

**FRESH START SURGICAL GIFTS
FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

FRESH START SURGICAL GIFTS

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CONSIDINE CONSIDINE

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fresh Start Surgical Gifts

We have audited the accompanying financial statements of Fresh Start Surgical Gifts, a nonprofit organization, which comprise of the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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.

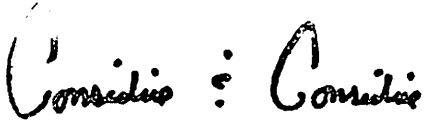
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fresh Start Surgical Gifts, a nonprofit organization, as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Considine & Considine". The signature is written in a cursive, flowing style with a colon between the two names.

CONSIDINE & CONSIDINE
An accountancy corporation

October 18, 2018

**FRESH START SURGICAL GIFTS
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017**

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	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	\$ 829,898	\$ 789,785
Pledges receivable (Note 3)	11,781	12,550
Prepaid expenses and other current assets	40,768	63,587
Related party receivable (Note 13)	27,339	20,559
	909,786	886,481
PROPERTY AND EQUIPMENT (Note 4)	54,252	76,592
OTHER ASSETS		
Investments (Notes 6 and 8)	401,430	367,207
Fresh start clinic (Notes 5 and 14)	45,678	82,477
Beneficial interest in foundation (Notes 7, 8 and 10)	69,542	68,184
Deposits	7,746	7,746
	524,396	525,614
TOTAL ASSETS	1,488,434	1,488,687
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued liabilities	139,594	147,723
Accounts payable	2,610	21,107
	142,204	168,830
NET ASSETS (Note 9)		
Unrestricted	1,276,688	1,251,673
Temporarily restricted (Note 10)	13,886	12,528
Permanently restricted (Note 10)	55,656	55,656
TOTAL NET ASSETS	1,346,230	1,319,857
TOTAL LIABILITIES AND NET ASSETS	\$ 1,488,434	\$ 1,488,687

See accompanying notes

FRESH START SURGICAL GIFTS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

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	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE				
Donated medical services and supplies	\$ 2,958,440	\$ -	\$ -	\$ 2,958,440
Contributions - Foundation (Note 13)	979,403	-	-	979,403
Special events (Net direct benefits to donors of \$39,080 - Note 11)	435,666	-	-	435,666
Contributions - Public support	370,030	-	-	370,030
Management fee (Note 13)	301,777	-	-	301,777
Investment return	40,847	-	-	40,847
Change in beneficial interest in foundation	-	4,262	-	4,262
	5,086,163	4,262	-	5,090,425
NET ASSETS RELEASED FROM RESTRICTIONS	2,904	(2,904)	-	-
	5,089,067	1,358	-	5,090,425
EXPENSES				
Medical program	4,402,908	-	-	4,402,908
Supporting services:				
General and administrative	246,771	-	-	246,771
Development	414,373	-	-	414,373
	5,064,052	-	-	5,064,052
OPERATING CHANGE IN NET ASSETS	25,015	1,358	-	26,373
NET ASSETS, BEGINNING	1,251,673	12,528	55,656	1,319,857
NET ASSETS, ENDING	\$ 1,276,688	\$ 13,886	\$ 55,656	\$ 1,346,230

