CHILDREN'S SURGERY INTERNATIONAL
(a Minnesota Nonprofit Corporation)

Financial Statements
for Year Ended
December 31, 2018
(With Independent Accountant's Compilation Report)

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MMKR
CERTIFIED PUBLIC
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INDEPENDENT ACCOUNTANT'S COMPILATION REPORT

To the Board of Directors
Children's Surgery International
Minneapolis, Minnesota

Management is responsible for the accompanying financial statements of Children's Surgery International (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with *Statements on Standards for Accounting and Review Service*s, promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or the completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
September 30, 2019

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FINANCIAL STATEMENTS

CHILDREN'S SURGERY INTERNATIONAL
(a Minnesota Nonprofit Corporation)

Statement of Financial Position
(see Independent Accountant's Compilation Report)
December 31, 2018

Assets

Cash and cash equivalents	$	231,959
Investments – certificates of deposit		333,478
Investments		179,385
Prepaid expenses		44,217
Inventories		3,000
Medical and office equipment, net of accumulated depreciation		1,683
Total assets	$	793,722

Liabilities and Net Assets

Liabilities		
Accounts payable	$	5,900
Deferred revenues		12,500
Total liabilities		18,400
Net assets		
Without donor restrictions		775,322
Total liabilities and net assets	$	793,722

CHILDREN’S SURGERY INTERNATIONAL
(a Minnesota Nonprofit Corporation)

Statement of Activities
(see Independent Accountant’s Compilation Report)
Year Ended December 31, 2018

Changes in net assets without donor restrictions	
Revenue and support	
Contributions	$ 473,964
Contributed services	1,117,637
Program revenues	44,398
Honorariums and memorials	14,689
Investment loss	(1,247)
Total revenue and support	1,649,441
Expenses	
Program services	1,572,527
Supporting services	
Management and general	39,942
Fundraising	150,355
Total expenses	1,762,824
Decrease in net assets without donor restrictions	(113,383)
Net assets	
Beginning of year	888,705
End of year	$ 775,322

CHILDREN'S SURGERY INTERNATIONAL
(a Minnesota Nonprofit Corporation)

Statement of Functional Expenses
(see Independent Accountant's Compilation Report)
Year Ended December 31, 2018

	Program Services	Supporting Services: Management and General	Supporting Services: Fundraising	Total
Missions				
Travel	$ 279,133	$ –	$ –	$ 279,133
Meals and entertainment	3,540	–	–	3,540
Supplies	87,908	–	–	87,908
Equipment	2,859	–	–	2,859
Freight	3,841	–	–	3,841
Translators	820	–	–	820
Training	1,973	–	–	1,973
Medical records	624	–	–	624
Other expenses	10,088	–	–	10,088
Depreciation	1,181	–	–	1,181
Rent	3,593	–	–	3,593
Contributed services	1,117,636	–	–	1,117,636
Accounting fees	2,799	2,100	2,100	6,999
Apparel and logo	6,072	–	–	6,072
Bank and credit card fees	1,248	935	935	3,118
Computer and software	3,121	2,341	2,341	7,803
Payroll and payroll taxes	36,871	27,654	27,654	92,179
Insurance	1,408	1,056	1,056	3,520
Miscellaneous	1,028	770	770	2,568
Fundraising expense	–	–	6,510	6,510
Office supplies	1,176	882	882	2,940
Internet	210	157	157	524
Postage	484	362	362	1,208
Printing	2,578	1,933	1,933	6,444
Professional services	293	220	220	733
Gala supplies	–	–	103,903	103,903
Telephone	2,043	1,532	1,532	5,107
	$ 1,572,527	$ 39,942	$ 150,355	$ 1,762,824

* Gala 2018 $ 103,903

CHILDREN'S SURGERY INTERNATIONAL
(a Minnesota Nonprofit Corporation)

Statement of Cash Flows
(see Independent Accountant's Compilation Report)
Year Ended December 31, 2018

