

SOS INTERNATIONAL, INC.

Financial Statements

Years Ended June 30, 2013 and 2012

SOS INTERNATIONAL, INC.

Financial Statements

Years Ended June 30, 2013 and 2012

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HENDERMAN, JESSEE & COMPANY, PLLC
Certified Public Accountants

CPA MEMBERS
DAVID W. HENDERMAN
WILLIAM J. JESSEE
JAMES N. YATES
KENNETH E. LEAR

Independent Auditor's Report

To the Board of Directors
SOS International, Inc.
Louisville, Kentucky

We have audited the accompanying financial statements of SOS International, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and 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.

Auditor's 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 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 SOS International, Inc. as of June 30, 2013 and 2012, 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.

Louisville, Kentucky
November 7, 2013

Heuderman Jesse & Company PLLC

SOS INTERNATIONAL, INC.

Statements of Financial Position

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Assets		
Cash	\$ 101,073	\$ 105,101
Pledges receivable	11,492	42,109
Donated supplies and equipment inventory	1,126,394	1,173,755
Prepaid expenses and other assets	11,621	13,146
Furniture and equipment, less accumulated depreciation of \$32,212 and \$16,106, respectively	31,659	35,601
Endowment investments	578,453	571,213
Beneficial interest in foundation assets	<u>30,402</u>	<u>- -</u>
Total assets	<u>\$ 1,891,094</u>	<u>\$ 1,940,925</u>
 Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 22,712	\$ 17,518
Deferred rental income	<u>- -</u>	<u>2,000</u>
Total liabilities	<u>22,712</u>	<u>19,518</u>
Net assets:		
Unrestricted:		
Undesignated	1,176,754	1,339,194
Board designated	<u>578,453</u>	<u>571,213</u>
	1,755,207	1,910,407
Temporarily restricted	82,773	11,000
Permanently restricted	<u>30,402</u>	<u>- -</u>
Total net assets	<u>1,868,382</u>	<u>1,921,407</u>
Total liabilities and net assets	<u>\$ 1,891,094</u>	<u>\$ 1,940,925</u>

SOS INTERNATIONAL, INC.

Statements of Activities

Years Ended June 30, 2013 and 2012 (restated)

	2013				2012 (restated)			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, support and gains:								
Contributions	\$ 405,135	\$ 90,000	\$ --	\$ 495,135	\$ 301,294	\$ 11,000	\$ --	\$ 312,294
Donated supplies and equipment	1,503,722	--	--	1,503,722	1,449,115	--	--	1,449,115
Net investment income	46,174	--	--	46,174	1,282	--	--	1,282
Gain on beneficial interest in foundation assets	--	--	402	402	--	--	--	--
Rental and other income	10,687	--	--	10,687	26,870	--	--	26,870
Net assets released from restriction	18,227	(18,227)	--	--	--	--	--	--
Net assets transferred for beneficial interest in foundation assets	<u>(30,000)</u>	<u>--</u>	<u>30,000</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total revenues, support and gains	<u>1,953,945</u>	<u>71,773</u>	<u>30,402</u>	<u>2,056,120</u>	<u>1,778,561</u>	<u>11,000</u>	<u>--</u>	<u>1,789,561</u>
Expenses:								
Program	1,957,296	--	--	1,957,296	1,349,993	--	--	1,349,993
Fundraising	61,310	--	--	61,310	62,799	--	--	62,799
Management and general	<u>90,539</u>	<u>--</u>	<u>--</u>	<u>90,539</u>	<u>87,088</u>	<u>--</u>	<u>--</u>	<u>87,088</u>
Total expenses	<u>2,109,145</u>	<u>--</u>	<u>--</u>	<u>2,109,145</u>	<u>1,499,880</u>	<u>--</u>	<u>--</u>	<u>1,499,880</u>
Increase (decrease) in net assets	(155,200)	71,773	30,402	(53,025)	278,681	11,000	--	289,681
Net assets, beginning of year	<u>1,910,407</u>	<u>11,000</u>	<u>--</u>	<u>1,921,407</u>	<u>1,631,726</u>	<u>--</u>	<u>--</u>	<u>1,631,726</u>
Net assets, end of year	<u>\$ 1,755,207</u>	<u>\$ 82,773</u>	<u>\$ 30,402</u>	<u>\$ 1,868,382</u>	<u>\$ 1,910,407</u>	<u>\$ 11,000</u>	<u>\$ --</u>	<u>\$ 1,921,407</u>

SOS INTERNATIONAL, INC.

