

**Medical Bridges, Inc.**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2018 and 2017

# Medical Bridges, Inc.

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## 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, 2018 and 2017 and the related statements of activities and of cash flows for the years then ended, the related statement of functional expenses for the year ended December 31, 2018, 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, 2018 and 2017 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.

### **Adoption of New Accounting Standard**

As discussed in Note 2 to the financial statements, Medical Bridges, Inc. adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended December 31, 2017, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

*Blazek & Vetterling*

May 15, 2019

## Medical Bridges, Inc.

### Statements of Financial Position as of December 31, 2018 and 2017

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|  | <u>2018</u>             | <u>2017</u>             |
|--|-------------------------|-------------------------|
| ASSETS   |                         |                         |
| Cash   | \$ 21,212               | \$ 150,922              |
| Inventory of donated medical supplies and equipment (Note 9) | 3,496,238               | 1,862,696               |
| Contributions receivable (Note 4)                            | 307,500                 | 10,500                  |
| Property, net (Note 5)                                       | <u>654,060</u>          | <u>691,279</u>          |
| <br>TOTAL ASSETS   | <br><u>\$ 4,479,010</u> | <br><u>\$ 2,715,397</u> |
| LIABILITIES AND NET ASSETS                                   |                         |                         |
| Liabilities:   |                         |                         |
| Accounts payable and accrued expenses                        | \$ 9,665                | \$ 26,436               |
| Deferred revenue   | 103,195                 | 19,928                  |
| Note payable (Note 6)  | <u>294,681</u>          | <u>351,007</u>          |
| Total liabilities  | <u>407,541</u>          | <u>397,371</u>          |
| Net assets:  |                         |                         |
| Without donor restrictions (Note 7)                          | 3,664,969               | 2,225,469               |
| With donor restrictions (Note 8)                             | <u>406,500</u>          | <u>92,557</u>           |
| Total net assets   | <u>4,071,469</u>        | <u>2,318,026</u>        |
| <br>TOTAL LIABILITIES AND NET ASSETS                         | <br><u>\$ 4,479,010</u> | <br><u>\$ 2,715,397</u> |

*See accompanying notes to financial statements.*

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## Medical Bridges, Inc.

