

**HOSPITAL SISTERS
MISSION OUTREACH CORPORATION**

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

June 30, 2014
(with summarized information for 2013)

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 statement of financial position of Hospital Sisters Mission Outreach Corporation (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, 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 error or fraud.

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 as of June 30, 2014, 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's financial statements, and our report dated August 12, 2013, 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sidik LLP

Springfield, Illinois
August 13, 2014

FINANCIAL STATEMENTS

HOSPITAL SISTERS MISSION OUTREACH CORPORATION

STATEMENT OF FINANCIAL POSITION

June 30, 2014

(With Summarized Financial Information for June 30, 2013)

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 566,810	\$ 427,749
Accounts receivable	17,867	6,703
Inventory	2,939,149	2,872,721
Investments	-	295,200
Other assets	9,096	14,606
Total current assets	<u>3,532,922</u>	<u>3,616,979</u>
EQUIPMENT		
Equipment, net of accumulated depreciation of \$153,898 and \$154,967	<u>52,656</u>	<u>32,039</u>
TOTAL ASSETS	<u><u>\$ 3,585,578</u></u>	<u><u>\$ 3,649,018</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 14,842	\$ 12,732
Accrued liabilities	7,500	6,301
Unearned grant revenue	-	20,000
TOTAL LIABILITIES	<u>22,342</u>	<u>39,033</u>
NET ASSETS		
Unrestricted	3,537,548	3,594,985
Temporarily restricted	25,688	15,000
Total net assets	<u>3,563,236</u>	<u>3,609,985</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,585,578</u></u>	<u><u>\$ 3,649,018</u></u>

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

HOSPITAL SISTERS MISSION OUTREACH CORPORATION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2014
(With Summarized Financial Information for the Year Ended June 30, 2013)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2014</u>	<u>2013</u>
REVENUE				
Medical equipment and supply donations	\$ 4,793,099	\$ -	\$ 4,793,099	\$ 5,441,379
In-kind contributions	143,865	-	143,865	152,751
Support from related party	20,000	-	20,000	40,000
Membership contributions	283,474	-	283,474	280,258
Donations and bequests	308,397	25,688	334,085	323,292
Grant income	10,000	-	10,000	109,523
Shipping and handling income	291,539	-	291,539	265,388
Donated product recycling revenue	157,213	-	157,213	6,041
Investment income	2,732	-	2,732	6,523
Gain (loss) on sale of assets	(72)	-	(72)	600
Net assets released from restrictions	15,000	(15,000)	-	-
Total revenue	<u>6,025,247</u>	<u>10,688</u>	<u>6,035,935</u>	<u>6,625,755</u>
EXPENSES				
Program services	5,747,599	-	5,747,599	7,700,084
Fundraising	255,557	-	255,557	200,835
Management and general	79,528	-	79,528	51,265
Total expenses	<u>6,082,684</u>	<u>-</u>	<u>6,082,684</u>	<u>7,952,184</u>
CHANGE IN NET ASSETS	(57,437)	10,688	(46,749)	(1,326,429)
NET ASSETS, BEGINNING OF YEAR	<u>3,594,985</u>	<u>15,000</u>	<u>3,609,985</u>	<u>4,936,414</u>
NET ASSETS, END OF YEAR	<u>\$ 3,537,548</u>	<u>\$ 25,688</u>	<u>\$ 3,563,236</u>	<u>\$ 3,609,985</u>

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

HOSPITAL SISTERS MISSION OUTREACH CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2014
(With Summarized Financial Information for the Year Ended June 30, 2013)

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>2014 Total</u>	<u>2013 Total</u>
EXPENSES					
Product donations given	\$ 4,726,671	\$ -	\$ -	\$ 4,726,671	\$ 6,518,172
Contracted employees	513,363	173,197	32,560	719,120	754,338
Building rent	133,862	3,523	3,523	140,908	173,629
Office supplies	2,800	373	560	3,733	4,918
General supplies	45,221	-	-	45,221	58,131
Utilities	29,412	774	774	30,960	25,064
Telephone	5,673	648	162	6,483	7,226
Maintenance and repair	31,199	-	-	31,199	16,645
Contracted services	84,664	42,996	27,686	155,346	170,135
Professional fees	-	-	13,100	13,100	11,900
Insurance	14,515	381	381	15,277	15,849
Memberships/licenses/dues	1,123	574	105	1,802	471
Marketing and promotion	-	33,091	-	33,091	36,564
Workshops and conferences	11,981	-	-	11,981	7,283
Travel to collect donations	43,093	-	-	43,093	33,090
Travel-other	9,193	-	677	9,870	6,771
Postage	163	-	-	163	678
Garbage disposal	1,963	-	-	1,963	5,019
Shipping costs	78,691	-	-	78,691	93,202
Depreciation	14,012	-	-	14,012	13,099
TOTAL EXPENSES	<u>\$ 5,747,599</u>	<u>\$ 255,557</u>	<u>\$ 79,528</u>	<u>\$ 6,082,684</u>	<u>\$ 7,952,184</u>

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

HOSPITAL SISTERS MISSION OUTREACH CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2014

(With Summarized Financial Information for the Year Ended June 30, 2013)

