

William F. Shepherd

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Mid-South Lions Sight and Hearing Service, Inc.
Memphis, Tennessee

I have audited the accompanying statements of financial position of Mid-South Lions Sight and Hearing Service, Inc. (a Tennessee not-for-profit corporation) as of June 30, 2016 and 2015 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of Mid-South Lions Sight and Hearing Service, Inc. as of June 30, 2016 and 2015 and the changes in net assets and its functional expenses and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

November 7, 2016

William F. Shepherd

William F. Shepherd
Certified Public Accountant

MID-SOUTH LIONS SIGHT AND HEARING SERVICE, INC.
Memphis, Tennessee

Statement of Financial Position
For the Years Ended June 30, 2016 and 2015

| | June 30, 2016 | June 30, 2015 |
|-------------------------------------|----------------------|-----------------------|
| ASSETS: | | |
| Current Assets: | | |
| Cash | \$ 32,860 | \$ 24,352 |
| Cash - trustees | 5,516 | 5,842 |
| Cash - other temporarily restricted | 30,711 | 27,531 |
| Hospital volunteer credits | 9,272 | 28,523 |
| Inventory - trustees | 5,605 | 5,620 |
| Deposits | 0 | 608 |
| Total current assets | <u>83,964</u> | <u>92,476</u> |
| Noncurrent assets: | | |
| Office furniture and equipment | 33,555 | 32,859 |
| Leasehold improvements | <u>10,195</u> | <u>10,195</u> |
| Total | 43,750 | 43,054 |
| Less accumulated depreciation | <u>(31,181)</u> | <u>(28,326)</u> |
| Net noncurrent assets | <u>12,569</u> | <u>14,728</u> |
| Total assets | <u><u>96,533</u></u> | <u><u>107,204</u></u> |
| LIABILITIES AND NET ASSETS: | | |
| Current liabilities: | | |
| Accounts payable | 79,008 | 67,636 |
| Agency funds payable | 0 | 7,250 |
| Deferred revenue | 0 | 690 |
| Total current liabilities | <u>79,008</u> | <u>75,576</u> |
| Net assets: | | |
| Unrestricted (deficit) | (22,337) | (5,054) |
| Temporarily restricted | <u>39,862</u> | <u>36,682</u> |
| Total net assets | <u>17,525</u> | <u>31,628</u> |
| Total liabilities and net assets | <u><u>96,533</u></u> | <u><u>107,204</u></u> |

The accompanying notes are an integral part of these financial statements.

MID-SOUTH LIONS SIGHT AND HEARING SERVICE, INC.
Memphis, Tennessee

Statement of Activities
For the Years Ended June 30, 2016 and 2015

| | June 30, 2016 | June 30, 2015 |
|---|------------------|------------------|
| Changes in unrestricted net assets: | | |
| Unrestricted support | | |
| Contributions - Lions Clubs | \$ 262,168 | \$ 214,846 |
| Contributions - memorials and honorariums | 4,420 | 9,338 |
| Contributions - other | 136,388 | 51,164 |
| Special events - net of direct cost of \$10,630 for 2016 and \$22,187 for 2015 | 19,065 | 13,118 |
| Trustees fund raiser | 1,346 | 395 |
| Interest income | 92 | 118 |
| Miscellaneous income | 3,024 | 595 |
| Non-cash support: | | |
| Forgiveness of debt | 0 | 58,842 |
| Volunteer credits | 2,749 | 3,035 |
| Office space provided | 25,542 | 25,542 |
| Service discounts | 681,655 | 617,572 |
| Total unrestricted revenues | 1,136,449 | 994,565 |
| Net assets released from restrictions: | | |
| Satisfaction of program restrictions | 26,420 | 20,328 |
| Total unrestricted revenues and other support | 1,162,869 | 1,014,893 |
| Expenses: | | |
| Program services - sight and hearing | 970,406 | 833,546 |
| Management and general | 94,672 | 92,712 |
| Fund raising | 115,074 | 110,109 |
| Total expenses | 1,180,152 | 1,036,367 |
| Increase (decrease) in unrestricted net assets | (17,283) | (21,474) |
| Changes in temporarily restricted net assets: | | |
| Contributions - other | 29,600 | 2,000 |
| Net assets released from restrictions: | (26,420) | (20,328) |
| Increase (decrease) in temporarily restricted net assets | 3,180 | (18,328) |
| Increase (decrease) in net assets | (14,103) | (39,802) |
| Net assets at beginning of year | 31,628 | 71,430 |
| Net assets at end of year | 17,525 | 31,628 |

The accompanying notes are an integral part of these financial statements.

