

CURE INTERNATIONAL, INC.

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

JUNE 30, 2017

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, 2017, 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, 2017, 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 2016 financial statements, and our report dated December 5, 2016, 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, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

Philadelphia, Pennsylvania
December 15, 2017

CURE INTERNATIONAL, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017 And 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,857,669	\$ 9,597,613
Restricted cash – fixed deposit	1,063,339	1,045,899
Investments	-	161,405
Contributions receivable	1,365,310	2,611,500
Patient and other receivables, net	7,326,177	8,866,089
Prepaid expenses and other assets	<u>1,675,886</u>	<u>1,696,122</u>
Total current assets	<u>19,288,381</u>	<u>23,978,628</u>
Inventory of donated and purchased medical equipment and supplies	<u>3,134,947</u>	<u>5,497,023</u>
Buildings and equipment, net	<u>93,013,388</u>	<u>104,629,814</u>
Total non-current assets	<u>93,013,388</u>	<u>104,629,814</u>
Total assets	<u>\$ 115,436,716</u>	<u>\$ 134,105,465</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 1,207,233	\$ 3,878,527
Accounts payable and accrued expenses	10,418,102	10,340,594
Deferred Income	<u>297,330</u>	<u>297,201</u>
Total current liabilities	<u>11,922,665</u>	<u>14,516,322</u>
Notes payable	4,488,634	5,017,020
Severance payable	2,627,568	2,408,425
Deferred Income	<u>6,507,744</u>	<u>6,761,281</u>
Total non-current liabilities	<u>13,623,946</u>	<u>14,186,726</u>
Total liabilities	<u>25,546,611</u>	<u>28,703,048</u>
NET ASSETS		
Unrestricted		
Operations	83,778,182	95,860,019
Donated medical equipment and supplies	<u>3,134,947</u>	<u>5,497,023</u>
Total unrestricted	86,913,129	101,357,042
Temporarily restricted	<u>2,976,976</u>	<u>4,045,375</u>
Total net assets	<u>89,890,105</u>	<u>105,402,417</u>
Total liabilities and net assets	<u>\$ 115,436,716</u>	<u>\$ 134,105,465</u>

CURE INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended June 30, 2017 With Summarized Information For 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Totals</u>	<u>2016 Totals</u>
SUPPORT AND REVENUE				
Contributions	\$ 7,532,852	\$ 13,587,890	\$ 21,120,742	\$ 21,967,316
Contributions – In-Kind	916,010	-	916,010	1,664,549
Contributions – donated use of facilities and land	1,217,610	-	1,217,610	1,217,610
Government grants	669,825	-	669,825	260,653
Interest and dividends	38,230	-	38,230	6,563
Realized and unrealized losses on investments	9,452	-	9,452	60,759
Patient revenue and other income	<u>39,838,489</u>	<u>-</u>	<u>39,838,489</u>	<u>34,007,801</u>
Total	<u>50,222,468</u>	<u>13,587,890</u>	<u>63,810,358</u>	<u>59,185,251</u>
Net assets released from restrictions	<u>14,656,289</u>	<u>(14,656,289)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>64,878,757</u>	<u>(1,068,399)</u>	<u>63,810,358</u>	<u>59,185,251</u>
EXPENSES				
Program Services	<u>59,842,926</u>	<u>-</u>	<u>59,842,926</u>	<u>56,766,484</u>
Supporting Services				
Administration	1,506,994	-	1,506,994	838,660
Fund-raising	<u>4,126,846</u>	<u>-</u>	<u>4,126,846</u>	<u>4,019,056</u>
Total supporting services	<u>5,633,840</u>	<u>-</u>	<u>5,633,840</u>	<u>4,857,716</u>
Total expenses	<u>65,476,766</u>	<u>-</u>	<u>65,476,766</u>	<u>61,624,200</u>
Deficit of support and revenue over expenses	<u>(598,009)</u>	<u>(1,068,399)</u>	<u>(1,666,408)</u>	<u>(2,438,949)</u>
OTHER CHANGES				
Reduction of value of inventory due to obsolescence	(1,428,972)	-	(1,428,972)	(515,777)
Gain on sale of building	257,095	-	257,095	-
Depreciation on donated hospital (<i>Note 5</i>)	(12,421,786)	-	(12,421,786)	(11,183,161)
Unrealized loss on foreign exchange rates	<u>(252,241)</u>	<u>-</u>	<u>(252,241)</u>	<u>(1,018,258)</u>
	<u>(13,845,904)</u>	<u>-</u>	<u>(13,845,904)</u>	<u>(12,717,196)</u>
CHANGE IN NET ASSETS (<i>Note 9</i>)	<u>(14,443,913)</u>	<u>(1,068,399)</u>	<u>(15,512,312)</u>	<u>(15,156,145)</u>
NET ASSETS				
Beginning of year	<u>101,357,042</u>	<u>4,045,375</u>	<u>105,402,417</u>	<u>120,558,562</u>
End of year	<u>\$ 86,913,129</u>	<u>\$ 2,976,976</u>	<u>\$ 89,890,105</u>	<u>\$ 105,402,417</u>

