

MEDICAL TEAMS INTERNATIONAL

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

For the Fifteen Months Ended September 30, 2014



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Medical Teams International
Tigard, Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of Medical Teams International (a nonprofit organization), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities, cash flows, and functional expenses for the fifteen months 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Medical Teams International as of September 30, 2014, and the changes in its net assets and its cash flows for the fifteen months then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of program activities, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2015, on our consideration of Medical Teams International's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Medical Teams International's internal control over financial reporting and compliance.



Jones & Roth, P.C.
Hillsboro, Oregon
February 11, 2015

FINANCIAL STATEMENTS

MEDICAL TEAMS INTERNATIONAL
STATEMENT OF FINANCIAL POSITION
September 30, 2014

Assets

Cash and cash equivalents	\$ 611,462
Cash and cash equivalents held in foreign countries	<u>1,194,768</u>
 Total cash and cash equivalents	 1,806,230
Investments	2,866,241
Receivables and advances	4,632,585
Prepaid expenses	130,650
Inventories	15,933,820
Property and equipment, net	<u>7,984,582</u>
 Total assets	 <u>\$ 33,354,108</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 676,573
Annuities payable	42,493
Accrued payroll, vacation, and related liabilities	383,354
Deferred revenue	<u>8,910</u>
 Total liabilities	 <u>1,111,330</u>

Net assets

Unrestricted - undesignated	26,084,718
Unrestricted - Board-designated operating reserve	<u>727,000</u>
 Total unrestricted net assets	 26,811,718
Temporarily restricted	3,367,367
Permanently restricted	<u>2,063,693</u>
 Total net assets	 <u>32,242,778</u>

Total liabilities and net assets	<u>\$ 33,354,108</u>
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The accompanying notes are an integral part of these statements.

MEDICAL TEAMS INTERNATIONAL
STATEMENT OF ACTIVITIES
For the Fifteen Months Ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue and support				
Contributions	\$ 12,484,385	\$ 12,096,867	\$ 500,000	\$ 25,081,252
Gifts in-kind	166,986,367	-	-	166,986,367
Service fees	595,276	731,118	-	1,326,394
Investment income	157,166	472	189,677	347,315
Other	36,087	36,332	-	72,419
Net assets released from restrictions	<u>10,472,301</u>	<u>(10,472,301)</u>	<u>-</u>	<u>-</u>
 Total revenue and support	 <u>190,731,582</u>	 <u>2,392,488</u>	 <u>689,677</u>	 <u>193,813,747</u>
Expenses				
Program activities	178,892,929	-	-	178,892,929
Supporting activities:				
Administration	2,005,121	-	-	2,005,121
Resource development	<u>3,713,856</u>	<u>-</u>	<u>-</u>	<u>3,713,856</u>
 Total expenses	 <u>184,611,906</u>	 <u>-</u>	 <u>-</u>	 <u>184,611,906</u>
 Change in net assets	 6,119,676	 2,392,488	 689,677	 9,201,841
Net assets, beginning of period	<u>20,692,042</u>	<u>974,879</u>	<u>1,374,016</u>	<u>23,040,937</u>
Net assets, end of period	<u>\$ 26,811,718</u>	<u>\$ 3,367,367</u>	<u>\$ 2,063,693</u>	<u>\$ 32,242,778</u>

The accompanying notes are an integral part of these statements.

MEDICAL TEAMS INTERNATIONAL
STATEMENT OF CASH FLOWS
For the Fifteen Months Ended September 30, 2014

Cash flows from operating activities

Change in net assets	\$ 9,201,841
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	787,072
Loss on disposal of property and equipment	43,192
Gain on sale of investments	(14,377)
Unrealized gain on investments	(256,076)
Donated investments	(315,398)
Change in inventories	(5,466,109)
(Increase) decrease in:	
Receivables	(3,615,608)
Prepaid expenses	(25,212)
Increase (decrease) in:	
Accounts payable	172,889
Annuities payable	(2,793)
Accrued payroll, vacation, and related liabilities	<u>(242,351)</u>
 Net cash provided by operating activities	 <u>267,070</u>

Cash flows from investing activities

Purchase of investments	(1,290,449)
Proceeds from sale of investments	1,413,734
Proceeds from sale of property and equipment	74,128
Acquisition of property and equipment	<u>(352,255)</u>
 Net cash used by investing activities	 <u>(154,842)</u>

Net increase in cash and cash equivalents

	112,228
Cash and cash equivalents, beginning of period	<u>1,694,002</u>
Cash and cash equivalents, end of period	<u>\$ 1,806,230</u>

The accompanying notes are an integral part of these statements.

