# SIGN FRACTURE CARE INTERNATIONAL

## Financial Statements and Independent Auditors' Report

## December 31, 2020 and 2019

## CONTENTS

NW CPA Northwest CPA Group PLLC

Certified Public Accountants

1333 Columbia Park Trail, Suite 210
Richland, WA 99352

Telephone: (509) 735-1300
Facsimile: (509) 735-1311

# INDEPENDENT AUDITORS' REPORT

Board of Directors
SIGN Fracture Care International
Richland, Washington

***Report on the Financial Statements***

We have audited the accompanying financial statements of SIGN Fracture Care International (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 auditors consider 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 SIGN Fracture Care International as of December 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Northwest CPA Group PLLC

Tri-Cities, Washington
June 16, 2021

# SIGN Fracture Care International
## Statements of Financial Position

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| ***ASSETS*** | | |
| *CURRENT ASSETS:* | | |
| Cash and cash equivalents | $ 2,516,120 | $ 2,200,446 |
| Accounts receivable | 146,801 | 69,051 |
| Pledges receivable, *current* | 227,500 | 1,520,900 |
| Prepaid expenses and other current assets | 95,950 | 95,225 |
| Inventories | 1,047,601 | 872,479 |
| Investments | 4,496,124 | 3,450,428 |
| Total current assets | 8,530,096 | 8,208,529 |
| *LAND, BUILDING, AND EQUIPMENT:* | | |
| Manufacturing equipment | 2,150,107 | 2,007,751 |
| Furniture and office equipment | 292,112 | 289,954 |
| Building and improvements | 3,122,688 | 2,894,636 |
| | 5,564,907 | 5,192,341 |
| Less accumulated depreciation | 2,727,810 | 2,533,103 |
| | 2,837,097 | 2,659,238 |
| Land | 880,000 | 880,000 |
| | 3,717,097 | 3,539,238 |
| *OTHER ASSETS:* | | |
| Intangible asset, *less accumulated amortization of $11,964 and $9,582, respectively* | 14,918 | 17,300 |
| Pledges receivable, *noncurrent, net of discounts of $2,107 and $5,621, respectively* | 167,893 | 184,379 |
| | 182,811 | 201,679 |
| | $ 12,430,004 | $ 11,949,446 |
| ***LIABILITIES AND NET ASSETS*** | | |
| *CURRENT LIABILITIES:* | | |
| Accounts payable | $ 55,967 | $ 64,630 |
| Accrued salaries, benefits, and taxes | 126,379 | 94,016 |
| Accrued vacation | 226,060 | 166,226 |
| Total current liabilities | 408,406 | 324,872 |
| *COMMITMENTS* | | |
| *NET ASSETS:* | | |
| Net assets without donor restrictions | | |
| Undesignated | 9,806,606 | 8,269,533 |
| Board designated | 1,350,000 | 1,350,000 |
| | 11,156,606 | 9,619,533 |
| Net assets with donor restrictions | 864,992 | 2,005,041 |
| Total net assets | 12,021,598 | 11,624,574 |
| | $ 12,430,004 | $ 11,949,446 |

See accompanying notes to financial statements.

# SIGN Fracture Care International
# Statement of Activities
# Year Ended December 31, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| *REVENUES AND SUPPORT:* | | | |
| Contributions | $ 2,534,443 | $ 510,031 | $ 3,044,474 |
| In-kind contributions | 2,651,380 | - | 2,651,380 |
| Implant revenue | 866,158 | - | 866,158 |
| Rental income | 70,730 | - | 70,730 |
| Paycheck Protection Program grant | 641,500 | - | 641,500 |
| Other revenue | 20,418 | - | 20,418 |
| | 6,784,629 | 510,031 | 7,294,660 |
| Net assets released from restrictions | 1,650,080 | (1,650,080) | - |
| | 8,434,709 | (1,140,049) | 7,294,660 |
| *EXPENSES:* | | | |
| Program services | 6,853,095 | - | 6,853,095 |
| Management and general | 464,031 | - | 464,031 |
| Fundraising | 493,399 | - | 493,399 |
| Property management | 17,783 | - | 17,783 |
| | 7,828,308 | - | 7,828,308 |
| *CHANGES IN NET ASSETS BEFORE OTHER INCOME (EXPENSES)* | 606,401 | (1,140,049) | (533,648) |
| *OTHER INCOME (EXPENSES):* | | | |
| Realized/unrealized gain on investments | 866,826 | - | 866,826 |
| Dividend income | 47,255 | - | 47,255 |
| Interest income | 33,955 | - | 33,955 |
| Investment fees | (15,718) | - | (15,718) |
| Loss on obsolete inventory | (343) | - | (343) |
| Loss on disposal of equipment | (1,303) | - | (1,303) |
| | 930,672 | - | 930,672 |
| *CHANGES IN NET ASSETS* | 1,537,073 | (1,140,049) | 397,024 |
| *NET ASSETS, BEGINNING OF YEAR* | 9,619,533 | 2,005,041 | 11,624,574 |
| *NET ASSETS, END OF YEAR* | $ 11,156,606 | $ 864,992 | $ 12,021,598 |

