

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Financial Statements
With Independent Auditors' Report

June 30, 2018

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Statement of Financial Position	3
Consolidated Statement of Activities	4
Consolidated Statement of Functional Expenses	5
Consolidated Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7

INDEPENDENT AUDITORS' REPORT

Board of Directors
CURE International, Inc. and Subsidiaries
Camp Hill, Pennsylvania

We have audited the accompanying consolidated financial statements of Cure International, Inc. (CURE), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Board of Directors
CURE International, Inc. and Subsidiaries
New Cumberland, Pennsylvania

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CURE as of June 30, 2018, and the changes in their consolidated net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 12 to the consolidated financial statements, an error in how donated land leases were being previously reported was identified during the current year. Accordingly, an adjustment has been made to properly record donated land leases as contribution receivable and the related discount for the remaining lives of the leases. This adjustment increased beginning net assets by approximately \$24,000,000 for revenue that was earned when the leases were executed in prior years. Our opinion is not modified as a result of this matter.

Capin Crouse LLP

New York, New York
December 10, 2018

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Statement of Financial Position June 30, 2018

ASSETS:

Cash and cash equivalents	\$ 9,328,898
Contributions receivable - pledges, net	5,585,825
Contributions receivable - land leases, net	23,925,994
Patient and other receivables, net	10,214,763
Prepaid expenses and other assets	1,463,456
Inventory	2,925,453
Assets held for sale	454,004
Land, buildings, and equipment, net	<u>78,308,320</u>

Total Assets \$ 132,206,713

LIABILITIES AND NET ASSETS:

Liabilities:

Accounts payable and accrued expenses	\$ 11,345,133
Deferred revenue	6,507,744
Severance payable	2,671,125
Notes payable	<u>7,741,118</u>
Total liabilities	<u>28,265,120</u>

Net assets:

Unrestricted:	
Operations	1,032,566
Investment in land, buildings, and equipment, net	<u>70,567,202</u>
Total unrestricted	71,599,768
Temporarily restricted	<u>32,341,825</u>
Total net assets	<u>103,941,593</u>

Total Liabilities and Net Assets \$ 132,206,713

See notes to consolidated financial statements

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Statement of Activities Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:			
Contributions	\$ 8,526,668	\$ 14,908,698	\$ 23,435,366
Gift-in-kind contributions	1,654,828	-	1,654,828
Government grants	884,459	-	884,459
Patient revenue, net	41,360,400	-	41,360,400
Other income	1,677,508	-	1,677,508
Foreign currency translation adjustment	(1,672,553)	-	(1,672,553)
Total revenue and support	52,431,310	14,908,698	67,340,008
NET ASSETS RELEASED FROM:			
Purpose restrictions	5,308,736	(5,308,736)	-
Time restrictions	7,911,717	(7,911,717)	-
Total Revenue, Support, and Reclassifications	65,651,763	1,688,245	67,340,008
EXPENSES:			
Program services	66,957,819	-	66,957,819
Supporting services			
General and administration	10,015,619	-	10,015,619
Fund-raising	3,991,686	-	3,991,686
Total supporting services	14,007,305	-	14,007,305
Total Expenses	80,965,124	-	80,965,124
Change in Net Assets	(15,313,361)	1,688,245	(13,625,116)
Net Assets, Beginning of Year - as previously stated	86,913,129	2,976,976	89,890,105
Application of ASU 2018-08	-	3,650,000	3,650,000
Prior period adjustment	-	24,026,604	24,026,604
Net Assets, Beginning of Year - as restated	86,913,129	30,653,580	117,566,709
Net Assets, End of Year	\$ 71,599,768	\$ 32,341,825	\$103,941,593

See notes to consolidated financial statements

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Statement of Functional Expenses For the Year Ended June 30, 2018

