

H E A L Y A N D A S S O C I A T E S

C E R T I F I E D P U B L I C A C C O U N T A N T

D-REV: DESIGN FOR THE OTHER 90%
(A NONPROFIT PUBLIC BENEFIT CORPORATION)

REPORT ON AUDIT OF FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

May 19, 2017

Board of Directors
D-Rev: Design for the Other 90%
San Francisco, California

Report on the Financial Statements

I have audited the accompanying financial statements of D-Rev: Design for the Other 90% (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

Board of Directors
D-Rev: Design for the Other 90%
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I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of D-Rev: Design for the Other 90% as of December 31, 2016, 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.

Healy and Associates

Healy and Associates
Concord, California

D-REV: DESIGN FOR THE OTHER 90%
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents (Notes A and C)	\$ 444,809
Accounts and grants receivable (Note B)	320,425
Product inventory	51,256
Prepaid expenses	<u>9,889</u>
TOTAL CURRENT ASSETS	826,379
Property and Equipment, net (Notes A and D)	61,260
Accounts and grants receivable, long-term (Note B)	542,159
Intangible assets, net (Note E)	11,963
Deposits	<u>7,875</u>
TOTAL ASSETS	<u>\$ 1,449,636</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable and accrued expenses	\$ 11,682
Accrued payroll and PTO payable	27,435
Deferred revenue	4,657
Notes payable - accrued interest payable (Note F)	<u>625</u>
TOTAL CURRENT LIABILITIES	44,399
Long-term notes payable (Note F)	<u>500,000</u>
TOTAL LIABILITIES	<u>544,399</u>
COMMITMENT AND CONTINGENCY (Notes G and H)	
NET ASSETS:	
Temporarily Restricted Net Assets (Note I)	875,739
Unrestricted Net Assets	<u>29,498</u>
TOTAL NET ASSETS	<u>905,237</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,449,636</u>

D-REV: DESIGN FOR THE OTHER 90%
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUE</u>			
Grants, awards and contributions	\$ 478,088	\$ 1,257,385	\$ 1,735,473
Government contracts	269,903		269,903
Product sales	21,859		21,859
Product licensing and royalties	17,400		17,400
Other	213		213
In-kind	20,682		20,682
	<u>808,145</u>	<u>1,257,385</u>	<u>2,065,530</u>
Net assets released from restrictions	<u>914,049</u>	<u>(914,049)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>1,722,194</u>	<u>343,336</u>	<u>2,065,530</u>
<u>EXPENSES</u>			
Program services	1,009,297		1,009,297
Administration	322,297		322,297
Fundraising	167,916		167,916
	<u>1,499,510</u>	<u>-</u>	<u>1,499,510</u>
CHANGE IN NET ASSETS	<u>222,684</u>	<u>343,336</u>	<u>566,020</u>
NET ASSETS, beginning of year	<u>(193,186)</u>	<u>532,403</u>	<u>339,217</u>
NET ASSETS, end of year	<u>\$ 29,498</u>	<u>\$ 875,739</u>	<u>\$ 905,237</u>

D-REV: DESIGN FOR THE OTHER 90%
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 584,960	\$ 158,167	\$ 95,487	\$ 838,614
Payroll taxes	45,269	12,088	7,240	64,597
Employee benefits	35,379	44,100	5,138	84,617
Total personnel costs	<u>665,608</u>	<u>214,355</u>	<u>107,865</u>	<u>987,828</u>
Professional fees	54,698	72,319	41,285	168,302
Brilliance units financed by donor (Note J)	78,446	-	-	78,446
Occupancy	66,090	4,115	4,116	74,321
General business development	39,565	-	-	39,565
Product research and development	38,372	-	-	38,372
Depreciation and amortization	17,797	2,236	1,362	21,395
In-kind	20,683	-	-	20,683
Communications	4,115	8,185	815	13,115
Travel and meals	2,202	2,181	8,525	12,908
Utilities	5,240	2,881	812	8,933
Taxes and fees	6,764	804	-	7,568
Equipment	739	3,431	2,574	6,744
Cost of goods sold	6,643	-	-	6,643
Payroll service fees	9	3,245	-	3,254
Interest and bank charges	612	2,242	151	3,005
Insurance	449	2,525	-	2,974
Office supplies	141	2,146	5	2,292
Other expenses	130	479	205	814
Postage, printing and copying	190	400	168	758
Event	307	340	33	680
Marketing	497	-	-	497
Dues and memberships	-	413	-	413
Total expenditures	<u>\$ 1,009,297</u>	<u>\$ 322,297</u>	<u>\$ 167,916</u>	<u>\$ 1,499,510</u>