MID-SOUTH LIONS SIGHT AND HEARING SERVICE, INC.
Memphis, Tennessee

Statement of Functional Expenses
For the Years Ended June 30, 2016 With Comparative Amounts for June 30, 2015

| | June 30, 2016 | | | | June 30, 2015 | | | |
|---------------------------------------|-------------------------|------------------------------|-----------------|------------------|-------------------------|------------------------------|-----------------|------------------|
| | Sight and Hearing | Management and General | Fund Raising | Total | Sight and Hearing | Management and General | Fund Raising | Total |
| Employees | \$ 53,417 | \$ 41,443 | \$ 57,099 | \$ 151,959 | \$ 55,389 | \$ 41,786 | \$ 59,073 | \$ 156,248 |
| Accounting | 0 | 12,689 | 0 | 12,689 | 0 | 11,830 | 0 | 11,830 |
| Audio visual | 0 | 0 | 1,006 | 1,006 | 0 | 0 | 0 | 0 |
| Awards | 0 | 0 | 5,927 | 5,927 | 0 | 0 | 9,241 | 9,241 |
| Case expense - cash | 194,565 | 0 | 0 | 194,565 | 105,627 | 0 | 0 | 105,627 |
| Case expense - volunteer credits | 22,000 | 0 | 0 | 22,000 | 36,363 | 0 | 0 | 36,363 |
| Case expense - service discounts | 681,655 | 0 | 0 | 681,655 | 617,572 | 0 | 0 | 617,572 |
| Depreciation | 0 | 2,855 | 0 | 2,855 | 0 | 2,974 | 0 | 2,974 |
| Interest | 0 | 3,310 | 0 | 3,310 | 0 | 2,788 | 0 | 2,788 |
| International and state convention | 0 | 0 | 1,343 | 1,343 | 0 | 0 | 545 | 545 |
| Market and advertising | 0 | 0 | 0 | 0 | 0 | 0 | 459 | 459 |
| Meetings | 0 | 1,230 | 3,692 | 4,922 | 0 | 0 | 0 | 0 |
| Miscellaneous | 0 | 35 | 0 | 35 | 0 | 767 | 0 | 767 |
| Office expense | 0 | 16,413 | 8,325 | 24,738 | 0 | 15,790 | 7,845 | 23,635 |
| Payroll tax | 4,106 | 3,185 | 4,389 | 11,680 | 4,262 | 3,215 | 4,545 | 12,022 |
| Postage | 0 | 1,375 | 917 | 2,292 | 0 | 1,579 | 1,053 | 2,632 |
| Leaders weekend | 0 | 0 | 3,080 | 3,080 | 0 | 0 | 2,374 | 2,374 |
| Promotion | 0 | 0 | 4,392 | 4,392 | 0 | 0 | 545 | 545 |
| Public relations | 0 | 0 | 6,472 | 6,472 | 0 | 0 | 5,129 | 5,129 |
| Rent | 9,419 | 7,307 | 10,068 | 26,794 | 9,437 | 7,119 | 10,065 | 26,621 |
| Telephone | 5,244 | 2,420 | 404 | 8,068 | 4,896 | 2,260 | 376 | 7,532 |
| Training | 0 | 0 | 732 | 732 | 0 | 0 | 1,047 | 1,047 |
| Travel | 0 | 2,410 | 7,228 | 9,638 | 0 | 2,604 | 7,812 | 10,416 |
| Total expenses | <u>970,406</u> | <u>94,672</u> | <u>115,074</u> | <u>1,180,152</u> | <u>833,546</u> | <u>92,712</u> | <u>110,109</u> | <u>1,036,367</u> |

The accompanying notes are an integral part of these financial statements.

MID-SOUTH LIONS SIGHT AND HEARING SERVICE, INC.
Memphis, Tennessee

Statement of Cash Flows
For the Years Ended June 30, 2016 and 2015

| | June 30, 2016 | June 30, 2015 |
|---|------------------|------------------|
| Cash flows from operating activities: | | |
| Contributions received | \$ 432,576 | \$ 277,348 |
| Special events - net of costs | 19,065 | 13,118 |
| Trustees fund raiser | 1,346 | 395 |
| Interest received | 92 | 118 |
| Miscellaneous receipts | 3,024 | 1,285 |
| Agency funds received | 0 | 18,467 |
| Agency funds settled | (7,250) | (16,442) |
| Cash paid for interest | (3,310) | (2,788) |
| Cash paid to employers and suppliers | (250,797) | (243,995) |
| Cash paid for case expenses | (182,688) | (68,563) |
| Net cash provided by (used in) operating activities | <u>12,058</u> | <u>(21,057)</u> |
| Cash flows from investing activities: | | |
| Purchase of office equipment | (696) | 0 |
| Net cash provided by (used in) investing activities | <u>(696)</u> | <u>0</u> |
| Net increase (decrease) in total cash | 11,362 | (21,057) |
| Decrease (increase) in trustees cash | 326 | 1,309 |
| Decrease (increase) in temporarily restricted cash | (3,180) | 20,328 |
| Increase (decrease) in unrestricted cash | 8,508 | 580 |
| Cash at beginning of year | <u>24,352</u> | <u>23,772</u> |
| Cash at end of year | <u>32,860</u> | <u>24,352</u> |

