

# **ReSurge International**

Financial Statements

June 30, 2016  
(With Comparative Totals for 2015)



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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, 2016, 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 (the "U.S."); 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 U.S. 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.

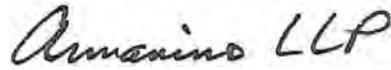
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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, 2016, 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 U.S.

## Report on Summarized Comparative Information

We have previously audited ReSurge International's 2015 financial statements, and our report dated November 11, 2015 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, 2015, 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<sup>LLP</sup>  
San Jose, California

February 10, 2017

ReSurge International  
Statement of Financial Position  
June 30, 2016  
(With Comparative Totals for 2015)

	2016	2015
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 569,641	\$ 513,344
Investments	382,207	360,279
Grants receivable	54,600	190,516
Bequests and pledges receivable, current portion	228,846	1,121,333
Inventory	114,335	218,929
Prepaid expenses and current deposits	42,316	10,330
Total current assets	1,391,945	2,414,731
Property and equipment, net	108,534	159,537
Other assets		
Bequests and pledges receivable, net of current portion	357,945	401,052
Deposits, net of current portion	13,000	14,167
Endowment investments	1,048,735	1,096,829
Total other assets	1,419,680	1,512,048
Total assets	\$ 2,920,159	\$ 4,086,316
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities		
Accounts payable	\$ 325,713	\$ 260,661
Accrued liabilities	75,895	261,272
Deferred revenue	13,650	10,680
Deferred rent, current portion	211	7,190
Total current liabilities	415,469	539,803
Deferred rent, net of current portion	45,041	30,872
Total liabilities	460,510	570,675
Net assets		
Unrestricted		
Unrestricted	447,899	1,014,282
Board designated	4,400	4,400
Investment in property and equipment, net	108,534	159,537
Total unrestricted	560,833	1,178,219
Temporarily restricted	1,146,193	1,587,233
Permanently restricted	752,623	750,189
Total net assets	2,459,649	3,515,641
Total liabilities and net assets	\$ 2,920,159	\$ 4,086,316

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

ReSurge International  
Statement of Activities  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Support and revenue					
Support					
Contributions, gifts, grants	\$ 639,652	\$ 1,354,666	\$ 2,434	\$ 1,996,752	\$ 4,465,362
In-kind contributions (Note 17)	4,248,996	-	-	4,248,996	4,990,632
Special events	771,628	-	-	771,628	725,119
Less: special event costs	<u>(239,006)</u>	<u>-</u>	<u>-</u>	<u>(239,006)</u>	<u>(149,771)</u>
Total support	<u>5,421,270</u>	<u>1,354,666</u>	<u>2,434</u>	<u>6,778,370</u>	<u>10,031,342</u>
Revenue					
Operating investment gain, net	2,679	-	-	2,679	15,846
Endowment investment gain, net	-	25,576	-	25,576	58,656
Net loss on sale/disposal of equipment	-	-	-	-	(29,145)
Other revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,965</u>
Total revenue	<u>2,679</u>	<u>25,576</u>	<u>-</u>	<u>28,255</u>	<u>48,322</u>
Total support and revenue	5,423,949	1,380,242	2,434	6,806,625	10,079,664
Net assets released from restriction	<u>1,821,282</u>	<u>(1,821,282)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support, revenue and net assets released from restriction	<u>7,245,231</u>	<u>(441,040)</u>	<u>2,434</u>	<u>6,806,625</u>	<u>10,079,664</u>
Functional expenses					
Program services	<u>6,690,978</u>	<u>-</u>	<u>-</u>	<u>6,690,978</u>	<u>7,577,264</u>
Support services					
Management and general	682,410	-	-	682,410	750,302
Fundraising	<u>489,229</u>	<u>-</u>	<u>-</u>	<u>489,229</u>	<u>657,995</u>
Total support services	<u>1,171,639</u>	<u>-</u>	<u>-</u>	<u>1,171,639</u>	<u>1,408,297</u>
Total functional expenses	<u>7,862,617</u>	<u>-</u>	<u>-</u>	<u>7,862,617</u>	<u>8,985,561</u>
Change in net assets	(617,386)	(441,040)	2,434	(1,055,992)	1,094,103
Net assets, beginning 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>
Net assets, end 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>

