 2016	193,983	87,119	3,452	90,571	284,554	225,620
Occupancy	105,657	26,678	35,454	62,132	167,789	155,210
Overseas surgical trips	151,356	-	-	-	151,356	245,384
Depreciation	65,483	2,309	1,251	3,560	69,043	68,150
Utilities	29,922	6,734	6,462	13,196	43,118	41,000
Public education	35,259	74	374	448	35,707	57,514
Insurance	18,055	16,439	-	16,439	34,494	28,746
Office supplies	17,441	4,586	10,862	15,448	32,889	16,211
Taxes and licenses	9,208	9,625	12,574	22,199	31,407	33,825
Repairs and maintenance	19,369	4,425	4,302	8,727	28,096	33,167
Bank charges	-	19,711	-	19,711	19,711	21,959
Travel	1,051	4,082	12,817	16,899	17,950	29,411
Volunteer recruitment and training	3,314	6,384	6,351	12,735	16,049	14,873
Miscellaneous	939	14,938	-	14,938	15,877	4,952
Equipment rental	7,541	2,057	4,113	6,170	13,711	14,864
Advocacy	12,889	-	-	-	12,889	25,181
Bad debt expense	-	-	10,635	10,635	10,635	3,250
Administrative fees	5,511	1,795	3,252	5,047	10,558	12,886
Recruiting	-	10,426	-	10,426	10,426	46,190
Postage and shipping	515	168	8,506	8,674	9,189	10,619
Payroll fees	5,029	1,610	2,413	4,023	9,052	8,814
Telephone	4,182	2,926	1,433	4,359	8,541	8,837
Janitorial	5,239	1,107	1,107	2,214	7,453	7,560
Dues and subscriptions	2,323	1,267	2,919	4,186	6,509	21,264
Staff education	753	3,636	1,693	5,329	6,082	13,869
Awards	-	-	4,271	4,271	4,271	6,832
Conferences, conventions and meetings	4,016	-	-	-	4,016	-
Donor's stewardship	158	-	2,508	2,508	2,666	1,626
Letterhead and envelopes	1,059	81	489	570	1,629	618
Volunteer recognition	1,562	-	-	-	1,562	1,834
Special projects	-	144	-	144	144	-
Advertising	-	-	-	-	-	103
	<u>\$ 7,019,331</u>	<u>\$ 598,943</u>	<u>\$ 462,644</u>	<u>\$ 1,061,587</u>	<u>\$ 8,080,918</u>	<u>\$ 7,862,617</u>
Percentage of total	<u>86.9 %</u>	<u>7.4 %</u>	<u>5.7 %</u>	<u>13.1 %</u>	<u>100.0 %</u>	

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

ReSurge International
Statement of Cash Flows
For the Year Ended June 30, 2017
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ (384,472)	\$ (1,055,992)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	69,043	68,150
Donated equipment	(17,327)	-
Contributions restricted for long-term purposes	1,825	(2,434)
Net realized and unrealized gain on investments	(136,455)	(5,461)
Changes in operating assets and liabilities		
Grants receivable	(15,952)	135,916
Bequests and pledges receivable	153,643	935,594
Inventory	(39,248)	104,594
Prepaid expenses and deposits	(3,180)	(30,819)
Accounts payable	(47,881)	65,052
Accrued liabilities	(11,801)	(185,377)
Deferred revenue	(13,650)	2,970
Deferred rent	(211)	7,190
Net cash provided by (used in) operating activities	<u>(445,666)</u>	<u>39,383</u>
Cash flows from investing activities		
Purchase of property and equipment	(10,092)	(17,147)
Purchase of investments	(77,681)	(30,325)
Proceeds from sale of investments	287,551	61,952
Net cash provided by investing activities	<u>199,778</u>	<u>14,480</u>
Cash flows from financing activities		
Contributions restricted for long-term purposes	(1,825)	2,434
Net cash provided by (used in) financing activities	<u>(1,825)</u>	<u>2,434</u>
Net increase (decrease) in cash and cash equivalents	(247,713)	56,297
Cash and cash equivalents, beginning of year	<u>569,641</u>	<u>513,344</u>
Cash and cash equivalents, end of year	<u>\$ 321,928</u>	<u>\$ 569,641</u>

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

ReSurge International
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

1. NATURE OF OPERATIONS

ReSurge International (formerly Interplast, Inc.) (the "Organization"), a nonprofit public benefit corporation, provides free reconstructive surgeries for the poor and builds year-round surgical access and capacity in developing countries. During the year ended June 30, 2017, ReSurge International performed more than 4,000 life-changing surgeries on more than 2,500 patients. These procedures improve patients' ability to use their limbs, enabling people who have suffered accidents, cancer or congenital issues to go to school, provide for their families, and participate more fully in their communities.