# SIGN Fracture Care International
# Statement of Activities
# Year Ended December 31, 2019

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| *REVENUES AND SUPPORT:* | | | |
| Contributions | $ 4,546,631 | $ 1,606,613 | $ 6,153,244 |
| In-kind contributions | 3,077,087 | - | 3,077,087 |
| Implant revenue | 903,768 | - | 903,768 |
| Rental income | 42,130 | - | 42,130 |
| Conference registration | 14,826 | - | 14,826 |
| Other revenue | 25,167 | - | 25,167 |
| | 8,609,609 | 1,606,613 | 10,216,222 |
| Net assets released from restrictions | 858,523 | (858,523) | - |
| | 9,468,132 | 748,090 | 10,216,222 |
| *EXPENSES:* | | | |
| Program services | 7,623,034 | - | 7,623,034 |
| Management and general | 421,151 | - | 421,151 |
| Fundraising | 618,148 | - | 618,148 |
| Property management | 7,762 | - | 7,762 |
| | 8,670,095 | - | 8,670,095 |
| *CHANGES IN NET ASSETS BEFORE OTHER INCOME (EXPENSES)* | 798,037 | 748,090 | 1,546,127 |
| *OTHER INCOME (EXPENSES):* | | | |
| Realized/unrealized gain on investments | 624,425 | - | 624,425 |
| Dividend income | 60,560 | - | 60,560 |
| Interest income | 40,778 | - | 40,778 |
| Investment fees | (14,588) | - | (14,588) |
| Loss on obsolete inventory | (429) | - | (429) |
| Loss on disposal of equipment | (700) | - | (700) |
| | 710,046 | - | 710,046 |
| *CHANGES IN NET ASSETS* | 1,508,083 | 748,090 | 2,256,173 |
| *NET ASSETS, BEGINNING OF YEAR* | 8,111,450 | 1,256,951 | 9,368,401 |
| *NET ASSETS, END OF YEAR* | $ 9,619,533 | $ 2,005,041 | $ 11,624,574 |

## SIGN Fracture Care International
## Statement of Functional Expenses
## Year Ended December 31, 2020

| | Program Services | | | | | |
|---|---|---|---|---|---|---|
| | Cost of Products | Education | Management and General | Fundraising | Property Management | Total |
| Wages and benefits | $ 1,473,946 | $ 553,341 | $ 389,007 | $ 381,451 | $ - | $ 2,797,745 |
| Cost of product distributed | 1,703,214 | - | - | - | - | 1,703,214 |
| Medical supplies and equipment (Note 8) | 1,334,738 | - | - | - | - | 1,334,738 |
| In-kind professional services | 370,620 | 722,200 | - | - | - | 1,092,820 |
| Supplies | 150,042 | 35,750 | 12,210 | 30,776 | - | 228,778 |
| Shipping | 128,532 | - | - | - | - | 128,532 |
| Depreciation | 68,913 | 9,692 | 5,920 | 6,450 | 17,678 | 108,653 |
| Grants | - | 105,673 | - | - | - | 105,673 |
| Dues, fees, and taxes | 21,365 | 5,537 | 22,066 | 13,809 | - | 62,777 |
| Outside services | 9,171 | 1,544 | 16,411 | 25,292 | - | 52,418 |
| Minor equipment | 32,633 | 7,085 | 360 | 2,151 | - | 42,229 |
| Repairs and maintenance | 26,218 | 3,647 | 2,735 | 2,703 | 105 | 35,408 |
| Special events | - | - | - | 18,910 | - | 18,910 |
| Rent | 9,008 | 6,156 | 567 | 560 | - | 16,291 |
| Travel | 1,237 | 11,923 | 72 | 1,886 | - | 15,118 |
| Insurance | 8,069 | 2,431 | 1,823 | 1,802 | - | 14,125 |
| Telephone and internet | 7,300 | 2,200 | 1,649 | 1,630 | - | 12,779 |
| Conferences | - | 1,300 | - | - | - | 1,300 |
| Miscellaneous | 28,684 | 10,926 | 11,211 | 5,979 | - | 56,800 |
| | $ 5,373,690 | $ 1,479,405 | $ 464,031 | $ 493,399 | $ 17,783 | $ 7,828,308 |

