

# **CURE INTERNATIONAL, INC.**

## ***FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS***

**JUNE 30, 2016**

# CURE INTERNATIONAL, INC.

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**The Board of Directors  
Cure International, Inc.  
New Cumberland, Pennsylvania**

We have audited the accompanying financial statements of Cure International Inc. (“CURE”) which comprise the statement of financial position as of June 30, 2016, and the statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 CURE as of June 30, 2016, the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

The Board of Directors  
Cure International, Inc.  
New Cumberland, Pennsylvania

***Report on Summarized Comparative Information***

We have previously audited CURE's 2015 financial statements, and our report dated November 19, 2015, expressed an unmodified audit 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.

*Tait, Weller & Baker LLP*

Philadelphia, Pennsylvania  
December 5, 2016

# CURE INTERNATIONAL, INC.

## STATEMENT OF FINANCIAL POSITION

June 30, 2016 And 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 9,597,613	\$ 11,439,516
Restricted cash – fixed deposit	1,045,899	1,035,296
Investments	161,405	251,586
Contributions receivable	2,611,500	4,481,758
Patient and other receivables, net	8,866,089	6,396,564
Accounts receivable – U.S. Government	-	180,695
Prepaid expenses and other assets	1,696,122	1,227,116
Advances to supplier	<u>-</u>	<u>469,470</u>
<b>Total current assets</b>	<u>23,978,628</u>	<u>25,482,001</u>
Inventory of donated and purchased medical equipment and supplies	<u>5,497,023</u>	<u>5,712,462</u>
Buildings and equipment, net	104,629,814	111,464,864
Contributions receivable	<u>-</u>	<u>293,532</u>
<b>Total non-current assets</b>	<u>104,629,814</u>	<u>111,758,396</u>
<b>Total assets</b>	<u>\$ 134,105,465</u>	<u>\$ 142,952,859</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 3,878,527	\$ 715,268
Accounts payable and accrued expenses	10,340,594	9,513,152
Deferred Income	<u>297,201</u>	<u>264,014</u>
<b>Total current liabilities</b>	<u>14,516,322</u>	<u>10,492,434</u>
Notes payable	5,017,020	2,940,376
Severance payable	2,408,425	2,631,973
Deferred Income	<u>6,761,281</u>	<u>6,329,514</u>
<b>Total non-current liabilities</b>	<u>14,186,726</u>	<u>11,901,863</u>
<b>Total liabilities</b>	<u>28,703,048</u>	<u>22,394,297</u>
<b>NET ASSETS</b>		
Unrestricted		
Operations	95,860,019	107,669,988
Donated medical equipment and supplies	<u>5,497,023</u>	<u>5,712,462</u>
<b>Total unrestricted</b>	101,357,042	113,382,450
Temporarily restricted	<u>4,045,375</u>	<u>7,176,112</u>
<b>Total net assets</b>	<u>105,402,417</u>	<u>120,558,562</u>
<b>Total liabilities and net assets</b>	<u>\$ 134,105,465</u>	<u>\$ 142,952,859</u>

