

Medical Bridges, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2015 and 2014

Independent Auditors' Report

To the Board of Directors of
Medical Bridges, Inc.:

We have audited the accompanying financial statements of Medical Bridges, Inc., which comprise the statements of financial position as of December 31, 2015 and 2014 and the related statements of activities and of 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 our audits 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medical Bridges, Inc. as of December 31, 2015 and 2014 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.



May 18, 2016

Medical Bridges, Inc.

Statements of Financial Position as of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 44,099	\$ 76,765
Pledges receivable	2,250	20,000
Inventory of donated medical supplies and equipment	1,792,507	2,555,864
Property, net (<i>Note 2</i>)	<u>735,677</u>	<u>720,764</u>
TOTAL ASSETS	<u>\$ 2,574,533</u>	<u>\$ 3,373,393</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 61,790	\$ 1,099
Deferred revenue	69,890	114,490
Note payable (<i>Note 3</i>)	<u>111,858</u>	<u>90,848</u>
Total liabilities	<u>243,538</u>	<u>206,437</u>
Net assets:		
Unrestricted (<i>Note 4</i>)	2,237,489	3,062,901
Temporarily restricted (<i>Note 5</i>)	<u>93,506</u>	<u>104,055</u>
Total net assets	<u>2,330,995</u>	<u>3,166,956</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,574,533</u>	<u>\$ 3,373,393</u>

See accompanying notes to financial statements.

Medical Bridges, Inc.

Statements of Activities for the years ended December 31, 2015 and 2014

	2015			2014		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:						
Contributions of medical supplies and equipment <i>(Note 6)</i>	\$ 7,123,162		\$ 7,123,162	\$ 7,503,908		\$ 7,503,908
Loss on valuation of inventory of donated medical supplies and equipment	(165,692)		(165,692)	(268,799)		(268,799)
Contributions	172,881	\$ 115,800	288,681	353,369	\$ 111,405	464,774
Special events	220,578		220,578	258,385		258,385
Direct donor benefit costs of special events	(70,548)		(70,548)	(74,821)		(74,821)
Shipping and handling fees	<u>543,355</u>		<u>543,355</u>	<u>556,839</u>		<u>556,839</u>
Total revenue	7,823,736	115,800	7,939,536	8,328,881	111,405	8,440,286
Net assets released from restrictions:						
Expenditures for program purposes	<u>126,349</u>	<u>(126,349)</u>		<u>113,409</u>	<u>(113,409)</u>	
Total	<u>7,950,085</u>	<u>(10,549)</u>	<u>7,939,536</u>	<u>8,442,290</u>	<u>(2,004)</u>	<u>8,440,286</u>
EXPENSES:						
Program expenses:						
Shipments of medical supplies and equipment <i>(Note 6)</i>	7,720,827		7,720,827	6,891,827		6,891,827
Distribution and warehousing	<u>688,602</u>		<u>688,602</u>	<u>607,775</u>		<u>607,775</u>
Total program expenses	8,409,429		8,409,429	7,499,602		7,499,602
Management and general	229,522		229,522	219,782		219,782
Fundraising	<u>136,546</u>		<u>136,546</u>	<u>171,236</u>		<u>171,236</u>
Total expenses	<u>8,775,497</u>		<u>8,775,497</u>	<u>7,890,620</u>		<u>7,890,620</u>
CHANGES IN NET ASSETS	(825,412)	(10,549)	(835,961)	551,670	(2,004)	549,666
Net assets, beginning of year	<u>3,062,901</u>	<u>104,055</u>	<u>3,166,956</u>	<u>2,511,231</u>	<u>106,059</u>	<u>2,617,290</u>
Net assets, end of year	<u>\$ 2,237,489</u>	<u>\$ 93,506</u>	<u>\$ 2,330,995</u>	<u>\$ 3,062,901</u>	<u>\$ 104,055</u>	<u>\$ 3,166,956</u>

See accompanying notes to financial statements.

Medical Bridges, Inc.

Statements of Cash Flows for the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (835,961)	\$ 549,666
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	27,322	30,023
Changes in operating assets and liabilities:		
Pledges receivable	17,750	1,000
Inventory of donated medical supplies and equipment	763,357	(342,893)
Accounts payable and accrued expenses	60,691	(26,398)
Deferred revenue	<u>(44,600)</u>	<u>(35,346)</u>
Net cash provided (used) by operating activities	<u>(11,441)</u>	<u>176,052</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(8,672)</u>	<u>(71,399)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable		231,121
Repayment of note payable	<u>(12,553)</u>	<u>(305,000)</u>
Net cash used by financing activities	<u>(12,553)</u>	<u>(73,879)</u>
NET CHANGE IN CASH	(32,666)	30,774
Cash, beginning of year	<u>76,765</u>	<u>45,991</u>
Cash, end of year	<u>\$ 44,099</u>	<u>\$ 76,765</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$3,913	\$6,675
Vehicle financed with note payable	\$34,829	

See accompanying notes to financial statements.