CURE INTERNATIONAL, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017 With Summarized Information For 2016

	<u>Program Services</u>	<u>Administration</u>	<u>Fund- Raising</u>	<u>2017 Totals</u>	<u>2016 Totals</u>
Salaries and benefits	\$33,213,774	\$ 434,295	\$ 1,990,438	\$ 35,638,507	\$34,768,249
Hospital operating costs and other grant support	22,751,348	-	-	22,751,348	20,678,563
Office rent and other expenses	44,470	151,794	379	196,643	184,676
Office supplies and equipment	86,546	44,608	31,248	162,402	138,188
Printing, postage and video production	58,036	18,179	681,117	757,332	415,915
Professional fees	395,432	367,809	470,749	1,233,990	828,547
Telephone expense	23,585	29,399	15,927	68,911	73,130
Travel , meetings and seminars	896,592	148,171	824,116	1,868,879	2,086,660
Bank fees	12	90,298	81,659	171,969	106,690
Bad debt expense	-	187,765	-	187,765	-
Depreciation expense	2,260,156	9,899	30,687	2,300,742	2,289,109
Miscellaneous	<u>112,975</u>	<u>24,777</u>	<u>526</u>	<u>138,278</u>	<u>54,473</u>
Total expenses	<u>\$59,842,926</u>	<u>\$1,506,994</u>	<u>\$4,126,846</u>	<u>\$65,476,766</u>	<u>\$61,624,200</u>

CURE INTERNATIONAL, INC.

STATEMENT OF CASH FLOWS

Years Ended June 30, 2017 And 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Change in net assets</i>	\$(15,512,312)	\$(15,156,145)
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities</i>		
Depreciation and amortization	14,722,528	13,472,270
Gift-in-kind	(916,010)	(1,664,549)
Unrealized loss on foreign exchange rates	252,241	1,018,258
Gain on sale of buildings	(257,095)	-
Realized and unrealized gains on investments	(9,452)	(60,759)
Increase in allowance for doubtful accounts	419,604	381,671
Reduction of value of inventory due to obsolescence	1,428,918	515,777
(Increase) decrease in assets		
Prepaid and other assets	20,236	(469,006)
Advances to supplier	-	469,470
Patient and other receivables	1,120,308	(2,851,196)
Contributions receivable	1,246,190	2,163,790
Inventory of donated medical equipment and supplies	1,799,712	1,152,298
Accounts receivable – U.S. Government	-	180,695
Increase (decrease) in liabilities		
Deferred income	(253,408)	464,954
Severance liability	219,143	(223,548)
Accounts payable and accrued expenses	<u>77,508</u>	<u>827,442</u>
Net cash provided by operating activities	<u>4,358,111</u>	<u>221,422</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(8,635)	(2,054)
Proceeds from sale of investments	179,492	152,994
Purchase of buildings and equipment	(3,539,260)	(7,443,565)
Proceeds from sale of building	<u>487,468</u>	<u>-</u>
Net cash used in investing activities	<u>(2,880,935)</u>	<u>(7,292,625)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in restricted cash – fixed deposit	(17,440)	(10,603)
Proceeds from debt issuance	-	6,037,988
Payments made on debt	<u>(3,199,680)</u>	<u>(798,085)</u>
Net cash (used in) provided by financing activities	<u>(3,217,120)</u>	<u>5,229,300</u>
Net decrease in cash and cash equivalents	(1,739,944)	(1,841,903)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>9,597,613</u>	<u>11,439,516</u>
End of year	<u>\$ 7,857,669</u>	<u>\$ 9,597,613</u>