The Organization's vision: ReSurge International envisions a world where all people have access to life-changing surgical care that is safe, timely, and affordable.

To reach that vision, ReSurge International volunteers provide surgical care, and educate and empower local medical professionals. Additionally, the Organization provides financial support to its overseas reconstructive surgical partners to make possible their work with patients living poverty or in rural areas.

Through these activities, ReSurge International ensures that high-quality surgical and comprehensive follow up care is available year-round in underserved areas - now and for generations to come. By doing so, the Organization reduces suffering and poverty, giving more patients the opportunity to live independent and fulfilling lives.

ReSurge International operates in 15 countries in Africa, Asia and Latin America. Sensitivity to, and respect for, other cultures as equals pervades the Organization's philosophy and deeply influences the manner in which it conducts itself. The Organization partners with overseas medical colleagues to help fulfill the priorities and needs of their local communities.

Since 1969, ReSurge International has provided more than 115,000 reconstructive surgeries. ReSurge International maintains no political or religious affiliations.

2. OVERSEAS OFFICES

India - 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. In August 2016 the Organization received authorization to give its Indian donors a tax certificate (but the Organization has still not received authorization to receive donations from foreign sources). As of and for the year ended June 30, 2017, Reconstructive Surgery India had no material financial activity (no material assets, liabilities, income or expenditures).

ReSurge International
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

2. OVERSEAS OFFICES (continued)

Nepal - During the year ended June 30, 2016, the Organization established a branch in Kathmandu, Nepal. There was financial activity during the year that is reflected in the financial statements.

Vietnam - During the year ended June 30, 2017, the Organization established a branch in Hanoi, Vietnam. There was financial activity during the year that is reflected in the financial statements.

3. PROGRAM SERVICES

During the year ended June 30, 2016, ReSurge International provided medical programs in 23 different sites around the world. Performing surgical care and/or providing and supporting advanced medical training for local physicians and nurses, ReSurge International worked in Bangladesh, Bhutan, Bolivia, Cuba, Ecuador, India, Mali, Mozambique, Nepal, Nicaragua, Peru, Tanzania, Vietnam, Zambia and Zimbabwe during the year ended June 30, 2017. During the year ended June 30, 2017, ReSurge International also provided support to 14 year-round Surgical Outreach Programs (SOP) in Bangladesh, Ecuador (2), India (6), 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 90% 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 severe burns and other disabling injuries, as well as congenital anomalies such as cleft lips or palates.

The Organization's scope of services includes:

Assisting host-country medical colleagues to broaden and improve their skills and providing them with financial support for their work with the poor. ReSurge International supported 14 permanent Surgical Outreach Programs in 7 countries. Through these programs, ReSurge International's local partners performed more than 3,600 surgeries on more than 2,300 patients (over 90% of its total). This model of empowerment, sustainability and self-sufficiency creates long-term surgical care where it never existed before.

Providing educational training and medical exchange. ReSurge International taught more than 850 medical professionals overseas last year, including 117 who received intensive one-on-one surgical training in order to perform surgeries and related integrated care safely, effectively, and efficiently on their own. ReSurge International adheres to rigorous quality assurance policies and training so patients receive the safest, highest-quality medical care, even in low-resource settings in developing countries.

ReSurge International
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

3. PROGRAM SERVICES (continued)

Providing direct patient care - reconstructive surgery and integrated care services (such as speech, orthodontics, or physical therapy) to those otherwise unable to pay for them. ReSurge International sent 5 volunteer medical teams to perform more than 400 life-transforming surgical procedures on more than 230 patients last year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

Financial statement 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.

Summarized 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, 2016, from which the summarized information was derived.

ReSurge International
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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.

ReSurge International
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *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.

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.

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.

ReSurge International
Notes to Financial Statements
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(With Comparative Totals for 2016)

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.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2017 and 2016. The accrued vacation balance as of June 30, 2017 and 2016 was \$64,094 and \$63,434, respectively and is included in "accrued liabilities" on the statement of financial position.

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.

Functional expense allocations

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

Income tax status

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.

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.

ReSurge International
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax status (continued)

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, 2014 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2013 and beyond remain subject to possible examination by the Franchise Tax Board.