See accompanying notes

FRESH START SURGICAL GIFTS
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Donated medical services and supplies	\$ 3,020,538	\$ -	\$ -	\$ 3,020,538
Contributions - Foundation (Note 13)	983,566	-	-	983,566
Contributions - Public support	457,187	-	-	457,187
Special events (Net direct benefits to donors of \$41,584 - Note 11)	420,311	-	-	420,311
Management fee (Note 13)	311,063	-	-	311,063
Investment return	67,062	-	-	67,062
Change in beneficial interest in foundation	-	7,289	-	7,289
	<u>5,259,727</u>	<u>7,289</u>	<u>-</u>	<u>5,267,016</u>
NET ASSETS RELEASED FROM RESTRICTIONS	<u>2,791</u>	<u>(2,791)</u>	<u>-</u>	<u>-</u>
	5,262,518	4,498	-	5,267,016
EXPENSES				
Medical program	4,468,145	-	-	4,468,145
Supporting services:				
General and administrative	238,389	-	-	238,389
Development	405,864	-	-	405,864
	<u>5,112,398</u>	<u>-</u>	<u>-</u>	<u>5,112,398</u>
OPERATING CHANGE IN NET ASSETS	150,120	4,498	-	154,618
NET ASSETS, BEGINNING	<u>1,101,553</u>	<u>8,030</u>	<u>55,656</u>	<u>1,165,239</u>
NET ASSETS, ENDING	<u>\$ 1,251,673</u>	<u>\$ 12,528</u>	<u>\$ 55,656</u>	<u>\$ 1,319,857</u>

See accompanying notes

**FRESH START SURGICAL GIFTS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018**

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	Supporting Services			Total
	Medical Program	General and Administrative	Development	
Bank charges	\$ -	\$ 132	\$ 10,433	\$ 10,565
Computer services and expenses	20,126	2,610	11,401	34,137
Depreciation and amortization	53,912	756	6,518	61,186
Donated medical services and supplies	2,958,440	-	-	2,958,440
Donor cultivation	-	-	10,370	10,370
Dues and subscriptions	835	189	2,213	3,237
Event - Facilities	-	-	33,829	33,829
Event - Food and beverage	-	-	68,168	68,168
Event - Other	-	-	30,275	30,275
Grant (Notes 13 and 14)	200,000	-	-	200,000
Insurance	6,029	24,714	2,627	33,370
Marketing and public relations	250	-	7,007	7,257
Patient assistance	81,089	-	-	81,089
Postage	1,061	235	727	2,023
Professional fees	6,357	50,584	765	57,706
Rent - Clinic	100,000	-	-	100,000
Rent - Other	68,256	10,176	33,829	112,261
Salaries and related costs	737,958	151,740	221,899	1,111,597
Supplies	41,611	659	2,355	44,625
Taxes and licenses	523	718	132	1,373
Telephone	8,130	1,732	1,556	11,418
Transportation, lodging and food	74,445	1,377	5,622	81,444
Utilities	3,548	524	1,745	5,817
Volunteer outreach	35,841	-	-	35,841
Other	4,496	626	1,982	7,104
	4,402,908	246,771	453,453	5,103,132
Less: Event direct benefit cost	-	-	(39,080)	(39,080)
	\$ 4,402,908	\$ 246,771	\$ 414,373	\$ 5,064,052

See accompanying notes

**FRESH START SURGICAL GIFTS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017**

	Supporting Services			Total
	Medical Program	General and Administrative	Development	
Bank charges	\$ 3	\$ 95	\$ 12,161	\$ 12,259
Computer services and expenses	22,946	2,186	9,774	34,906
Depreciation and amortization	50,504	3,629	4,745	58,878
Donated medical services and supplies	3,020,538	-	-	3,020,538
Donor cultivation	-	-	13,270	13,270
Dues and subscriptions	227	10	927	1,164
Event - Facilities	-	-	33,996	33,996
Event - Food and beverage	-	-	59,858	59,858
Event - Other	-	-	24,451	24,451
Grant (Notes 13 and 14)	200,000	-	-	200,000
Insurance	5,993	23,864	2,498	32,355
Marketing and public relations	535	-	9,408	9,943
Patient assistance	92,139	-	-	92,139
Postage	804	167	646	1,617
Professional fees	2,184	40,815	293	43,292
Rent - Clinic	100,000	-	-	100,000
Rent - Other	65,755	9,709	32,321	107,785
Salaries and related costs	725,804	152,100	228,537	1,106,441
Supplies	50,935	1,245	2,271	54,451
Taxes and licenses	77	245	289	611
Telephone	7,628	1,649	3,306	12,583
Transportation, lodging and food	78,958	1,037	6,013	86,008
Utilities	3,426	472	1,591	5,489
Volunteer outreach	35,746	-	-	35,746
Other	3,943	1,166	1,093	6,202
	4,468,145	238,389	447,448	5,153,982
Less: Event direct benefit cost	-	-	(41,584)	(41,584)
	\$ 4,468,145	\$ 238,389	\$ 405,864	\$ 5,112,398