	Program Services	Supporting Activities		Total Expenses
		General and Administrative	Fundraising	
Salaries and benefits	\$ 31,315,510	\$ 3,857,460	\$ 1,602,690	\$ 36,775,660
Hospital supplies expense	8,812,264	-	-	8,812,264
Grants to programs	3,033,234	-	-	3,033,234
Office rent and other expenses	5,840,976	1,296,485	10,907	7,148,368
Office supplies and equipment	223,436	339,686	179,368	742,490
Printing, postage and video production	218,833	25,251	452,945	697,029
Professional fees	3,290,546	812,994	755,040	4,858,580
Telephone expense	219,562	147,561	11,602	378,725
Travel, meetings and seminars	1,500,169	269,714	952,785	2,722,668
Bank fees	31,930	165,168	19,368	216,466
Interest expense	-	470,324	-	470,324
Bad debt expense	-	32,770	-	32,770
Depreciation expense	12,287,697	2,587,523	5,851	14,881,071
Miscellaneous	183,662	10,683	1,130	195,475
	\$ 66,957,819	\$ 10,015,619	\$ 3,991,686	\$ 80,965,124

See notes to consolidated financial statements

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Consolidated Statement of Cash Flows Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ (13,625,116)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation and amortization	14,881,071
Change in allowance of doubtful accounts	(611,015)
Foreign currency translation adjustment	1,672,553
Loss on disposal of land, buildings, and equipment	53,320
Changes in:	
Prepaid and other assets	316,557
Patient and other receivables	(2,912,407)
Pledges and contributions receivable	(469,905)
Inventory	(369,660)
Deferred revenue	(352,861)
Accounts payable and accrued expenses	1,558,725
Severance payable	(585,695)
Net Cash Provided By Operating Activities	<u>(444,433)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of buildings and equipment	(4,265,971)
Proceeds from sale of building	2,071,275
Net Cash Used By Investing Activities	<u>(2,194,696)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds on notes payable	4,854,632
Payments made on notes payable	(2,809,381)
Net Cash Provided By Financing Activities	<u>2,045,251</u>
Effect of Exchange Rate on Cash	<u>1,001,768</u>
Change in Cash and Cash Equivalents	407,890
Cash and Cash Equivalents, Beginning of Year	<u>8,921,008</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,328,898</u>
SUPPLEMENTAL INFORMATION:	
Cash paid for interest	<u>\$ 470,324</u>

See notes to consolidated financial statements

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018

1. NATURE OF ORGANIZATION:

Cure International, Inc. (CURE) is a not-for-profit, interdenominational Christian organization that establishes hospitals and medical programs in developing countries with a primary focus on the physically disabled child. CURE is devoted to implementing "Centers of Excellence", bringing the latest techniques in cost effective medical care and organization to developing countries with a focus on excellence in patient care, compassion, training and in the quality of equipment and facilities. CURE is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

2. SIGNIFICANT ACCOUNTING POLICIES:

CURE maintains its accounts and prepares its consolidated financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of the consolidated 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, disclosures of any contingent assets and liabilities at the date of the consolidated financial statements, and the reported revenues and expenses during the reporting periods. Actual results could differ from the estimates. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

The consolidated financial statements are presented in United States (U.S.) dollars. The financial records of these controlled organizations are kept in local currencies. Assets, liabilities and net assets are translated at year-end rates of exchange and revenue and expenses are translated at the average rates of exchange during the year. Since the hospitals are located primarily in developing countries, the value of the local currencies is subject to a greater degree of change and, therefore, could result in significant exchange gains (losses).

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of CURE; its branch offices, Oasis Hospital ("UAE"), Centro de Ortopedia y Especialidades CURE International ("Dominican Republic"), CURE Hospital des Enfants au Niger ("Niger"), CURE International Hospital of Kabul ("Afghanistan"), CURE Children's Hospital of Uganda ("Uganda"), Beit CURE International Hospital ("Malawi"), AIC- CURE International Hospital ("Kenya"), and CURE Ethiopia Children's Hospital ("Ethiopia"); and its controlled hospital organizations (through the Board of Directors and economic interest).