D-REV: DESIGN FOR THE OTHER 90%
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 566,020
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	<u>21,395</u>
	587,415
CHANGES IN ASSETS AND LIABILITIES:	
(Increase) decrease in:	
Grants and accounts receivable	(324,160)
Inventory	11,798
Prepaid expenses	626
Deposits	7,875
Other current assets	1,874
Increase (decrease) in:	
Accounts payable and accrued expenses	(16,841)
Deferred revenue	341
Tenant deposit	<u>(2,514)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>266,414</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Disposal in intangible assets	<u>7,080</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>7,080</u>
NET INCREASE IN CASH	273,494
CASH, beginning of year	<u>171,315</u>
CASH, end of year	<u><u>\$ 444,809</u></u>
SUPPLEMENTAL INFORMATION:	
Interest paid	<u><u>\$ 1,250</u></u>

D-REV: DESIGN FOR THE OTHER 90%
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

D-Rev: Design for the Other 90% (D-Rev) (the Organization) is a Colorado non-profit corporation headquartered in San Francisco, California. The Organization was formed in 2007. D-Rev's mission is to design and deliver medical technologies that close the quality healthcare gap for underserved populations. D-Rev designs market-driven solutions to ensure access to world-class, affordable technologies for the people who need them most.

The Organization's primary source of support is grants and contributions from foundations, corporations, and individuals. The Organization has delivered its products to over 50 countries including India, Kenya, Nepal and the Philippines.

Summary of Significant Accounting Practices

Accounting Method

The Organization maintains its accounting records on the accrual basis.

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management must make estimates based on future events that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from these estimates.

Financial Statement Presentation

The Financial Accounting Standards Board under Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*, requires the Organization to report information regarding its financial position and activities for three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At December 31, 2016 the Organization had no permanently restricted net assets.

D-REV: DESIGN FOR THE OTHER 90%
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Support and Revenue

In accordance with ASC 958 contributions received are recorded as unrestricted, temporarily or permanently restricted depending on the existence and nature of grantor restrictions. Contributions are recorded as restricted support if they are received with grantor stipulations that limit the use of the contributed assets. When a grantor restriction expires, that is, when a stipulated purpose restriction is accomplished, or a time restriction passes, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. In accordance with ASC 958, restricted contributions released in the same year awarded, are reflected as unrestricted in the accompanying financial statements.

In accordance with accounting principles generally accepted in the United States of America, the Organization records the present value of the estimated future cash flows for contributions that exceed one year.

All other contributions are recognized as unrestricted upon receipt. Support arising from services and/or donated assets contributed by certain businesses and individuals has been recognized in the accompanying financial statements at the fair value of the services performed or assets contributed.

Sales of products are recognized as revenue when the products ship or evidence of a sale exists.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months.

Accounts and grants receivable

Accounts and grants receivable are stated at the amounts management expects to collect from outstanding balances. Management continually monitors receivables for collectability. At December 31, 2016, no allowance for doubtful accounts was deemed necessary by management.

Product Inventory

Product inventory is valued at the lower of cost or market. Cost is determined on a first-in, first-out method. Management performs periodic assessments to determine the existence of obsolete, slow moving and non-salable inventories, and records necessary provisions to reduce such inventories to net realizable value.