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

ReSurge International  
Statement of Functional Expenses  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

	Program Services	Support Services		Total Support Services	2016 Total	2015 Total
		Management and General	Fundraising			
Personnel expenses						
Salaries and wages	\$ 513,403	\$ 315,535	\$ 302,558	\$ 618,093	\$ 1,131,496	\$ 1,364,706
Employee benefits	75,678	50,242	11,810	62,052	137,730	196,677
Payroll taxes	39,463	24,221	23,256	47,477	86,940	94,711
Total personnel expenses	628,544	389,998	337,624	727,622	1,356,166	1,656,094
Donated medical services	4,139,651	-	-	-	4,139,651	4,132,050
Medical education/empowerment	1,206,431	-	-	-	1,206,431	1,158,847
Supplies donated to other organizations	-	-	-	-	-	779,283
Overseas surgical trips	245,384	-	-	-	245,384	260,769
Professional services, including in-kind of \$72,005 in 2016 and \$71,088 in 2015	74,178	119,848	31,594	151,442	225,620	149,009
Occupancy	96,842	24,834	33,534	58,368	155,210	155,210
Medical supplies, including in-kind	-	-	-	-	-	101,927
Depreciation	65,701	1,198	1,251	2,449	68,150	69,984
Public education	56,816	-	698	698	57,514	60,152
Recruiting	75	45,750	365	46,115	46,190	85,581
Utilities	27,880	6,560	6,560	13,120	41,000	45,489
Taxes and licenses	11,215	8,972	13,638	22,610	33,825	32,423
Repairs and maintenance	22,718	5,363	5,086	10,449	33,167	27,519
Travel, including in-kind	2,089	14,275	13,047	27,322	29,411	26,899
Insurance	16,438	12,308	-	12,308	28,746	30,453
Advocacy	25,181	-	-	-	25,181	-
Bank charges	291	21,668	-	21,668	21,959	25,592
Dues and subscriptions	15,048	2,754	3,462	6,216	21,264	19,397
Office supplies	2,710	7,712	5,789	13,501	16,211	26,090
Volunteer recruitment and training	8,076	5,196	1,601	6,797	14,873	16,679
Equipment rental	8,175	2,230	4,459	6,689	14,864	14,865
Staff education	9,655	3,614	600	4,214	13,869	1,550
Administrative fees	7,216	2,191	3,479	5,670	12,886	12,154
Postage and shipping	599	147	9,873	10,020	10,619	27,150
Telephone	4,926	1,859	2,052	3,911	8,837	8,029
Payroll fees	5,205	1,203	2,406	3,609	8,814	8,032
Janitorial	5,140	1,210	1,210	2,420	7,560	8,512
Awards	-	-	6,832	6,832	6,832	11,719
Miscellaneous	2,584	260	2,108	2,368	4,952	10,855
Bad debt expense	-	3,250	-	3,250	3,250	-
Volunteer recognition	1,834	-	-	-	1,834	29
Donor's stewardship	-	-	1,626	1,626	1,626	1,715
Letterhead and envelopes	376	10	232	242	618	3,112
Advertising	-	-	103	103	103	2,731
Conferences, conventions and meeting, including in-kind	-	-	-	-	-	8,828
Newsletter	-	-	-	-	-	6,833
	<u>\$ 6,690,978</u>	<u>\$ 682,410</u>	<u>\$ 489,229</u>	<u>\$ 1,171,639</u>	<u>\$ 7,862,617</u>	<u>\$ 8,985,561</u>
Percentage of total	<u>85.1 %</u>	<u>8.7 %</u>	<u>6.2 %</u>	<u>14.9 %</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, 2016  
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (1,055,992)	\$ 1,094,103
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation	68,150	69,984
Contributions restricted for long-term purposes	(2,434)	(3,302)
Net loss on sale/disposal of equipment	-	29,145
Net realized and unrealized gain on investments	(5,461)	(53,985)
Changes in operating assets and liabilities		
Grants receivable	135,916	(71,702)
Bequests and pledges receivable	935,594	(1,416,385)
Inventory	104,594	94,763
Prepaid expenses and deposits	(30,819)	2,971
Accounts payable	65,052	96,496
Accrued liabilities	(185,377)	(22,563)
Deferred revenue	2,970	6,630
Deferred rent	7,190	14,590
Net cash provided by (used in) operating activities	<u>39,383</u>	<u>(159,255)</u>
Cash flows from investing activities		
Purchase of property and equipment	(17,147)	(970)
Purchase of investments	(30,325)	(19,892)
Proceeds from sale of investments	61,952	151,926
Net cash provided by investing activities	<u>14,480</u>	<u>131,064</u>
Cash flows from financing activities		
Contributions restricted for long-term purposes	2,434	3,302
Net cash provided by financing activities	<u>2,434</u>	<u>3,302</u>
Net increase (decrease) in cash and cash equivalents	56,297	(24,889)
Cash and cash equivalents, beginning of year	<u>513,344</u>	<u>538,233</u>
Cash and cash equivalents, end of year	<u>\$ 569,641</u>	<u>\$ 513,344</u>