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, supplies and inventory.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2017 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, 2017. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 29, 2017. The Organization has not evaluated subsequent events after December 29, 2017.

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity mutual funds	\$ 989,281	\$ -	\$ -	\$ 989,281
Fixed income	360,988	-	-	360,988
Cash and cash equivalents	<u>7,258</u>	<u>-</u>	<u>-</u>	<u>7,258</u>
	<u>\$ 1,357,527</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,357,527</u>

ReSurge International
Notes to Financial Statements
June 30, 2017
(With Comparative Totals for 2016)

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity mutual funds	\$ 999,873	\$ -	\$ -	\$ 999,873
Fixed income	427,181	-	-	427,181
Cash and cash equivalents	<u>3,888</u>	<u>-</u>	<u>-</u>	<u>3,888</u>
	<u>\$ 1,430,942</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,430,942</u>

Available-for-sale consist of the following:

	<u>2017</u>	<u>2016</u>
Current investments	\$ 242,951	\$ 382,207
Endowment investments	<u>1,114,576</u>	<u>1,048,735</u>
	<u>\$ 1,357,527</u>	<u>\$ 1,430,942</u>

Investment earnings (losses) during the year consist of the following:

	<u>2017</u>	<u>2016</u>
Dividends and interest income	\$ 21,598	\$ 22,794
Net realized and unrealized gains	<u>136,498</u>	<u>5,461</u>
	<u>\$ 158,096</u>	<u>\$ 28,255</u>

6. 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.

Bequests and pledges receivable in more than one year were discounted under the fair value calculation at 3.2% as of June 30, 2017.

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6. BEQUESTS AND PLEDGES RECEIVABLE (continued)

Bequests and pledges receivable are reported as follows:

	2017	2016
Receivable in less than one year	\$ 130,202	\$ 315,739
Receivable in one to five years	200,000	205,000
Receivable in more than five years	150,000	200,000
Less: allowance for doubtful accounts	-	(75,000)
	480,202	645,739
Less discounts to net present value	(47,054)	(58,948)
Total net present value of bequests and pledges receivable	433,148	586,791
Current portion of bequests and pledges receivable	(125,037)	(228,846)
 Long-term portion of bequests and pledges receivable	 \$ 308,111	 \$ 357,945

7. 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 4).

Inventory consist of the following:

	2017	2016
Surgical instruments and supplies	\$ 46,234	\$ 53,003
Anesthesia instruments	38,240	-
Post ambulatory care unit supplies	37,899	22,921
Anesthesia instruments and supplies	31,210	38,411
	\$ 153,583	\$ 114,335

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8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2017	2016
Surgical equipment	\$ 245,014	\$ 226,088
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
Computer equipment	30,261	26,086
Non-consumable equipment	250,159	254,262
	809,916	790,918
Accumulated depreciation	(743,006)	(682,384)
	\$ 66,910	\$ 108,534

Depreciation expense for the years ended June 30, 2017 and 2016 was \$69,043 and \$68,150, respectively.

9. COMMITMENTS AND CONTINGENCIES

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.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>			
2018	\$	169,202	
2019		177,321	
2020		184,885	
2021		7,441	
2022		7,640	
Thereafter		638	
	\$	547,127	

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9. COMMITMENTS AND CONTINGENCIES (continued)

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.

10. 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, 2017 and 2016 the Organization provided a 4% match. Organization contributions for the years ended June 30, 2017 and 2016 were \$37,898 and \$36,136, respectively.

11. BOARD DESIGNATED NET ASSETS

Board designated funds were established by the ReSurge International Board of Directors to provide:

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

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12. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Purpose restrictions		
Surgical outreach and training	\$ 349,831	\$ 387,937
Laub fund for special purposes	62,160	62,160
OT/PT Dehradun India	29,096	29,096
Hand team trip	10,000	-
Visiting education trips	3,278	-
Burn outreach program	-	188,388
Gala event	-	51,600
Team trips	-	10,000
Surgical fund	-	5,248
Nepal quake fund	-	640
Cleft outreach program	-	12
	<u>454,365</u>	<u>735,081</u>
Time restrictions		
Endowment accumulated earnings - unappropriated	360,128	296,112
Time restricted	-	115,000
	<u>-</u>	<u>115,000</u>
	<u>\$ 814,493</u>	<u>\$ 1,146,193</u>

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12. TEMPORARILY RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets released from restriction during the year were as follows:

