

**HOSPITAL SISTERS
MISSION OUTREACH CORPORATION**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

June 30, 2017
(with summarized information for 2016)



HOSPITAL SISTERS MISSION OUTREACH CORPORATION
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INDEPENDENT AUDITOR'S REPORT

To the Officers and Members of the
Hospital Sisters Mission Outreach Corporation

We have audited the accompanying financial statements of Hospital Sisters Mission Outreach Corporation, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 Hospital Sisters Mission Outreach Corporation as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Hospital Sisters Mission Outreach Corporation's 2016 financial statements, and our report dated August 16, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sikich LLP

Springfield, Illinois
August 16, 2017

FINANCIAL STATEMENTS

HOSPITAL SISTERS MISSION OUTREACH CORPORATION

STATEMENT OF FINANCIAL POSITION

June 30, 2017

(With Summarized Financial Information for June 30, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 911,818	\$ 670,575
Accounts receivable	16,539	24,064
Inventory	5,586,051	5,349,364
Other assets	3,871	3,655
Total current assets	<u>6,518,279</u>	<u>6,047,658</u>
EQUIPMENT		
Equipment, net of accumulated depreciation of \$130,139 and \$135,185	<u>22,081</u>	<u>40,969</u>
Total assets	<u>\$ 6,540,360</u>	<u>\$ 6,088,627</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 16,712	\$ 9,928
Deferred revenue	19,800	-
Total liabilities	<u>36,512</u>	<u>9,928</u>
NET ASSETS		
Unrestricted	6,283,121	5,979,957
Temporarily restricted	220,727	98,742
Total net assets	<u>6,503,848</u>	<u>6,078,699</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,540,360</u>	<u>\$ 6,088,627</u>

The accompanying Notes to these Financial Statements are an integral part of this statement.

HOSPITAL SISTERS MISSION OUTREACH CORPORATION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017
(With Summarized Financial Information for the Year Ended June 30, 2016)

	Unrestricted	Temporarily Restricted	Total	
			2017	2016
REVENUE				
Medical equipment and supply donations	\$ 6,666,851	\$ -	\$ 6,666,851	\$ 7,592,677
In-kind contributions - services, supplies and space	237,665	-	237,665	134,434
Membership contributions	330,060	-	330,060	369,885
Donations	480,817	121,985	602,802	585,876
Grant income	10,000	-	10,000	-
Shipping and handling income	292,480	-	292,480	298,782
Donated product recycling revenue	165,559	-	165,559	88,747
Investment income	2,065	-	2,065	1,441
Gain (loss) on sale of assets	(858)	-	(858)	3,588
Total revenue	<u>8,184,639</u>	<u>121,985</u>	<u>8,306,624</u>	<u>9,075,430</u>
EXPENSES				
Program services	7,492,056	-	7,492,056	7,254,913
Fundraising	268,125	-	268,125	326,901
Management and general	121,294	-	121,294	118,182
Total expenses	<u>7,881,475</u>	<u>-</u>	<u>7,881,475</u>	<u>7,699,996</u>
CHANGE IN NET ASSETS	303,164	121,985	425,149	1,375,434
NET ASSETS, BEGINNING OF YEAR	<u>5,979,957</u>	<u>98,742</u>	<u>6,078,699</u>	<u>4,703,265</u>
NET ASSETS, END OF YEAR	<u>\$ 6,283,121</u>	<u>\$ 220,727</u>	<u>\$ 6,503,848</u>	<u>\$ 6,078,699</u>

The accompanying Notes to these Financial Statements are an integral part of this statement.

HOSPITAL SISTERS MISSION OUTREACH CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2017
(With Summarized Financial Information for the Year Ended June 30, 2016)

	Program Services	Fundraising	Management and General	2017 Total	2016 Total
EXPENSES					
Product donations given	\$ 6,430,163	\$ -	\$ -	\$ 6,430,163	\$ 6,322,308
Contracted employees	584,047	161,816	35,598	781,461	696,425
Building rent	142,380	3,750	3,750	149,880	149,892
Office supplies	3,706	494	741	4,941	11,237
General supplies	61,018	-	-	61,018	35,970
Utilities	28,938	761	761	30,460	28,512
Telephone	5,846	668	167	6,681	5,795
Maintenance and repair	15,892	-	-	15,892	35,783
Contracted services	49,339	50,353	66,234	165,926	155,336
Professional fees	-	-	13,642	13,642	13,000
Insurance	11,020	290	290	11,600	15,196
Memberships/licenses/dues	2,123	330	111	2,564	1,623
Marketing and promotion	-	49,663	-	49,663	98,905
Workshops and conferences	13,898	-	-	13,898	9,388
Travel to collect donations	27,381	-	-	27,381	25,990
Travel-other	5,358	-	-	5,358	11,982
Shipping costs	92,917	-	-	92,917	67,859
Depreciation	18,030	-	-	18,030	14,795
TOTAL EXPENSES	\$ 7,492,056	\$ 268,125	\$ 121,294	\$ 7,881,475	\$ 7,699,996

The accompanying Notes to these Financial Statements are an integral part of this statement.