SUPPLEMENTAL DISCLOSURE

Total interest paid for the years ended June 30, 2017 and 2016 was \$329,456 and \$374,655, respectively.

See notes to financial statements.

CURE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 And 2016

(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**"), 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 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.

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, 2017 And 2016

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 50 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, 2017 And 2016

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 (2014 – 2016) or expected to be taken in the CURE’s 2017 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, 2016, from which the summarized information was derived.

RECLASSIFICATIONS

Certain reclassifications to the 2016 financial statements were made to conform to the 2017 presentation.

CURE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2017 And 2016

(2) INVESTMENTS

All of CURE's investments as of June 30, 2016 were invested in mutual funds.

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 are valued based on Level 1 inputs. No transfers between Level 1 and Level 2 occurred during the years ended 2017 and 2016.

(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. Contributions receivable of \$1,365,310 and \$2,611,500 as of June 30, 2017 and 2016, respectively, are collectible in less than one year.

At June 30, 2017 and 2016, CURE had a conditional promise to give from a donor for \$350,000 and \$1,850,000, respectively.

(4) PATIENT AND OTHER RECEIVABLES, NET

As of June 30, 2017, and 2016, the patient receivables were net of allowance for doubtful amounts of \$1,721,972 and \$1,302,368, respectively. Approximately 82% in 2017 (\$32,593,818) and 80% in 2016 (\$27,074,749) 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.

CURE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2017 And 2016

(5) BUILDINGS AND EQUIPMENT

Buildings and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
U.S. Mission Support Center		
Land and office building	\$ 2,262,232	\$ 714,244
Furniture and equipment	549,968	548,908
Office building under renovation	-	2,207,456
Overseas Hospitals		
Land and hospital buildings ⁽¹⁾	73,376,155	72,398,245
Furniture and equipment ⁽¹⁾	60,809,656	58,767,826
Hospitals and additions to hospitals under construction		
UAE ⁽¹⁾	519,156	293,090
Kenya	<u>65,498</u>	<u>47,608</u>
	137,582,665	134,977,377
Less accumulated depreciation	<u>44,569,277</u>	<u>30,347,563</u>
	<u>\$ 93,013,388</u>	<u>\$ 104,629,814</u>

⁽¹⁾ 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. Depreciation expense on the donated hospital for the years ended June 30, 2017 and 2016 was \$12,421,786 and \$11,183,161, respectively.

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 for 2017 and 2016.

In April 2016, CURE purchased a building, including the furniture, to be used as its new Mission Support Center for \$2,200,000. The purchase was financed by a mortgage note, see **Note 7**. 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, 2027. There was no outstanding balance as of June 30, 2017 and 2016.

CURE INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

June 30, 2017 And 2016

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 EBOR with a minimum interest rate of 7.5%. The agreement is renewable on December 31, 2017. No amounts were outstanding on this overdraft facility at June 30, 2017 and 2016. This facility is secured by a fixed deposit at the bank which had a balance of \$1,063,339 and \$1,045,899 at June 30, 2017 and 2016 respectively. The overdraft facility is subject to certain covenants requiring the maintaining of certain ratios. At June 30, 2017 and 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, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
(A) CURE Mission Support Center – Mortgage Note	\$1,803,841	\$2,194,979
(B) UAE – Term Loan (Equipment)	2,814,926	2,988,222
(C) UAE – Sales Invoice Financing Facility	457,851	2,721,977
(D) UAE – Letter of Credit	<u>619,249</u>	<u>990,369</u>
	<u>\$5,695,867</u>	<u>\$8,895,547</u>