See accompanying notes to financial statements.

# SIGN Fracture Care International
# Statement of Functional Expenses
# Year Ended December 31, 2019

| | Program Services | | | | | |
|---|---|---|---|---|---|---|
| | Cost of Products | Education | Management and General | Fundraising | Property Management | Total |
| Wages and benefits | $ 1,526,151 | $ 344,402 | $ 326,589 | $ 417,647 | $ - | $ 2,614,789 |
| Medical supplies and equipment (Note 8) | 2,062,667 | - | - | - | - | 2,062,667 |
| Cost of product distributed | 2,048,305 | - | - | - | - | 2,048,305 |
| In-kind professional services | 335,065 | 501,396 | - | - | - | 836,461 |
| Supplies | 108,681 | 18,474 | 13,029 | 54,015 | 37 | 194,236 |
| Conferences | - | 183,255 | - | - | - | 183,255 |
| Shipping | 117,092 | - | - | - | - | 117,092 |
| Depreciation | 57,246 | 7,859 | 5,253 | 8,217 | 7,317 | 85,892 |
| Travel | 9,167 | 56,363 | 1,210 | 10,162 | - | 76,902 |
| Grants | - | 71,934 | - | - | - | 71,934 |
| Dues, fees, and taxes | 20,320 | 3,703 | 26,316 | 14,251 | - | 64,590 |
| Outside services | 8,808 | 8,010 | 16,216 | 30,052 | - | 63,086 |
| Special events | - | - | - | 61,624 | - | 61,624 |
| Repairs and maintenance | 40,041 | 3,441 | 3,037 | 4,317 | 408 | 51,244 |
| Rent | 10,692 | 6,688 | 1,137 | 4,616 | - | 23,133 |
| Insurance | 9,316 | 2,073 | 1,829 | 2,600 | - | 15,818 |
| Telephone and internet | 8,287 | 1,844 | 1,627 | 2,313 | - | 14,071 |
| Minor equipment | 10,782 | 297 | 1,204 | 373 | - | 12,656 |
| Miscellaneous | 33,917 | 6,758 | 23,704 | 7,961 | - | 72,340 |
| | $ 6,406,537 | $ 1,216,497 | $ 421,151 | $ 618,148 | $ 7,762 | $ 8,670,095 |

# SIGN Fracture Care International
# Statements of Cash Flows

| | Years Ended December 31, 2020 | 2019 |
|---|---|---|
| ***INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS*** | | |
| *CASH FLOWS FROM OPERATING ACTIVITIES:* | | |
| Cash received from operations, contributions and other sources | $ 5,875,416 | $ 6,300,791 |
| Cash paid to vendors and employees | (5,168,828) | (5,195,123) |
| Interest and dividends received | 81,210 | 101,338 |
| Net cash provided by operating activities | 787,798 | 1,207,006 |
| *CASH FLOWS FROM INVESTING ACTIVITIES:* | | |
| Purchases of investments | (884,503) | (391,522) |
| Proceeds from sale of investments | 772,508 | 934,737 |
| Capital purchases | (360,129) | (2,815,105) |
| Capitalized patent fees | - | (3,960) |
| Net cash used in investing activities | (472,124) | (2,275,850) |
| *NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS* | 315,674 | (1,068,844) |
| *CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR* | 2,200,446 | 3,269,290 |
| *CASH AND CASH EQUIVALENTS, END OF YEAR* | $ 2,516,120 | $ 2,200,446 |

See accompanying notes to financial statements.

