

Medical Bridges, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2009 and 2008

Independent Auditors' Report

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

We have audited the accompanying statements of financial position of Medical Bridges, Inc. (Medical Bridges) as of December 31, 2009 and 2008 and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the management of Medical Bridges. Our responsibility is to express an opinion on these financial statements based upon 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medical Bridges as of December 31, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

September 3, 2010

Medical Bridges, Inc.

Statements of Financial Position as of December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash	\$ 72,159	\$ 85,774
Pledges receivable and other assets	4,140	64,195
Inventory of donated medical supplies and equipment	2,122,471	2,429,193
Property, net (<i>Note 2</i>)	<u>769,597</u>	<u>771,904</u>
TOTAL ASSETS	<u>\$ 2,968,367</u>	<u>\$ 3,351,066</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 55,288	\$ 71,459
Deferred revenue	91,000	
Notes payable (<i>Note 3</i>)	<u>483,189</u>	<u>343,326</u>
Total liabilities	<u>629,477</u>	<u>414,785</u>
Net assets:		
Unrestricted	2,285,278	2,754,214
Temporarily restricted (<i>Note 4</i>)	<u>53,612</u>	<u>182,067</u>
Total net assets	<u>2,338,890</u>	<u>2,936,281</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,968,367</u>	<u>\$ 3,351,066</u>

See accompanying notes to financial statements.

Medical Bridges, Inc.

Statements of Activities for the years ended December 31, 2009 and 2008

	2009			2008		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUE:						
Contributions of medical supplies and equipment	\$ 2,595,708		\$ 2,595,708	\$ 6,375,876		\$ 6,375,876
Special events	263,925		263,925	292,769		292,769
Direct donor benefit costs of special events	(87,977)		(87,977)	(90,369)		(90,369)
Other contributions	148,381	\$ 3,075	151,456	139,427	\$ 453,173	592,600
Shipping fees	<u>179,561</u>		<u>179,561</u>	<u>920</u>		<u>920</u>
Total revenue	3,099,598	3,075	3,102,673	6,718,623	453,173	7,171,796
Net assets released from restrictions:						
Expenditures for program purposes	<u>131,530</u>	<u>(131,530)</u>		<u>381,269</u>	<u>(381,269)</u>	
Total	<u>3,231,128</u>	<u>(128,455)</u>	<u>3,102,673</u>	<u>7,099,892</u>	<u>71,904</u>	<u>7,171,796</u>
EXPENSES:						
Program expense:						
Shipment of medical supplies and equipment	2,902,430		2,902,430	4,856,512		4,856,512
Distribution and warehousing expenses	<u>454,760</u>		<u>454,760</u>	<u>523,128</u>		<u>523,128</u>
Total program expenses	3,357,190		3,357,190	5,379,640		5,379,640
Management and general	208,698		208,698	213,449		213,449
Fundraising	<u>134,176</u>		<u>134,176</u>	<u>149,367</u>		<u>149,367</u>
Total expenses	<u>3,700,064</u>		<u>3,700,064</u>	<u>5,742,456</u>		<u>5,742,456</u>
CHANGES IN NET ASSETS	(468,936)	(128,455)	(597,391)	1,357,436	71,904	1,429,340
Net assets, beginning of year	<u>2,754,214</u>	<u>182,067</u>	<u>2,936,281</u>	<u>1,396,778</u>	<u>110,163</u>	<u>1,506,941</u>
Net assets, end of year	<u>\$ 2,285,278</u>	<u>\$ 53,612</u>	<u>\$ 2,338,890</u>	<u>\$ 2,754,214</u>	<u>\$ 182,067</u>	<u>\$ 2,936,281</u>

See accompanying notes to financial statements.

Medical Bridges, Inc.

Statements of Cash Flows for the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (597,391)	\$ 1,429,340
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	37,413	36,701
Changes in operating assets and liabilities:		
Pledges receivable and other assets	60,055	(60,750)
Inventory of donated medical supplies and equipment	306,722	(1,529,364)
Accounts payable and accrued expenses	(16,171)	57,756
Deferred revenue	<u>91,000</u>	<u> </u>
Net cash used by operating activities	<u>(118,372)</u>	<u>(66,317)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property	<u>(35,106)</u>	<u>(12,965)</u>
Net cash used by investing activities	<u>(35,106)</u>	<u>(12,965)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	544,445	
Repayment of note payable	<u>(404,582)</u>	<u>(9,468)</u>
Net cash provided (used) by financing activities	<u>139,863</u>	<u>(9,468)</u>
NET CHANGE IN CASH	(13,615)	(88,750)
Cash, beginning of year	<u>85,774</u>	<u>174,524</u>
Cash, end of year	<u>\$ 72,159</u>	<u>\$ 85,774</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$28,332	\$22,176

See accompanying notes to financial statements.

Medical Bridges, Inc.

Notes to Financial Statements for the years ended December 31, 2009 and 2008

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Medical Bridges, Inc. (Medical Bridges) is a non-profit organization dedicated to procuring medical and surgical equipment for donation to qualified providers of charitable medical care in under-developed countries. Medical Bridges is located in Houston, Texas and receives donations of medical supplies and equipment from hospitals, clinics, physician’s offices, medical supply companies, home health agencies, and private individuals.

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

Pledges receivable that are due within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of expected future cash flows. At December 31, 2009, all pledges receivable are receivable within one year.

Inventory of donated medical supplies and equipment is carried at the lower of cost or market. Donated inventory is valued at estimated fair value at the date of the gift.

Property is recorded 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 the buildings and improvements and 5 to 7 years for vehicles, furniture, and equipment.

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

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

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

Non-cash contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. The related expense is recorded as the item is used. 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 fees are recognized as revenue when the shipments have been processed and shipped to their overseas location. Shipping fees received in advance are recorded as deferred revenue.

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

NOTE 2 – PROPERTY

Property is comprised of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 96,313	\$ 96,313
Building and improvements	688,613	688,613
Furniture and equipment	89,857	89,857
Vehicles	<u>42,929</u>	<u>26,241</u>
Total property, at cost	917,712	901,024
Accumulated depreciation	<u>(148,115)</u>	<u>(129,120)</u>
Property, net	<u>\$ 769,597</u>	<u>\$ 771,904</u>

NOTE 3 – NOTES PAYABLE

Medical Bridges has a note payable with a financing institution with principal and interest payable monthly. The note bears interest at 5.5% and is collateralized by the warehouse facility and land. At December 31, 2009 and 2008, the outstanding balance was \$372,103 and \$343,326, respectively. This note payable is due to be repaid in 2014.

Additionally, Medical Bridges has an unsecured \$175,000 business line of credit with a bank expiring April 23, 2014 with an interest rate of prime plus 1.5% (4.75% at December 31, 2009). At December 31, 2009, \$111,086 was outstanding under this line of credit.

Notes payable are to be repaid as follows:

2010	\$ 11,401
2011	12,045
2012	12,724
2013	13,442
2014	<u>433,577</u>
Total notes payable	<u>\$ 483,189</u>

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Purchase and maintenance of vehicle	\$ 45,798	\$ 123,076
Time-restricted pledges receivable	3,750	14,050
Warehouse equipment	1,700	14,206
Other	<u>2,364</u>	<u>30,735</u>
Total temporarily restricted net assets	<u>\$ 53,612</u>	<u>\$ 182,067</u>

NOTE 5 – 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 recorded in the financial statements as inventory and contribution revenue. As the medical supplies and equipment are distributed, program expenses are recorded.

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 recorded in the financial statements because the donated services did not meet the criteria for recognition under generally accepted accounting principles.

NOTE 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 3, 2010, 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.