The hospital organizations controlled by CURE and included in the consolidated financial statements are the Beit CURE Hospital of Zambia ("Zambia") and Tebow CURE Hospital ("Philippines"). These hospital organizations own and operate hospital facilities within the respective countries. All significant intercompany accounts and transactions have been eliminated.

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of checking and money market accounts. CURE considers all highly liquid investment instruments purchased with an original maturity of three months or less to be cash equivalents. These accounts may, at times, exceed federally insured limits. At June 30, 2018, the amount that exceeded federally insured limits was approximately \$2,725,000. CURE has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable are unconditional promises to give and are recognized as assets and support in the period made. Management believes that all amounts are collectible. Therefore, an allowance for doubtful contributions receivable has not been recorded as of June 30, 2018.

CURE has received, at no cost, the use of a hospital building and various parcels of land on which the hospital buildings are located. The fair value of the rent to be received, discounted to its present value, is recorded as gift-in-kind revenue and contributions receivable in the year the contract is executed. CURE then recognizes gift-in-kind revenue and rent expense, reducing the net contribution receivable, as the benefits are used up over the lives of the leases. At June 30, 2018, the contribution receivable and discount related to these leases were \$54,979,162 and \$31,053,168, respectively, resulting to a net contributions receivable of \$23,925,994.

PATIENT AND OTHER RECEIVABLES, NET

Patient and other receivables, net consists of amounts due from patients, third-party payers, government assistance programs and others and is recorded at the estimated net realizable value when the service is rendered. An allowance for doubtful accounts has been offset against patient and other receivable based on estimates of uncollectible amounts. The allowance for doubtful accounts related to patient accounts receivable as of June 30, 2018, was \$456,793. The amount of the provision for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in local government and private employer health care coverage and other collection indicators. Once an account is no longer deemed collectible, accounts are deducted from the allowance for doubtful accounts and subsequent recoveries are added.

PREPAID EXPENSE AND OTHER ASSETS

Prepaid expenses are reported when incurred in accordance with the accrual basis of accounting. Prepaid expenses totaled \$156,475 and other assets consist mainly of security deposits in the amount of \$25,380 for the year ended June 30, 2018.

INVENTORY

Inventory consists primarily of medical supplies and drugs. Inventory that is purchased is valued at the lower of cost or net realizable value for June 30, 2018, with cost determined using the first-in, first-out method. CURE adopted Accounting Standards Update (ASU) 2015-11, which updates the *Inventory* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) for the year ended June 30, 2018, as noted below in Recently Adopted Accounting Standards.

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

INVENTORY, continued

Inventory that is donated is valued and recorded as revenue at the estimated fair value based upon CURE's estimate of the wholesale values that would be received for selling the goods in their principal market considering their condition and utility for use at the time the goods are contributed by the donor. Drug contributions legally permissible to sell in the United States are valued using a hierarchy of pricing inputs that approximates wholesale prices in the United States. Drug contributions not legally permissible to sell in the United States, but approved for sale outside the United States, are valued based upon wholesale market price data in countries representing principal exit markets of such products. The revenue is recorded as gift-in-kind revenue on the consolidated statement of activities. Expenses for donated medical supplies and drugs are recorded when used at the value recorded on date of receipt.

ASSETS HELD FOR SALE

During the current year, the board resolved to close the hospital in the Dominican Republic. The Dominican Republic hospital is expected to be sold. The assets are classified as held for sale and are reported separately on the consolidated statement of financial position. No depreciation is being recorded on the assets held for sale. The results of current and prior year operations are immaterial, so they are not broken out separately on the consolidated statement of activities.