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

ReSurge International  
Notes to Financial Statements  
June 30, 2016  
(With Comparative Totals for 2015)

1. NATURE OF OPERATIONS

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, 2016, ReSurge International, a nonprofit public benefit corporation, provided more than 4,400 life-changing surgeries on more than 2,700 patients so they can go to school, provide for their families, and be productive members of society.

Working in 14 countries in Africa, Asia and Latin America, ReSurge International also empowers local doctors, increasing year-round access to surgical care in underserved areas, and also sends visiting medical professionals to these counties to provide comprehensive reconstructive surgical and follow-up care. By doing so, ReSurge International reduces suffering and poverty, giving more patients the opportunity to live independent and fulfilling lives.

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 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.

The Organization's goals are:

- Build surgical skills in low-resource settings by creating and deploying surgical and educational programs.
- Increase access to high-quality surgical care for the poor by developing the next generation of humanitarian reconstructive surgeons and their local teams.
- Restore function and improve lives by providing the full scope of reconstructive surgery for more poor children and adults.

Since 1969, ReSurge International has provided nearly 115,000 reconstructive surgeries and built surgical capacity to serve people living in poverty and remote areas worldwide. The Organization works to ensure that vulnerable children and adults do not have to suffer from repairable physical anomalies 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.

ReSurge International  
Notes to Financial Statements  
June 30, 2016  
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2. OVERSEAS OFFICES

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, 2016 Reconstructive Surgery India had no material financial activity (no material assets, liabilities, income or expenditures).

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.

3. STATEMENT OF ACTIVITIES, SUPPORT

During the previous year, there were several support-related items that were not repeated for the year ended June 30, 2016:

- A one-time bequest for \$952,175;
- A multi-year pledge for \$500,000;
- In-kind contributions related to the Nepal earthquake for \$779,283.

4. 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, Bolivia, Cambodia, Ecuador, India, Mozambique, Nepal, Nicaragua, Peru, Sri Lanka, Tanzania, Vietnam, Zambia and Zimbabwe during the year ended June 30, 2016. During the year ended June 30, 2016, ReSurge International also provided support to 14 year-round Surgical Outreach Programs (SOP) in Bangladesh, Ecuador, Ghana, 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. Approximately 87% 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 anomalies such as cleft lips or palates, severe burns and other disabling injuries.

ReSurge International  
Notes to Financial Statements  
June 30, 2016  
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4. PROGRAM SERVICES (continued)

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 otherwise unable to pay for them.** ReSurge International sent 7 volunteer medical teams to perform more than 700 life-transforming surgical procedures on nearly 350 patients last year.

