

Medical Bridges, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2019 and 2018

Medical Bridges, Inc.

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of December 31, 2019 and 2018	3
Statements of Activities for the years ended December 31, 2019 and 2018	4
Statement of Functional Expenses for the year ended December 31, 2019	5
Statement of Functional Expenses for the year ended December 31, 2018	6
Statements of Cash Flows for the years ended December 31, 2019 and 2018	7
Notes to Financial Statements for the years ended December 31, 2019 and 2018	8

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, 2019 and 2018 and the related statements of activities, of functional expenses, 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, 2019 and 2018 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 Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

June 9, 2020

Medical Bridges, Inc.

Statements of Financial Position as of December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash	\$ 84,648	\$ 21,212
Inventory of donated medical supplies and equipment (Note 8)	1,337,602	3,496,238
Contributions receivable	155,600	307,500
Property, net (Note 4)	<u>617,694</u>	<u>654,060</u>
TOTAL ASSETS	<u>\$ 2,195,544</u>	<u>\$ 4,479,010</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,436	\$ 9,665
Advanced contributions for shipments	25,112	69,195
Note payable (Note 5)	<u>303,112</u>	<u>294,681</u>
Total liabilities	<u>333,660</u>	<u>373,541</u>
Net assets:		
Without donor restrictions (Note 6)	1,647,284	3,698,969
With donor restrictions (Note 7)	<u>214,600</u>	<u>406,500</u>
Total net assets	<u>1,861,884</u>	<u>4,105,469</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,195,544</u>	<u>\$ 4,479,010</u>

See accompanying notes to financial statements.

Medical Bridges, Inc.

Statements of Activities for the years ended December 31, 2019 and 2018

	2019			2018		
	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:						
Contributions of medical supplies and equipment <i>(Note 8)</i>	\$ 6,420,829		\$ 6,420,829	\$ 7,062,101		\$ 7,062,101
Loss on valuation of inventory of donated medical supplies and equipment	(256,639)		(256,639)	(81,794)		(81,794)
Contributions restricted for shipments <i>(Note 9)</i>		\$ 514,250	514,250		\$ 385,164	385,164
Contributions	188,578	10,000	198,578	238,568	405,000	643,568
Special events	260,705		260,705	213,640		213,640
Direct donor benefit costs of special events	(52,283)		(52,283)	(52,293)		(52,293)
Other income				49,953		49,953
Total revenue	6,561,190	524,250	7,085,440	7,430,175	790,164	8,220,339
Net assets released from restrictions:						
Expenditures for program purposes	514,250	(514,250)		451,221	(451,221)	
Expiration of time restrictions	201,900	(201,900)		25,000	(25,000)	
Total	7,277,340	(191,900)	7,085,440	7,906,396	313,943	8,220,339
EXPENSES:						
Program services:						
Shipments of medical supplies and equipment <i>(Note 8)</i>	8,258,477		8,258,477	5,346,765		5,346,765
Distribution and warehousing	665,521		665,521	575,799		575,799
Total program services	8,923,998		8,923,998	5,922,564		5,922,564
Management and general	264,182		264,182	331,184		331,184
Fundraising	140,845		140,845	179,148		179,148
Total expenses	9,329,025		9,329,025	6,432,896		6,432,896
CHANGES IN NET ASSETS	(2,051,685)	(191,900)	(2,243,585)	1,473,500	313,943	1,787,443
Net assets, beginning of year	3,698,969	406,500	4,105,469	2,225,469	92,557	2,318,026
Net assets, end of year	\$ 1,647,284	\$ 214,600	\$ 1,861,884	\$ 3,698,969	\$ 406,500	\$ 4,105,469

See accompanying notes to financial statements.

Medical Bridges, Inc.

Statement of Functional Expenses for the year ended December 31, 2019

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Shipments of medical supplies and equipment	\$ 8,312,525			\$ 8,312,525
Payroll and related benefits	391,206	\$ 193,504	\$ 75,930	660,640
Office supplies and expense	47,044	6,294	1,901	55,239
Repair and maintenance	52,893			52,893
Professional services		20,720	21,550	42,270
Depreciation	12,122	12,122	12,122	36,366
Postage and printing	25,135	183	4,904	30,222
Communications	17,501	6,146	5,687	29,334
Utilities	18,077	1,859	1,241	21,177
Insurance	15,095	2,875	2,981	20,951
Transportation	16,882			16,882
Interest expense		12,164		12,164
Contract labor	11,746			11,746
Other	<u>3,772</u>	<u>8,315</u>	<u>14,529</u>	<u>26,616</u>
Total expenses	<u>\$ 8,923,998</u>	<u>\$ 264,182</u>	<u>\$ 140,845</u>	9,329,025
Direct donor benefit costs of special events				<u>52,283</u>
Total				<u>\$ 9,381,308</u>

See accompanying notes to financial statements.

Medical Bridges, Inc.

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

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Shipments of medical supplies and equipment	\$ 5,346,765			\$ 5,346,765
Payroll and related benefits	443,933	\$ 174,450	\$ 118,923	737,306
Office supplies and expense	32,163	14,527	3,155	49,845
Repair and maintenance	10,643	210		10,853
Professional services		97,243	22,100	119,343
Depreciation	12,407	12,406	12,406	37,219
Postage and printing	8,490	98	7,034	15,622
Communications	10,925	5,659	4,833	21,417
Utilities	16,766	1,958	1,265	19,989
Insurance	16,266	3,741	3,465	23,472
Transportation	12,143			12,143
Interest expense	490	16,847		17,337
Contract labor	11,573			11,573
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.

