

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

REPORT ON AUDIT OF COMBINED  
FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

# HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

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December 31, 2013 and 2012

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# KIMBERLY F. PALMISANO, CPA, P.A.

## Certified Public Accountant

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P.O. Box 164, Hunt Valley, Maryland 21030

### INDEPENDENT AUDITOR'S REPORT

To The Boards of Directors  
Health Volunteers Overseas, Inc. and Affiliate

I have audited the accompanying combined financial statements of Health Volunteers Overseas, Inc. and Affiliate (nonprofit organizations) which comprise the combined statements of financial position as of December 31, 2013 and 2012, and the related combined 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 audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Health Volunteers Overseas, Inc. and Affiliate as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Kimberly F. Palmisano, CPA, P.A.*

Kimberly F. Palmisano, CPA, P.A.  
Hunt Valley, Maryland  
June 16, 2014

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE  
COMBINED STATEMENTS OF FINANCIAL POSITION

December 31,	2013	2012
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 263,186	\$ 143,264
Contributions Receivable	18,728	63,761
Marketable Securities	1,020,952	963,714
Prepaid Expenses	10,157	19,594
	<u>1,313,023</u>	<u>1,190,333</u>
<b>TOTAL CURRENT ASSETS</b>		
<b>FURNITURE AND EQUIPMENT</b>		
Equipment	25,106	23,613
Furniture and Fixtures	7,375	7,375
	<u>32,481</u>	<u>30,988</u>
<b>Total</b>	<b>32,481</b>	<b>30,988</b>
Less: Accumulated Depreciation	<u>(23,350)</u>	<u>(24,124)</u>
	<u>9,131</u>	<u>6,864</u>
<b>TOTAL FURNITURE AND EQUIPMENT, NET</b>		
<b>OTHER ASSETS</b>		
Investments - Other	149,821	141,842
Deposits	5,455	5,455
Charitable Remainder Trust Receivable	718,772	643,512
	<u>874,048</u>	<u>790,809</u>
<b>TOTAL OTHER ASSETS</b>		
	<u>874,048</u>	<u>790,809</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,196,202</u></b>	<b><u>\$ 1,988,006</u></b>

Independent auditor's report and accompanying notes  
are an integral part of these financial statements.

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE  
COMBINED STATEMENTS OF FINANCIAL POSITION

December 31,	2013	2012
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 85,313	\$ 98,797
Deferred Registration	2,100	1,600
<b>TOTAL CURRENT LIABILITIES</b>	<b>87,413</b>	<b>100,397</b>
<b>NET ASSETS</b>		
Unrestricted	1,041,987	945,507
Temporarily Restricted	1,066,802	942,102
<b>TOTAL NET ASSETS</b>	<b>2,108,789</b>	<b>1,887,609</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,196,202</b>	<b>\$ 1,988,006</b>

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HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE  
COMBINED STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>INCOME</b>			
Contributions			
In-Kind Contributions	\$ 7,440,337	\$ -	\$ 7,440,337
Member Contributions	292,555	-	292,555
Contributions - Other	298,828	125,895	424,723
Workplace Giving Contributions	16,167	-	16,167
Charitable Remainder Trust - Change in Fair Value	-	75,260	75,260
Program Service Fees	4,710	-	4,710
Publications	2,325	-	2,325
Registration	7,750	-	7,750
Grant Income	-	321,623	321,623
Net Investment Income	163,980	-	163,980
Overhead	40,946	-	40,946
Miscellaneous	275	-	275
Net Assets Released from Restriction	398,078	(398,078)	-
<b>TOTAL INCOME</b>	<u>8,665,951</u>	<u>124,700</u>	<u>8,790,651</u>
General and Administrative Expenses	<u>151,606</u>	<u>-</u>	<u>151,606</u>
<b>PROGRAM EXPENSES</b>			
In-Kind Expenditures			
Professional Services Donations	4,466,818	-	4,466,818
Travel and Living Costs Paid by Volunteers	1,217,927	-	1,217,927
Equipment and Other Donations	1,755,593	-	1,755,593
Other Program	934,384	-	934,384
<b>TOTAL PROGRAM EXPENSES</b>	<u>8,374,722</u>	<u>-</u>	<u>8,374,722</u>
Fundraising Expenses	<u>43,143</u>	<u>-</u>	<u>43,143</u>
<b>TOTAL EXPENSES</b>	<u>8,569,471</u>	<u>-</u>	<u>8,569,471</u>
<b>CHANGE IN NET ASSETS</b>	96,480	124,700	221,180
Net Assets - Beginning of Year	<u>945,507</u>	<u>942,102</u>	<u>1,887,609</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 1,041,987</u>	<u>\$ 1,066,802</u>	<u>\$ 2,108,789</u>