MEDICAL TEAMS INTERNATIONAL
STATEMENT OF FUNCTIONAL EXPENSES
For the Fifteen Months Ended September 30, 2014

	<u>Supporting Activities</u>				<u>Total</u>
	<u>Program Activities</u>	<u>Administration</u>	<u>Resource Development</u>	<u>Subtotal</u>	
Salaries and related expenses					
Salaries and related expenses	\$ 6,754,674	\$ 1,030,927	\$ 1,540,988	\$ 2,571,915	\$ 9,326,589
Employee benefits	1,255,781	187,450	253,732	441,182	1,696,963
Payroll taxes	340,896	80,976	128,675	209,651	550,547
Total salaries and related expenses	<u>8,351,351</u>	<u>1,299,353</u>	<u>1,923,395</u>	<u>3,222,748</u>	<u>11,574,099</u>
Other expenses					
Professional fees	657,746	92,208	46,216	138,424	796,170
Consultants	69,726	70,932	368,959	439,891	509,617
Media and marketing	9,865	2,518	464,263	466,781	476,646
Direct mail	-	-	7,610	7,610	7,610
Program grants and activities	1,984,813	-	-	-	1,984,813
Travel	1,109,588	45,153	156,056	201,209	1,310,797
Supplies	1,719,682	37,720	157,537	195,257	1,914,939
Facilities	447,854	45,896	87,081	132,977	580,831
Utilities	383,999	90,142	23,123	113,265	497,264
Insurance	207,378	57,057	5,348	62,405	269,783
Equipment	507,880	18,529	74,289	92,818	600,698
Vehicles	858,980	2,481	5,356	7,837	866,817
Other expenses	445,835	90,805	376,605	467,410	913,245
Depreciation	616,727	152,327	18,018	170,345	787,072
Gifts in-kind	161,521,505	-	-	-	161,521,505
Total other expenses	<u>170,541,578</u>	<u>705,768</u>	<u>1,790,461</u>	<u>2,496,229</u>	<u>173,037,807</u>
Total expenses	<u>\$ 178,892,929</u>	<u>\$ 2,005,121</u>	<u>\$ 3,713,856</u>	<u>\$ 5,718,977</u>	<u>\$ 184,611,906</u>

The accompanying notes are an integral part of these statements.

MEDICAL TEAMS INTERNATIONAL NOTES TO FINANCIAL STATEMENTS

1. Organization

Founded in 1979, Medical Teams International's (MTI) mission is to demonstrate the love of Christ to people affected by disaster, conflict, and poverty. MTI is headquartered in Tigard, Oregon with satellite offices in Redmond, Washington and Zeeland, Michigan and seven international offices in Cambodia, Guatemala, Haiti, Liberia, Moldova, Uganda, and Uzbekistan.

MTI delivers dental and medical care, humanitarian aid, and holistic development programs to all people in need, regardless of religion, nationality, sex, or race. In collaboration with established field partners, MTI staff and volunteers mobilize training and educational initiatives to ensure that programs have a long-term positive impact.

MTI implements and supports programs that address the causes and effects of inadequate health care. Initiatives include training and education to build the skill and capacity of partners, volunteers, staff, and those they serve in order to produce sustainable change. Programs include medical services and training; community health and development; HIV and AIDS; emergency medical services; disaster response; and humanitarian aid.

MTI operates 11 mobile dental units that have the capability of providing dental care to over 21,000 low-income, uninsured people in 39 Pacific Northwest counties.

2. Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying financial statements include the accounts of all MTI field offices and have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets, revenue, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of MTI and changes therein are classified and reported as follows:

Unrestricted net assets reflect the cumulative effect of net activity absent donor-imposed restrictions.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of MTI pursuant to these stipulations. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by MTI's actions.

MEDICAL TEAMS INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

2. Significant Accounting Policies, continued

Cash and Cash Equivalents

For purposes of financial statement classification, MTI considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Allowance for Uncollectable Promises to Give

Management periodically reviews the collectability of promises to give and, based on this analysis, determines an appropriate allowance for uncollectable promises. Accounts are charged-off when all collection efforts have been exhausted.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the approximate fair market value at the date of donation. It is MTI's policy to capitalize expenditures for items that are in excess of \$5,000 and have a useful life of more than one year. The recorded value of equipment and other capital assets used in overseas programs is expensed as incurred where MTI does not retain the title. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

Vehicles, including mobile dental units	5 - 10 years
Office equipment and furniture	3 - 5 years
Buildings and land improvements	7 - 30 years
Assets held overseas	5 years

Restricted and Unrestricted Revenue and Support

Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions. When projects are completed and restricted contribution funds remain, every effort is made to use the excess funds in like or similar projects, upon approval of the Board of Directors.

Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair value at the date of donation.

MEDICAL TEAMS INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

2. Significant Accounting Policies, continued

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, MTI reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. MTI reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated Services

MTI receives the benefit of donated services that are recognized if the services received create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Endowment Fund Policy

The Board of Directors has established guidelines for the Endowment Fund in seeking preservation of the assets, growth of the assets, and consistency of investment returns through both capital appreciation and current income. MTI's policy is to maintain the principal of the fund in perpetuity. The policy allows a percentage of the fair market value of the Endowment Fund, including income earned, to be expended in a given fiscal year as recommended by the Finance Committee and approved by the Board. The percentage shall be determined on a year-to-year basis by the Finance Committee and subsequently approved by the Board.

MTI's endowment investment strategy is to emphasize long-term growth as measured by total return, while avoiding excessive risk. The primary investment objective is to earn a total rate of return from investment assets which shall exceed demands placed on the portfolio to support MTI's spending policy plus the rate of inflation, as measured by the national Consumer Price Index. The total rate of return shall be based on a method that utilizes market value for all marketable investments, such as equity and fixed income securities. The total rate of return shall be calculated to include dividends and interest accrued or received during the period. Calculations should also show realized and unrealized gains and losses. The rate of return should be net of all fees and expenses.

Endowment Fund investments are limited to separately managed accounts, commingled funds, or mutual funds. These include equity investments and fixed income investments.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited. Such allocations are made on the basis of cost accounting information available and the judgment of management.

MEDICAL TEAMS INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

2. Significant Accounting Policies, continued

Compensated Absences

Employees are compensated during periods of absence due to sickness or vacation. MTI records this cost as it is earned. Compensation is payable to employees at the time the absence occurs or upon termination of employment. As of September 30, 2014, accrued compensated absences were \$236,666.

Use of Estimates

The preparation of financial statements, in conformity 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 (including gifts in-kind) and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, support, and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include the valuation of donated assets, property and equipment, and services. It is reasonably possible that estimates used in the valuation process could change in the near term.

Annuities Payable

Annuities payable have been computed using an average discount factor of 5.5 percent and an estimated life expectancy of annuitants based on applicable mortality rates.

Income Taxes

MTI is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, MTI qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(2). In any year in which MTI has unrelated business gross income of \$1,000 or more, it must file Form 990-T with the Internal Revenue Service (IRS) and may have to pay tax on such income. MTI's Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the IRS for three years after it was filed.

3. Cash and Cash Equivalents

Cash and cash equivalents held in the United States may at times exceed the limits of Federal Deposit Insurance Corporation (FDIC) insurance coverage. MTI makes such deposits with financially strong entities and has not incurred any credit-related losses. Cash and cash equivalents held in foreign countries are not insured and are restricted to use for programs in those countries. The Uzbekistan soum is not readily marketable outside of that country.