### Statements of Activities for the years ended December 31, 2018 and 2017

|  | 2018                          |                            |                     | 2017                          |                            |                     |
|--|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
|  | WITHOUT DONOR<br>RESTRICTIONS | WITH DONOR<br>RESTRICTIONS | TOTAL               | WITHOUT DONOR<br>RESTRICTIONS | WITH DONOR<br>RESTRICTIONS | TOTAL               |
| <b>REVENUE:</b>  |                               |                            |                     |                               |                            |                     |
| Contributions of medical supplies and equipment <i>(Note 9)</i>          | \$ 7,062,101                  |                            | \$ 7,062,101        | \$ 7,408,725                  |                            | \$ 7,408,725        |
| Loss on valuation of inventory of donated medical supplies and equipment | (81,794)                      |                            | (81,794)            | (9,228)                       |                            | (9,228)             |
| Contributions  | 238,568                       | \$ 405,000                 | 643,568             | 223,118                       | \$ 170,757                 | 393,875             |
| Special events   | 213,640                       |                            | 213,640             | 305,531                       |                            | 305,531             |
| Direct donor benefit costs of special events                             | (52,293)                      |                            | (52,293)            | (59,818)                      |                            | (59,818)            |
| Shipping and handling fees   | <u>401,117</u>                |                            | <u>401,117</u>      | <u>546,157</u>                |                            | <u>546,157</u>      |
| Total revenue  | 7,781,339                     | 405,000                    | 8,186,339           | 8,414,485                     | 170,757                    | 8,585,242           |
| Net assets released from restrictions:                                   |                               |                            |                     |                               |                            |                     |
| Expenditures for program purposes  | 66,057                        | (66,057)                   |                     | 91,190                        | (91,190)                   |                     |
| Expiration of time restrictions  | 25,000                        | (25,000)                   |                     |                               |                            |                     |
| Donor re-designation of restrictions                                     |                               |                            |                     | 98,894                        | (98,894)                   |                     |
| Equipment acquisition expenditures                                       |                               |                            |                     | <u>12,785</u>                 | <u>(12,785)</u>            |                     |
| Total  | <u>7,872,396</u>              | <u>313,943</u>             | <u>8,186,339</u>    | <u>8,617,354</u>              | <u>(32,112)</u>            | <u>8,585,242</u>    |
| <b>EXPENSES:</b>   |                               |                            |                     |                               |                            |                     |
| Program services:  |                               |                            |                     |                               |                            |                     |
| Shipments of medical supplies and equipment <i>(Note 9)</i>              | 5,346,765                     |                            | 5,346,765           | 7,294,661                     |                            | 7,294,661           |
| Distribution and warehousing   | <u>575,799</u>                |                            | <u>575,799</u>      | <u>714,682</u>                |                            | <u>714,682</u>      |
| Total program services   | 5,922,564                     |                            | 5,922,564           | 8,009,343                     |                            | 8,009,343           |
| Management and general   | 331,184                       |                            | 331,184             | 232,126                       |                            | 232,126             |
| Fundraising  | <u>179,148</u>                |                            | <u>179,148</u>      | <u>185,718</u>                |                            | <u>185,718</u>      |
| Total expenses   | <u>6,432,896</u>              |                            | <u>6,432,896</u>    | <u>8,427,187</u>              |                            | <u>8,427,187</u>    |
| CHANGES IN NET ASSETS  | 1,439,500                     | 313,943                    | 1,753,443           | 190,167                       | (32,112)                   | 158,055             |
| Net assets, beginning of year <i>(Note 2)</i>                            | <u>2,225,469</u>              | <u>92,557</u>              | <u>2,318,026</u>    | <u>2,035,302</u>              | <u>124,669</u>             | <u>2,159,971</u>    |
| Net assets, end of year  | <u>\$ 3,664,969</u>           | <u>\$ 406,500</u>          | <u>\$ 4,071,469</u> | <u>\$ 2,225,469</u>           | <u>\$ 92,557</u>           | <u>\$ 2,318,026</u> |

*See accompanying notes to financial statements.*

## Medical Bridges, Inc.

### Statement of Functional Expenses for the year ended December 31, 2018

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|  | PROGRAM<br>SERVICES | MANAGEMENT<br>AND<br>GENERAL | FUNDRAISING       | TOTAL               |
|--|---------------------|------------------------------|-------------------|---------------------|
| Shipments of medical supplies<br>and equipment | \$ 5,346,765        |                              |                   | \$ 5,346,765        |
| Payroll and related benefits                   | 443,933             | \$ 174,450                   | \$ 118,923        | 737,306             |
| Professional services                          |                     | 97,243                       | 22,100            | 119,343             |
| Office supplies and expense                    | 32,163              | 14,527                       | 3,155             | 49,845              |
| Depreciation                                   | 12,407              | 12,406                       | 12,406            | 37,219              |
| Insurance                                      | 16,266              | 3,741                        | 3,465             | 23,472              |
| Communications                                 | 10,925              | 5,659                        | 4,833             | 21,417              |
| Utilities                                      | 16,766              | 1,958                        | 1,265             | 19,989              |
| Interest expense                               | 490                 | 16,847                       |                   | 17,337              |
| Postage and printing                           | 8,490               | 98                           | 7,034             | 15,622              |
| Transportation                                 | 12,143              |                              |                   | 12,143              |
| Contract labor                                 | 11,573              |                              |                   | 11,573              |
| Repair and maintenance                         | 10,643              | 210                          |                   | 10,853              |
| Other  |                     | 4,045                        | 5,967             | 10,012              |
| Total expenses                                 | <u>\$ 5,922,564</u> | <u>\$ 331,184</u>            | <u>\$ 179,148</u> | 6,432,896           |
| Direct donor benefit costs of special events   |                     |                              |                   | <u>52,293</u>       |
| Total  |                     |                              |                   | <u>\$ 6,485,189</u> |

*See accompanying notes to financial statements.*

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## Medical Bridges, Inc.