LAND, BUILDINGS, AND EQUIPMENT, NET

Land, buildings, and equipment, with a cost in excess of \$2,000 are capitalized and recorded at cost at the date of acquisition. Donated medical equipment and the cost of donated construction services are valued at the estimated fair value at date of receipt. Depreciation is provided over estimated useful lives of the assets on a straight-line basis. Upon retirement or other disposal of property, the cost and accumulated depreciation are removed, and the resulting gain or loss, if any is recognized. The costs of repairs and maintenance are charged to expenses as incurred.

SEVERENCE PAYABLE

One of CURE 's international affiliates is required to record a provision for employee's end of service benefits as a result CURE incurred approximately \$2,671,125 for the year ended June 30, 2018.

NET ASSETS

The consolidated financial statements report amounts separately by class of net assets.

Unrestricted net assets are those currently available at the direction of the board for use in CURE's operations as well as those resources invested in land, buildings, and equipment, net.

Temporarily restricted net assets are stipulated by donors for specific operating purposes or not currently available for use until commitments regarding their use have been fulfilled.

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued:

SUPPORT AND REVENUE

Contributions are recorded when made, which may be when cash is received, unconditional promises are made, or ownership of other assets is transferred to CURE. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of the restriction is accomplished, temporarily restricted net assets are then classified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Gift-in-kind contributions consist of donated medical supplies and drugs and donated leases.

CURE records U.S. Government grants when the grant is awarded when they are deemed unconditional for those grants that are contributions. If U.S. Government grants are deemed reciprocal they are recorded as deferred revenue until expenditures are incurred.

Patient service revenue is recognized when earned, which is when services are performed. Patient service payments made in advance are deferred as a liability, and are titled deferred revenue on the consolidated statement of financial position. Patient service revenue is recorded net of discounts of \$498,118 for the year ended June 30, 2018.

ALLOCATION OF FUNCTIONAL EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents expenses by natural and functional classifications in accordance with the overall mission of CURE. Accordingly, certain categories of expenses are attributable to one or more program or supporting functions of CURE.

RECENTLY ADOPTED ACCOUNTING STANDARDS

ASU 2015-11 updates the *Inventory* topic of the FASB ASC. The primary change resulting from ASU 2015-11 is recording inventory at the lower of cost or net realizable value. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016. CURE adopted ASU 2015-11 for the year ended June 30, 2018, and has implemented the guidance prospectively. Inventory that is purchased is valued at the lower of cost or net realizable value for June 30, 2018. There was no net income impact for adopting this standard.

ASU 2018-08 updates the *Not-for-Profit Entities* topic of the FASB ASC. This ASU clarifies the scope and accounting guidance for contributions received and contributions made. ASU 2018-08 is effective for fiscal years beginning after December 15, 2020, with early implementation permitted. CURE adopted ASU 2018-08 for the year ended June 30, 2018, and has implemented the guidance on a modified retrospective approach, meaning, changes are only applied to the portion of revenue that has not yet been recognized before the adoption of this ASU. Therefore, as a result of this adoption, prior period net assets will be restated by increasing temporarily restricted net assets by \$3,650,000 for grants that were not previously recognized as revenue. See Note 9 for reconciliation of net assets.

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018

3. CONTRIBUTIONS RECEIVABLE, NET:

As of June 30, 2018, pledges receivable are expected to be collected in the following periods:

	Less than One Year	1-5 Years	Greater than Five Years	Total
Donated land leases	\$ 102,979	\$ 436,747	\$ 54,439,436	\$ 54,979,162
Donor pledges	3,909,515	791,667	-	4,701,182
Pledges receivable for hospitals	634,643	250,000	-	884,643
Less				
Present value discount at 2.33%	-	-	(31,053,168)	(31,053,168)
Total	\$ 4,647,137	\$ 1,478,414	\$ 23,386,268	\$ 29,511,819

The present value of donor pledges and pledges receivable for hospitals were calculated but not included on the consolidated financial statements based on the estimated present value and they were not material to the consolidated financial statements.

