

**FOUNDATION OF ORTHOPEDICS
AND COMPLEX SPINE, INC.**

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2017

FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.

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Independent Auditor's Report

**Board of Directors
Foundation of Orthopedics and Complex Spine, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of Foundation of Orthopedics and Complex Spine, Inc. ("FOCOS"), which comprise the balance sheet as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundation of Orthopedics and Complex Spine, Inc., as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Foundation of Orthopedics and Complex Spine, Inc.'s December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

November 27, 2018

EXHIBIT A**FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.****BALANCE SHEET****DECEMBER 31, 2017****(With Summarized Financial Information for December 31, 2016)**

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 300,248	\$ 641,111
Investments (Note 3)	411,869	1,382,665
Contributions receivable - current (net of allowance for doubtful accounts of \$13,000 and \$38,056 in 2017 and 2016, respectively)	123,700	362,145
Loan receivable (Note 4)		13,116
Prepaid expenses	5,000	13,221
Cash surrender value of life insurance (Note 5)	294,704	301,126
Security deposit	10,406	10,406
Furniture and equipment (net of accumulated depreciation of \$54,162 and \$48,433 in 2017 and 2016, respectively)	<u>8,211</u>	<u>13,940</u>
Total assets	<u>\$ 1,154,138</u>	<u>\$ 2,737,730</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 59,094</u>	<u>\$ 157,661</u>
Total liabilities	<u>59,094</u>	<u>157,661</u>
Net assets (Exhibit B)		
Unrestricted	483,860	1,268,883
Temporarily restricted (Note 6)	<u>611,184</u>	<u>1,311,186</u>
Total net assets	<u>1,095,044</u>	<u>2,580,069</u>
Total liabilities and net assets	<u>\$ 1,154,138</u>	<u>\$ 2,737,730</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

	2017			2016
	Unrestricted	Temporarily Restricted	Total	
Revenue, gains and other support				
Contributions	\$ 268,927	\$ 962,943	\$ 1,231,870	\$ 1,809,197
Donated materials (Note 7)	123,656		123,656	273,785
Special events	\$ 789,228			
Less: direct cost of special events	<u>(214,550)</u>	536,791	37,887	657,945
Net investment income (Note 3)		60,732	60,732	34,060
Net assets released from restriction (Note 6)		<u>1,700,832</u>	<u>(1,700,832)</u>	
Total revenue, gains and other support		<u>2,690,938</u>	<u>1,990,936</u>	<u>2,774,987</u>
Expenses (Exhibit C)				
Program services - Orthopedics and Complex Spine		2,810,694	2,810,694	2,318,515
Management and general		386,783	386,783	541,077
Fundraising		<u>278,484</u>	<u>278,484</u>	<u>330,899</u>
Total expenses		<u>3,475,961</u>	<u>3,475,961</u>	<u>3,190,491</u>
Change in net assets (Exhibit D)		(785,023)	(700,002)	(415,504)
Net assets - beginning of year		<u>1,268,883</u>	<u>1,311,186</u>	<u>2,995,573</u>
Net assets - end of year (Exhibit A)		<u>\$ 483,860</u>	<u>\$ 611,184</u>	<u>\$ 2,580,069</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

(With Summarized Financial Information for the Year Ended December 31, 2016)

	2017					2016
	Program Services	Supporting Services			Total	
	Orthopedics and Complex Spine	Management and General	Fundraising	Direct Cost of Special Events		
Salaries	\$ 45,899	\$ 180,334	\$ 180,334		\$ 406,567	\$ 267,961
Payroll taxes and benefits	6,526	25,642	25,642		57,810	73,773
Total personnel costs	52,425	205,976	205,976		464,377	341,734
Support of foreign affiliate (Note 8)	2,742,395				2,742,395	2,221,837
Accounting fees		12,700			12,700	12,000
Occupancy	6,876	27,020	20,099		53,995	47,519
Travel and transportation	1,934	47,645	20,359		69,938	42,168
Consultants		29,709	14,940		44,649	33,594
Fees and licenses		2,689	4,933		7,622	25,840
Grants	5,500				5,500	10,950
Insurance		6,422			6,422	14,304
Office supplies	1,564	21,245	850		23,659	55,444
Postage and delivery		1,239			1,239	6,813
Printing and reproduction		300	11,327		11,627	16,174
Venue, catering and other direct event expenses				\$ 170,106	170,106	199,811
Cost of auction items				44,444	44,444	28,450
Telephone		4,981			4,981	9,796
Website		20,580			20,580	10,311
Depreciation		5,729			5,729	10,139
Bad debt expense						327,745
Other expenses		548			548	4,123
Total expenses	2,810,694	386,783	278,484	214,550	3,690,511	3,418,752
Less direct costs of special events				(214,550)	(214,550)	(228,261)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 2,810,694	\$ 386,783	\$ 278,484	\$ -	\$ 3,475,961	\$ 3,190,491