D-REV: DESIGN FOR THE OTHER 90%
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Summary of Significant Accounting Practices (continued)

Property and Equipment

Property and equipment, in excess of \$5,000, are recorded at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives using the straight-line method.

Maintenance and repairs, which do not materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in operations as incurred.

Deferred Revenue

Deferred revenue represents funds received for products not yet shipped to customers.

Donated Services

The Organization records non-cash contributions of donated services at their fair value on the date they are received. Contributed services are recognized in the financial statements to the extent that those services create or enhance a nonfinancial asset or meet the following criteria: a) the service requires specialized skills, b) the service is provided by individuals who possess those skills, and c) the service would typically need to be purchased if not contributed.

Functional Allocation of Indirect Expenses

Expenses are allocated to program, administration and fund raising based upon a combination of specific identification and percentage allocation plan(s). Costs incurred in direct connection to the operation of the program are allocated to program expenses in full. General and administrative costs that are incurred in connection with the general operations of the organization and support of the program have been allocated based on an estimate of benefits derived, as assessed by management.

For the year ended December 31, 2016, expenses for administration and fundraising also include expenses for organization capacity and systems building for long-term growth and sustainability.

NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Summary of Significant Accounting Practices (continued)

Fair Value Measurements

The Organization's financial instruments include cash and cash equivalents. The carrying amount of these financial instruments has been estimated by management to approximate fair value. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." When determining the inputs used to measure fair value, the highest priority is given to observable inputs and lowest priority is given to unobservable inputs. Accounting Standards Codification (ASC) 820-10, *Fair Value Measurement*, establishes a fair value hierarchy to prioritize the inputs used in measuring fair value.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1— Quoted prices for identical assets and liabilities in active markets.

Level 2—Observable inputs other than Level 1, which include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair values of the assets and liabilities.

The Organization measured the fair value of cash and cash equivalents using Level 1 inputs.

Income Tax Status

The Organization has received tax exempt status under Section 501(c)(3) of the Internal Revenue Code, Section 23701(d) of the State of California Revenue and Taxation Code. The Organization's tax returns are subject to examination by federal and state taxing authorities generally for three years after they are filed. The Organization has no unrelated business income, and Management has analyzed the tax positions taken, or expected to be taken, that would require recognition of a liability or disclosure in the financial statements.

D-REV: DESIGN FOR THE OTHER 90%
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE B – ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable at December 31, 2016 is \$857,686. Management believes they will be received as follows:

<u>Amount Due</u>	<u>Amount</u>
Within one year	\$ 320,425
Due within two to five Years	<u>542,159</u>
	<u><u>\$862,584</u></u>

Grants that exceed two years are discounted to the present value. During the year ended December 31, 2016, the Organization discounted grant revenue by approximately \$65,000.

NOTE C – CONCENTRATIONS

At December 31, 2016, accounts receivable were due primarily from one funder (85%). Management believes these funds to be fully collectible and thus has recorded no allowance for doubtful accounts.

For the year ended December 31, 2016, the Organization received approximately 45% of revenue from one donor. The loss of this funding could have an impact on the Organization's ability to operate its programs. The funding represents a 5-year, \$200,000 per year commitment, of which the first payment was received in 2016.

From time to time, the Organization may carry balances in financial institutions exceeding insured limits. At December 31, 2016, the Organization had \$178,262 on deposit in financial institutions exceeding the insured limit of \$250,000 per institution. Management monitors the financial institutions and believes the institutions to be solvent.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment by major classes at December 31, 2016 consist of the following:

Computers, furniture and equipment	\$ 16,809
Leasehold improvements	19,013
Tooling for products	<u>66,050</u>
	101,872
Less: accumulated depreciation	<u>(40,612)</u>
Total property and equipment	<u><u>\$ 61,260</u></u>

Depreciation expense for the year ended December 31, 2016 is \$18,026.