MEDICAL TEAMS INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

3. Cash and Cash Equivalents, continued

As of September 30, 2014, MTI's cash and cash equivalents, in United States dollars, consisted of the following:

Cash and cash equivalents held in the U.S.:	
Checking accounts	\$ 597,522
Money markets	704
Petty cash	12,635
Cash in foreign currency	<u>601</u>
Total cash and cash equivalents held in the U.S.	<u>611,462</u>
Cash and cash equivalents held in foreign countries:	
Uganda	575,857
Liberia	445,221
Uzbekistan	134,254
Guatemala	26,356
Mexico	7,669
Cambodia	3,952
Haiti	1,328
Moldova	<u>131</u>
Total cash and cash equivalents held in foreign countries	<u>1,194,768</u>
Total cash and cash equivalents	<u>\$ 1,806,230</u>

MTI had a gain of \$21,111 from foreign currency transactions for the fifteen months ended September 30, 2014. These amounts are included in other expenses.

4. Investments

Investments are stated at fair value as determined by quoted market prices and consist of mutual funds that are invested primarily in fixed-income securities of varying maturities at any point in time. Investments in mutual funds include Board-designated investments, reserves, and endowment investments. Investments also include a certificate of deposit with an original maturity in excess of three months.

As of September 30, 2014, investments consisted of:

Certificate of deposit	\$ 55,037
Mutual funds	<u>2,811,204</u>
Total investments	<u>\$ 2,866,241</u>

Investment balances reported above are not guaranteed or covered by insurance.

MEDICAL TEAMS INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

4. Investments, continued

Investment income is comprised of the following:

Interest and dividend income	\$ 76,862
Realized gain on investments	14,377
Unrealized gain on investments	<u>256,076</u>
Total investment income	<u>\$ 347,315</u>

5. Receivables

As of September 30, 2014, receivables included unconditional promises to give and consisted of the following:

Pledge receivable in less than one year	\$ 3,739,204
Receivable in one to five years	603,334
Receivable after five years	<u>185,000</u>
Total unconditional promises to give	4,527,538
Allowance for uncollectible promises to give	<u>(15,000)</u>
Net unconditional promises to give	4,512,538
Other receivables and advances	<u>120,047</u>
Total receivables	<u>\$ 4,632,585</u>

At September 30, 2014, there were unconditional promises to give from two major donors that exceeded 10 percent of total net unconditional promises to give. Receivables from these donors were \$2,235,000 at September 30, 2014.

6. Inventories

As of September 30, 2014, inventories consisted of the following:

Donated items	\$ 15,757,611
Mobile dental care supplies	<u>176,209</u>
Total inventories	<u>\$ 15,933,820</u>

Donated inventories which consist of medical equipment and relief and medical supplies are valued at their estimated fair market value at the date of donation.

MEDICAL TEAMS INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

7. Property and Equipment

As of September 30, 2014, property and equipment consisted of the following:

Vehicles, including mobile dental units	\$ 3,996,542
Office equipment and furniture	1,964,259
Building and land	8,881,428
Assets held for resale	<u>45,360</u>
	14,887,589
Accumulated depreciation	<u>(6,903,007)</u>
Property and equipment, net	<u>\$ 7,984,582</u>

8. Line of Credit

MTI has a \$500,000 revolving line of credit through U.S. Bank with a maturity date of January 31, 2015. The unpaid principal balance bears interest at an annual rate equal to the prime rate and is payable each month, with a final interest payment due with the final payment of principal. The credit line is secured by the general assets of MTI and requires that MTI maintain a tangible net worth at all times in the amount of \$20 million. There were no advances made on the line of credit as of September 30, 2014.

9. Net Assets Released from Restrictions

Net assets relating to restricted contributions and grants are released from the temporarily restricted fund to the unrestricted fund when MTI incurs expenses satisfying the restricted purposes or when other events specified by donors occur.