Cash flows from operating activities		
Decrease in net assets without donor restrictions	$	(113,383)
Adjustments to reconcile net decrease in net assets to net cash used by operating activities		
Unrealized loss on investments		25,865
Depreciation		1,181
Decrease in prepaid expenses		11,558
Increase in accounts payable		5,900
Increase in deferred revenue		4,600
Net cash used by operating activities		(64,279)
Cash flows from investing activities		
Sale of investments		28,000
Purchases of investments		(23,487)
Net cash provided by investing activities		4,513
Net decrease in cash and cash equivalents		(59,766)
Net cash and cash equivalents		
Beginning of year		291,725
End of year	$	231,959
Supplemental disclosure of noncash activity		
Contributed services, materials and non-cash prizes	$	1,160,824
Contributed services, materials expense and gala expense		(1,160,824)
Net noncash contributions	$	–

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Children's Surgery International (a Minnesota nonprofit corporation) (the Organization) was formed in 2001, through a spin-off of the Minneapolis/St. Paul Chapter of Operation Smile, Inc.

The Organization's purpose is to provide free reconstructive facial surgery to indigent children and young adults in developing countries. It also provides education and training to physicians in those countries to achieve long-term sufficiency. In 2018, the Organization provided 301 free reconstructive facial, orthopedic, and urologic surgeries in Liberia, Mexico, Tanzania, and Ethiopia.

SIGNIFICANT ACCOUNTING POLICIES

The Organization's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to healthcare institutions. The following is a summary of the significant policies:

A. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Mission costs are allocated to the period the mission takes place.

B. Basis of Presentation

In accordance with the Not-For-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- **Net Assets Without Donor Restrictions** – Represents net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors. At December 31, 2018, the Organization had net assets without donor restrictions totaling $775,322.

- **Net Assets With Donor Restrictions** – Represents net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that: 1) either expire by the passage of time or can be fulfilled and removed by actions pursuant to those stipulations; or 2) neither expire by passage of time, nor can be fulfilled or otherwise removed by actions of the Organization. At December 31, 2018, the Organization had no net assets with donor restrictions.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Contributions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

D. Contributed Services

The Organization recognizes contribution revenue for certain services when received, at the fair value of those services, provided those services create or enhance nonfinancial assets or require specialized skills, which are provided by individuals possessing those skills and would typically need to be purchased, if not provided by donation. During the year ended December 31, 2018, the Organization recorded $1,117,637, of contribution service revenue and service expenses.

E. Contributed Assets

Contributed assets are recorded at the estimated fair market value at the date of receipt.

During the year ended December 31, 2018, the Organization recorded $43,187 of contributions of prizes for the Gala auction, which was recorded as contribution revenue and gala supplies.

F. Statements of Cash Flows

For purposes of the Statements of Cash Flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Investments

Investments are reported at fair value based upon quoted market prices, which represent the net asset value (NAV) of shares held by the Organization at year-end. Purchases and sales of investments are recorded on a trade-date basis. Realized gains and losses from investment transactions are reported on the average cost method.

H. Inventories

Inventories consist of consumable medical supplies and promotional items and are valued at cost on a first-in, first-out method.

I. Medical and Office Equipment

Medical and office equipment is recorded at cost and depreciated on the straight-line basis over the estimated useful lives of the assets of five years. Depreciation expense for the year ended December 31, 2018 was $1,181.

Medical equipment	$ 148,969	$ 148,969
Office equipment	1,019	1,019
	149,988	149,988
Less accumulated depreciation	148,305	147,124
Net medical and office equipment	$ 1,683	$ 2,864

J. Advertising Cost

The Organization's policy is to expense advertising costs as the costs are incurred. No advertising costs were incurred for the year ended December 31, 2018.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Income Taxes

The Organization is exempt from taxation as a nonprofit organization in accordance with § 501(c)(3) of the Internal Revenue Code.