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D**FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.****STATEMENT OF CASH FLOWS****YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (1,485,025)	\$ (415,504)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	5,729	10,139
Gain on investments	(35,393)	(3,149)
Change in value of investment in life insurance	6,422	(13,616)
Decrease in assets		
Contributions receivable	238,445	357,078
Prepaid expenses	8,221	19,259
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(98,567)	22,465
Deferred revenue		(39,763)
Due to foreign affiliate		(68,532)
Net cash used by operating activities	<u>(1,360,168)</u>	<u>(131,623)</u>
Cash flows from investing activities		
Proceeds from repayment of loan receivable	13,116	54,031
Proceeds from sales of investments	2,198,435	455,349
Purchases of investments	(1,192,246)	(442,566)
Purchases of fixed assets		(5,342)
Net cash provided by investing activities	<u>1,019,305</u>	<u>61,472</u>
Net change in cash and cash equivalents	(340,863)	(70,151)
Cash and cash equivalents - beginning of year	<u>641,111</u>	<u>711,262</u>
Cash and cash equivalents - end of year	<u>\$ 300,248</u>	<u>\$ 641,111</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 1 - NATURE OF ORGANIZATION

Foundation of Orthopedics and Complex Spine, Inc. (FOCOS) was organized and incorporated in 1998. The primary purpose of the organization is to provide comprehensive and affordable orthopedic care to underserved communities in Africa and throughout the world. By providing direct care at the Foundation of Orthopedics and Complex Spine (FOCOS Ghana), West Africa, the organization services both adult and pediatric patients with varying orthopedic deformities and injuries. The organization also acquires research and knowledge related to various orthopedic and spinal disorders in order to advance the diagnosis, treatment, and preventative care of injuries and disease to the musculoskeletal system. FOCOS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

FOCOS's primary sources of support are contributions, donated materials and special events.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include investments in highly liquid instruments with original maturities when acquired of three months or less.

Investments - Investments are recorded at fair value. FOCOS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based upon the markets' fluctuations, and that such changes could materially affect FOCOS's financial statements.

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

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FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Loan receivable - Loan receivable is recorded based on loan amounts disbursed net of repayments and any allowances, if necessary. FOCOS stops accruing interest when loans are determined to be questionable as to collection. There was no allowance deemed necessary by management at December 31, 2017.

Allowance for doubtful accounts - Management determines whether an allowance for uncollectibles should be provided for contributions receivable and loan receivable. Such estimates are based on management's assessment of the aged basis of these receivables, current economic conditions, subsequent receipts and historical information. Receivables are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. The organization does not charge interest on outstanding receivables.

Cash surrender value of life insurance - FOCOS has several life insurance policies which are reported at their cash surrender values.

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that FOCOS has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 as compared to those used at December 31, 2016.

- *Exchange traded funds (ETF)* - Valued at the closing price reported on the active market on which the individual securities are traded.
- *Corporate obligations* - Valued using pricing models maximizing the use of observable inputs for similar obligations.
- *Mutual funds* - Valued at the net asset value (NAV) of shares held at end of year.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while FOCOS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The assets at fair value as of December 2017 as set forth by level and type contain the fair value hierarchy in Note 3.

Fixed assets - Fixed assets are recorded at cost or, if donated, at the estimated fair value at the date of receipt. Items with a cost in excess of \$500 with a useful life of greater than one year are capitalized. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets, which range from 3 to 10 years.

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently 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 restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Special events - FOCOS conducts special events in which a portion of the gross proceeds paid by the participant represents payments for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenue in the accompanying statement of activities.

Donated materials - Donated materials are stated at fair value. Donated materials include drugs and medical supplies.

FOCOS reports gifts of equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Advertising expense - Advertising is recorded as an expense in the period of the expenditure.

Grant expense - FOCOS records grant expense when grants are approved and grantees are notified.

Operating lease - Rent expense has been recorded on the straight-line basis over the life of the lease. Deferred rent is recorded where there are material differences between the fixed payment and rent expense. Currently there is no lease and rent is paid on a month-to-month basis.