Statements of Functional Expenses

Years Ended June 30, 2013 and 2012 (restated)

	2013				2012 (restated)			
	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Supplies and equipment shipped	\$ 1,548,908	\$ --	\$ --	\$ 1,548,908	\$ 1,004,645	\$ --	\$ --	\$ 1,004,645
Personnel	154,510	16,481	35,022	206,013	150,309	16,033	34,070	200,412
Shipping	15,585	--	--	15,585	17,402	--	--	17,402
Rent	40,260	2,237	2,237	44,734	27,368	1,520	1,521	30,409
Contract services	--	26,543	8,848	35,391	--	32,998	11,000	43,998
Donated services	136,690	--	15,000	151,690	109,934	--	12,064	121,998
Development and marketing	826	12,390	3,304	16,520	664	9,962	2,656	13,282
Depreciation	14,986	833	833	16,652	7,475	415	415	8,305
Insurance	5,235	--	4,284	9,519	4,520	--	3,698	8,218
Travel	12,880	1,178	1,768	15,826	8,605	575	862	10,042
Office supplies	2,188	282	354	2,824	1,972	260	367	2,599
Professional fees	275	412	13,110	13,797	318	478	17,188	17,984
Office expense	3,448	460	2,897	6,805	1,688	225	2,475	4,388
Utilities	8,898	494	494	9,886	5,993	333	333	6,659
Repairs and maintenance	6,314	--	--	6,314	4,784	--	--	4,784
Licenses	573	--	573	1,146	243	--	243	486
Other expense	<u>5,720</u>	<u>--</u>	<u>1,815</u>	<u>7,535</u>	<u>4,073</u>	<u>--</u>	<u>196</u>	<u>4,269</u>
Total expenses	<u>\$ 1,957,296</u>	<u>\$ 61,310</u>	<u>\$ 90,539</u>	<u>\$ 2,109,145</u>	<u>\$ 1,349,993</u>	<u>\$ 62,799</u>	<u>\$ 87,088</u>	<u>\$ 1,499,880</u>

SOS INTERNATIONAL, INC.

Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (53,025)	\$ 289,681
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Contribution of securities	(1,078)	(2,313)
Realized and unrealized gain on securities	(27,885)	11,446
Gain on beneficial interest in foundation assets	(402)	--
Gain on sale of equipment	(360)	--
Depreciation expense	16,652	8,306
(Increase) decrease in:		
Pledges receivable	30,617	(15,880)
Inventory	47,361	(322,472)
Prepaid expenses and other assets	1,525	1,850
Increase (decrease) in:		
Accounts payable and accrued expenses	5,194	(10,384)
Deferred rental income	<u>(2,000)</u>	<u>--</u>
Net cash provided (used) by operating activities	<u>16,599</u>	<u>(39,766)</u>
Cash flows from investing activities:		
Purchases of investments	(47,061)	(41,900)
Purchase of beneficial interest in foundation assets	(30,000)	--
Proceeds from sale of investments	68,784	104,172
Purchase of furniture and equipment	(13,050)	(2,165)
Proceeds from sale of equipment	<u>700</u>	<u>--</u>
Net cash provided (used) by investing activities	<u>(20,627)</u>	<u>60,107</u>
Increase (decrease) in cash	(4,028)	20,341
Cash, beginning of year	<u>105,101</u>	<u>84,760</u>
Cash, end of year	<u>\$ 101,073</u>	<u>\$ 105,101</u>

SOS INTERNATIONAL, INC.

Notes to Financial Statements

Note A – Summary of Significant Accounting Policies

Nature of Activities

SOS International, Inc. (“SOS”) is a non-profit organization located in Louisville, Kentucky. The company recovers and redistributes surplus medical supplies and equipment to developing countries around the world.

SOS is supported primarily through contributions, grants and investment income.

Basis of Presentation

Net assets, revenues, gains, and losses are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

Unrestricted net assets - Net assets that are not subject to any donor-imposed restrictions.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions on their use that may be met either by actions of SOS or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed restrictions requiring that the principal be maintained permanently by SOS.

The financial statements are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Donated Supplies and Equipment Inventory

Inventories are valued as follows: (1) 50% of retail sales prices located on a publicly available website for medical supplies; and (2) 100% of used sales prices located on a publicly available website for surplus medical equipment. Items for which no comparable price can be obtained are not valued. Inventory donated by SOS to medical providers in developing countries is reported as an expense upon shipment.