For the fifteen months ended September 30, 2014, such releases are summarized as follows:

Satisfaction of international and domestic relief and development projects – temporarily restricted net assets	<u>\$ 10,472,301</u>
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10. Net Assets

As of September 30, 2014, net assets consisted of the following:

Unrestricted net assets	\$ 2,893,316
Invested in inventories	15,933,820
Invested in property and equipment, net	<u>7,984,582</u>
Total unrestricted net assets	<u>\$ 26,811,718</u>

The nature of MTI's activities is such that it is common to have temporarily restricted net asset carryovers when projects funded by long-term grants are carried out over multiple-year periods or when restricted revenue for projects exceeds expenses for those projects during the same fiscal year. MTI is committed to these long-term projects and plans to expend these funds.

MEDICAL TEAMS INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

10. Net Assets, continued

Temporarily restricted net assets:	
Africa projects	\$ 1,339,591
Asia projects	727,503
Latin America projects	169,017
Other	<u>1,131,256</u>
 Total temporarily restricted net assets	 <u>\$ 3,367,367</u>
 Permanently restricted net assets	 <u>\$ 2,063,693</u>

Permanently restricted net assets consisted of Endowment Fund assets to be held indefinitely totaling \$2,063,693 at September 30, 2014. The income from these assets is used to support MTI's general activities. Income earned, gains, and losses on endowment investments are accumulated in permanently restricted revenue and are released upon the approval by the Board of Directors to expend a percentage in a given fiscal year.

11. Gifts In-kind

MTI receives donations of medical supplies and other commodities for use in relief and development programs. These in-kind donations have been recorded in accordance with ACCORD GIK Interagency Standards, which are consistent with presentation per accounting principles generally accepted in the United States of America. All in-kind donations are recorded at their estimated fair value in the period shipped or designated for program use.

For the fifteen months ended September 30, 2014, gifts in-kind distributed directly by MTI amounted to \$3,958,749. The remaining \$154,037,019 was distributed to, and in partnership with, other agencies and was delivered to MTI before being distributed.

MTI only records the value of gifts in-kind for which they were the original recipient of the gift, were involved in partnership with another organization for distribution internationally, or used the gifts in their programs.

MTI also receives a significant amount of donated services. The total value of these gifts in-kind included in the accompanying financial statements is \$3,525,737 for the fifteen months ended September 30, 2014. During the fifteen months ended September 30, 2014, MTI also received a significant amount of donated services from other volunteers that are not recognized in the statement of activities because the criteria for recognition under accounting principles generally accepted in the United States of America was not satisfied.

MTI's emergency response and other projects' survival depend upon these contributions. If it were not for gifts in-kind, the purchase of these vital components and the services of these volunteers for its projects would be restricted to the availability of cash funds.

MEDICAL TEAMS INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

12. Operating Leases

MTI leases office equipment under noncancellable operating leases. MTI also leases buildings, equipment, and vehicles under cancellable operating leases or under leases with lease terms expiring within one year. Rent expense under all leases included in the accompanying financial statements totaled \$418,099 for the fifteen months ended September 30, 2014.

The future minimum rental payments required under the above noncancellable operating leases is as follows:

For the Years Ending September 30

2015	\$	12,457
2016		8,578
2017		-
2018		-
2019		-
Total	\$	<u>21,035</u>

13. Retirement Plan

MTI has established a Safe Harbor 401(k) retirement plan for the benefit of its employees. Employees are eligible to make voluntary salary deferrals to the plan on their date of hire. Employees are eligible for discretionary employer contributions and matching contributions after they have completed 12 months and 1,000 hours of service. The plan is funded on a bi-weekly basis and funding is at the discretion of the Board of Directors.

Total retirement plan expense for the fifteen months ended September 30, 2014, was \$348,003.

14. Concentration of Geographic Risk

The majority of MTI's donors are located in the Pacific Northwest region of the United States. MTI's revenue is potentially subject to risks associated with fluctuations in the economy of this area of the United States.

