

**HOSPITAL SISTERS  
MISSION OUTREACH CORPORATION**

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

June 30, 2011  
(with comparative totals for 2010)

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3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

## 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) as of June 30, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Hospital Sisters Mission Outreach Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from Hospital Sisters Mission Outreach Corporation's 2010 financial statements and, in our report dated August 23, 2010, we expressed an unqualified opinion on those financial statements

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 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 audit provides 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 the Hospital Sisters Mission Outreach Corporation as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads 'Sikich LLP'.

Springfield, Illinois  
August 19, 2011

**FINANCIAL STATEMENTS**

HOSPITAL SISTERS MISSION OUTREACH CORPORATION  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2011  
(With Summarized Financial Information for June 30, 2010)

ASSETS

	2011	2010
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,085,693	\$ 851,434
Accounts receivable	14,567	20,787
Inventory	3,417,670	3,390,423
Certificates of deposit	-	99,913
Other assets	6,573	7,042
Total current assets	4,524,503	4,369,599
 <b>EQUIPMENT</b>		
Equipment, net of accumulated depreciation of \$135,855 and \$102,167	40,866	44,204
 <b>TOTAL ASSETS</b>	 \$ 4,565,369	 \$4,413,803

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 6,961	\$ 5,457
 <b>TOTAL LIABILITIES</b>	 6,961	 5,457
 <b>NET ASSETS</b>		
Unrestricted	4,530,196	4,408,346
Temporarily restricted	28,212	-
Total net assets	4,558,408	4,408,346
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 \$ 4,565,369	 \$4,413,803

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, 2011  
(With Summarized Financial Information for the Year Ended June 30, 2010)

	Unrestricted	Temporarily Restricted	Total	
			2011	2010
<b>REVENUE - UNRESTRICTED</b>				
Medical equipment and supply donations	\$ 6,316,006	\$ -	\$ 6,316,006	\$ 7,939,640
In-kind contributions	173,200	-	173,200	165,986
Support from related party	80,000	-	80,000	120,000
Membership contributions	339,202	-	339,202	284,892
Donations and bequests	337,140	28,212	365,352	440,386
Grant income	227,090	-	227,090	80,871
Shipping and handling income	257,739	-	257,739	239,480
Investment income	6,971	-	6,971	6,074
Total revenue	<u>7,737,348</u>	<u>28,212</u>	<u>7,765,560</u>	<u>9,277,329</u>
<b>EXPENSES</b>				
Program services	7,405,675	-	7,405,675	10,019,528
Fundraising	149,359	-	149,359	73,377
Management and general	60,464	-	60,464	82,976
Total expenses	<u>7,615,498</u>	<u>-</u>	<u>7,615,498</u>	<u>10,175,881</u>
CHANGE IN NET ASSETS	121,850	28,212	150,062	(898,552)
NET ASSETS, BEGINNING OF YEAR	<u>4,408,346</u>	<u>-</u>	<u>4,408,346</u>	<u>5,306,898</u>
NET ASSETS, END OF YEAR	<u>\$ 4,530,196</u>	<u>\$ 28,212</u>	<u>\$ 4,558,408</u>	<u>\$ 4,408,346</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, 2011  
(With Summarized Financial Information for the Year Ended June 30, 2010)

	Program Services	Fundraising	Management and General	2011 Total	2010 Total
<b>EXPENSES</b>					
Product donations given	\$ 6,288,760	\$ -	\$ -	\$ 6,288,760	\$ 9,076,916
Contracted employees	513,458	92,700	22,600	628,758	480,639
Building rent	161,910	2,445	2,445	166,800	174,000
Office supplies	10,725	2,145	1,430	14,300	6,028
Minor equipment	4,828	-	-	4,828	6,241
General supplies	36,311	-	-	36,311	26,241
Utilities	25,296	366	366	26,028	27,265
Telephone	5,070	596	298	5,964	6,429
Maintenance and repair	14,462	-	-	14,462	16,236
Contracted services	148,222	27,106	15,750	191,078	185,042
Professional fees	-	-	10,086	10,086	7,684
Insurance	10,783	284	284	11,351	10,846
Memberships/licenses/dues	-	275	573	848	2,673
Marketing and promotion	5,860	23,442	-	29,302	12,653
Workshops and conferences	8,109	-	3,476	11,585	11,393
Travel to collect donations	32,882	-	-	32,882	25,253
Travel-other	16,014	-	1,779	17,793	13,339
Postage	436	-	435	871	2,909
Shipping costs	89,803	-	-	89,803	56,058
Depreciation	32,746	-	942	33,688	28,036
<b>TOTAL EXPENSES</b>	<b><u>\$ 7,405,675</u></b>	<b><u>\$ 149,359</u></b>	<b><u>\$ 60,464</u></b>	<b><u>\$ 7,615,498</u></b>	<b><u>\$10,175,881</u></b>