4. LAND, BUILDINGS, AND EQUIPMENT, NET:

Land, buildings, and equipment, net, consists of the following at June 30, 2018:

U.S. Mission Support Center	
Furniture and equipment	\$ 146,807
Overseas Hospitals	
Land and hospital buildings (1)	76,599,359
Furniture and equipment (1)	64,620,807
Construction in progress	1,181,336
	142,548,309
Less accumulated depreciation	(64,239,989)
	\$ 78,308,320

5. LINES OF CREDIT:

CURE has a \$2,000,000 line of credit with the National Christian Foundation, Inc., a Not-for-Profit Organization in the United States. Interest is payable quarterly at the LIBOR rate plus 5%. In addition, CURE must make quarterly payments on an annual commitment fee of 1% on the unused portion of the line. The outstanding balance is payable on demand and is secured by substantially all of the assets of CURE. The agreement expires April 10, 2027. There was no outstanding balance as of June 30, 2018.

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018

5. LINES OF CREDIT, continued:

UAE has an overdraft facility agreement in the amount of \$1,361,581 with a commercial bank in Abu Dhabi, United Arab Emirates where interest is charged at a rate of 2% above the highest interest rate earned on UAE's fixed deposits with the bank on the facility balance up to UAE's fixed deposit balance, with a minimum interest rate of 5%. For the facility balance in excess of the fixed deposit balance, interest is charged at a rate of 3% above the 3-month EIBOR with a minimum interest rate of 7.5%. The agreement is renewable annually. No amounts were outstanding on this overdraft facility at June 30, 2018. This facility is secured by a fixed deposit at the bank which had a balance of \$1,056,224 at June 30, 2018. The overdraft facility is subject to certain covenants requiring the maintaining of certain ratios. At June 30, 2018, UAE was not in compliance with all covenants and is in discussions with the bank.

6. NOTES PAYABLE:

Notes payable consists of:

UAE term-loan agreement for the purchase of new machinery and equipment in the amount of approximately \$5,400,000, due in quarterly principal payments of approximately \$231,000 plus interest calculated at 7.5%.

\$ 2,489,055

UAE sales invoice financing facility in the amount of approximately \$5,900,000 with an interest rate of the 3-month EIBOR plus 3% subject to a minimum interest rate of 7.5%.

5,031,967

UAE letter of credit with an available balance of \$422,485 with an interest rate of EIBOR plus 1% subject to a minimum interest rate of 7.5%. The loan is payable in monthly installments of \$30,962 and matures on February 11, 2019.

220,096

\$ 7,741,118

Interest expense was \$422,643 for the year ended June 30, 2018. Principal payments under the terms of the loans are as follows:

Year Ending June 30,

2019	\$ 1,059,126
2020	871,451
2021	975,869
2022	59,697
2023	-
Thereafter	<u>4,774,975</u>
	<u><u>\$ 7,741,118</u></u>

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018

7. DEFERRED INCOME:

On March 24, 2015, UAE entered into a Management and Exclusivity Agreement (the "Agreement") relating to the on-site and off-site specimen testing and laboratory services, with Proficiency Healthcare Diagnostic Laboratories LLC (PHD), whereby, PHD will provide or manage the provision of all the point of care and laboratory services required for UAE and to obtain such services from PHD to the exclusion of all other service providers in accordance with the terms of the Agreement. The period of the agreement is for 25 years and is renewable for another 25 years. The total contract value is approximately \$7.6 million, including \$265,854 for the purchase of certain laboratory equipment. UAE has received payment which has been recorded as deferred income and is being amortized over the life of the Agreement. The Agreement provides in the event that the aggregate revenue of On-site Lab and the Off-site Lab attributable to UAE is less than approximately \$3.8 million (Arab Emirates Dirham (AED) 14 million), as adjusted to reflect changes in pricing contained in the agreement, UAE is required to pay an amount equal to that of actual revenue or AED2 for each AED1 below that amount. The balance of deferred income was \$6,505,441 as of June 30, 2018. As of June 30, 2018, UAE was not liable to PHD for failure to reach targeted revenue.