| | Years Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| ***Reconciliation of Changes in Net Assets to Net Cash Provided by Operating Activities:*** | | |
| Changes in net assets | $ 397,024 | $ 2,256,173 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 246,967 | 219,487 |
| Amortization | 2,382 | 2,125 |
| Realized/unrealized gain on investments | (866,826) | (624,425) |
| Donations of stock | (66,875) | (63,826) |
| Donations of equipment | (66,000) | - |
| Loss on disposal of equipment | 1,303 | 700 |
| Decrease (increase) in assets: | | |
| Accounts receivable | (77,750) | 11,445 |
| Pledges receivable | 1,309,886 | (849,789) |
| Prepaid expenses and other current assets | (725) | (30,000) |
| Inventories | (175,122) | 243,849 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (8,663) | 31,122 |
| Accrued salaries, benefits, and taxes | 32,363 | 17,958 |
| Accrued vacation | 59,834 | (7,813) |
| Total adjustments | 390,774 | (1,049,167) |
| Net cash provided by operating activities | $ 787,798 | $ 1,207,006 |

***NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:***

*Organization:*

SIGN Fracture Care International (SIGN) is a nonprofit corporation incorporated under the laws of the State of Washington in 1999. SIGN (the Organization) is an international humanitarian orthopaedic organization dedicated to equipping surgeons in developing countries with the skills and tools required to treat disabling bone fractures. Ninety percent of these types of injuries occur in developing countries, yet eighty percent of the trained orthopaedic surgeons live in developed countries. To alleviate this inequality of access to proper care, the Organization provides ongoing education and training to surgeons in developing countries through conferences, disbursement of educational material, and surgical training provided by North American and international surgeons. To complement the training, the Organization also designs, manufactures, and donates or sells at cost, orthopaedic implants for use in hospitals that treat the poor.

*Summary of Significant Accounting Policies*:

*Basis of presentation* – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

*Cash and cash equivalents* – For the purpose of the statements of financial position and cash flows, the Organization considers highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value. Cash and cash equivalent balances may exceed federally insured limits by the Federal Deposit Insurance Corporation for brief periods; management monitors bank account balances to minimize risk.

*Accounts receivable* – Accounts receivable are carried at their original amount, less an estimate made for doubtful accounts based on a review of all outstanding amounts on an annual basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off to the allowance when considered uncollectible. No allowance was deemed necessary at December 31, 2020 or 2019. Recoveries of receivables previously written off are recorded when received.

*Pledges receivable* – Unconditional promises to give are included in the accompanying financial statements as pledges receivable and donation revenue. Promises to give are written off to the allowance when considered uncollectible. No allowance was deemed necessary at December 31, 2020 or 2019.

*Inventories* – Inventories are stated at the lower of cost (determined on the average cost basis) or net realizable value. Finished goods and work-in-process inventory includes labor and manufacturing overhead.

***NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):***

*Summary of Significant Accounting Policies (continued):*

*Investments* – The Organization records investments in marketable securities with readily determinable market values at their fair values in the statements of financial position. Investment securities consist of a highly diversified portfolio of stocks, mutual funds, and corporate bond funds. Unrealized gains and losses are included in the changes in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investments are initially recorded at cost if purchased or, if donated, are recorded at the fair market value at the date of the gift. The investments in marketable securities are subject to market risk.

*Property and equipment* – Property and equipment purchased by the Organization are recorded at cost. Donated equipment is recorded at fair value as of the date of the gift. Items of less than $5,000 are charged to expense as minor equipment or supplies. Depreciation is computed using the straight-line method over the estimated useful lives of the equipment, ranging from 3 to 39 years. Depreciation expense for the years ended December 31, 2020 and 2019, was $246,967 and $219,487, respectively.

*Intangible asset* – The intangible asset consists of costs associated with a patent and are amortized over the life of the patent. Amortization expense for the years ended December 31, 2020 and 2019, was $2,382 and $2,125, respectively.

*Net assets* – Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and net asset changes are classified and reported as follows:

> *Net assets without donor restrictions*: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Board of Directors has designated, from net assets without donor restrictions, net assets for an operating reserve. These net assets may be used at the discretion of the Board of Directors.

***NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):***

*Summary of Significant Accounting Policies (continued):*

*Net assets (continued):*

*Net assets with donor restrictions*: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as net assets without donor restrictions. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and when the assets are subsequently placed in service.