See accompanying notes

**FRESH START SURGICAL GIFTS
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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	2018	2017
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 26,373	\$ 154,618
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Investment gains, Net	(40,848)	(67,062)
Change in beneficial interest in foundation	(4,261)	(7,289)
Depreciation and amortization	61,186	58,878
Changes in operating assets and liabilities:		
Pledges receivable	769	62,425
Prepaid expenses and other current assets	10,354	1,887
Related party receivable	(6,780)	7,112
Accounts receivable	12,465	(12,465)
Accounts payable	(18,497)	12,735
Accrued liabilities	(8,129)	71,794
	6,259	128,015
NET CASH PROVIDED BY OPERATING ACTIVITIES	32,632	282,633
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Purchase of property and equipment	(2,047)	-
Net proceeds from investments	6,624	85,705
Net proceeds of beneficial interest in foundation	2,904	2,791
NET CASH PROVIDED BY INVESTING ACTIVITIES	7,481	88,496
NET INCREASE IN CASH	40,113	371,129
CASH, BEGINNING	789,785	418,656
CASH, ENDING	\$ 829,898	\$ 789,785
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -

See disclosure of non-cash items in note 2

See accompanying notes

**FRESH START SURGICAL GIFTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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NOTE 1 THE ORGANIZATION

Fresh Start Surgical Gifts (the "Organization") was formed in April 1991 in the State of California as a nonprofit organization to transform the lives of disadvantaged children and young people with physical deformities caused by birth defects, accidents, abuse, or disease through the gift of a fresh start. The Organization's program services are supported primarily by the donated services of medical professionals and donated medical facilities and supplies. The Organization operates in a facility located in Carlsbad, CA.

The Organization is looking for opportunities to expand to other areas of the country using the same model. In 2014, the Organization teamed up with Plastic Surgery Foundation to establish a facility in Chicago, IL that is operated by Fresh Start Caring for Kids Foundation ("Caring for Kids"), a related party organization (See notes 13 and 14).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The accompanying financial statements are prepared using the accrual method of accounting in conformity with generally accepted accounting principles.

Basis of presentation - Under accounting standards on financial statements of not-for-profit organizations, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets - Consists of assets which are fully available, at the discretion of management and the Board of Directors, for the Organization to utilize in any of its programs or supporting services.

Temporarily restricted net assets - Temporarily restricted net assets consist of contributed funds subject to donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds.

Permanently restricted net assets - Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from these estimates.

Cash - The Organization considers financial instruments with a fixed maturity date of less than three months to be cash equivalents. The Organization maintains its cash and cash equivalents in bank accounts, which, at times, exceed the federally insured deposit limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

FRESH START SURGICAL GIFTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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Prepaid expenses - Prepaid expenses are stated at cost less applicable amortization and includes expenses prepaid for events that will occur in the next fiscal year and for insurance premiums, which are expensed over their useful lives using the straight-line method.

Property and equipment - Property and equipment are carried at cost or, if donated, at approximate value at the date of the gift. The Organization follows the practice of capitalizing expenditures in excess of \$1,000. Expenditures for repairs and maintenance are charged against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of five to seven years.

Fresh start clinic - The Organization entered into an agreement with Rady Children's Hospital ("Rady") to construct the Fresh Start at Rady Children's Hospital Clinic ("Clinic"), which was completed in September 2009. The accumulated costs of the Clinic are being amortized over the term of the contract. At July 1, 2013, management reviewed Clinic leases and revised the estimated Clinic useful life from 5 to 10 years.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Gains and losses are included in the statements of activities and changes in net assets.

Beneficial interest in foundation - The Organization has an endowment fund at San Diego Foundation. The Organization records this as a beneficial interest in a foundation at fair value and recognizes changes in beneficial interest at fair value on the statements of activities and changes in net assets.

