

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 NINTEY PERCENT
(A NONPROFIT PUBLIC BENEFIT CORPORATION)

REPORT ON AUDIT OF FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2016)

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INDEPENDENT AUDITOR'S REPORT

June 5, 2018

Board of Directors
D-Rev: Design for the Other Ninety Percent
San Francisco, California

Report on the Financial Statements

I have audited the accompanying financial statements of D-Rev: Design for the Other Ninety Percent (a nonprofit organization), which comprise the statement of financial position 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

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.

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 Ninety Percent 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

I have previously audited the D-Rev: Design for the Other Ninety Percent 2016 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated May 19, 2017. In my 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.

Healy and Associates
Healy and Associates
Concord, California

D-REV: DESIGN FOR THE OTHER NINETY PERCENT
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2016)

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 153,035	\$ 444,809
Accounts and grants receivable	758,825	320,425
Product inventory	34,115	51,256
Prepaid expenses	<u>71,570</u>	<u>9,889</u>
TOTAL CURRENT ASSETS	1,017,545	826,379
Fixed assets, net	47,446	61,260
Accounts and grants receivable, long-term	505,358	542,159
Intangible assets, net	9,437	11,963
Deposits	<u>7,875</u>	<u>7,875</u>
TOTAL ASSETS	<u>\$ 1,587,661</u>	<u>\$ 1,449,636</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 35,530	\$ 11,682
Accrued payroll and PTO payable	48,554	27,435
Tenant deposit	2,914	-
Deferred revenue	-	4,657
Note payable - current portion	100,000	-
Notes payable - accrued interest payable	<u>625</u>	<u>625</u>
TOTAL CURRENT LIABILITIES	187,623	44,399
Long-term notes payable	<u>400,000</u>	<u>500,000</u>
TOTAL LIABILITIES	<u>587,623</u>	<u>544,399</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Temporarily Restricted Net Assets	793,881	875,739
Unrestricted Net Assets	<u>206,157</u>	<u>29,498</u>
TOTAL NET ASSETS	<u>1,000,038</u>	<u>905,237</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,587,661</u>	<u>\$ 1,449,636</u>

See Notes to Financial Statements

D-REV: DESIGN FOR THE OTHER NINETY PERCENT
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

	Unrestricted	Temporarily Restricted	Total All Funds	
			2017	2016
<u>SUPPORT AND REVENUE</u>				
Grants, awards, and contributions	\$ 582,148	\$ 692,969	\$ 1,275,117	\$ 1,735,473
Government contracts	619,903		619,903	269,903
Product sales	40,892		40,892	21,859
Product licensing and royalties	5,876		5,876	17,400
Other	3,169		3,169	213
In-kind	75,260		75,260	20,682
	<u>1,327,248</u>	<u>692,969</u>	<u>2,020,217</u>	<u>2,065,530</u>
Net assets released from restrictions	<u>774,827</u>	<u>(774,827)</u>	<u>-</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>2,102,075</u>	<u>(81,858)</u>	<u>2,020,217</u>	<u>2,065,530</u>
<u>EXPENSES</u>				
Program services	1,365,500		1,365,500	1,009,297
Administration	313,689		313,689	322,297
Fundraising	246,227		246,227	167,916
	<u>1,925,416</u>	<u>-</u>	<u>1,925,416</u>	<u>1,499,510</u>
CHANGE IN NET ASSETS	<u>176,659</u>	<u>(81,858)</u>	<u>94,801</u>	<u>566,020</u>
NET ASSETS, beginning of year	<u>29,498</u>	<u>875,739</u>	<u>905,237</u>	<u>339,217</u>
NET ASSETS, end of year	<u>\$ 206,157</u>	<u>\$ 793,881</u>	<u>\$ 1,000,038</u>	<u>\$ 905,237</u>

D-REV: DESIGN FOR THE OTHER NINETY PERCENT
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

	Program	Administration	Fundraising	Total All Funds	
				2017	2016
Salaries and wages	\$ 734,623	\$ 165,195	\$ 127,487	\$ 1,027,305	\$ 838,614
Payroll taxes	60,127	13,215	10,463	83,805	64,597
Employee benefits	67,474	11,071	26,900	105,445	84,617
Total personnel costs	862,224	189,481	164,850	1,216,555	987,828
Professional fees	123,484	67,823	52,255	243,562	168,302
Brilliance units financed by donor	28,340	-	-	28,340	78,446
Occupancy	55,430	7,478	10,705	73,613	74,321
General business development	73,599	-	-	73,599	39,565
Product research and development	47,367	-	-	47,367	38,372
Depreciation and amortization	14,771	1,210	822	16,803	21,395
In-kind	75,260	-	-	75,260	20,683
Communications and equipment	7,539	22,850	457	30,846	19,859
Travel and meals	21,378	2,218	12,080	35,676	12,908
Utilities	7,449	6,810	1,410	15,669	8,933
Taxes and fees	10,729	1,239	-	11,968	7,568
Cost of goods sold	21,259	-	-	21,259	6,643
Payroll service fees	1,733	673	279	2,685	3,254
Interest and bank charges	615	2,856	525	3,996	3,005
Insurance	5,494	3,584	-	9,078	2,974
Office supplies	301	3,968	175	4,444	2,292
Other expenses	479	1,475	273	2,227	814
Postage, printing and copying	4,657	292	222	5,171	758
Event	1,892	1,214	2,009	5,115	680
Marketing	(80)	-	165	85	497
Dues and memberships	1,580	518	-	2,098	413
Total expenditures	\$ 1,365,500	\$ 313,689	\$ 246,227	\$ 1,925,416	\$ 1,499,510