HOSPITAL SISTERS MISSION OUTREACH CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2017

(With Summarized Financial Information for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 425,149	\$ 1,375,434
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	18,030	14,795
Net loss (gain) on sale of equipment	858	(3,588)
Medical equipment and supply donations	(6,666,851)	(7,592,677)
Product donations given	6,430,163	6,322,308
(Increase) decrease in:		
Accounts receivable	7,525	6,163
Other assets	(216)	(621)
Increase (decrease) in:		
Accounts payable	6,784	(10,868)
Accrued liabilities	19,800	-
Net cash from operating activities	<u>241,242</u>	<u>110,946</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	-	(10,750)
Proceeds from sale of equipment	-	3,588
Net cash from investing activities	<u>-</u>	<u>(7,162)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	241,242	103,784
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>670,576</u>	<u>566,792</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 911,818</u></u>	<u><u>\$ 670,576</u></u>

The accompanying Notes to these Financial Statements are an integral part of this statement.

HOSPITAL SISTERS MISSION OUTREACH CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

1. SUMMARY OF OPERATIONS

Hospital Sisters Mission Outreach Corporation (Mission Outreach) is a not-for-profit organization created and organized by the Hospital Sisters of the Third Order Regular of St. Francis. Mission Outreach continues the Sister's mission through a medical equipment/supply recovery and distribution program. Mission Outreach addresses the serious unmet medical needs of people in developing countries by collecting, repairing, packaging, and distributing medical supplies and equipment to hospitals and clinics around the world.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of the financial statements in accordance 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates in the financial statements are inventory valuation, medical equipment and supply donations, product donations given, and depreciation. Actual results could differ from those estimates.

Accounts Receivable

Accounts receivable are comprised of miscellaneous member payments, shipping fees, and other items. Accounts receivable are considered to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

HOSPITAL SISTERS MISSION OUTREACH CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory is primarily comprised of medical equipment and supplies. Mission Outreach had two types of inventory on hand at June 30, 2017. This included priced inventory items and medical supplies valued by weight.

Mission Outreach utilized four inventory valuation methods during the year ended June 30, 2017. These methods include (1) current price located on a publicly available website if the inventory item is a match for the website item when donated; (2) percentage of the price located on a publicly available website if the item donated has been used but the item located online is new; (3) the highest of prices located on a publicly available website if Mission Outreach receives several of that category of item throughout the year, but the category of items ranges in price depending on model, size, etc.; or (4) for the items reflected in inventory based on weight, the average price per pound of the inventory received and donated during the year.

Equipment

Expenditures for equipment in excess of \$5,000 are capitalized. Purchased equipment is carried at cost. Donated equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method and all assets are depreciated using a five year useful life.

Net Assets

Revenues are reported as unrestricted unless explicit donor stipulations specify how or when the revenues may be used. Mission Outreach is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. During the year ended June 30, 2017, there were no permanently restricted net assets.

Unrestricted net assets represent resources over which the Board of Directors has discretionary control and are used to carry out the operations of Mission Outreach in accordance with its bylaws. Donations and bequests which are temporarily restricted but their restrictions are satisfied within the same year as they are received, are classified as unrestricted.

HOSPITAL SISTERS MISSION OUTREACH CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily restricted net assets represent purpose restrictions on resources currently available for use, but expendable only for those operating purposes specified by the donor or grantor. These resources originate from donations and grants. See Note 5.

Donations-In-Kind

Contributed medical equipment and supplies received by Mission Outreach are recorded as income and a corresponding increase to inventory. Donations-in-kind of medical equipment and supplies recognized in the financial statements for the year ended June 30, 2017 were \$6,666,851.

Contributed services for accounting, medical equipment repairs, and administrative services are recognized as in-kind revenues at the estimated fair value when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated; these amounted to \$131,066, for the year ended June 30, 2017. A portion of these services were provided by related parties as described in Note 6. Mission Outreach also received contributed items for fundraising auctions that totaled \$8,799 for the year ended June 30, 2017. Last, Mission Outreach received \$97,800 of donated space as described in Note 7.

Many individuals participated in the Mission Outreach volunteer program in many capacities. A dollar valuation of their efforts is not included in the financial statements since it does not meet the criteria for recognition. However, the estimated value for volunteer hours for the year ended June 30, 2017 was approximately \$157,268.

Membership Contributions

Membership contributions represent contributions made by hospitals and health clinics in support of the operations of Mission Outreach. For their contribution, hospitals and health clinics receive pick-up service for medical supplies and equipment which would otherwise be destined for a landfill. Revenue from these contributions for the year ended June 30, 2017 was \$330,060.