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are an integral part of these financial statements.

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE  
COMBINED STATEMENTS OF ACTIVITIES

For the Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>INCOME</b>			
Contributions			
In-Kind Contributions	\$ 6,466,975	\$ -	\$ 6,466,975
Member Contributions	318,311	-	318,311
Contributions - Other	316,284	267,858	584,142
Workplace Giving Contributions	12,936	-	12,936
Charitable Remainder Trust - Change in Fair Value	-	81,906	81,906
Program Service Fees	4,545	-	4,545
Publications	2,307	-	2,307
Registration	10,450	-	10,450
Grant Income	-	116,912	116,912
Investment Income	129,574	-	129,574
Overhead	29,125	-	29,125
Miscellaneous	373	-	373
Net Assets Released from Restriction	390,908	(390,908)	-
<b>TOTAL INCOME</b>	<u>7,681,788</u>	<u>75,768</u>	<u>7,757,556</u>
General and Administrative Expenses	<u>149,179</u>	<u>-</u>	<u>149,179</u>
<b>PROGRAM EXPENSES</b>			
In-Kind Expenditures			
Professional Services Donations	3,773,050	-	3,773,050
Travel and Living Costs Paid by Volunteers	1,435,621	-	1,435,621
Equipment and Other Donations	1,258,304	-	1,258,304
Other Program	980,177	-	980,177
<b>TOTAL PROGRAM EXPENSES</b>	<u>7,447,152</u>	<u>-</u>	<u>7,447,152</u>
Fundraising Expenses	<u>44,364</u>	<u>-</u>	<u>44,364</u>
<b>TOTAL EXPENSES</b>	<u>7,640,695</u>	<u>-</u>	<u>7,640,695</u>
<b>CHANGE IN NET ASSETS</b>	41,093	75,768	116,861
Net Assets - Beginning of Year	<u>904,414</u>	<u>866,334</u>	<u>1,770,748</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 945,507</u>	<u>\$ 942,102</u>	<u>\$ 1,887,609</u>

Independent auditor's report and accompanying notes  
are an integral part of these financial statements.

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE  
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2013

FUNCTIONAL EXPENSES	General and Administrative	Fundraising	Program	Total
In-Kind Expenditures				
Professional Services	\$ -	\$ -	\$ 4,466,818	\$ 4,466,818
Travel and Living	-	-	1,217,927	1,217,927
Equipment and Other	-	-	1,755,593	1,755,593
Salary, Payroll Taxes and Benefits	107,912	25,543	428,211	561,666
Bank, Credit Card and Investment Fees	3,039	720	12,061	15,820
Commodities	-	-	29,598	29,598
Communications	2,051	606	8,726	11,383
Depreciation	541	128	2,148	2,817
Dues and Subscriptions	96	23	381	500
Fundraising	-	3,139	-	3,139
Housing	-	-	22,969	22,969
Insurance	1,611	382	6,394	8,387
Licenses and Fees	79	1,752	314	2,145
Meetings	772	-	29,166	29,938
Miscellaneous	-	176	14,733	14,909
Office Supplies	653	155	7,043	7,851
Overhead	-	-	40,946	40,946
Overseas Program Contractors	-	-	42,655	42,655
Postage	2,446	1,580	9,267	13,293
Printing	2,760	3,182	8,999	14,941
Professional Fees	6,487	272	32,524	39,283
Rent	20,284	4,804	80,503	105,591
Shipping	-	-	953	953
Special Projects	-	-	2,546	2,546
Stipends	-	-	15,490	15,490
Telephone	750	178	4,276	5,204
Travel	2,125	503	134,482	137,110
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 151,606</b>	<b>\$ 43,143</b>	<b>\$ 8,374,722</b>	<b>\$ 8,569,471</b>