D-REV: DESIGN FOR THE OTHER NINETY PERCENT
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

	Total All Funds	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 94,801	\$ 566,020
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	16,803	21,395
	111,604	587,415
CHANGES IN ASSETS AND LIABILITIES:		
(Increase) decrease in:		
Grants and accounts receivable	(401,599)	(324,160)
Inventory	17,141	11,798
Prepaid expenses	(61,681)	626
Deposits	-	7,875
Other current assets	-	1,874
Increase (decrease) in:		
Accounts payable and accrued expenses	44,967	(16,841)
Deferred revenue	(4,657)	341
Tenant deposit	2,914	(2,514)
NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES	<u>(291,311)</u>	<u>266,414</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets, net of disposals	(463)	-
Disposal of intangible assets	-	7,080
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(463)</u>	<u>7,080</u>
NET CHANGE IN CASH	(291,774)	273,494
CASH, beginning of year	444,809	171,315
CASH, end of year	<u>\$ 153,035</u>	<u>\$ 444,809</u>
SUPPLEMENTAL INFORMATION:		
Interest paid	<u>\$ 1,250</u>	<u>\$ 1,250</u>

D-REV: DESIGN FOR THE OTHER NINETY PERCENT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

NOTE A – NATURE OF ACTIVITIES

D-Rev: Design for the Other Ninety Percent (Organization) is a Colorado non-profit corporation headquartered in San Francisco, California with team members based in India and East Africa. D-Rev believes no one should die or suffer from an easily treatable health condition. Its mission is to design and deliver user-centric medical technologies that close the quality healthcare gap for underserved populations.

The Organization's primary source of support is grants and contributions from foundations, corporations, and individuals. The Organization delivers its products via a market-driven model to over 50 countries, predominantly in South Asia, SE Asia, and Sub-Saharan Africa.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Method and Basis of Presentation

The accounting records of the Organization are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Financial statement presentation follows the guidance of the Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under this standard, the Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Organization had no permanently restricted net assets at December 31, 2017.

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, which are neither held for nor restricted by donors for long term purposes. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Accounts and Grants Receivable

Accounts and grants receivable are stated at the amounts management expects to collect from outstanding balances. The Organization evaluates the collectability of its receivables on an ongoing basis and records a provision for potential uncollectible receivables when appropriate. Management did not consider an allowance for doubtful accounts necessary as of December 31, 2017.

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 NINETY PERCENT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Organization's financial instruments include cash and cash equivalents measured using Level 1 inputs. Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. U.S. GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Organization groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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 cannot be corroborated by observable market data.

Fixed Assets

Fixed asset additions in excess of \$5,000 are recorded at cost or if donated, at fair value on the date of donation, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Maintenance and repairs that do not extend the useful lives of the respective assets are expensed as incurred.

Donated Services and In-Kind Contributions

The Organization receives goods and services, which are donated for carrying out its mission. Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received.

Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from these estimates.

D-REV: DESIGN FOR THE OTHER NINETY PERCENT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

In accordance with ASC 958, grants and contributions received are recorded as unrestricted or temporarily 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 donor restrictions are satisfied by the passage of time, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. As permitted by ASC 958, donor-restricted contributions whose restrictions are met in the same year may be reported as unrestricted support.

Sales of product are recognized as revenue when the product ships or evidence of a sale exists. Deferred revenue represents funds received for products not yet shipped to customers. 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.

Functional Allocation of Expenses

The costs of program activities and supporting services have been summarized on a functional basis in the statements of functional expenses. The statement presents the natural classification of detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Indirect costs such as general and administrative expenses include costs that are not directly identifiable with any specific program, but which provide the overall support and direction of the Organization. Such expenses which are common to multiple functions have been allocated among the various functions benefited.

Tax Exemption Status

The Organization has received tax exempt status under section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the State of California Revenue and Taxation Code. The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS along with related state filings. The related tax returns are subject to examination by federal and state taxing authorities generally for three years after they are filed. The Organization has determined that there are no uncertain tax positions that require recognition or disclosure in the financial statements.

D-REV: DESIGN FOR THE OTHER NINETY PERCENT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comparative Information and Reclassifications

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with our audited financial statements for the year ended December 31, 2016, from which the summarized information was derived.

New Accounting Pronouncements

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization plans to adopt this ASU as of and for the year ended December 31, 2018.