The accompanying notes are an integral part of these financial statements.

MID-SOUTH LIONS SIGHT AND HEARING SERVICE, INC.
Memphis, Tennessee

Statement of Cash Flows - Continued
For the Years Ended June 30, 2016 and 2015

| | June 30, 2016 | June 30, 2015 |
|---|------------------|------------------|
| Reconciliation of change in net assets to net cash received by operating activities: | | |
| Change in net assets | \$ (14,103) | \$ (39,802) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Non-cash support provided | (709,946) | (704,991) |
| Non-cash case expense | 703,655 | 653,935 |
| Non-cash expense -rent | 25,542 | 25,542 |
| Depreciation | 2,855 | 2,974 |
| Forgiveness of debt | | |
| applied to accounts payable for patient care | 0 | 54,986 |
| Decrease (increase) in inventory | 15 | (5,620) |
| Decrease (increase) in deposits | 608 | (608) |
| Increase (decrease) in accounts payable | 11,372 | (10,188) |
| Increase (decrease) in agency funds liability | (7,250) | 2,025 |
| Increase (decrease) in deferred revenue | (690) | 690 |
| Net cash provided by (used in) operating activities | <u>12,058</u> | <u>(21,057)</u> |
| Summary of significant non-cash transactions: | | |
| Non-cash operating activities: | | |
| Forgiveness of debt - | | |
| accounts payable and volunteer credits of current and prior years | 0 | 58,842 |
| Hospital credits provided by volunteers | 2,749 | 3,035 |
| Office space provided | 25,542 | 25,542 |
| Service discounts provided to patients | 681,655 | 617,572 |
| Case expenses settled with hospital credits | 22,000 | 36,363 |
| Non-cash investing activities: | | |

The accompanying notes are an integral part of these financial statements.

MID-SOUTH LIONS SIGHT AND HEARING SERVICE, INC.
Memphis, Tennessee

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 1 - NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING PRINCIPLES

Mid-South Lions Sight and Hearing Service, Inc., (the organization) is a non profit corporation dedicated to providing comprehensive medical services to indigent sight and hearing patients sponsored by Lions Clubs in Arkansas, Mississippi, Missouri and West Tennessee. Services are provided principally at the Memphis clinics in conjunction with Methodist Healthcare, Hamilton Eye Institute and UT Ophthalmology, and in various satellite clinics within the four state area. Cash revenues are derived principally from the Lions Clubs in Arkansas, Mississippi, Missouri and West Tennessee.

Support and expenses - Contributions are measured at their fair value and are reported as an increase in net assets. The organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets, or if they are designated as support for future periods. 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 statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting are reported as unrestricted support.

The organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation about how long these long-lived assets be maintained, the organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses are recorded when the liability is incurred in accordance with the accrual basis of accounting.

Donated services, goods and facilities - A substantial number of volunteers have donated their time to the organization's operations and fund raising programs during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Donated professional services are reflected in the statement of activities at their fair value, when such services can be reasonably measured.

Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts or assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MID-SOUTH LIONS SIGHT AND HEARING SERVICE, INC.
Memphis, Tennessee

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING PRINCIPLES
(CONTINUED)

Concentrations of credit and market risk - Financial instruments that potentially expose the organization to concentrations of credit and market risk consist primarily of hospital credits which may only be used at Methodist Healthcare. The organization has not experienced any losses on hospital credits.

Advertising and promotion costs - Advertising and promotion costs are expensed as incurred.

Office furniture and equipment and leasehold improvements - Office furniture and equipment and leasehold improvements reflect purchased assets at cost and donated assets capitalized at fair value. Depreciation is recognized over the estimated useful lives (3-25 years) of the respective assets on a straight-line method. Management considers the carrying value of the long-lived assets not to be impaired.

Income taxes - The organization is a non-profit corporation exempt under the IRS code 501(c)(3) whose revenue is derived from contributions and other fund raising activities and is not subject to federal and state income taxes.