Fair value measurements - The Organization follows accounting standards consistent with the Financial Accounting Standards Board (FASB) codification which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements for all financial assets and liabilities.

Revenue recognition - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Contributions received with donor-imposed restrictions that are satisfied within the same reporting period are reported as unrestricted support in that period.

**FRESH START SURGICAL GIFTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

Donated materials and services - Donated materials and medical facilities are recorded at their fair market value where an objective basis is available to measure their value. Such items are capitalized or charged to operations as appropriate. The fair market value of contributed professional services is reported as support and expense in the period in which the services are performed. The following schedule summarizes donated medical services and supplies shown in the statements of activities and changes in net assets for the years ended June 30:

	2018	2017
Facilities and supplies	\$ 2,353,995	\$ 2,436,873
Professional medical services	604,445	583,665
	\$ 2,958,440	\$ 3,020,538

There are numerous other individuals who volunteer their time and perform a variety of tasks to assist the Organization with the medical program, development, and administrative support. No amounts have been reflected in the financial statements for these donated services as they do not meet the criteria for recognition as contributions.

Functional expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in nets assets. Expenditures which can be identified with a program support service are allocated directly, according to their natural expenditure classification. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, and estimates made by the Organization’s management.

Grant agreements - The Organization awards grant agreements to various foundations to expand the Organization's operating model. The grant agreements sometimes include compliance with budgets or other conditions. The related expenditure is recorded once the funds are subject to payment per terms of the grant agreements and any conditions are satisfied (See notes 13 and 14).

Income taxes - The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state laws in California and Illinois. The Organization, however, may be subject to tax on income which is not related to its exempt purpose. For the years ended June 30, 2018 and 2017, no such unrelated business taxable income was reported and, therefore, no provision for income taxes has been made. The Organization is not a private foundation.

The Organization follows accounting standards which clarify the accounting for uncertainty in income taxes recognized in the Organization's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition and measurement of a tax position taken or to be taken in a tax return. As of June 30, 2018 and 2017, the Organization has not accrued interest or penalties related to uncertain tax positions. The Organization files tax returns in the U.S. Federal jurisdiction and the States of California and Illinois.

**FRESH START SURGICAL GIFTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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NOTE 3 PLEDGES RECEIVABLE

The Organization has pledges receivable totaling \$11,781 and \$12,550 at June 30, 2018 and 2017, respectively. All pledges receivable are short-term and therefore, no discount to present value is recorded. Management has determined the pledges to be fully collectible at June 30, 2018 and 2017.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	2018	2017
Furniture and equipment	\$ 169,044	\$ 166,998
Transportation equipment	81,681	81,681
Leasehold improvements	10,066	10,066
	<u>260,791</u>	<u>258,745</u>
Accumulated depreciation	(206,539)	(182,153)
	<u>\$ 54,252</u>	<u>\$ 76,592</u>

For the years ended June 30, 2018 and 2017, depreciation expense was \$24,386 and \$22,078, respectively.

NOTE 5 FRESH START CLINIC

Fresh Start Clinic consists of the following:

	2018	2017
Clinic equipment	\$ 819,983	\$ 819,983
Telephone equipment	57,441	57,441
Office furniture	50,797	50,797
Medical program equipment	27,293	27,293
Computer equipment	16,680	16,680
	<u>972,194</u>	<u>972,194</u>
Accumulated amortization	(926,516)	(889,717)
	<u>\$ 45,678</u>	<u>\$ 82,477</u>

Amortization expense for the years ended June 30, 2018 and 2017 was \$36,799 and \$36,800, respectively.