Functional expenses - The costs of providing FOCOS's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Summarized financial information for 2016 - The financial statements include certain prior-year summarized comparative information in total but not by net asset class and functional expense. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Uncertainty in income taxes - FOCOS has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2014 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through November 27, 2018, which is the date the financial statements were available to be issued.

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FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 3 - INVESTMENTS

The following table presents FOCOS's investments as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
ETFs			
U.S. large cap	\$ 19,974		\$ 19,974
U.S. mid cap	8,445		8,445
U.S. small cap	8,132		8,132
International developed	13,165		13,165
Emerging markets	8,911		8,911
Corporate obligations			
Investment grade taxable		\$ 320,537	320,537
Mutual funds			
Commodities	4,369		4,369
Fixed income	16,170		16,170
Multi strategy	<u>12,166</u>		<u>12,166</u>
Total investments at fair value	<u>\$ 91,332</u>	<u>\$ 320,537</u>	<u>\$ 411,869</u>

The following schedule summarizes the investment return, including interest earned on cash and cash equivalents and loan receivable, included in the statement of activities for the year ended December 31, 2017:

Interest and dividend income	\$ 25,339
Net realized and unrealized gain on investments	<u>35,393</u>
Net investment income	<u>\$ 60,732</u>

NOTE 4 - LOAN RECEIVABLE

FOCOS made a purchase of implants from Johnson & Johnson on April 15, 2014 in the amount of \$157,198 on behalf of FOCOS Ghana. It was agreed that FOCOS Ghana would repay FOCOS over a two-year period with interest charged at a rate of 2% per annum, due in equal monthly installments with a final payment made in April 15, 2017.

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FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 5 - CASH SURRENDER VALUE OF LIFE INSURANCE

FOCOS maintains two life insurance policies on the founder and President of the organization, for which FOCOS is the beneficiary. These policies have a face value of \$1,000,000 and \$500,000, respectively. The cash surrender value included in the financial statements at December 31, 2017 was:

<u>Policy</u>	<u>Face Value</u>	<u>Cash Surrender Value</u>
MetLife	\$ 1,000,000	\$ 186,781
John Hancock	500,000	<u>107,923</u>
Total		<u>\$ 294,704</u>

NOTE 6 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes and programs:

Ethiopian Patients	\$ 60,295
Children's Ward	256,471
Solar Project	45,000
Tanzanian Patients	38,500
Stabilizer Fund	55,000
Research Grant	27,379
Sierra Leone Patients	104,539
Patients Education Fund	<u>24,000</u>
Total	<u>\$ 611,184</u>

Temporarily restricted net assets were released from donor restrictions by satisfying the following restricted purposes:

Ethiopian Patients	\$ 1,051,907
Sierra Leone Patients	216,860
Children's Ward	<u>432,065</u>
Total	<u>\$ 1,700,832</u>

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FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 7 - DONATED MATERIALS

Donated materials reflected in the financial statements consisted of the following at December 31, 2017:

Donated materials	\$ <u>123,656</u>
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Donated materials include drugs and medical supplies transferred to FOCOS Ghana as a grant and, accordingly, are recorded as revenue and expense on these financial statements.

NOTE 8 - RELATED-PARTY TRANSACTIONS

For the year ended December 31, 2017, contributions totaling \$237,427 were received from members of the Board of Directors.

Effective January 1, 2002, the Board of Directors of FOCOS spun off FOCOS Ghana, an affiliated organization incorporated in Ghana. FOCOS Ghana was established to provide total orthopedic and spine care for the people of Ghana and the surrounding countries.

Some members of the Board of Directors of FOCOS are also members of the Board of Directors of FOCOS Ghana.

The support provided by FOCOS to FOCOS Ghana consisted of the following at December 31, 2017:

Support of foreign affiliate	
Grants	\$ 2,618,739
Donated materials	<u>123,656</u>
Total support of foreign affiliate	\$ <u>2,742,395</u>

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FOUNDATION OF ORTHOPEDICS AND COMPLEX SPINE, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 9 - CONCENTRATIONS**

Financial instruments which potentially subject FOCOS to a concentration of credit risk are cash accounts with a financial institution in excess of FDIC insurance limits.

During the year ended December 31, 2017, four donors accounted for 54% of total contributions.

The highest three donors accounted for approximately 80% of net contributions receivable as of December 31, 2017.