### Statements of Cash Flows for the years ended December 31, 2018 and 2017

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|   | <u>2018</u>      | <u>2017</u>       |
|---|------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                  |                   |
| Changes in net assets   | \$ 1,753,443     | \$ 158,055        |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: |                  |                   |
| Depreciation  | 37,219           | 34,601            |
| Changes in operating assets and liabilities:  |                  |                   |
| Contributions receivable  | (297,000)        | 6,500             |
| Inventory of donated medical supplies and equipment   | (1,633,542)      | (32,052)          |
| Accounts payable and accrued expenses   | (16,771)         | (12,138)          |
| Deferred revenue  | <u>83,267</u>    | <u>(76,314)</u>   |
| Net cash provided (used) by operating activities  | <u>(73,384)</u>  | <u>78,652</u>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                  |                   |
| Purchases of property   |                  | <u>(12,787)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                  |                   |
| Proceeds from note payable  | 486,334          | 491,259           |
| Repayment of note payable   | <u>(542,660)</u> | <u>(431,112)</u>  |
| Net cash provided (used) by financing activities  | <u>(56,326)</u>  | <u>60,147</u>     |
| NET CHANGE IN CASH  | (129,710)        | 126,012           |
| Cash, beginning of year   | <u>150,922</u>   | <u>24,910</u>     |
| Cash, end of year   | <u>\$ 21,212</u> | <u>\$ 150,922</u> |
| <i>Supplemental disclosure of cash flow information:</i>  |                  |                   |
| Interest paid   | \$17,337         | \$19,953          |

*See accompanying notes to financial statements.*

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## Medical Bridges, Inc.

Notes to Financial Statements for the years ended December 31, 2018 and 2017

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### 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).

Contributions 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.

Inventory of donated medical supplies and equipment is reported at cost. The cost of donated inventory is based upon the estimated fair value at the date of 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 – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

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.

Functional allocation of expenses – Expenses are reported by their functional classification as program services or supporting activities. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to one or more program or supporting activities are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation and occupancy costs are allocated based on estimated square footage. Utilities and information technology costs are allocated based on estimates of time and costs of specific utilities and technology utilized.

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 adopt this ASU for fiscal year 2019 using an appropriate retrospective method. Medical Bridges has not yet determined the impact of adopting this ASU on its financial statements.

## **NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14**

Medical Bridges adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended December 31, 2018. These amendments have been applied on a retrospective basis to the financial statements for the year ended December 31, 2017, except that information regarding liquidity and availability of resources and presentation of expenses by both nature and function has been omitted as permitted by the ASU. Adoption of this ASU resulted in the addition of a statement of functional expenses for 2018 and additional disclosures and renaming of net asset classifications to conform to the 2018 presentation. These changes had no impact on total net assets or total changes in net assets for 2017.

### NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 comprise the following:

|   |                   |
|---|-------------------|
| Financial assets at December 31, 2018:                                |                   |
| Cash  | \$ 21,212         |
| Contributions receivable  | <u>307,500</u>    |
| Total financial assets  | 328,712           |
| Less financial assets not available for general expenditure:          |                   |
| Restricted by donors for use in future periods or for future projects | <u>(150,000)</u>  |
| Total financial assets available for general expenditure              | <u>\$ 178,712</u> |