SOS INTERNATIONAL, INC.

Notes to Financial Statements, Continued

Note A - Summary of Significant Accounting Policies, Continued

Furniture and Equipment

Purchased furniture and equipment are recorded at cost. Donated furniture and equipment are recorded at their estimated fair value at the date of donation. Depreciation is provided using the straight-line method over periods of five to seven years. Expenditures for maintenance and repairs are charged to expense as incurred.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Pledges Receivable

Contributions are recognized when the donor makes an unconditional promise to give. Unconditional grants due within the next year are reflected as receivables and are recorded at their net realizable value.

SOS applies the allowance method to determine uncollectible pledges. Management believes that no allowance is considered necessary at June 30, 2013 and June 30, 2012, respectively.

In-kind Contributions

Contributions of surplus medical supplies and equipment received by SOS are recorded as revenue in the statement of activities and inventory in the statement of financial position. In-kind contributions of surplus medical supplies and equipment recognized as revenue were \$1,503,722 and \$1,327,117 for the years ended June 30, 2013 and 2012, respectively.

Donated services are recognized as contributions in the accompanying financial statements because the volunteer services are an integral part of the Organization's total program activities and the Organization would need to purchase the services if they were not donated.

SOS INTERNATIONAL, INC.

Notes to Financial Statements, Continued

Note A - Summary of Significant Accounting Policies, Continued

In-kind Contributions, Continued

The fair value of donated services included as contributions in the financial statements and the corresponding expenses for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Accounting services	\$ 15,000	\$ 12,064
Medical supply sorting	<u>136,690</u>	<u>109,934</u>
	<u>\$ 151,690</u>	<u>\$ 121,998</u>

Functional Allocation of Expenses

The costs of providing program and other activities are summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program, fund-raising, and management and general expenses.

Income Taxes

SOS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, whereby only unrelated business income, as defined by Section 512 of the Code, is subject to federal income tax. There was no unrelated business income for the years ended June 30, 2013 and 2012, respectively. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

Management is not aware of any uncertain tax positions. Accordingly, the financial statements do not include a provision for uncertain tax positions.

Note B - Donated Supplies and Equipment Inventory

Inventories at June 30, 2013 and 2012 consist of donated medical supplies and equipment as follows:

	<u>2013</u>	<u>2012</u>
Medical supplies	\$ 544,221	\$ 576,696
Medical equipment	<u>582,173</u>	<u>597,059</u>
	<u>\$ 1,126,394</u>	<u>\$ 1,173,755</u>

SOS INTERNATIONAL, INC.

Notes to Financial Statements, Continued

Note C - Investments and Fair Value Measurements

FASB ASC 820-10 establishes a framework for measuring fair value, which is defined as the amount that would be received from the sale of an asset or paid for the transfer of a liability in an orderly transaction between market participants, i.e., an exit price. That framework provides for a three-tier hierarchy that prioritizes the inputs to certain valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows: Level 1 - unadjusted quoted prices in active markets, Level 2 - other significant observable inputs (including quoted prices for similar assets or liabilities or other quoted prices that are observable for the asset or liability, and Level 3 - significant unobservable inputs (including an organization's own assumptions).

The Organization's endowment investments consist of publicly-traded money market and mutual fund investments totaling \$15,283 and \$563,170, respectively at June 30, 2013 and \$32,049 and \$539,164, respectively at June 30, 2012. The fair value of these investments was based upon the quoted net asset value (a Level 1 measurement) of the shares held at June 30, 2013 and 2012.

Note D - Board Designated Endowment Fund

SOS has a board designated endowment fund that is restricted by its board of directors, rather than by a donor or outside agency, to be invested to provide income over a long-term but unspecified period of time. The board of directors can at any time expend the principal of the board designated endowment fund.

The board of directors has adopted investment and spending policies for the endowment assets which attempt to provide a predictable stream of funding to support operations while seeking to maintain the purchasing power of the endowment assets. Under these policies, assets are invested in a manner which is intended to maximize current income as well as stability of principal.