# CURE INTERNATIONAL, INC.

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2016 With Summarized Information For 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 9,104,626	\$ 12,862,690	\$ 21,967,316	\$ 22,212,912
Contributions – In-Kind	1,664,549	-	1,664,549	612,104
Contributions – donated use of facilities and land	1,217,610	-	1,217,610	643,291
Government grants	260,653	-	260,653	424,822
Interest and dividends	6,563	-	6,563	30,620
Realized and unrealized losses on investments	60,759	-	60,759	(1,989)
Patient revenue and other income	<u>34,007,801</u>	<u>-</u>	<u>34,007,801</u>	<u>34,710,096</u>
<b>Total</b>	<u>46,322,561</u>	<u>12,862,690</u>	<u>59,185,251</u>	<u>58,631,856</u>
<b>Net assets released from restrictions</b>	<u>15,993,427</u>	<u>(15,993,427)</u>	<u>-</u>	<u>-</u>
<b>Total support and revenue</b>	<u>62,315,988</u>	<u>(3,130,737)</u>	<u>59,185,251</u>	<u>58,631,856</u>
<b>EXPENSES</b>				
Program Services	<u>67,949,645</u>	<u>-</u>	<u>67,949,645</u>	<u>53,049,394</u>
Supporting Services				
Administration	838,660	-	838,660	719,625
Fund-raising	<u>4,019,056</u>	<u>-</u>	<u>4,019,056</u>	<u>3,898,346</u>
<b>Total supporting services</b>	<u>4,857,716</u>	<u>-</u>	<u>4,857,716</u>	<u>4,617,971</u>
<b>Total expenses</b>	<u>72,807,361</u>	<u>-</u>	<u>72,807,361</u>	<u>57,667,365</u>
<b>Excess (deficit) of support and revenue over expenses</b>	<u>(10,491,373)</u>	<u>(3,130,737)</u>	<u>(13,622,110)</u>	<u>964,491</u>
<b>OTHER CHANGES</b>				
Reduction of value of inventory due to obsolescence	(515,777)	-	(515,777)	(114,735)
Reduction in value of donated equipment	-	-	-	(1,299,044)
Unrealized loss on foreign exchange rates	<u>(1,018,258)</u>	<u>-</u>	<u>(1,018,258)</u>	<u>(1,998,019)</u>
	<u>(1,534,035)</u>	<u>-</u>	<u>(1,534,035)</u>	<u>(3,411,798)</u>
<b>CHANGE IN NET ASSETS (Note 9)</b>	<u>(12,025,408)</u>	<u>(3,130,737)</u>	<u>(15,156,145)</u>	<u>(2,447,307)</u>
<b>NET ASSETS</b>				
Beginning of year	<u>113,382,450</u>	<u>7,176,112</u>	<u>120,558,562</u>	<u>123,005,869</u>
<b>End of year</b>	<u>\$ 101,357,042</u>	<u>\$ 4,045,375</u>	<u>\$ 105,402,417</u>	<u>\$ 120,558,562</u>

# CURE INTERNATIONAL, INC.

## STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2016 With Summarized Information For 2015

	<u>Program Services</u>	<u>Administration</u>	<u>Fund- Raising</u>	<u>2016 Totals</u>	<u>2015 Totals</u>
Salaries and benefits	\$ 32,466,454	\$ 258,063	\$ 2,043,732	\$ 34,768,249	\$ 30,907,772
Hospital operating costs and other grant support	20,678,563	-	-	20,678,563	20,223,833
Office rent and other expenses	49,674	135,002	-	184,676	132,145
Office supplies and equipment	56,919	52,301	28,968	138,188	104,371
Printing, postage and video production	41,479	15,554	358,882	415,915	823,757
Professional fees	196,741	141,393	490,413	828,547	793,395
Telephone expense	26,666	29,819	16,645	73,130	70,066
Travel , meetings and seminars	943,159	155,287	988,214	2,086,660	2,040,172
Bank fees	-	42,935	63,755	106,690	91,909
Depreciation expense	13,448,782	3,400	20,088	13,472,270	2,450,907
Miscellaneous	<u>41,208</u>	<u>4,906</u>	<u>8,359</u>	<u>54,473</u>	<u>29,038</u>
<b>Total expenses</b>	<u>\$ 67,949,645</u>	<u>\$ 838,660</u>	<u>\$ 4,019,056</u>	<u>\$ 72,807,361</u>	<u>\$ 57,667,365</u>