**FRESH START SURGICAL GIFTS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 6 INVESTMENTS

Cost and fair value of available-for-sale securities are as follows:

	2018	
	Cost	Fair Value
Stock funds:		
Large cap	\$ 233,648	\$ 280,084
Small cap	52,333	59,289
Micro cap	12,907	14,827
Mid cap	8,020	10,975
Real estate securities:		
Mid cap	32,330	36,255
	\$ 339,238	\$ 401,430

	2017	
	Cost	Fair Value
Stock funds:		
Large cap	\$ 210,738	\$ 243,481
Small cap	61,822	64,762
Micro cap	12,907	13,272
Mid cap	8,020	9,934
Real estate securities:		
Mid cap	32,330	35,758
	\$ 325,817	\$ 367,207

The following schedule summarizes the investment return of the assets shown above and its classification in the statements of activities and changes in net assets for the years ended June 30:

	2018	2017
Investment income, net	\$ 32,466	\$ 61,908
Interest and dividends	10,659	7,388
Investment expense	(2,278)	(2,234)
	\$ 40,847	\$ 67,062

FRESH START SURGICAL GIFTS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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NOTE 7 BENEFICIAL INTEREST IN FOUNDATION

In prior years, the Organization had invested \$55,656 with the San Diego Foundation Endowment Fund. A total of \$17,840 was donated upon donor requests and the other \$37,816 was donated by the Organization. The contribution to the foundation created a beneficial interest to Fresh Start Surgical Gifts and is stated at fair value of \$69,542 and \$68,184 as of June 30, 2018 and 2017, respectively. Investment decisions and annual distributions are determined at the sole discretion of San Diego Foundation. Investments are held in various securities including equities, alternative investments, and fixed income securities, as determined and defined by San Diego Foundation. The invested amounts will be held in perpetuity with the San Diego Foundation and all distributions received by Fresh Start Surgical Gifts may be used at their discretion (See note 10).

NOTE 8 FAIR VALUE MEASUREMENT

The Organization follows the methods of fair value to value its financial assets and liabilities. Fair value is based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels has been established, which are described below.

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

Investments including equities, stock funds, and real estate securities are in actively traded markets and are classified as Level 1.

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The beneficial interest in foundation is measured using values provided by the San Diego Foundation. The values are based on the fair market value of the underlying cash, securities and other investments. Although the Organization classifies its investments as Level 3, the investments held in the foundation are comprised of Level 1, 2 and 3 investments as reported by the foundation. The Organization has not contributed funds to San Diego Foundation since the initial contribution. Net purchases, sales, issues, and settlements shown below in the reconciliation solely relate to the distributions received by the Organization each year.

Financial assets and liabilities carried at fair value measured on a recurring basis at June 30, 2018 are classified in one of the three categories previously described.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments				
Stock funds				
Large cap	\$ 280,084	\$ -	\$ -	\$ 280,084
Small cap	59,289	-	-	59,289
Micro cap	14,827	-	-	14,827
Mid cap	10,975	-	-	10,975
Real estate securities				
Mid cap	36,255	-	-	36,255
Beneficial interest in foundation	-	-	69,542	69,542
	<u>\$ 401,430</u>	<u>\$ -</u>	<u>\$ 69,542</u>	<u>\$ 470,972</u>

Changes in Level 3 financial instruments during the year ended June 30, 2018 were as follows:

Fair value, beginning	\$ 68,184
Total gains or losses (realized/unrealized)	4,262
Net purchases, sales, issues, and settlements	<u>(2,904)</u>
Fair value, ending	<u>\$ 69,542</u>

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JUNE 30, 2018 AND 2017**

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Financial assets and liabilities carried at fair value measured on a recurring basis at June 30, 2017 are classified in one of the three categories described above.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Investments				
Stock funds				
Large cap	\$ 243,481	\$ -	\$ -	\$ 243,481
Small cap	64,762	-	-	64,762
Micro cap	13,272	-	-	13,272
Mid cap	9,934	-	-	9,934
Real estate securities				
Mid cap	35,758	-	-	35,758
Beneficial interest in foundation	-	-	68,184	68,184
	<u>\$ 367,207</u>	<u>\$ -</u>	<u>\$ 68,184</u>	<u>\$ 435,391</u>

Changes in Level 3 financial instruments during the year ended June 30, 2017 were as follows:

Fair value, beginning	\$ 63,686
Total gains or losses (realized/unrealized)	7,289
Net purchases, sales, issues, and settlements	(2,791)
Fair value, ending	<u>\$ 68,184</u>

NOTE 9 NET ASSETS

Net assets consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Unrestricted:		
Undesignated	\$ 1,276,688	\$ 1,251,673
Temporarily restricted:		
Endowment fund (Note 10)	13,886	12,528
Permanently restricted:		
Endowment fund (Note 10)	55,656	55,656
Total net assets	<u>\$ 1,346,230</u>	<u>\$ 1,319,857</u>

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NOTE 10 ENDOWMENT FUND

Effective January 23, 2008, the District of Columbia enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), the provisions of which apply to endowment funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, the Organization is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds. The Organization classifies as permanently restricted net assets the original value of gifts donated to be held in perpetuity. 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 UPMIFA.

Amounts were given by donors and the Organization to San Diego Foundation for the establishment of an endowment fund for the sole benefit of the Organization (See note 7). The nature of the donations required the amounts to be classified as permanently restricted net assets. These funds are to help support the general purpose of the Organization in perpetuity. San Diego Foundation makes all investment decisions related to the endowment fund.

The current distribution policy of San Diego Foundation is to allow for 5% of a three year rolling average of the fund equity to be distributed annually. If the market value of the fund is less than the initial contributions, then distributions will be limited to interest and dividends received. All distributions from the investment may be used at the discretion of Fresh Start Surgical Gifts.

The portion of the Endowment Fund that is classified as permanently restricted is not reduced by losses on the investments of the fund. Losses on the investments of permanently restricted funds reduce the temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets.

Endowment assets are reported as beneficial interest in foundation in the statements of financial position at June 30, 2018 and 2017 and are held entirely by San Diego Foundation.

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Composition of and changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total endowment net assets</u>
Endowment net assets, Beginning of year	\$ -	\$ 12,528	\$ 55,656	\$ 68,184
Earnings on investment	-	4,612	-	4,612
Investment fees	-	(350)	-	(350)
Distribution	-	(2,904)	-	(2,904)
Endowment net assets, End of year	<u>\$ -</u>	<u>\$ 13,886</u>	<u>\$ 55,656</u>	<u>\$ 69,542</u>

Composition of and changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total endowment net assets</u>
Endowment net assets, Beginning of year	\$ -	\$ 8,030	\$ 55,656	\$ 63,686
Earnings on investment	-	7,631	-	7,631
Investment fees	-	(342)	-	(342)
Distribution	-	(2,791)	-	(2,791)
Endowment net assets, End of year	<u>\$ -</u>	<u>\$ 12,528</u>	<u>\$ 55,656</u>	<u>\$ 68,184</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. At June 30, 2018 and 2017, the Organization did not have a deficiency associated with the donor-restricted endowment funds.

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NOTE 11 SPECIAL EVENTS

Special event revenues and expenses are directly related to a Gala and Golf event and consist of the following for the years ended June 30:

	2018	2017
Revenue:		
Sponsorship	\$ 245,505	\$ 267,650
Donations	114,116	67,992
Auction proceeds	60,345	73,163
Ticket sales	45,625	42,625
Miscellaneous	9,155	10,465
	474,746	461,895
Expenses:		
Other expenses	93,192	76,721
Direct benefit to donors	39,080	41,584
	132,272	118,305
Special events income	\$ 342,474	\$ 343,590

NOTE 12 EMPLOYEE RETIREMENT PLAN

The Organization sponsors a 403(b) plan that covers substantially all employees. The Organization matches 100% of eligible employees' contributions up to 4% of gross pay. The Organization's contribution to the retirement plan for the years ended June 30, 2018 and 2017 was \$32,094 and \$30,188, respectively.