*Revenue recognition – contributions*:

*Contributions* – Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

*In-kind contributions* – Donated goods are recorded at their estimated fair value when received. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation. Gifts of property and equipment, and gifts of cash to be used to acquire property and equipment, are reported as restricted support, and classified to net assets without donor restrictions when placed into service.

*Revenue recognition – contracts with customers*:

Revenue is recognized based on a five-step model. For customer contracts, the Organization identifies the performance obligations (products or service), determines the transaction price, allocates the contract transaction price to the performance obligations, and recognizes the revenue when the performance obligation is fulfilled, which is when the product is received by the customer or when the services are provided to the customer, depending on specific terms of the arrangement. The Organization's revenue that is recognized over time consists of performance obligations that are satisfied within one year or less.

***NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):***

*Summary of Significant Accounting Policies (continued):*

*Revenue recognition (continued):*

*Implant revenue* – The Organization derives revenues from the sale of orthopaedic nails and implants to hospitals in developing countries. Revenues for these sales are recognized when control of the products is transferred to customers (at shipment), in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those products. The Organization considers all shipping and handling to be fulfillment activities and not a separate performance obligation. Incidental items that are immaterial in the context of the contract are recognized as expense. The Organization does not have any significant financing components as payment is received at or shortly after shipment.

Accounts receivable from implant sales were as follows:

| | 2020 | 2019 |
|---|---|---|
| Beginning of year | $ 69,051 | $ 80,496 |
| End of year | 146,801 | 69,051 |

*Rental income* – The Organization recognizes revenue from rental agreements ratably over the contract period. See Note 9 for detailed description of lease agreements in effect for the years ended December 31, 2020 and 2019.

*Conference registration* – Annually, the Organization holds a conference for physicians from developing countries to share skills and to learn about the SIGN method. The Organization requires payment for attendance, which offsets the cost of holding the conference. Conference registration revenue is recognized when the conference takes place. Due to the COVID-19 pandemic, there was no conference held during the year ended December 31, 2020.

*Federal income tax* – The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Internal Revenue Code Section 501(c)(3). The Organization is not a private foundation under Section 509(a) of the Code. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

Management has evaluated the Organization's tax positions and concluded that the Organization has taken no uncertain tax positions that require adjustments to the financial statements.

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

## *NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):*

*Summary of Significant Accounting Policies (continued):*

*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 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.

*Allocation of expenses* – The costs of program and supporting service activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Wages and benefits are allocated based upon estimated time spent; rent is allocated based upon square footage used; supplies, depreciation, dues, fees, taxes, repairs and maintenance, and minor equipment are allocated based upon estimated usage; and insurance is allocated based upon the specific policies utilized. All other expenses are allocated based on actual expenses.

*Financial instruments* – At December 31, 2020 and 2019, the carrying values of the Organization's financial instruments approximated fair value.

*Accounting pronouncements effective in future periods* – In February 2016, Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, *Leases* (Topic 842). This update increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. The Organization's management is currently in the process of evaluating the impact of the adoption of this ASU on the financial statements.

## *NOTE 2 – LIQUIDITY AND AVAILABILITY:*

The Organization regularly monitors liquidity required to meet its operating needs and other commitments while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, pledges receivable, and long-term investments.

The Board of Directors has enacted a liquidity policy in order to build and maintain an adequate level of net assets without restrictions to support the Organization's day-to-day operations in the event of unforeseen shortfalls in the form of an operating reserve fund. The target minimum amount in the reserve fund is equal to three months of average recurring operating costs, which will be calculated and re-evaluated on a regular basis. The Board designated operating reserve can be made available to meet operating needs, if necessary.

***NOTE 2 – LIQUIDITY AND AVAILABILITY (continued):***

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

The Organization's financial assets available for general expenditure within one year of the balance sheet date are as follows:

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Cash and cash equivalents | $ 2,516,120 | $ 2,200,446 |
| Accounts receivable | 146,801 | 69,051 |
| Pledges receivable | 395,393 | 1,705,279 |
| Investments | 4,496,124 | 3,450,428 |
| Total financial assets | 7,554,438 | 7,425,204 |
| Less amounts not available to be used within one year: | | |
| Donor imposed restrictions: | | |
| Funds subject to purpose restrictions | 469,599 | 299,762 |
| Funds subject to time restrictions | 167,893 | 184,379 |
| Financial assets available to meet cash needs for general expenditures within one year prior to board designated operating reserve | 6,916,946 | 6,941,063 |
| Less internal designations: | | |
| Operating reserve | 1,350,000 | 1,350,000 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 5,566,946 | $ 5,591,063 |