To satisfy its long-term rate-of-return objectives, SOS relies upon a total return strategy where investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). SOS targets a diversified asset allocation which places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

SOS has adopted a spending policy that is intended to balance current needs for income and reinvestment for the future. Toward that end, the policy generally provides for the distribution of 4.0% to 7.0% of the investment portfolio's average fair value over the prior 12 quarters through the fiscal year end preceding the fiscal year in which the distribution is planned. Additionally, the policy recognizes that as a new organization, the cash needs of the organization will most likely exceed the general policy guidelines for the first few years to fund a board approved SOS business model which positions SOS for long term success.

SOS INTERNATIONAL, INC.

Notes to Financial Statements, Continued

Note D - Board Designated Endowment Fund, Continued

Changes in Board designated net assets for the periods ended June 30, 2013 and 2012 were as follows:

	2013	2012
	<u>Unrestricted</u>	<u>Unrestricted</u>
Endowment fund net assets, beginning of year	\$ 571,213	\$ 642,618
Contributions	1,078	2,313
Investment return:		
Interest and dividends	21,906	16,247
Net realized and unrealized gain (loss)	27,885	(11,446)
Management fees	(3,629)	(3,519)
Distributions	<u>(40,000)</u>	<u>(75,000)</u>
 Endowment fund net assets, end of year	 <u>\$ 578,453</u>	 <u>\$ 571,213</u>

Note E - Beneficial Interest in Foundation Assets

The Organization established separate endowment funds with the Community Foundation of Southern Indiana and Community Foundation of Louisville as of June 30, 2013, on an irrevocable basis with a one-time deposit of \$5,000 and \$25,000, respectively. Distributions from both foundations become available quarterly based upon three percent and four and one-half percent, respectively, of the funds' fair market value as determined on the prior June 30 (based upon the average of the prior twelve quarters) after fees. There were no foundation receivables, representing monies available to the Council but not yet distributed, at June 30, 2013. The fair values, as determined by quoted market prices (Level 1 measurement), were as follows at June 30, 2013:

	<u>Community Foundation of Louisville</u>	<u>Community Foundation of Southern Indiana</u>	<u>Total</u>
Beginning balance	\$ --	\$ --	\$ --
Contributions	25,000	5,000	30,000
Interest/dividends	213	32	245
Realized and unrealized	115	168	283
Management fees	<u>(55)</u>	<u>(71)</u>	<u>(126)</u>
Ending balance	<u>\$ 25,273</u>	<u>\$ 5,129</u>	<u>\$ 30,402</u>

SOS INTERNATIONAL, INC.

Notes to Financial Statements, Continued

Note F - Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Shipping costs of supplies and equipment	\$ 20,000	\$ 10,000
Mission trip	-	1,000
Inventory tracking software system	35,000	-
Warehouse improvements	<u>27,773</u>	<u>-</u>
	<u>\$ 82,773</u>	<u>\$ 11,000</u>

Permanently restricted net assets consist of beneficial interest in foundation assets of \$30,402 and zero at June 30, 2013 and 2012, respectively.

Note G - Operating Lease

SOS leases office and warehouse space under a non-cancelable lease. The lease requires a monthly base rental of \$1,627, plus a proportionate share of utilities. The lease also contains an option to lease additional space on a per square foot basis. Subsequent to year end, the Organization entered into a new lease expiring in 2014. The new lease requires monthly back rent of \$4,368 with no option to renew. At June 30, 2013, future minimum payments over the remaining lease term were as follows:

Year ending June 30:	
2014	\$ 49,675
2015	4,368

Total rent expense, including additional space, was \$44,733 and \$30,409 for the years ended June 30, 2013 and 2012, respectively.

Note H - Subsequent Events

Management has evaluated subsequent events and transactions for recognition or disclosure through November 7, 2013, which was the date the financial statements were available to be issued.

SOS INTERNATIONAL, INC.

Notes to Financial Statements, Continued

Note I - Prior Period Adjustment

During the current year, management determined that donated services should be recorded in the financial statements because volunteer services are an integral part of the Organization's total program activities and the Organization would need to purchase the services if they were not donated. Accordingly, the 2012 financial statements have been adjusted to record donated services that are an integral part of the Organization's total program activities and would otherwise have to be purchased.

The fair value of donated services included as contributions in the financial statements and the corresponding expenses for the year ended June 30, 2012 is as follows:

Accounting services	\$ 12,064
Medical supply sorting	<u>109,934</u>
	<u>\$ 121,998</u>

The prior period adjustment has no effect on net assets at June 30, 2012 or on the change in net assets for the year then ended.