Hospital contract - The organization has provided Methodist Healthcare and Hamilton Eye Institute with sight and hearing equipment used in examinations and surgeries. In recognition of the donated equipment, the hospital and eye institute provided a staffed clinic for free sight and hearing examination of Lions Clubs sponsored indigent patients. If the patient requires surgery, the hospitals discount their charges to the organization.

Satellite clinic agreements - Various satellite clinics provide eye examinations and if required the corrective surgery for Lions Clubs sponsored indigent patients at a discounted rate.

Cash equivalents - Cash and cash equivalents consist of cash held in checking and savings accounts and certificates of deposit with maturities of less than 90 days at issue date.

Inventory trustees – In April, 2015, the trustees purchased an oil on canvas, “Crusader”. Seven hundred fifty prints were made from the original and are being sold framed and unframed. Inventory at cost includes the original canvas and both framed and unframed prints. As prints are framed for sale, the first-in, first-out method of costing is used to price the remaining inventory.

Deferred revenue – Deferred revenue represents advance collections of trustee fund raiser when the framed prints were not available until after the year end.

Agency funds - The organization accepts cash payments from various Lions Clubs to be used for the purchase of hearing aids for specified club sponsored patients. The agency funds payable liability is increased by club payments and decreased when the hearing aids are purchased.

MID-SOUTH LIONS SIGHT AND HEARING SERVICE, INC.
Memphis, Tennessee

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 2 - NON-CASH SUPPORT

Non-cash support has been recognized from the following major sources:

Forgiveness of debt – A hospital forgave patient bills in the amount of \$54,986 representing cash costs for the current and prior year. In addition, the hospital forgave an existing balance due for volunteer credits of prior years of \$3,856.

Volunteer credits - A volunteer program is in operation whereby individuals do volunteer work for Methodist Healthcare. In recognition of this volunteer service, the hospital has provided a credit at \$6.96 per volunteer hour to be applied to the organization's sponsored patients.

Hospital volunteer credit transactions are summarized as follows:

| | June 30, <u>2016</u> | June 30, <u>2015</u> |
|-----------------------------|-------------------------|-------------------------|
| Credits – beginning of year | \$ 28,523 | \$ 57,995 |
| Credits earned | 2,749 | 3,035 |
| Forgiveness of debt | -0- | 3,856 |
| Less credits applied | (22,000) | (36,363) |
| Credits – end of year | <u>9,272</u> | <u>28,523</u> |

Discounted professional services - Methodist Healthcare and Hamilton Eye Institute provide examinations for the organization's patients without charge and a discount on hospital charges in the event of sponsored patient' surgery.

Other professional health care organizations provided discounts for services to sponsored patients.

The doctors providing the patients' surgical operations and examinations have contributed their time. The doctors' support was included in the service discounts.

Office space - The University of Tennessee has provided office space, maid service and utilities under a five year lease ending June 30, 2017. The lease requires ten dollar annual lease payments and may be terminated by either party with 120 days written notice.

Note 3 - FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing patient services, management and fund-raising activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the activities benefited.

During the year ended June 30, 2016, the organization conducted program activities that also included requests for contributions. The activities included meetings, direct mail and travel for Lions Clubs presentations. The cost of those activities included a total of \$16,852 of joint costs which were not specifically identifiable to either the program component or the fund-raising component of the activities. These joint costs were allocated \$5,015 to management and general and \$11,837 to fund-raising.

MID-SOUTH LIONS SIGHT AND HEARING SERVICE, INC.
Memphis, Tennessee

Notes to Financial Statements
For the Years Ended June 30, 2016 and 2015

Note 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are to be used for the following programs:

| | June 30, <u>2016</u> | June 30, <u>2015</u> |
|--|-------------------------|-------------------------|
| Investments to provide an income to be used in the organization's operations. The investment may only be used with approval by the trustees with board action. | \$ 9,151 | \$ 9,151 |
| Corporate and foundation grants to be used for specific eye care | <u>30,711</u> | <u>27,531</u> |
| | <u>39,862</u> | <u>36,682</u> |

Temporarily restricted assets are maintained in separate cash and inventory accounts.

Note 5 - LEASE COMMITMENTS

The organization leases office equipment under a five year noncancellable operating lease which expires in 2019. Rental expense for the year ended June 30, 2016 of \$5,741 is included in office expense. Minimum future lease payments are as follows:

| | |
|--------------------------|-------|
| Year ended June 30, 2017 | 5,741 |
| Year ended June 30, 2018 | 5,741 |
| Year ended June 30, 2019 | 3,349 |

Note 6 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 7, 2016 which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.