Shipping and Handling Income and Shipping Costs

Mission Outreach bills recipient organizations a handling fee for preparing a container, pallet or boxes for distribution. In addition, some recipient organizations have Mission Outreach coordinate shipping logistics. In these cases, Mission Outreach pays the shipping costs and bills the actual cost to the recipient organization. This activity is recorded on an accrual basis with unearned handling fees recorded as accrued liabilities. For the year ended June 30, 2017, shipping and handling income totaled \$292,480, while shipping costs were \$92,917.

HOSPITAL SISTERS MISSION OUTREACH CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Mission Outreach is a not-for-profit corporation exempt from Federal and state income taxes under Code Section 501(c)(3) of the Internal Revenue Code and similar provisions of State laws. In addition, Mission Outreach qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Subsequent Events

Mission Outreach has evaluated subsequent events through August 16, 2017, which was the date that these financial statements were available for issuance, and determined that there were no significant non-recognized subsequent events through that date.

Summarized Financial Information for 2016

The amounts shown for 2016, in the accompanying financial statements, are included to provide a basis for comparison for 2017 and present summarized totals only. Accordingly, the 2016 amounts are not intended to present all information necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America.

3. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject Mission Outreach to concentrations of credit risk consist principally of cash. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. Amounts over the FDIC insurance limit are insured by Security National Insurance Company. At June 30, 2017, there were no uninsured cash balances. There have been no losses on these accounts and Mission Outreach considers the risk to be minimal.

4. EQUIPMENT

Equipment consists of the following:

Furniture and equipment	\$ 13,500
Vehicles	<u>138,720</u>
	152,220
Accumulated depreciation	<u>(130,139)</u>
	<u>\$ 22,081</u>

Depreciation expense for the year ended June 30, 2017 was \$18,030.

HOSPITAL SISTERS MISSION OUTREACH CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

5. TEMPORARILY RESTRICTED NET ASSETS

Net assets of \$220,727 at June 30, 2017 are temporarily restricted for the following purposes: \$100,192 for providing assistance to the Country of Nepal to aid in earthquake relief efforts, \$119,825 for Haiti and \$710 for Damoh, India for shipping container expenses.

6. RELATED PARTY TRANSACTIONS

Mission Outreach had transactions with the Hospital Sisters of St. Francis - USA, Inc. (Hospital Sisters), a not-for-profit corporation. Mission Outreach leases its primary facility from the Hospital Sisters under a lease agreement described in Note 7. Mission Outreach has arrangements with the Hospital Sisters to provide contractual staff and other administrative services. Fees paid for contractual staff were \$765,080 for the year ended June 30, 2017, and administrative services provided at no charge were valued at \$80,078. Additionally, program services were provided by members of the Hospital Sisters of the Third Order Regular of St. Francis and valued at \$32,438.

Some contributions of medical equipment and supplies are received from hospitals associated with Hospital Sisters Health System, a not-for-profit corporation. Hospital Sisters Health System also makes membership contributions to Mission Outreach to offset the costs of operations. Membership contributions in the amount of \$96,480 were received from Hospital Sisters Health System for the year ended June 30, 2017. Additionally, HSHS and associated entities made donations in the amount of \$94,595 for the year ended June 30, 2017.

In addition, it is common for members of the Board of Directors of Mission Outreach and employees of Mission Outreach and related entities to contribute to Mission Outreach on an annual basis to support general operations or fundraising events. Contributions were received and recognized in the normal course of business using the same approval and measurement process as general donations and contributions.

7. RENT OBLIGATIONS

Mission Outreach has an operating lease for the use of a 23,000 square foot facility in Springfield, IL. The lease has a rate of \$8,150 per month and will automatically renew on July 1st each year for a period of 12 months unless one party gives at least 90 days-notice. In March 2016, Hospital Sisters of St. Francis – USA, Inc. committed to reduced rental rates for three years, effective July 1, 2016. For the year ending June 30, 2017, the rent was forgiven and the Mission Outreach recorded in-kind contribution revenue and building rent expense of \$97,800 for the value of the donated space. For the year ending June 30, 2018 rent payments will be \$24,450 and for the year ending June 30, 2019 rent payments will be \$48,900. The Mission Outreach will recognize in-kind contribution revenue and building rent expense for the difference between the cash rent payments and the lease rate stated in the lease agreement. Effective July 1, 2019 rent will revert to the stated lease rate. All other terms and conditions of the agreement remain.

HOSPITAL SISTERS MISSION OUTREACH CORPORATION
NOTES TO FINANCIAL STATEMENTS (Continued)

7. RENT OBLIGATIONS (Continued)

Effective September 1, 2014, Mission Outreach executed an operating lease for use of a 21,700 square foot facility in Springfield, IL. The lease has a rate of \$4,340 per month and expires August 31, 2016. In May 2016, Mission Outreach exercised an option to renew the lease at the existing rate and terms for an additional two years.

The future minimum lease payments are as follows:

<u>Year Ended June 30,</u>	
2018	\$ 52,080
2019	<u>8,680</u>
Total	<u>\$ 60,760</u>

Rental expense for all operating leases for the year ended June 30, 2017 was \$149,880.