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, 2011  
(With Summarized Financial Information for the Year Ended June 30, 2010)

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 150,062	\$ (898,552)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	33,688	28,036
(Increase) decrease in:		
Accounts receivable	6,220	(15,066)
Other assets	469	(704)
Inventory	(27,247)	1,137,276
Increase (decrease) in:		
Accounts payable	1,504	(5,522)
Net cash from operating activities	<u>164,696</u>	<u>245,468</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of equipment	(30,350)	(3,659)
Purchases of certificates of deposit	-	(299,796)
Proceeds from sales/maturities of certificates of deposits	99,913	300,000
Net cash from investing activities	<u>69,563</u>	<u>(3,455)</u>
 <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	234,259	242,013
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>851,434</u>	<u>609,421</u>
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 1,085,693</u></u>	<u><u>\$ 851,434</u></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, 2011

### 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, cross cultural mission experiences, 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. 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 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

Mission Outreach utilized four inventory valuation methods during the year ended June 30, 2011. 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.

Certificates of Deposit

Certificates of deposit are stated at cost.

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.

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, 2011, 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: Purpose restrictions represent 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.

HOSPITAL SISTERS MISSION OUTREACH CORPORATION  
NOTES TO FINANCIAL STATEMENTS – Continued

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, 2011 were \$6,316,006.

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 \$169,563 for the year ended June 30, 2011. A portion of these services were provided by related parties as described in Note 6.

Several 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, 2011 was approximately \$185,680.

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, 2011. Mission Outreach is also exempt from state income taxes under similar provisions of state tax regulations.

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, 2011.

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).

HOSPITAL SISTERS MISSION OUTREACH CORPORATION  
 NOTES TO FINANCIAL STATEMENTS – Continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Subsequent Events - Continued

Mission Outreach has evaluated subsequent events through August 19, 2011, 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 2010

The amounts shown for 2010, in the accompanying financial statements, are included to provide a basis for comparison for 2011 and present summarized totals only. Accordingly, the 2010 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. 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, 2011, uninsured cash balances total \$28,388. There have been no losses on these accounts and Mission Outreach considers the risk to be minimal.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Furniture and equipment	\$ 55,176
Vehicles	<u>121,545</u>
	176,721
Accumulated depreciation	<u>(135,855)</u>
	<u>\$ 40,866</u>

Depreciation expense for the year ended June 30, 2011 was \$33,688.

5. RESTRICTED NET ASSETS

All restricted net assets at June 30, 2011 are temporarily restricted for the following purpose:

Donations restricted for use in Japan	<u>\$ 28,212</u>
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HOSPITAL SISTERS MISSION OUTREACH CORPORATION  
NOTES TO FINANCIAL STATEMENTS – Continued

6. RELATED PARTY TRANSACTIONS

Mission Outreach had transactions with the Hospital Sisters of St. Francis - USA, Inc. (Hospital Sisters), a not-for-profit corporation affiliated by common control. 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 \$594,926 for the year ended June 30, 2011, and administrative services provided at no charge were valued at \$87,362. Additionally, program services were provided by members of the Hospital Sisters of the Third Order Regular of St. Francis and valued at \$34,520.

The Hospital Sisters made cash contributions to Mission Outreach of \$80,000 during the year ended June 30, 2011.

Some contributions of medical equipment and supplies are received from hospitals associated with Hospital Sisters Health System, another not-for-profit corporation affiliated by common control. Hospital Sisters Health System also makes membership contributions to Mission Outreach to offset the costs of operations. Membership contributions in the amount of \$118,513 were received from Hospital Sisters Health System for the year ended June 30, 2011.

7. RENT OBLIGATIONS

Beginning July 1, 2010, Mission Outreach renewed an operating lease for the use of a 23,000 square foot facility in Springfield, IL that expires June 30, 2014. The lease was renewed at a rate of \$8,150 per month. The lease will automatically renew on an annual basis unless one party gives at least 90 days notice.

In addition, beginning October 1, 2010, Mission Outreach renewed an operating lease for the use of a 17,000 square foot facility in Bedford Park, IL that expires September 30, 2013. The lease was renewed at a rate of \$6,000 per month and will increase by 3% in year 2 and in year 3.

7. RENT OBLIGATIONS - Continued

Future minimum lease payments are:

Year ending June 30:	
2012	\$ 171,420
2013	173,629
2014	<u>116,896</u>
	<u>\$ 461,945</u>

Rental expense for all operating leases for the year ended June 30, 2011 was \$166,800.