15. Fair Value Measurements

MTI uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

MEDICAL TEAMS INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

15. Fair Value Measurements, continued

FASB ASC 820 provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with FASB ASC 820, MTI groups its financial assets and financial liabilities generally measured at fair value based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Fair value of assets measured on a recurring basis at September 30, 2014, was as follows:

	Assets at Fair Value as of September 30, 2014			
	Level 1	Level 2	Level 3	Total
Investments – mutual funds	\$ 2,811,204	\$ _____	\$ _____	\$ 2,811,204

16. Change of Year End

As of July 1, 2013, MTI changed its fiscal year end from June 30 to September 30. Due to the change in year end, management has decided to present the financial statements as 15-month, non-comparative for the period from July 1, 2013 to September 30, 2014.

MEDICAL TEAMS INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS

17. Subsequent Events

Management evaluates events and transactions that occur after the statement of financial position date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report.

SUPPLEMENTAL INFORMATION

MEDICAL TEAMS INTERNATIONAL
SCHEDULE OF PROGRAM ACTIVITIES
For the Fifteen Months Ended September 30, 2014

	Africa	Asia	Latin America	United States	General Disaster and Development	Medicines and Health Products	Total Program Activities 2014
Salaries and related expenses							
Salaries and related expenses	\$ 2,372,517	\$ 686,864	\$ 830,388	\$ 1,310,456	\$ 1,013,407	\$ 541,042	\$ 6,754,674
Employee benefits	395,933	95,171	226,181	268,980	167,716	101,800	1,255,781
Payroll taxes	36,640	22,165	23,516	133,173	76,250	49,152	340,896
Total salaries and related expenses	<u>2,805,090</u>	<u>804,200</u>	<u>1,080,085</u>	<u>1,712,609</u>	<u>1,257,373</u>	<u>691,994</u>	<u>8,351,351</u>
Other expenses							
Professional fees	515,318	44,120	16,728	59,628	21,877	75	657,746
Consultants	20,751	26,963	2,862	5,303	13,847	-	69,726
Media and marketing	769	2,023	122	2,768	4,183	-	9,865
Program grants and activities	897,005	589,898	496,152	-	1,758	-	1,984,813
Travel	572,532	369,142	55,359	38,718	46,094	27,743	1,109,588
Supplies	1,226,211	82,575	143,524	159,042	39,994	68,336	1,719,682
Facilities	269,003	32,849	64,635	28,580	6,772	46,015	447,854
Utilities	170,397	35,267	42,312	46,714	37,433	51,876	383,999
Insurance	23,403	6,000	14,453	59,978	45,574	57,970	207,378
Equipment	200,322	175,750	31,947	66,414	30,249	3,198	507,880
Vehicles	598,279	43,871	43,323	160,911	584	12,012	858,980
Other expenses	165,124	49,502	31,244	11,134	24,043	164,788	445,835
Depreciation	137,095	18,135	74,356	196,722	63,335	127,084	616,727
Gifts in-kind	12,647,186	44,821,203	78,067,068	1,410,971	-	24,575,077	161,521,505
Total other expenses	<u>17,443,395</u>	<u>46,297,298</u>	<u>79,084,085</u>	<u>2,246,883</u>	<u>335,743</u>	<u>25,134,174</u>	<u>170,541,578</u>
Distribution Center allocation	<u>3,416,423</u>	<u>7,947,193</u>	<u>13,525,688</u>	<u>668,065</u>	<u>268,799</u>	<u>(25,826,168)</u>	<u>-</u>
Total expenses	<u>\$ 23,664,908</u>	<u>\$ 55,048,691</u>	<u>\$ 93,689,858</u>	<u>\$ 4,627,557</u>	<u>\$ 1,861,915</u>	<u>\$ -</u>	<u>\$ 178,892,929</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Medical Teams International
Tigard, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Medical Teams International (a nonprofit organization), which comprise the statement of financial position as of September 30, 2014, and the related statements of activities, cash flows, and functional expenses for the fifteen months then ended, and the related notes to the financial statements, and have issued our report thereon dated February 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Medical Teams International's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Medical Teams International's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Medical Teams International's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Jones & Roth, P.C.".

Jones & Roth, P.C.
Hillsboro, Oregon
February 11, 2015