# CURE INTERNATIONAL, INC.

## STATEMENT OF CASH FLOWS

Years Ended June 30, 2016 And 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Change in net assets</i>	\$(15,156,145)	\$ (2,447,307)
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Depreciation and amortization	13,472,270	2,450,907
Gift-in-kind	(1,664,549)	(612,104)
Unrealized loss on foreign exchange rates	1,018,258	1,998,019
Reduction in value of donated equipment	-	1,299,044
Realized and unrealized (gains) losses on investments	(60,759)	1,989
Increase in allowance for doubtful accounts	381,671	157,042
Reduction of value of inventory due to obsolescence	515,777	114,735
(Increase) decrease in assets		
Prepaid and other assets	(469,006)	(43,339)
Advances to supplier	469,470	3,626,284
Patient and other receivables	(2,851,196)	(1,511,215)
Contributions receivable	2,163,790	1,257,328
Inventory of donated medical equipment and supplies	1,152,298	36,120
Accounts receivable – U.S. Government	180,695	(169,828)
Increase (decrease) in liabilities		
Deferred income	464,954	6,593,528
Severance liability	(223,548)	(476,483)
Accounts payable and accrued expenses	<u>827,442</u>	<u>2,783,475</u>
<b>Net cash provided by operating activities</b>	<u>221,422</u>	<u>15,058,195</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(2,054)	(6,723)
Proceeds from sale of investments	152,994	-
Purchase of buildings and equipment	<u>(7,443,565)</u>	<u>(7,519,506)</u>
<b>Net cash used in investing activities</b>	<u>(7,292,625)</u>	<u>(7,526,229)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in restricted cash – fixed deposit	(10,603)	(6,951)
Net (payments) proceeds on lines of credit	-	(1,246,865)
Proceeds from debt issuance	6,037,988	-
Payments made on debt	<u>(798,085)</u>	<u>(699,076)</u>
<b>Net cash provided by (used in) financing activities</b>	<u>5,229,300</u>	<u>(1,952,892)</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	(1,841,903)	5,579,074
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>11,439,516</u>	<u>5,860,442</u>
<b>End of year</b>	<u>\$ 9,597,613</u>	<u>\$ 11,439,516</u>

### SUPPLEMENTAL DISCLOSURE

Total interest paid for the years ended June 30, 2016 and 2015 was \$374,655 and \$426,220, respectively.

*See notes to financial statements.*



# CURE INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 And 2015

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### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### ***NATURE OF ACTIVITIES***

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. To that end, CURE has four main areas of focus; hospital management; financial support and partnering; sending key personnel; and training local doctors, nurses, and administrators.

#### ***BASIS OF PRESENTATION***

The 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**"), and CURE International Hospital of Kabul; and its controlled hospital organizations (through the Board of Directors and economic interest).

The hospital organizations controlled by CURE are the CURE Children's Hospital of Uganda, Beit CURE International Hospital ("**Malawi**"), Beit CURE Hospital of Zambia, AIC-CURE International Hospital ("**Kenya**"), CURE Ethiopia Children's Hospital, 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.

The financial statements are presented in 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).

#### ***ACCOUNTING ESTIMATES***

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

#### ***FUNCTIONAL ALLOCATION OF EXPENSES***

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services.

#### ***CASH AND CASH EQUIVALENTS***

Cash and cash equivalents include money market funds and certificates of deposit with maturities of three months or less.

# CURE INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016 And 2015

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### **CONCENTRATION OF CREDIT RISK**

CURE has exposure to credit risk associated with patient receivables, primarily related to UAE (see **“Patient Revenue and Receivables”** below). In addition, CURE occasionally maintains deposits in excess of federally insured limits in the United States. Accounting Standards Codification (**“ASC”**) 825, **“Financial Instruments”** identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which the deposits are made.

### **INVESTMENTS**

CURE records its investments in securities at fair value.

### **BUILDINGS AND EQUIPMENT**

Property, plant and equipment are recorded at cost. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method of depreciation – 3 to 30 years.

Donated medical equipment and the cost of donated construction services for the hospital constructed in the UAE are valued at the estimated fair value at date of receipt. Donated medical equipment is amortized over the estimated useful life after commencement of use of such equipment based on the assigned value on date of receipt.

### **DONATED MEDICAL SUPPLIES, DRUGS AND FACILITIES**

Donated medical supplies are valued and recorded as revenue at their 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.

Expenses for donated medical supplies and drugs are recorded when used at the value recorded on date of receipt.

CURE also receives, at no cost, the use of a hospital building and various parcels of land on which the hospital buildings are located. These contributed facilities and land are recognized at the estimated fair rental value of such property.