The Organization follows the recognition requirements for uncertain income tax positions as required by the FASB ASC 740-10. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and the state jurisdiction where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations, or cash flows. Accordingly, the Organization has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at December 31, 2018.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

L. 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.

M. Expenses by Nature and Function

The financial statements report certain expense categories that are attributable to more than one program or supporting function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a program or supporting function are considered indirect costs and are allocated to a program or supporting function based on quarterly time study data. The following items are considered indirect costs: accounting fees, bank and credit card fees, computer and software, payroll and payroll taxes, insurance, miscellaneous, office supplies, internet, postage, printing, professional services, and telephone. For the year ended December 31, 2018, indirect costs were allocated as follows: 40 percent program services, 30 percent management and general, and 30 percent fundraising. Allocated program services costs not allocated on a units-of-service basis are otherwise allocated based on revenues.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. New Accounting Standards

The FASB issued Accounting Standards Update 2016-14 – *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization adopted the provisions of this new standard for the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources and the addition of an expanded statement of expenses by both nature and classification, and disclosures related to functional allocation of expenses were expanded. (See Note 1 – Nature of Operations and Significant Accounting Principles, M. Expenses by Nature and Function and Note 3 – Availability and Liquidity.)

O. Recently Issued Accounting Standards

1. Lease Accounting

The FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and financing leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

2. Revenue Recognition

The FASB issued changes to the accounting requirements for recognizing revenue from contracts with customers. These changes created a comprehensive framework for all entities in all industries to apply in the determination of when to recognize revenue, and, therefore, supersede virtually all existing revenue recognition requirements and guidance. The framework is expected to provide a consistent and comparable methodology for revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To achieve this principle, an entity will apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract(s), (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract(s), and (v) recognize revenue when, or as, the disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. These changes become effective for annual reporting periods beginning after December 15, 2018. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Subsequent Events

Subsequent events have been evaluated by management through September 30, 2019, which is the date the financial statements were available to be issued.

NOTE 2 – DEFERRED REVENUES

The Organization bills in advance for refundable mission team fees that are charged to the volunteer as a fee to reduce the Organization travel fees for the following year planned trips. At December 31, 2018, the Organization collected funds in advance totaling $12,500.

NOTE 3 – AVALIABILITY AND LIQUIDITY

As of December 31, 2018, the Organization has a working capital of $773,639 and average days (based on normal expenditures) cash on hand of 124.

The following represent the Organization's financial assets at December 31, 2018:

Financial assets at year-end	
Cash and cash equivalents	$ 231,959
Investments – certificates of deposits	333,478
Investments	179,385
Prepaid expenses	44,217
Inventories	3,000
Total financial assets available to meet general expenses over the next twelve months	$ 792,039

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately $169,000). As part of its liquidity plan, excess cash is invested in certificates of deposits, stocks, mutual funds, money market accounts, and other interest-bearing accounts.

NOTE 4 – INVESTMENTS

The Organization values investments by the Debt and Equity Securities Investments Topic of the FASB ASC. Marketable debt securities or marketable equity securities for which there is a readily determinable market value are carried at market value as of year-end. Unrealized gains and losses are included in investment income.

NOTE 4 – INVESTMENTS (CONTINUED)

The following is a summary of investments held at December 31, 2018:

Investment Type	Cost	Unrealized Gain (Loss)	Fair Value
Certificates of deposit	$ 332,000	$ 1,478	$ 333,478
Common stock – publicly-traded	17,642	5,911	23,553
Mutual funds	188,332	(32,500)	155,832
Subtotal – investments	205,974	(26,589)	179,385
Total	$ 537,974	$ (25,111)	$ 512,863

Investment income in 2018 consists of interest and dividend income of $24,618 and unrealized loss of ($25,865).

NOTE 5 – FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest level of 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 under the Fair Value Measurements and Disclosures Topic of the FASB ASC are as described below:

Level 1	Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in the active markets that the Organization has the ability to access.
Level 2	Inputs to the valuation methodology include: • quoted market prices for similar assets or liabilities in active markets; • quoted market prices for identical or similar assets or liabilities in inactive markets; • inputs other than quoted prices that are observable for the assets 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.

NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

The asset or liability's fair value measurement level within the fair value hierarchy is based upon the lowest level of 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.

Following is a description of the valuation methodologies used for assets measured at fair value.

Common Stock – Publicly Traded – Valued at the closing price reported in the active market in which the individual security is traded.

Mutual Funds – Valued at the reported daily closing price. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Organization are deemed to be actively traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization 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 following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value:

	Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Common stock – publicly-traded	$ 23,553	$ –	$ –	$ 23,553
Mutual funds	155,832	–	–	155,832
Total assets at fair value	$ 179,385	$ –	$ –	$ 179,385