***NOTE 3 – PLEDGES RECEIVABLE:***

The Organization's pledges receivable consisted of unconditional promises to give and are due as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Receivable in less than one year | $ 227,500 | $ 1,520,900 |
| Receivable in one to five years | 170,000 | 190,000 |
| | 397,500 | 1,710,900 |
| Less: | | |
| Discount to net present value | 2,107 | 5,621 |
| | $ 395,393 | $ 1,705,279 |

Unconditional promises to give, due in more than one year, are reflected at the present value of estimated future cash flows using a discount rate of 1.00%.

***NOTE 4 – INVENTORIES:***

The following is a summary of the components of inventory:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Raw materials | $ 274,185 | $ 222,443 |
| Work in process | 112,065 | 108,942 |
| Finished goods | 661,351 | 541,094 |
| Total inventories | $ 1,047,601 | $ 872,479 |

During the years ended December 31, 2020 and 2019, the Organization reduced the finished goods inventory by $343 and $429, respectively, for a lower of cost or market adjustment caused by inventory becoming obsolete.

***NOTE 5 – INVESTMENTS:***

Accounting standards establish a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

***NOTE 5 – INVESTMENTS (continued):***

The Organization utilizes the fair value hierarchy to prioritize the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 – Quoted prices are available in active markets for identical investments as of the measurement date. The Organization does not adjust the quoted price for these investments.

Level 2 – Pricing inputs are observable for the investments, either directly or indirectly, as of the measurement date, but are not the same as those used in Level 1. Fair value is determined through quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire measurement in the hierarchy.

Investments measured at fair value on a recurring basis consisted of the following at December 31, 2020:

| | Fair Value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Total | Cost |
| Common stock and mutual funds: | | | | |
| Materials | $ 59,956 | $ - | $ 59,956 | $ 48,185 |
| Telecommunication services | 375,643 | - | 375,643 | 193,937 |
| Consumer discretionary | 690,339 | - | 690,339 | 147,822 |
| Consumer staples | 64,055 | - | 64,055 | 52,075 |
| Real estate | 97,986 | - | 97,986 | 87,454 |
| Energy | 44,825 | - | 44,825 | 45,399 |
| Financial | 368,739 | - | 368,739 | 300,575 |
| Health care | 417,120 | - | 417,120 | 331,044 |
| Information technology | 692,807 | - | 692,807 | 254,720 |
| Industrials | 259,984 | - | 259,984 | 178,407 |
| Utilities | 26,075 | - | 26,075 | 20,999 |
| Corporate bonds | - | 1,398,595 | 1,398,595 | 1,367,655 |
| | $ 3,097,529 | $ 1,398,595 | $ 4,496,124 | $ 3,028,272 |

***NOTE 5 – INVESTMENTS (continued):***

Investments measured at fair value on a recurring basis consisted of the following at December 31, 2019:

| | Fair Value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Total | Cost |
| Common stock and mutual funds: | | | | |
| Telecommunication services | $ 308,327 | $ - | $ 308,327 | $ 166,903 |
| Consumer discretionary | 405,454 | - | 405,454 | 139,373 |
| Real estate | 69,158 | - | 69,158 | 70,869 |
| Energy | 122,274 | - | 122,274 | 180,131 |
| Financial | 730,176 | - | 730,176 | 581,806 |
| Health care | 288,751 | - | 288,751 | 303,199 |
| Information technology | 367,087 | - | 367,087 | 126,704 |
| Industrials | 221,094 | - | 221,094 | 194,657 |
| Corporate bonds | - | 938,107 | 938,107 | 927,251 |
| | $ 2,512,321 | $ 938,107 | $ 3,450,428 | $ 2,690,893 |

Investments classified as Level 1 have publicly traded values, which are based on current quoted market prices provided by custodians. Investments classified as Level 2 are publicly traded in a quoted market although not necessarily on a daily basis. Fair values are provided primarily by custodians and are based on pricing models that incorporate available trade, bid, and other market information.

There were no Level 3 investments as of December 31, 2020 or 2019.