D-REV: DESIGN FOR THE OTHER 90%
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE E – INTANGIBLE ASSETS

Intangible assets at December 31, 2016 consist of the following:

Intellectual property - Patents	\$ 26,282
Less: accumulated amortization	<u>(14,319)</u>
Total intangible assets	<u>\$ 11,963</u>

Amortization expense for the year ended December 31, 2016 is \$3,369.

NOTE F – NOTE PAYABLE

During the years ended December 31, 2014 and 2013, the Organization entered into unsecured promissory notes with a foundation in the amount of \$250,000 and \$250,000, respectively, for a total available of \$500,000. The loans mature on July 15, 2018 and bear interest at 0.25% per annum. The funds are to be used to support general D-Rev operations with the expectation of launching three neonatal products, along with the global launch and scale of the ReMotion Knee. At December 31, 2016, the Organization owed \$500,000 with accrued interest of \$625, resulting in a balance of \$500,625.

Interest expense for the year ended December 31, 2016 was \$1,250.

NOTE G – COMMITMENT

The Organization leases the office facility in San Francisco under a non-cancelable operating lease agreement. The lease expires on September 30, 2017, however the Organization opted to renew for another 23 months as allowed by the lease. Rent expense is \$8,863 per month and will increase at a fixed rate of 3% per annum. The Organization also subleases 1,669 rentable square feet of space at a monthly rate of \$2,829 increasing at a rate of 3% per annum through September 2017.

The Organization's future minimum lease payments as of December 31, 2016 are as follows:

Years Ended December 31,	Lease Commitment	Sub-Lessee Commitment	Net Commitment
2017	\$ 107,157	\$ (25,461)	\$ 81,696
2018	110,368	-	110,368
2019	<u>75,222</u>	-	<u>75,222</u>
Total commitment	<u>\$ 292,747</u>	<u>\$ (25,461)</u>	<u>\$ 267,286</u>

The Organization recognized \$74,320 in net rental expense for the year ended December 31, 2016.

D-REV: DESIGN FOR THE OTHER 90%
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE H – CONTINGENCY

Grant awards require the fulfillment of certain conditions as set forth in the instruments of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of the Organization to the provisions of the grants. Management is of the opinion that the Organization has complied with the terms of all grants.

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 consist of the following:

Program	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
General operations	\$250,000	\$935,489	(450,000)	\$735,489
Organizational development	-	50,000	(18,591)	31,409
New product development	150,000	25,000	(159,889)	15,111
Newborn health	87,500	196,896	(190,666)	93,730
Mobility	19,903	50,000	(69,903)	-
Impact	25,000	-	(25,000)	-
Total	<u>\$ 532,403</u>	<u>\$ 1,257,385</u>	<u>\$(914,049)</u>	<u>\$875,739</u>

NOTE J – BRILLIANCE UNITS FINANCED BY DONOR

During the year ended December 31, 2016, a funder of the Organization provided funding to purchase Brilliance units to be donated to facilities in Rwanda. The support is reflected in grants, awards and contributions in the accompanying financial statements.

NOTE K – EMPLOYEE BENEFITS

Employees of the Organization are entitled to paid time-off (PTO). Employees gain a vested right to accumulated PTO. Accrued PTO was \$23,917 as of December 31, 2016 as reflected in the accompanying financial statements.

Effective January 1, 2013, the Organization adopted a 401(k) benefit plan covering substantially all qualified employees. In addition to employee contributions, the Organization is committed to match a portion of non-highly compensated employees' contributions. The Organization's total matching contribution for the 2016 plan year was \$12,778.

D-REV: DESIGN FOR THE OTHER 90%
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

NOTE L – SUBSEQUENT EVENTS

In accordance with FASB Accounting Standards Codification Topic 855, "Subsequent Events," the Organization has evaluated subsequent events through May 19, 2017, which is the date these financial statements were available to be issued.