NOTE 13 RELATED PARTY TRANSACTIONS

The Organization receives contributions from Fresh Start Surgical Gifts Foundation ("Fresh Start Foundation"), a related party through common board members. The Organization's board designates the contributions for use toward general and administrative and development costs, with any excess to be used for program costs. During the years ended June 30, 2018 and 2017, the Organization received \$779,403 and \$783,566, respectively, in donations from Fresh Start Foundation to cover substantially all general and administrative and development costs, excluding direct benefit costs related to special events that are paid for by event participants.

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The Organization has a grant commitment to Caring for Kids, a related party through common board members, in the amount of \$1,000,000. During the years ended June 30, 2018 and 2017, the Organization paid a grant amount of \$200,000 to Caring for Kids. Of these grant amounts, \$200,000 was received from Fresh Start Foundation and paid to Caring for Kids during the years ended June 30, 2018 and 2017. Caring for Kids is organized to operate any locations outside of San Diego, CA (See note 14).

The Organization receives management fees from Caring for Kids for reimbursed payroll expenses and a general monthly management fee. During the year ended June 30, 2018, the Organization received management fees of \$301,777, consisting of \$218,329 of payroll expense reimbursements and \$83,448 of monthly management fees. During the year ended June 30, 2017, the Organization received management fees of \$311,063, consisting of \$235,199 of payroll expense reimbursements and \$75,864 of monthly management fees. As of June 30, 2018 and 2017, the Organization had amounts due from Caring for Kids related to the management fees of \$27,339 and \$20,559, respectively.

NOTE 14 COMMITMENTS

The Organization entered into an agreement with Rady Children's Hospital - San Diego in August 2008 to develop and support a clinic. Total funding for improvements and equipment under this agreement is \$972,194 through June 30, 2018. As part of its agreement that became effective September 2009, the Organization is obligated to pay \$8,333 per month, for 60 months, for use of the clinic. Both parties agreed to exercise a renewal option for an additional 60 months, resulting in an expiration date of August 2021. Total rent expense related to this lease for the years ended June 30, 2018 and 2017 was \$100,000.

The Organization entered into an agreement for office space in Carlsbad, CA in June 2004. This agreement was amended in July 2011 to extend the expiration date to August 2016. This agreement was amended again in May 2016 to extend the expiration date to August 2021. In addition to the extension agreed to in May 2016, the monthly base rent was changed to \$7,303 per month beginning September 2016 with annual 3% increases (previous base rent was \$5,710 per month beginning September 2012 with annual 3% increases). Total rental payments related to the office lease were \$98,107 and \$93,879 for the years ended June 30, 2018 and 2017, respectively.

Minimum future lease payments related to the clinic and office space, excluding the effect of straight-line rent, are due as follows for the years ended June 30:

2019	\$	192,522
2020		195,297
2021		198,156
2022		16,439
	<u>\$</u>	<u>602,414</u>

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The Organization has entered into two operating leases for equipment. These leases expire between October 2019 and March 2020. Minimum future rental payments under non-cancelable operating leases, in aggregate, having remaining terms in excess of one year for the years ended June 30 are as follows:

2019	\$	10,578
2020		<u>2,034</u>
	\$	<u>12,612</u>

Rental expense for equipment under operating leases was \$14,154 and \$13,906 for the years ended June 30, 2018 and 2017, respectively.

The Organization has a grant commitment with Caring for Kids for \$1,000,000, in partnership with a matching amount from Plastic Surgery Foundation. To assist with the commitment, the Organization received a grant commitment from Fresh Start Foundation to contribute \$675,000 toward the \$1,000,000 commitment after the Organization had satisfied the first \$325,000. Both grant commitments are subject to performance measures and, as a result, outstanding balances are not recorded on the statements of financial position. As of September 2015, the Organization had funded the first \$325,000. As of June 30, 2018, the Organization has received a total of \$575,000 from Fresh Start Foundation which includes \$200,000 received during the current year and provided the full amount to Caring for Kids. Unpaid grant commitments to Caring for Kids totaled \$100,000 at June 30, 2018 (See note 13).

NOTE 15 SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2018, the date the financial statements were available to be issued. There were no material subsequent events which affected the amounts or disclosures in the financial statements.