UAE has also entered into an operating lease agreement with PHD for space over the same 25-year term as the Management Agreement at approximately \$200,000 annually.

8. TEMPORARILY RESTRICTED NET ASSETS:

As of June 30, 2018, temporarily restricted net assets consist of:

Contributions receivable – land leases	\$ 23,925,994
Contributions receivable – time restricted	5,551,182
Hospital construction and equipment	1,752,682
Hospital operations	789,941
Hydrocephalus programs	229,720
Clubfoot programs	92,306
	<u>\$ 32,341,825</u>

9. NET ASSETS:

Net assets were adjusted at the beginning of the year for the following purposes:

Temporarily restricted net assets, beginning of year	\$ 2,976,976
Application of ASU 2018-08 (Note 2)	3,650,000
Prior period adjustment (Note 12)	24,026,604
	<u>\$ 30,653,580</u>

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018

10. PENSION PLANS:

CURE has a Simplified Employee Pension Plan covering all employees, excluding foreign nationals, who have attained the age of 21 and have completed six months of service. CURE makes contributions to the plan on a discretionary basis based on a percentage of the employees compensation established by the Board of Directors. Total expense charged for contributions to the plan was approximately \$157,000 for the year ended June 30, 2018. In addition, CURE also has a 403(b) plan for its U.S. employees. CURE does not contribute to this plan.

CURE hospitals also contribute to various retirement plans established locally.

11. RELATED PARTIES:

CURE has a contract with another organization to utilize consulting services from the other organizations chief executive officer to fill the role of CURE's chief administration officer position. CURE pays that organization a fee for both consulting services and warehouse and other related services support. In 2018, CURE paid approximately \$408,000 to that other organization.

12. PRIOR PERIOD ADJUSTMENT:

Certain errors resulting in improperly recording donated land leases were identified in the current year. CURE was recording the fair value of the current year's donated leases as gift-in-kind revenue and expense rather than recording the fair value of the rent to be received, discounted to its present value, as a gift-in-kind revenue and contributions receivable in the year the leases were executed. Therefore, a retrospective adjustment has been made to correct beginning net assets by approximately \$24,000,000 and record a contribution receivable, net of the related discount on the consolidated statement of financial position as of June 30, 2018. CURE will record the amortization of the discount every year as a gift-in-kind contribution on the consolidated statement of activities. CURE will also record rent expense for the fair value of the lease during the year.

13. NON-US OPERATIONS:

CURE's international affiliates are located in various countries. Non-U.S. operations are subject to risks inherent in operating under different legal systems and various political and economic environments. Among the risks are changes in existing tax laws, possible limitations on non-U.S. investment and income repatriation, government price or non-U.S. exchange controls, and restrictions on currency exchange. For the year ended June 30, 2018, net assets of non-U.S. operations were 66% of CURE's total net assets.

Most of CURE's international affiliates use the local currency as the functional currency. The consolidated financial statements of CURE's international affiliates have been translated into U.S. dollars. The consolidated statement of financial position accounts have been translated using the exchange rate in effect at the consolidated statement of financial position date. Consolidated statement of activities amounts have been translated using the average exchange rate for the year. These adjustments for the year ended June 30, 2018, are reflected accordingly on the consolidated statement of activities.

As of the report date, there continues to be fluctuations in the value of the U.S. dollar relative to several non-U.S. currencies in which CURE operates. It is not practicable to determine the effects of these rate changes on CURE's consolidated financial statements.

CURE INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018

13. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through December 10, 2018, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

Subsequent to June 30, 2018, CURE resolved to carve out the clubfoot program of the organization to another not-for-profit organization. This will be recognized as an expense during the year ended June 30, 2019. As of June 30, 2018, assets and liabilities of the clubfoot business were \$92,306 and \$-0-, respectively.