NOTE C – CONCENTRATIONS

At December 31, 2017, accounts receivable was due primarily from three funders (96%). For the year ended December 31, 2017, the Organization received approximately 25% of revenue from three donors. The loss of this funding could have an impact on the Organization's ability to operate its programs.

The Organization manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced, nor does it anticipate, any losses with respect to such accounts.

D-REV: DESIGN FOR THE OTHER NINETY PERCENT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

NOTE D – ACCOUNTS AND GRANTS RECEIVABLE

Accounts and grants receivable at December 31, 2017 is \$1,264,183. Management believes they will be received as follows:

<u>Amount Due</u>	<u>Amount</u>
Within one year	\$ 758,825
Due within two to five years	505,358
	<u>\$1,264,183</u>

Grants that exceed two years are discounted to the present value. During the year ended December 31, 2017, the Organization discounted grant revenue by \$44,642.

NOTE E – FIXED ASSETS

Fixed assets by major classes at December 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Computers, furniture, and equipment	\$ 16,808	\$ 16,808
Leasehold improvements	19,613	19,013
Tooling for products	66,050	66,050
	<u>102,471</u>	<u>101,871</u>
Less: Accumulated depreciation	(55,025)	(40,611)
Total fixed assets, net	<u>\$ 47,446</u>	<u>\$ 61,260</u>

Depreciation expense for the years ended December 31, 2017 and 2016 is \$14,277 and \$17,755, respectively.

NOTE F – INTANGIBLE ASSETS

Intangible assets at December 31 consist of the following:

	<u>2017</u>	<u>2016</u>
Intellectual property - Patents	\$ 26,282	\$ 26,282
Less: Accumulated amortization	(16,845)	(14,319)
Total intangible assets	<u>\$ 9,437</u>	<u>\$ 11,963</u>

Amortization expense for the years ended December 31, 2017 and 2016 is \$2,526 and \$3,369, respectively.

D-REV: DESIGN FOR THE OTHER NINETY PERCENT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2017

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)

NOTE G – NOTE PAYABLE

During the years ended December 31, 2014 and 2013, the Organization entered into unsecured promissory notes with a foundation in the amounts of \$250,000 and \$250,000, respectively, for a total available of \$500,000. 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. The loan agreement was modified on June 4, 2018, to mature on December 15, 2021 and bear interest at a below market rate of 0.25% per annum. Interest, if imputed, would not be material to these financial statements taken as a whole.

At December 31, 2017, the Organization owed \$500,000, with the current portion of \$100,000 and accrued interest payable of \$625. Total interest expense for the year ended December 31, 2017 is \$1,250.

NOTE H – COMMITMENTS AND CONTINGENCIES

The Organization leases the office facility in San Francisco under a non-cancelable operating lease agreement through September 2019. The base rent is \$8,863 per month increasing at a rate of 3% annually. The Organization also subleases 1,669 rentable square feet of space at a monthly rate of \$2,829 increasing at a rate of 3% annually through September 2019. The Organization's future minimum lease payments as of December 31, 2017 are as follows:

<u>Years ended December 31</u>	<u>Lease Commitment</u>
2018	\$ 110,368
2019	\$ 75,222

The Organization recognized \$73,613 and \$74,321 in rental expense for the year ended December 31, 2017 and 2016, respectively.

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 believes the Organization has complied with the terms of all grants.

D-REV: DESIGN FOR THE OTHER NINETY PERCENT**NOTES TO FINANCIAL STATEMENTS****YEAR ENDED DECEMBER 31, 2017****(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016)****NOTE I – EMPLOYEE BENEFITS**

Employees of the Organization are entitled to paid time-off (PTO) and gain a vested right to accumulated PTO. Accrued PTO was \$31,845 and \$23,917 as of December 31, 2017 and 2016 respectively, as reflected in the statement of financial position.

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 2017 and 2016 plan year was \$15,883 and \$12,778, respectively.

NOTE J – BRILLIANCE UNITS FINANCED BY DONOR

During the year ended December 31, 2016, two donors provide support to a Nepal-based NGO by funding the purchase of 49 Brilliance units for use in public hospitals throughout the country. The support is reflected in grants, awards, and contributions in the accompanying financial statements.

NOTE K – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2017 consist of the following:

Program	Beginning Balance	Income and Contributions	Released from Restriction	Ending Balance
General support	\$ 766,898	\$ 79,193	\$(305,409)	\$ 540,682
Brilliance/Newborn health	93,730	54,100	(147,830)	-
Mobility	-	80,000	(80,000)	-
New product development	15,111	479,676	(241,588)	253,199
Total	<u>\$ 875,739</u>	<u>\$ 692,969</u>	<u>\$(774,827)</u>	<u>\$ 793,881</u>

NOTE L – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events for recognition and disclosure through June 5, 2018, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2017 that required recognition or disclosure in the financial statements.

Subsequent to year end, the Organization renegotiated the terms of their promissory note (see Note G) with the terms retroactive for the fiscal year ended December 31, 2017.