**Providing educational training and medical exchange.** ReSurge International taught more than 550 medical professionals overseas last year, including 90 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.

**Assisting host-country medical colleagues to broaden and improve their skills.** ReSurge International supported 14 permanent Surgical Outreach Programs in seven countries, where more than 3,700 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.

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.

ReSurge International  
Notes to Financial Statements  
June 30, 2016  
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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial statement presentation (continued)

- *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, 2015, from which the summarized information was derived.

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.

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Notes to Financial Statements  
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5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

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

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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.

ReSurge International  
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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.

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.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2016 and 2015. The accrued vacation balance as of June 30, 2016 and 2015 was \$63,434 and \$80,631, 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.

ReSurge International  
Notes to Financial Statements  
June 30, 2016  
(With Comparative Totals for 2015)

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2013 and beyond remain subject to possible examination by the Internal Revenue Service. The Organization's California returns for the years ended June 30, 2012 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, 2016 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, 2016. Subsequent events have been evaluated through the date the financial statements became available to be issued, February 10, 2017. The Organization has not evaluated subsequent events after February 10, 2017.

ReSurge International  
Notes to Financial Statements  
June 30, 2016  
(With Comparative Totals for 2015)

6. 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, 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>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income	\$ 422,104	\$ -	\$ -	\$ 422,104
Equity mutual funds	1,034,482	-	-	1,034,482
Cash and cash equivalents	<u>522</u>	<u>-</u>	<u>-</u>	<u>522</u>
	<u>\$ 1,457,108</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,457,108</u>

Available-for-sale consist of the following:

	<u>2016</u>	<u>2015</u>
Current investments	\$ 382,207	\$ 360,279
Endowment investments	<u>1,048,735</u>	<u>1,096,829</u>
	<u>\$ 1,430,942</u>	<u>\$ 1,457,108</u>

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

	<u>2016</u>	<u>2015</u>
Dividends and interest income	\$ 22,794	\$ 20,517
Net realized and unrealized gains	<u>5,461</u>	<u>53,985</u>
	<u>\$ 28,255</u>	<u>\$ 74,502</u>

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7. 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, 2016.

Bequests and pledges receivable are reported as follows:

	<u>2016</u>	<u>2015</u>
Bequests and pledges receivable		
Receivable in less than one year	\$ 315,739	\$ 1,134,425
Receivable in one to five years	205,000	210,000
Receivable in more than five years	200,000	250,000
Less: allowance for doubtful accounts	<u>(75,000)</u>	<u>-</u>
	645,739	1,594,425
Less discounts to net present value	<u>(58,948)</u>	<u>(72,040)</u>
Total net present value of bequests and pledges receivable	586,791	1,522,385
Current portion of bequests and pledges receivable	<u>(228,846)</u>	<u>(1,121,333)</u>
	<u>\$ 357,945</u>	<u>\$ 401,052</u>
Long-term portion of bequests and pledges receivable	<u>\$ 357,945</u>	<u>\$ 401,052</u>

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 consist of the following:

	<u>2016</u>	<u>2015</u>
Surgical instruments and supplies	\$ 53,003	\$ 156,494
Post ambulatory care unit supplies	22,921	29,785
Anesthesia instruments and supplies	<u>38,411</u>	<u>32,650</u>
	<u>\$ 114,335</u>	<u>\$ 218,929</u>

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9. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2016	2015
Surgical equipment	\$ 226,088	\$ 211,955
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	26,086	20,891
Non-consumable equipment	254,262	255,658
	790,918	772,986
Accumulated depreciation	(682,384)	(613,449)
	\$ 108,534	\$ 159,537

Depreciation expense for the years ended June 30, 2016 and 2015 was \$68,150 and \$69,984, respectively.

10. 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>		
2017	\$	155,421
2018		162,822
2019		170,223
2020		177,624
	\$	666,090

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10. 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.

11. 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, 2016 and 2015 the Organization provided a 4% match. Organization contributions for the years ended June 30, 2016 and 2015 were \$36,136 and \$36,534, respectively.