### **NET ASSETS**

CURE reports its resources, according to externally (donor) imposed restrictions, in the following net asset categories.

**Unrestricted net assets** include the following:

- ◆ **Operations** – Net assets attributable to operations include the revenues and expenses associated with the principal mission of CURE.
- ◆ **Donated Medical Equipment and Supplies** – Donated medical equipment and supplies are stated at fair value on the date of gift.

**Temporarily restricted net assets** include gifts for which donor-imposed restrictions, both purpose and time, have not been met.

# CURE INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

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### **CONTRIBUTIONS**

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution, including the promise to give, is received. Promises to give are recorded as a receivable net of the discount to present value of the future cash flows. 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 statement of activities as **“net assets released from restrictions.”**

### **PATIENT REVENUE AND RECEIVABLES**

Patient revenue is recorded at the estimated net realizable amounts from patients, third-party payors, government assistance programs and others when the service is rendered. Additions to the allowance for doubtful accounts are made by means of the provision for doubtful accounts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts and subsequent recoveries are added. 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 (UAE) and other collection indicators.

### **U.S. GOVERNMENT GRANTS**

CURE records revenue when expenditures are incurred under U.S. Government grants and other exchange transactions.

### **INCOME TAXES**

CURE has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the **“Code”**), and has been classified as an organization, which is not a private foundation under Section 509(a) of the Code.

CURE has reviewed the tax positions taken for each of the open tax years (2012 – 2014) or expected to be taken in the CURE’s 2015 tax return and has concluded that there are not significant uncertain tax positions that would require recognition of an income, tax asset or liability in the financial statements.

### **PRIOR YEAR INFORMATION**

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. 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 CURE’s audited financial statements for the year ended June 30, 2015, from which the summarized information was derived.

### **RECLASSIFICATIONS**

Certain reclassifications to the 2015 financial statements were made to conform to the 2016 presentation.

# CURE INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

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### (2) INVESTMENTS

Investments at June 30 consisted of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Mutual Funds	\$ 188,208	\$ 161,405	\$ 186,154	\$ 157,618
Common Stock	<u>-</u>	<u>-</u>	<u>267,024</u>	<u>93,968</u>
	<u>\$ 188,208</u>	<u>\$ 161,405</u>	<u>\$ 453,178</u>	<u>\$ 251,586</u>

CURE utilized various methods to measure the fair value of investments on a recurring basis. Generally accepted accounting principles establish a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Organization's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

All of CURE's investments as of June 30, 2016 and 2015 are valued based on Level 1 inputs. No transfers between Level 1 and Level 2 occurred during the years ended 2016 and 2015.

### (3) CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as contributions receivable. These contributions receivable are recorded after discounting to the present value of the future cash flows. The contributions receivable are expected to be realized as follows:

	<u>2016</u>	<u>2015</u>
In less than one year	\$2,611,500	\$4,481,758
One to five years	<u>-</u>	<u>300,000</u>
Contributions receivable	2,611,500	4,781,758
Less: discount to present value (2.5%)	<u>-</u>	<u>6,468</u>
	<u>\$2,611,500</u>	<u>\$4,775,290</u>

At June 30, 2016 and 2015, CURE had a conditional promise to give from a donor for \$1,850,000 and \$3,250,000, respectively.

# CURE INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

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### (4) PATIENT AND OTHER RECEIVABLES, NET

As of June 30, 2016 and 2015, the patient receivables were net of allowance for doubtful amounts of \$1,302,368 and \$920,697, respectively. Approximately 80% in 2016 (\$27,074,749) and 83% in 2015 (\$28,938,616) a of the patient and other hospital income revenue was earned by UAE as a result of approximately 85% of patients in the UAE having health insurance coverage.