(A) CURE Mission Support Center – Mortgage Note

CURE Mission Support Center has a mortgage note payable for \$2,200,000 with a commercial bank for the purchase of a new Mission Support Center 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, 2017 and 2016, the interest rate on the note was 2.9738% and 2.2088%, respectively. 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 \$5,391,863 with an interest rate of 7.5%. Repayments for the period July 31, 2016 through October 31, 2017 were extended by the bank and as such, the due date was extended from January 31, 2020 to April 30, 2021. The remaining balance will be paid in 15 quarterly installments of \$230,652 with a final installment on April 30, 2021 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 \$3,627,796 with an interest rate of the 3-month EIBOR rate plus 3% subject to a minimum interest rate of 7.5%. The facility is subject to the same covenants as the line of credit (*Note 6*).

(D) UAE – Letter of Credit

The UAE has a letter of credit with a bank with an available balance of \$867,055 at June 30, 2017 with an interest rate of 1% subject to a minimum interest rate of 7.5%. The loan is payable in 36 monthly installments of \$30,962. 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, 2017 And 2016

Interest expense was \$463,087 and \$391,444 for the years ended June 30, 2017 and 2016, respectively. Principal payments under the terms of the loans are as follows:

<u>Year Ending</u>	<u>Payments</u>
June 30, 2018	\$ 1,207,233
June 30, 2019	1,059,126
June 30, 2020	871,451
June 30, 2021	975,869
June 30, 2022	59,697
Thereafter	<u>1,522,491</u>
	<u>\$ 5,695,867</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 \$6,805,074 and \$7,058,482 as of June 30, 2017 and 2016, respectively. As of June 30, 2017, UAE was not liable to PHD for failure to reach targeted revenue.

(9) NET ASSETS

For the year ended June 30, 2017, 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, 2017 And 2016

Unrestricted change in net assets is comprised of the following:

	<u>2017</u>	<u>2016</u>
Operating results		
UAE (Oasis Hospital)	\$ 1,037,451	\$ (2,079,204)
Mission Support Center and other hospitals and programs	<u>566,291</u>	<u>4,998,291</u>
	1,603,742	2,919,087
Reduction in value of inventory	(1,428,972)	(515,777)
Depreciation on buildings and equipment-hospitals (including \$13,395,124 and \$12,054,389 for UAE in 2017 and 2016)	(14,623,537)	(13,410,460)
Unrealized loss on foreign exchange rates	(252,241)	(1,018,258)
Gain on sale of building	<u>257,095</u>	<u>-</u>
Change in unrestricted net assets	<u>\$ (14,443,913)</u>	<u>\$ (12,025,408)</u>

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following purpose:

	<u>2017</u>	<u>2016</u>
Hospital construction and equipment	\$ 808,305	\$ 531,336
Hospital operations	618,144	809,009
Clubfoot programs	32,298	-
Hydrocephalus programs	152,919	93,530
Pledges receivable – Time Restricted	<u>1,365,310</u>	<u>2,611,500</u>
	<u>\$2,976,976</u>	<u>\$4,045,375</u>

During the year ended June 30, 2017, net assets were released from donor restrictions by incurring expenses for missionary, program and capital expenditures of \$7,948,545 and the release of time restrictions of \$6,707,744.

(10) CONTRIBUTIONS – IN-KIND

Contributions of donated medical equipment and supplies totaled \$916,010 and \$1,664,549, for the years ending June 30, 2017 and 2016, 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 \$211,000 and \$217,000 for the years ended June 30, 2017 and 2016, 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, 2017 And 2016

(12) SUBSEQUENT EVENTS

Subsequent to year-end, CURE agreed to enter into a collaborative agreement with International Aid, Inc. a US based not for profit that provides medical and health resources to global partners serving people in need. The purpose of the collaborative agreement is to help both organizations more effectively and economically meet the needs of the individuals, organizations and constituents within each of their service areas, and to offer a broader range of products, services, and programs.

Subsequent events after the balance sheet through the date that the financial statements were available for issuance, December 15, 2017 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.