12. 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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13. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Purpose restrictions		
Surgical outreach Ecuador	\$ 387,937	\$ 427,960
Burn outreach program	188,388	300,000
Laub fund for special purposes	62,160	62,160
Gala event	51,600	133,250
OT/PT Deharrun India	29,096	-
Team trips	10,000	28,387
Surgical fund	5,248	-
Nepal quake fund	640	150,670
Cleft outreach program	12	50
Visiting education trips	-	137,916
Special projects	-	200
	<u>735,081</u>	<u>1,240,593</u>
Time restrictions		
Endowment accumulated earnings - unappropriated	296,112	346,640
Time restricted	<u>115,000</u>	<u>-</u>
	<u>\$ 1,146,193</u>	<u>\$ 1,587,233</u>

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13. TEMPORARILY RESTRICTED NET ASSETS (continued)

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

	<u>2016</u>	<u>2015</u>
Purpose restriction		
Cleft outreach program	\$ 490,334	\$ 594,700
Surgical fund	395,690	-
Gala event	175,250	68,750
Nepal quake fund	160,115	44,193
Visiting education trips	158,126	82,750
Team trips	137,407	59,053
Burn outreach program	130,462	314,886
Endowment appropriations for operations	76,104	57,700
Surgical outreach Ecuador	58,819	-
Surgical care fund	26,000	85,525
Ancillary	8,200	-
OT/PT Deharrun India	3,000	-
Medical supplies	1,525	-
Special projects	250	68,602
Zambia	-	20,000
Site visits	-	10,262
Leadership	-	7,800
	<u>\$ 1,821,282</u>	<u>\$ 1,414,221</u>

14. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
The Albert Wilson Fund	\$ 600,000	\$ 600,000
Baker Foundation	100,000	100,000
Zlotnick endowment	<u>52,623</u>	<u>50,189</u>
	<u>\$ 752,623</u>	<u>\$ 750,189</u>

15. CONCENTRATIONS AND RELATED PARTY TRANSACTIONS

Approximately 18% and 11% of total contributions, gifts, grants support for the year ended June 30, 2016 were provided by two donors. Approximately 61% and 16% of total grants, bequests and pledges receivable at June 30, 2016 were due from one of these two donors and from one other donor.

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15. CONCENTRATIONS AND RELATED PARTY TRANSACTIONS (continued)

During the year ended June 30, 2016 \$229,750 of the contributions, gifts and grants support was received from members of the Organization's Board of Directors.

16. ENDOWMENT

The Organization'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

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16. 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, 2016 and 2015.

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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16. ENDOWMENT (continued)

Endowment composition

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>

Endowment net asset composition by type of fund as of June 30, 2015 is as follows:

	<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 fiscal year ended June 30, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2015	\$ <u>          -</u>	\$ <u>  346,640</u>	\$ <u>  750,189</u>	\$ <u>1,096,829</u>
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>

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16. ENDOWMENT (continued)

Endowment composition (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, June 30, 2014	\$ -	\$ 345,684	\$ 746,887	\$ 1,092,571
Investment return				
Investment income	-	58,656	-	58,656
Total investment return	-	58,656	-	58,656
Contributions	-	-	3,302	3,302
Appropriation of endowment net assets for expenditure	-	(57,700)	-	(57,700)
	<u>-</u>	<u>956</u>	<u>3,302</u>	<u>4,258</u>
Balance, June 30, 2015	<u>\$ -</u>	<u>\$ 346,640</u>	<u>\$ 750,189</u>	<u>\$ 1,096,829</u>

17. IN-KIND CONTRIBUTIONS

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

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

	<u>2016</u>	<u>2015</u>
Medical services	\$ 4,139,651	\$ 4,132,050
Medical supplies	22,247	780,283
Professional services	72,005	71,008
Events	-	4,575
Travel and lodging	-	2,716
Other	15,093	-
	<u>\$ 4,248,996</u>	<u>\$ 4,990,632</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.