### (5) BUILDINGS AND EQUIPMENT

Buildings and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
U.S. Headquarters		
Land and office building	\$ 714,244	\$ 714,244
Furniture and equipment	548,908	424,999
Office building under renovation	2,207,456	-
Overseas Hospitals		
Land and hospital buildings <sup>(1)</sup>	72,398,245	21,625,351
Furniture and equipment <sup>(1)</sup>	54,581,879	15,390,906
Hospitals and additions to hospitals under construction		
UAE <sup>(1)</sup>	293,090	90,256,207
Kenya	<u>47,608</u>	<u>-</u>
	130,791,430	128,411,707
Less accumulated depreciation	<u>26,161,616</u>	<u>16,946,843</u>
	<u>\$ 104,629,814</u>	<u>\$ 111,464,864</u>

<sup>(1)</sup> Includes \$90,290,844 received as a contribution in-kind from the Government of the United Arab Emirates for the UAE hospital. The hospital was opened in August 2015. The UAE Hospital requires approval of the Abu Dhabi Executive Council for any future transfer of the hospital.

Hospitals owned by CURE in Kenya, Malawi, Niger and Uganda operate under ground leases which expire between 2048 and 2099. In addition, CURE operates a hospital in Afghanistan provided by the Government of Afghanistan. The donated value for the use of these facilities amounted to \$1,217,610 and \$643,291 for 2016 and 2015, respectively.

In April 2016, CURE purchased a building, including the furniture, to be used as its new Headquarters for \$2,200,000. The purchase was financed by a mortgage note, see **Note 7**. At June 30, 2016, the building was undergoing modifications to prepare it for use. The building was placed into service in August 2016.

### (6) 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 pay a commitment fee of 1% on the unused portion of the line on a quarterly basis. The outstanding balance is payable on demand and is secured by substantially all of the assets of CURE. The agreement expires April 10, 2017. There was no outstanding balance as of June 30, 2016 and 2015.

# CURE INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

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UAE has an overdraft facility agreement in the amount of \$1,360,989 with the 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 EBOR with a minimum interest rate of 7.5%. The agreement is renewable on May 31, 2017. No amounts were outstanding on this overdraft facility at June 30, 2016 and 2015. This facility is secured by a fixed deposit at the bank which had a balance of \$1,045,899 and \$1,035,296 at June 30, 2016 and 2015 respectively. The overdraft facility is subject to certain covenants requiring the maintaining of certain ratios. At June 30, 2016, UAE was not in compliance with all covenants and is in discussions with the bank.

### (7) NOTES PAYABLE

A summary of CURE's notes payable at June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
(A) CURE Headquarters – Mortgage Note	\$2,194,979	\$ -
(B) UAE – Term Loan (Equipment)	2,988,222	3,654,797
(C) UAE – Sales Invoice Financing Facility	2,721,977	-
(D) UAE – Letter of Credit	990,369	-
UAE – Vehicle Loan	<u>-</u>	<u>847</u>
	<u>\$8,895,547</u>	<u>\$3,655,644</u>

#### (A) CURE Headquarters – Mortgage Note

CURE Headquarters has a mortgage note payable for \$2,200,000 with a commercial bank for the purchase of a new Headquarters building maturing April 29, 2026 at the bank's London Interbank Offering Rate. The loan is payable in 119 monthly installments of \$9,557 with an estimated lump sum payment of \$1,472,002 on the maturity date. At June 30, 2016, the interest rate on the note was 2.2088%. The loan is secured by the building financed by the bank under the loan.

#### (B) UAE – Term Loan (Equipment)

The UAE has a term-loan agreement with a commercial bank in Abu Dhabi, United Arab Emirates for the purchase of new machinery and equipment in the amount of \$5,389,500. On February 12, 2015, this term loan agreement was amended to reduce the interest rate from 8.5% to 7.5% and to pay the remaining balance over 19 quarterly installments of \$230,551 with a final installment on January 31, 2020 covering the residual loan balance plus interest. The loan is secured by the medical equipment financed by the bank under the loan.

#### (C) UAE – Sales Invoice Financing Facility

The UAE entered into a sales invoice financing facility with a bank for \$2,721,977 with an interest rate of the 3 month EIBOR rate plus 3% subject to a minimum interest rate of 7.5%. The facility matures May 31, 2017. The facility is subject to the same covenants as the line of credit (**Note 6**).