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (46,749)	\$(1,326,429)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	14,012	13,099
Net realized and unrealized (gain) loss on investments	(313)	6,300
Net (gain) loss on sale of equipment	72	(600)
In-kind contributions	(66,428)	1,076,793
(Increase) decrease in:		
Accounts receivable	(11,164)	16,474
Other assets	5,510	(2,753)
Increase (decrease) in:		
Accounts payable	2,110	(1,653)
Accrued liabilities	1,199	(3,999)
Unearned grant advances	(20,000)	20,000
Net cash from operating activities	<u>(121,751)</u>	<u>(202,768)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(36,101)	-
Proceeds from sale of equipment	1,400	600
Proceeds from sales/maturities of investments	295,513	100,000
Net cash from investing activities	<u>260,812</u>	<u>100,600</u>
CHANGE IN CASH AND CASH EQUIVALENTS	139,061	(102,168)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>427,749</u>	<u>529,917</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 566,810</u>	<u>\$ 427,749</u>

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

HOSPITAL SISTERS MISSION OUTREACH CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

1. SUMMARY OF OPERATIONS

The 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 education and awareness programs and a medical equipment/supply recovery and distribution program.

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.

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid investments with maturity of three months or less are considered to be cash equivalents.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Mission Outreach had three types of inventory on hand at June 30, 2014. This included (1) priced inventory items; (2) medical supplies valued by weight; and (3) medical equipment awaiting testing to determine viability. Inventory is primarily comprised of medical equipment and supplies.

Mission Outreach utilized four inventory valuation methods during the year ended June 30, 2014. 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) an average 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 property and equipment in excess of \$3,000 are capitalized. Purchased property and equipment are carried at cost. Donated property and 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 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, 2014, 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 and grant income which are temporarily restricted but their restrictions are satisfied within the same year as they are received, are classified as unrestricted.

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 6.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014 were \$4,793,099.

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 \$143,865, for the year ended June 30, 2014. A portion of these services were provided by related parties 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, 2014 was approximately \$161,970

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, 2014 was \$283,474.

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, 2014, shipping and handling income totaled \$291,539, while shipping costs were \$78,691.

Income Taxes

Mission Outreach is a not-for-profit corporation exempt from Federal tax under Code Section 501(c)(3) for activities directly related to tax-exempt functions. Unrelated business income is subject to income tax. Mission Outreach had no unrelated business income during the year ended June 30, 2014. Mission Outreach is also exempt from state income taxes under similar provisions of state tax regulations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - Continued

In accordance with Financial Accounting Standards Board (FASB) ASC 740-10 which addresses income taxes, Mission Outreach believes there are no significant uncertain tax positions resulting in liabilities that would have been required to be recorded for the year ended June 30, 2014.

Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued or are available to be issued. These events and transactions either provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events), or provide evidence about conditions that did not exist at the date of the statement of financial position but arose after that date (that is, non-recognized subsequent events).

Mission Outreach has evaluated subsequent events through August 13, 2014, which was the date that these financial statements were available for issuance. Please refer to Note 9 for additional information regarding subsequent events for the year ended June 30, 2014.

Summarized Financial Information for 2013

The amounts shown for 2013, in the accompanying financial statements, are included to provide a basis for comparison for 2014 and present summarized totals only. Accordingly, the 2013 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.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year classifications.

3. CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject Mission Outreach to concentrations of credit risk consist principally of cash. Mission Outreach maintains its cash balances in multiple financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2014, there were no uninsured cash balances. There have been no losses on these accounts and Mission Outreach considers the risk to be minimal.

4. INVESTMENTS – FAIR VALUE MEASUREMENTS

Investment income for the year ended June 30, 2014 includes an increase in realized gains of \$313.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and equipment	\$ 56,734
Vehicles	<u>149,820</u>
	206,554
Accumulated depreciation	<u>(153,898)</u>
	<u>\$ 52,656</u>

Depreciation expense for the year ended June 30, 2014 was \$14,012.

6. TEMPORARILY RESTRICTED NET ASSETS

All restricted net assets at June 30, 2014 are temporarily restricted for the following purpose:

Phillipines	\$ 11,540
Truck/Trailer	<u>14,148</u>
	<u>\$ 25,688</u>

7. 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 8. Mission Outreach has arrangements with the Hospital Sisters to provide contractual staff and other administrative services. Fees paid for contractual staff were \$696,900 for the year ended June 30, 2014, and administrative services provided at no charge were valued at \$63,940. Additionally, program services were provided by members of the Hospital Sisters of the Third Order Regular of St. Francis and valued at \$46,984.

The Hospital Sisters made cash contributions to Mission Outreach of \$20,000 during the year ended June 30, 2014.

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 \$98,400 were received from Hospital Sisters Health System for the year ended June 30, 2014.

8. 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.

Effective September 30, 2103, Mission Outreach concluded an operating lease for a warehouse in Bedford Park, IL.

Effective November 1, 2013, Mission Outreach executed an operating lease for use of a 20,000 square foot facility in Springfield, IL. The lease has a rate of \$3,000 per month and expired June 30, 2014. Mission Outreach is currently holding over on this property and intends on vacating the property by August 31, 2014.

Rental expense for all operating leases for the year ended June 30, 2014 was \$140,908.

9. SUBSEQUENT EVENTS

During August 2014, Mission Outreach entered into an operating lease for use of a 21,700 square foot facility in Springfield, IL. The lease term is effective beginning September 1, 2014 and is for a period of three years. The rent is \$4,340 per month.

The future minimum lease payments are as follows:

Year Ended June 30,

2015	\$ 43,400
2016	52,080
2017	<u>8,680</u>
Total	<u>\$ 104,160</u>