Medical Bridges, Inc.

Notes to Financial Statements for the years ended December 31, 2015 and 2014

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Medical Bridges, Inc. (Medical Bridges) is a non-profit organization whose mission is to bridge the healthcare gap by procuring medical, dental and surgical supplies and equipment for redistribution to qualified organizations and medical missions primarily in the developing world. Medical Bridges is located in Houston, Texas and receives donations of medical supplies and equipment from hospitals, clinics, physician’s offices, medical supply companies, home health agencies, and private individuals.

Federal income tax status – Medical Bridges is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts that are expected to be collected in more than one year are discounted, if material, to estimate the present value of future cash flows. At December 31, 2015, all pledges are due within one year.

Inventory of donated medical supplies and equipment is reported at the lower of cost or market value. The cost of donated inventory is based upon estimated fair value at the date of the gift.

Property is reported at cost if purchased and at fair value at the date of gift if donated. Depreciation is provided on a straight-line basis over estimated useful lives of 39 years for buildings and improvements and 5 to 7 years for furniture, equipment, and vehicles.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support.

Non-cash contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. The related expense is recognized as the donated medical supplies and equipment is distributed by Medical Bridges. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Shipping and handling fees are recognized as revenue when the shipments have been processed and shipped to their overseas locations. Fees received in advance are reported as deferred revenue.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. Medical Bridges is required to, and plans to adopt for fiscal year 2018 using an appropriate retrospective method. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – PROPERTY

Property is comprised of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 96,313	\$ 96,313
Buildings and improvements	769,413	769,413
Furniture and equipment	121,934	121,934
Vehicles	<u>47,234</u>	<u>42,929</u>
Total property, at cost	1,034,894	1,030,589
Accumulated depreciation	<u>(299,217)</u>	<u>(309,825)</u>
Property, net	<u>\$ 735,677</u>	<u>\$ 720,764</u>

NOTE 3 – NOTE PAYABLE

Medical Bridges has an unsecured \$175,000 business line of credit with a bank expiring May 1, 2019, with an interest rate of 5% at December 31, 2015. At December 31, 2015 and 2014, \$78,295 and \$90,848, respectively, was outstanding under this line of credit. Medical Bridges entered into a vehicle financing loan in 2015. The balance due on this note is \$33,563 at December 31, 2015. The loan is due in November 2020, with approximate annual payments of \$6,800.

NOTE 4 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2015</u>	<u>2014</u>
Undesignated	\$ (257,132)	\$ (213,727)
Inventory of donated medical supplies and equipment	1,792,507	2,555,864
Property, net of debt	<u>702,114</u>	<u>720,764</u>
Total unrestricted net assets	<u>\$ 2,237,489</u>	<u>\$ 3,062,901</u>

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Transportation – operating and maintenance of vehicles	\$ 73,115	\$ 84,596
Containers to Bolivia, Guatemala, and Kenya	16,000	6,000
Time restricted for future periods	2,250	10,000
Other	<u>2,141</u>	<u>3,459</u>
Total temporarily restricted net assets	<u>\$ 93,506</u>	<u>\$ 104,055</u>

NOTE 6 – DONATED SUPPLIES, EQUIPMENT AND SERVICES

Medical supplies and equipment distributed by Medical Bridges are received through donations from individuals and healthcare organizations. The estimated fair value of the donations of medical supplies and equipment is based upon the wholesale list value for new items and resale values listed by local and national dealers for used equipment. The estimated fair value of these contributions is recognized in the financial statements as inventory and contribution revenue. As the medical supplies and equipment are distributed, program expenses are recognized.

Contributed services – A substantial number of volunteers have contributed significant amounts of time in connection with program services, administration, and clerical support for which no amount has been recognized in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles. One volunteer's services did meet the criteria for recognition under generally accepted accounting principles. Those services were connected to program services and are valued at \$100,000.

NOTE 7 – MANAGEMENT'S PLANS

Medical Bridges has experienced operating deficits in recent years which has required their use of the line of credit to fund operating costs in periods of negative operating cash. Since the end of the fiscal year, Medical Bridges doubled the line of credit available to \$350,000 in April 2016, received approximately \$270,000 through May of 2016 in shipping and processing fees, and management forecasts generating fees for the remainder of the year to cover operating costs. During 2016,

management will concentrate on generating multi-shipment, multi-year container-shipment agreements and believes that this strategy along with improved fundraising tactics will develop revenue streams resulting in less dependence on the line of credit.

NOTE 8 – SUBSEQUENT EVENTS

Subsequent to December 31, 2015, Medical Bridges drew down an additional \$93,000 under its line of credit.

Management has evaluated subsequent events through May 18, 2016, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