***NOTE 6 – NET ASSET DESIGNATIONS AND RESTRICTIONS:***

A portion of the Organization's net assets without donor restriction was designated by the Board of Directors for a specific purpose as follows:

| | December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Operating reserve | $ 1,350,000 | $ 1,350,000 |

***NOTE 6 – NET ASSET DESIGNATIONS AND RESTRICTIONS (continued):***

Net assets with donor restrictions consisted of the following:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Subject to expenditure for specified purpose: | | |
| WHH – Expand Orthopaedic Educational Opportunities | $ 107,500 | $ - |
| Mapuor Schooling | 91,149 | 86,649 |
| Procedural Learning and Bioskills Lab | 87,766 | - |
| Spine Project | 85,103 | 84,103 |
| Skin Graft Project | 35,054 | 5,058 |
| Wyss Conference Grant | 28,450 | - |
| WHH – Pelvic Fracture Fellowship | 10,902 | 35,402 |
| SIGN Clorpactin Project | 8,498 | - |
| Limb Deformity - Training | 5,000 | - |
| CURE Children's Hospital | 4,700 | - |
| Samburu County Referral Hospital | 1,989 | 1,921 |
| Nangarhar Baghter Hospital | 1,892 | - |
| Panag'angay, Pagpakabana Sa Pagpanambal | 856 | 856 |
| Al Ahli Arab Hospital | 740 | - |
| Limb Deformity | - | 25,000 |
| Pyay General Hospital | - | 19,000 |
| Dawei General Hospital | - | 19,000 |
| Muhimbili National Hospital | - | 13,860 |
| Hospital Diospi Suyana | - | 6,000 |
| St. Walburg's Hospital | - | 1,486 |
| SIM Galmi Hospital | - | 1,026 |
| Scheer Memorial Hospital | - | 401 |
| Subject to passage of time: | | |
| Pledges receivable | 395,393 | 1,705,279 |
| | $ 864,992 | $ 2,005,041 |

***NOTE 6 – NET ASSET DESIGNATIONS AND RESTRICTIONS (continued):***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Satisfaction of purpose restriction: | | |
| Limb deformity - Karakin grant | $ 25,000 | $ - |
| WHH – Pelvic Fracture Fellowship | 24,500 | 17,552 |
| Mapour - South Sudan | 20,500 | - |
| Dawei General Hospital | 19,000 | - |
| Pyay General Hospital | 19,000 | - |
| Muhimbili National Hospital | 13,860 | - |
| Chinhoyi Provincial | 6,000 | - |
| Samburu County Referral Hospital | 1,921 | - |
| St. Walburg's Hospital | 1,486 | - |
| SIM Galmi Hospital | 1,026 | - |
| Scheer Memorial Hospital | 401 | - |
| Asia programs, new programs, second sets and implants | - | 271,000 |
| Mapuor Schooling | - | 42,563 |
| Meiktila General Hospital | - | 9,200 |
| Monywa General Hospital | - | 9,200 |
| Scalpel at the Cross | - | 2,051 |
| Nyanza Provincial General Hospital | - | 2,000 |
| Grande International Hospital | - | 1,995 |
| Philippines – Tebow/Valera | - | 1,604 |
| Traveling set - Myanmar | - | 1,000 |
| Bethesda Hospital | - | 147 |
| Expiration of time restrictions: | | |
| Pledges receivable | 1,517,386 | 500,211 |
| | $ 1,650,080 | $ 858,523 |

***NOTE 7 – PAYCHECK PROTECTION PROGRAM LOAN:***

On April 17, 2020, the Organization received $641,500 from Umpqua Bank under the Paycheck Protection Program (PPP). The PPP was included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed by the United States Congress in response to the COVID-19 crisis. The PPP authorizes forgivable loans to small businesses to incentivize retention of employees during the pandemic. The forgivable portion was determined based on the Organization's use of funds during the 24-week period after receiving the loan.

On December 9, 2020, the Organization was notified that the full loan amount was forgiven. The Organization has elected to account for the loan as a grant that is recognized as revenue as qualifying expenses are incurred. As such, the entire PPP loan has been recognized as revenue during the year ended December 31, 2020.

***NOTE 8 – IN-KIND CONTRIBUTIONS:***

The Organization receives a significant amount of donated goods and services from volunteers. Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation. Orthopaedic surgeons have donated their time to assist in training surgeons around the world on SIGN implant surgeries. The fair value of these services is included in professional services below.