#### (D) UAE – Letter of Credit

The UAE entered into a letter of credit with a bank for \$1,116,011 with an interest rate of 1% subject to a minimum interest rate of 7.5%. The loan is payable in 36 monthly installments of \$30,949. The note matures February 11, 2019. The letter of credit is subject to the same covenants as the line of credit (**Note 6**).

# CURE INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

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Interest expense was \$391,444 and \$436,235 for the years ended June 30, 2016 and 2015, respectively. Principal payments under the terms of the Loan are as follows:

<u>Year Ending</u>	<u>Payments</u>
June 30, 2017	\$3,878,527
June 30, 2018	1,213,432
June 30, 2019	1,150,821
June 30, 2020	735,687
June 30, 2021	73,393
Thereafter	<u>1,843,687</u>
	<u>\$8,895,547</u>

### (8) DEFERRED INCOME

On March 24, 2015, UAE entered into a Management and Exclusivity Agreement (the “Agreement”) relating 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 (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 to AED2 for each AED1 below that amount. 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. The balance of deferred income was \$7,058,482 and \$6,593,528 as of June 30, 2016 and 2015, respectively. As of June 30, 2016, UAE was not liable to PHD for failure to reach targeted revenue.

### (9) NET ASSETS

For the year ended June 30, 2016, the Statement of Activities shows a significant deficit in the unrestricted net assets as a result of expenses exceeding income. The primary reason for this deficit is the depreciation on the new hospital and related equipment for Oasis Hospital in the UAE, which opened and commenced operations during the year ended June 30, 2016. CURE received approximately \$90 million (see **Note 5**) in contributed construction services donated by The Government of the United Arab Emirates. As such, depreciation of this significant donated facility will exceed the expected support and revenue for UAE until the services provided expand into this increased facility.

# CURE INTERNATIONAL, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2016 And 2015

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Unrestricted change in net assets is comprised of the following:

	<u>2016</u>	<u>2015</u>
Operating results		
UAE (Oasis Hospital)	\$ (1,952,216)	\$ (252,269)
Corporate and other hospitals	<u>4,971,770</u>	<u>5,026,272</u>
	3,019,554	4,774,003
Reduction in value of inventory and donated equipment	(515,777)	(1,413,779)
Depreciation on hospital buildings and equipment (including \$12,054,389 and \$1,203,934 for UAE in 2016 and 2015)	(13,295,488)	(2,395,643)
Unrealized loss on foreign exchange rates	(1,018,258)	(1,998,019)
Change in inventory of donated medical equipment and supplies	<u>(215,439)</u>	<u>25,599</u>
Change in unrestricted net assets	<u>\$ (12,025,408)</u>	<u>\$ (1,007,839)</u>

Temporarily restricted net assets at June 30, 2016 and 2015 are available for the following purpose:

	<u>2016</u>	<u>2015</u>
Hospital construction and equipment	\$ 531,336	\$ 500,354
Hospital operations	809,009	1,753,137
Clubfoot programs	-	147,331
Hydrocephalus programs	93,530	-
Pledges receivable – Time Restricted	<u>2,611,500</u>	<u>4,775,290</u>
	<u>\$4,045,375</u>	<u>\$7,176,112</u>

During the year ended June 30, 2016, net assets were released from donor restrictions by incurring expenses for missionary, program and capital expenditures of \$8,341,649 and the release of time restrictions of \$7,651,778.

### (10) CONTRIBUTIONS – IN-KIND

Contributions of donated medical equipment and supplies totaled \$1,664,549 and \$612,104, for the years ending June 30, 2016 and 2015, respectively.

### (11) 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 \$217,000 and \$187,000 for the years ended June 30, 2016 and 2015, respectively. 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.



# CURE INTERNATIONAL, INC.

## *NOTES TO FINANCIAL STATEMENTS – (Continued)*

**June 30, 2016 And 2015**

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### **(12) SUBSEQUENT EVENTS**

Subsequent events after the balance sheet through the date that the financial statements were available for issuance, December 5, 2016 have been evaluated in the preparation of the financial statements and management has determined that there are no subsequent events that would require disclosure or adjustment in the financial statements.