Medical Bridges, Inc.

Statements of Cash Flows for the years ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (2,243,585)	\$ 1,787,443
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	36,366	37,219
Changes in operating assets and liabilities:		
Contributions receivable	151,900	(297,000)
Inventory of donated medical supplies and equipment	2,158,636	(1,633,542)
Accounts payable and accrued expenses	(4,229)	(16,771)
Advanced contributions for shipments	<u>(44,083)</u>	<u>49,267</u>
Net cash provided (used) by operating activities	<u>55,005</u>	<u>(73,384)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	609,375	486,334
Repayment of note payable	<u>(600,944)</u>	<u>(542,660)</u>
Net cash provided (used) by financing activities	<u>8,431</u>	<u>(56,326)</u>
NET CHANGE IN CASH	63,436	(129,710)
Cash, beginning of year	<u>21,212</u>	<u>150,922</u>
Cash, end of year	<u>\$ 84,648</u>	<u>\$ 21,212</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$12,164	\$17,337

See accompanying notes to financial statements.

Medical Bridges, Inc.

Notes to Financial Statements for the years ended December 31, 2019 and 2018

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. At December 31, 2019, 96% of contributions receivable is due from one donor and all are due within one year.

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 *with donor restrictions*. Conditional contributions are subject to one or more barriers that must be overcome before Medical Bridges is entitled to receive or retain the funding. Conditional contributions are recognized in the same manner when the conditions have been met. Funding received before the conditions are met is reported as advanced contributions for shipments.

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.

Special event revenue is the total amount paid by attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special events.

Functional allocation of expenses – Expenses are reported by their functional classification. 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 more than one activity 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.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATE 2016-14

Medical Bridges adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. Medical Bridges adopted the new standard effective January 1, 2018, using the retrospective method. Presentation and disclosures pertaining to the year ended December 31, 2018 have been updated as appropriate to conform to the new standards. Because the timing and amount of revenue recognized previously is different from revenue recognized under new guidance, adoption of this ASU resulted in an increase to *net assets with donor restrictions* and a decrease in deferred revenue of \$34,000 at December 31, 2018 and an increase in shipping and handling fees of \$34,000 for the year ended December 31, 2018. In addition, \$351,164 of revenue previously reported as shipping and handling revenue without donor restrictions was reclassified to with donor restrictions for the year ended December 31, 2018.

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 comprise the following:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash	\$ 84,648	\$ 21,212
Contributions receivable	<u>155,600</u>	<u>307,500</u>
Total financial assets	240,248	328,712
Less financial assets not available for general expenditure:		
Restricted by donors for use in future periods or for future projects	<u> </u>	<u>(150,000)</u>
Total financial assets available for general expenditure	<u>\$ 240,248</u>	<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 \$53,619 as of December 31, 2019. 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 December 2019, Medical Bridges received a conditional contribution for \$480,000 and management believes that increased shipments 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 for shipments and other contributions.

NOTE 4 – PROPERTY

Property is comprised of the following:

	<u>2019</u>	<u>2018</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>(439,285)</u>	<u>(402,919)</u>
Property, net	<u>\$ 617,694</u>	<u>\$ 654,060</u>

NOTE 5 – 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, 2019. At December 31, 2019 and 2018, \$296,381 and \$281,211, respectively, was outstanding under this line of credit. Medical Bridges has one outstanding vehicle financing loan totaling \$6,731 and \$13,470 at December 31, 2019 and 2018, respectively.

Notes payable are due to be repaid as follows:

2020	\$ 6,731
2021	<u>296,381</u>
Total	<u>\$ 303,112</u>

NOTE 6 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2019</u>	<u>2018</u>
Property and equipment, net	\$ 610,963	\$ 640,590
Inventory of donated medical supplies and equipment	1,337,602	3,496,238
Undesignated deficit	<u>(301,281)</u>	<u>(437,859)</u>
Total net assets without donor restrictions	<u>\$ 1,647,284</u>	<u>\$ 3,698,969</u>

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Medical supplies and equipment shipments	<u>\$ 49,000</u>	<u>\$ 49,000</u>
Subject to passage of time:		
Gala in future years	60,000	150,000
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	<u>105,600</u>	<u>207,500</u>
Total subject to passage of time	<u>165,600</u>	<u>357,500</u>
Total net assets with donor restrictions	<u>\$ 214,600</u>	<u>\$ 406,500</u>

NOTE 8 – 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 9 – CONTRIBUTIONS RESTRICTED FOR SHIPMENTS

Contributions restricted for shipment agreements are conditioned upon substantial completion of sourcing medical supplies and equipment and readying them for shipment. Medical Bridges entered into a conditional agreement in 2019 totaling \$480,000 that has not been recognized at December 31, 2019 because the conditions have not yet been met. The \$480,000 will be recognized as revenue when the conditions under the agreement have been met.

In 2019 and 2018, one contributor agreement represents 74% and 78%, respectively, of total contributions restricted for shipments.

NOTE 10 – SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and on March 13, 2020, a national emergency was declared in the United States. The extent of the impact of COVID-19 on Medical Bridges' operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on donors, employees, and vendors, all of which are uncertain and cannot be predicted. Therefore, while Medical Bridges expects this matter to negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Medical Bridges has pursued and been approved for financial relief under legislation passed by the Federal government through a forgivable loan totaling \$107,900. There are no assurances that this loan will be forgiven in total.

Management has evaluated subsequent events through June 9, 2020, 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.