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Medical Bridges considers all expenditures related to its ongoing mission of bridging the healthcare gap worldwide by procuring and distributing medical supplies and equipment to underserved communities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Medical Bridges regularly monitors liquidity required to meet its operating needs and other contractual commitments. The organization has various sources of liquidity at its disposal, including cash, contributions receivable, and a \$350,000 equity line of credit with an available balance of \$68,789 as of December 31, 2018. Medical Bridges has utilized its line of credit to fund operating costs in periods of negative operating cash with a policy to pay down the balance as cash is available. Management continues to focus on reducing dependency on the line of credit. In the first quarter of 2019, Medical Bridges has entered into approximately \$433,000 of multi-shipment contracts and management believes that increased shipments are working to develop revenue streams which will result in less dependence on the equity line of credit. Medical Bridges expects to fund general expenditures in excess of financial assets available to meet cash needs with future contributions and earned revenue.

### NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2018 are expected to be collected as follows:

|                                |                   |
|--------------------------------|-------------------|
| 2019                           | \$ 157,500        |
| 2020                           | <u>150,000</u>    |
| Total contributions receivable | <u>\$ 307,500</u> |

*Concentration* – At December 31, 2018, approximately 98% of contributions receivable is due from one donor.

**NOTE 5 – PROPERTY**

Property is comprised of the following:

|                            | <u>2018</u>       | <u>2017</u>       |
|----------------------------|-------------------|-------------------|
| Land                       | \$ 96,313         | \$ 96,313         |
| Buildings and improvements | 769,413           | 769,413           |
| Furniture and equipment    | 144,019           | 144,019           |
| Vehicles                   | <u>47,234</u>     | <u>47,234</u>     |
| Total property, at cost    | 1,056,979         | 1,056,979         |
| Accumulated depreciation   | <u>(402,919)</u>  | <u>(365,700)</u>  |
| Property, net              | <u>\$ 654,060</u> | <u>\$ 691,279</u> |

**NOTE 6 – NOTE PAYABLE**

Medical Bridges has a \$350,000 business line of credit with a bank, collateralized by property, expiring April 25, 2021, with an interest rate of 5% at December 31, 2018. At December 31, 2018 and 2017, \$281,211 and \$330,538, respectively, was outstanding under this line of credit. Medical Bridges has one outstanding vehicle financing loan totaling \$13,470 and \$20,433 December 31, 2018 and 2017, respectively.

Notes payable are due to be repaid as follows:

|       |                   |
|-------|-------------------|
| 2019  | \$ 7,000          |
| 2020  | 6,470             |
| 2021  | <u>281,211</u>    |
| Total | <u>\$ 294,681</u> |

**NOTE 7 – NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions are comprised of the following:

|   | <u>2018</u>         | <u>2017</u>         |
|---|---------------------|---------------------|
| Property and equipment, net                         | \$ 640,590          | \$ 670,810          |
| Inventory of donated medical supplies and equipment | 3,496,238           | 1,862,696           |
| Undesignated deficit                                | <u>(471,859)</u>    | <u>(308,037)</u>    |
| Total net assets without donor restrictions         | <u>\$ 3,664,969</u> | <u>\$ 2,225,469</u> |

## NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

|   | <u>2018</u>                 | <u>2017</u>                 |
|---|-----------------------------|-----------------------------|
| Subject to expenditure for specified purpose:   |                             |                             |
| Medical supplies and equipment shipments  | \$ 49,000                   | \$ 60,057                   |
| Transportation – operating and maintenance of vehicles  | <u>                    </u> | <u>10,500</u>               |
| Total subject to expenditure for specified purpose  | <u>49,000</u>               | <u>70,557</u>               |
| Subject to passage of time:   |                             |                             |
| Gala in future years  | 150,000                     | 22,000                      |
| Contributions receivable that are not restricted by donors,<br>but which are unavailable for expenditures until due | <u>207,500</u>              | <u>                    </u> |
| Total subject to passage of time  | <u>357,500</u>              | <u>22,000</u>               |
| Total net assets with donor restrictions  | <u>\$ 406,500</u>           | <u>\$ 92,557</u>            |

## NOTE 9 – 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.

## NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 15, 2019, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.