	<u>2017</u>	<u>2016</u>
Purpose restriction		
Burn outreach program	\$ 204,038	\$ 130,462
Time restrictions met	115,000	-
Visiting education trips	92,984	158,126
Endowment appropriations for operations	78,510	76,104
Vietnam	75,000	-
Gala event	51,600	175,250
Surgical outreach and training	62,250	58,819
Equipment	44,770	-
Team trips	35,500	137,407
Other	16,900	-
Hand team trip	10,000	-
Surgical fund	7,673	395,690
Surgical care fund	2,400	26,000
Nepal quake fund	640	160,115
Cleft outreach program	12	490,334
Ancillary	-	8,200
OT/PT Dehradun India	-	3,000
Medical supplies	-	1,525
Special projects	-	250
	<u>\$ 797,277</u>	<u>\$ 1,821,282</u>

13. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
The Albert Wilson Fund	\$ 600,000	\$ 600,000
Baker Foundation	100,000	100,000
Zlotnick endowment	<u>54,448</u>	<u>52,623</u>
	<u>\$ 754,448</u>	<u>\$ 752,623</u>

14. CONCENTRATIONS AND RELATED PARTY TRANSACTIONS

Approximately 15%, 13% and 11% of total contributions, gifts, grants support for the year ended June 30, 2017 were provided by three donors. Approximately 67% of total grants, bequests and pledges receivable at June 30, 2017 were due from one donor.

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14. CONCENTRATIONS AND RELATED PARTY TRANSACTIONS (continued)

During the year ended June 30, 2017 \$449,225 of the contributions, gifts and grants support was received from members of the Organization's Board of Directors.

15. ENDOWMENT

The Organization'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:

- (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

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15. ENDOWMENT (continued)

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, 2017 and 2016.

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.

Spending policy

ReSurge International has a general policy of appropriating up to 7% of the endowment assets three year rolling average through the previous calendar 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:

- conform to donor intent or instruction;
- provide funding for operations; or
- 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.

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15. ENDOWMENT (continued)

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 360,128</u>	<u>\$ 754,448</u>	<u>\$ 1,114,576</u>

Endowment net asset composition by type of fund as of June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 296,112</u>	<u>\$ 752,623</u>	<u>\$ 1,048,735</u>

Changes in endowment net assets for the fiscal year ended June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2016	<u>\$ -</u>	<u>\$ 296,112</u>	<u>\$ 752,623</u>	<u>\$ 1,048,735</u>
Investment return				
Investment income	-	142,526	-	142,526
Total investment return	-	142,526	-	142,526
Contributions	-	-	1,825	1,825
Appropriation of endowment net assets for expenditure	-	(78,510)	-	(78,510)
	<u>-</u>	<u>64,016</u>	<u>1,825</u>	<u>65,841</u>
Balance, June 30, 2017	<u>\$ -</u>	<u>\$ 360,128</u>	<u>\$ 754,448</u>	<u>\$ 1,114,576</u>

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15. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2016 is as follows:

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Balance, June 30, 2015	\$ -	\$ 346,640	\$ 750,189	\$ 1,096,829
Investment return				
Investment income	-	25,576	-	25,576
Total investment return	-	25,576	-	25,576
Contributions	-	-	2,434	2,434
Appropriation of endowment net assets for expenditure	-	(76,104)	-	(76,104)
	-	(50,528)	2,434	(48,094)
Balance, June 30, 2016	<u>\$ -</u>	<u>\$ 296,112</u>	<u>\$ 752,623</u>	<u>\$ 1,048,735</u>

16. IN-KIND CONTRIBUTIONS

The estimated fair value of expert services, supplies, and equipment received are recorded as contributions.

In-kind contributions received during the year were as follows:

	<u>2017</u>	<u>2016</u>
Medical services	\$ 4,509,051	\$ 4,139,651
Medical supplies	64,816	22,247
Medical equipment	17,327	-
Other	9,860	15,093
Professional services	74,676	72,005
	<u>\$ 4,675,730</u>	<u>\$ 4,248,996</u>

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.

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17. CONTINUING OPERATIONS

As reported in the statement of activities, the Organization showed a decrease in total net assets of \$384,472 and \$1,055,992 for the years ended June 30, 2017 and 2016 and a decrease in unrestricted net assets from \$560,833 at June 30, 2016 to \$506,236 at June 30, 2017. The decreases in total net assets were the result of planned spending of multi-year pledges. Management of the Organization has implemented a cost reduction plan and has diversified funding sources. For the year ending June 30, 2018 the Organization is forecasting an increase in both its unrestricted net assets and total net assets and is working to rebuild its unrestricted operating reserve balance.