In-kind contributions consisted of the following:

| | Years Ended December 31, | |
|---|---|---|
| | 2020 | 2019 |
| Medical supplies and equipment | $ 1,334,738 | $ 2,062,667 |
| Professional services | 1,092,820 | 836,461 |
| Engineering and production supplies | 73,782 | 60,132 |
| Engineering equipment | 66,000 | - |
| Stock donations | 66,875 | 63,846 |
| Educational travel costs | 11,765 | 36,131 |
| Facility rent | 5,400 | 5,400 |
| Fundraising supplies | - | 12,450 |
| | $ 2,651,380 | $ 3,077,087 |

***NOTE 9 – LEASE COMMITMENTS AND INCOME:***

*Lease income:* The Organization began leasing part of the building to a tenant on February 1, 2019, under an operating lease expiring in December 2023. The lease requires monthly payments of $5,300 and includes an option to renew for five additional one-year terms.

Projected rental receipts are as follows:

| Years Ending December 31, | Amount |
|---|---|
| 2021 | $ 63,600 |
| 2022 | 63,600 |
| 2023 | 63,600 |

The Organization leases workspace in Portland, Oregon, under an annual lease with a board member. The lease renews automatically on its anniversary date but can be terminated by either party with 60 days written notice. The lease has a monthly fair value of $950 and requires monthly payments of $500. Donated rent from the board member was $5,400 for each year ended December 31, 2020 and 2019.

The Organization also leases office equipment under an operating lease. The lease requires monthly payments of $225 and expires December 2023.

Future minimum lease payments are as follows (excluding in-kind rent donation):

| Years Ending December 31, | Amount |
|---|---|
| 2021 | $ 8,700 |
| 2022 | 2,700 |
| 2023 | 2,700 |

The total rent expense for the years ended December 31, 2020 and 2019, was $18,953 and $28,454, respectively.

***NOTE 10 – SELF INSURANCE:***

The Organization has elected to opt-out of participation in the Washington State Employment Security Program. The Organization instead utilizes a third-party administrator (the Trust) to manage unemployment claims. Contributions to the Trust are accumulated and used to pay claims made by past employees. The Organization could be required to make additional payments if claims exceed the accumulated contributions. As of December 31, 2020 and 2019, the prepaid insurance balance was $56,911 and $55,217, respectively, and is included in prepaid expenses. The ultimate costs of claims are accrued when billed. Although the liability cannot be estimated, the Organization's management believes the ultimate liability will not have a material adverse effect on their financial position or activities.

***NOTE 11 – RETIREMENT PLAN:***

The Organization sponsors a 401(k)-profit sharing plan. The 401(k) plan covers eligible employees and allows them to contribute to the plan on a tax-deferred basis. The Organization contributes a matching amount, not to exceed 4% of the participant's compensation for the plan year. Profit sharing contributions are made at the discretion of the Organization. For the years ended December 31, 2020 and 2019, the Organization incurred retirement expense of $115,466 and $106,679, respectively.

***NOTE 12 – CONCENTRATIONS:***

Two donors accounted for 24% and 57% of contribution revenue (net of discount on pledges receivable) during the years ended December 31, 2020 and 2019, respectively. Two donors accounted for 74% and 97% of pledges receivable as of December 31, 2020 and 2019, respectively.

***NOTE 13 – RISKS AND UNCERTAINTIES:***

In March 2020, the federal government and the state of Washington issued guidelines for businesses to limit personal working conditions due to the virus COVID-19. The impact of these guidelines is widespread and specific impacts on the Organization, its donors, customers, vendors, and lessees cannot be predicted. Management is closely monitoring the situation and is limiting any potential negative impacts and disruptions to operations within their control. However, COVID-19 may affect the future revenue and expenses, as well as the recognition and measurement of assets and liabilities, of the Organization.

***NOTE 14 – SUBSEQUENT EVENTS:***

On February 25, 2021, the Organization received $675,130 from Umpqua Bank as a second draw under the Paycheck Protection Program (PPP). The forgivable portion of this loan will be determined based on the Organization's use of funds during the 24-week period after receiving the loan. Management expects the entire second draw PPP loan to be forgiven during the year ended December 31, 2021. However, if any amount is not forgiven, it will be due by February 2023. Specific repayment terms will be dependent on various future events related to the loan forgiveness process.

Subsequent events have been evaluated by management through June 16, 2021, which is the date the financial statements were available to be issued.