Independent auditor's report and accompanying notes  
are an integral part of these financial statements.



HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE  
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2012

FUNCTIONAL EXPENSES	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Program</u>	<u>Total</u>
In-Kind Expenditures				
Professional Services	\$ -	\$ -	\$ 3,773,050	\$ 3,773,050
Travel and Living	-	-	1,435,621	1,435,621
Equipment and Other	-	-	1,258,304	1,258,304
Salary, Payroll Taxes and Benefits	104,176	23,672	403,005	530,853
Bank, Credit Card, and Investment Fees	3,177	722	12,295	16,194
Commodities	-	-	54,839	54,839
Communications	1,927	717	10,615	13,259
Depreciation	569	129	2,201	2,899
Dues and Subscriptions	88	20	904	1,012
Fundraising	-	905	-	905
Housing	-	-	17,277	17,277
Insurance	1,348	307	5,218	6,873
Licenses and Fees	164	1,661	633	2,458
Meetings	663	-	41,754	42,417
Miscellaneous	-	-	19,523	19,523
Office Supplies	653	148	2,987	3,788
Overhead	-	-	29,125	29,125
Postage	2,919	1,282	10,977	15,178
Printing	2,949	1,354	13,746	18,049
Professional Fees	6,234	684	29,160	36,078
Rent	20,808	4,730	80,516	106,054
Shipping	-	-	12,982	12,982
Special Projects	-	7,236	15,830	23,066
Stipends	-	-	12,291	12,291
Telephone	779	177	3,428	4,384
Travel	2,725	620	200,871	204,216
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 149,179</b>	<b>\$ 44,364</b>	<b>\$ 7,447,152</b>	<b>\$ 7,640,695</b>

Independent auditor's report and accompanying notes  
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HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE  
COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 221,180	\$ 116,861
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities		
Charitable Remainder Trust - Change in Fair Value	(75,260)	(81,906)
Net Realized and Unrealized (Gains) and Losses - Marketable Securities	(108,777)	(80,231)
Depreciation	2,817	2,899
(Increase) Decrease in Operating Assets:		
Accounts and Contributions Receivable	45,033	(52,311)
Prepaid Expenses	9,437	(6,795)
Increase in Operating Liabilities:		
Accounts Payable and Accrued Expenses	(13,484)	12,339
Deferred Registration	500	(1,000)
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<u>81,446</u>	<u>(90,144)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets	(5,084)	(6,700)
Purchase of Investment and Marketable Securities	(421,358)	(53,833)
Proceeds from Sales of Marketable Securities	464,918	77,584
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>38,476</u>	<u>17,051</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	119,922	(73,093)
Cash and Cash Equivalents - Beginning of Year	143,264	216,357
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 263,186</u>	<u>\$ 143,264</u>

Independent auditor's report and accompanying notes  
are an integral part of these financial statements.

# HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE NOTES TO COMBINED FINANCIAL STATEMENTS

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December 31, 2013 and 2012

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## **Note 1: Summary of Significant Accounting Policies**

### **The Organizations**

Health Volunteers Overseas, Inc. ("HVO") and Orthopaedics Overseas, Inc. ("OO") (the Organizations) were incorporated as nonprofit organizations. The purpose of the Organizations is to improve health care in developing countries through training and education. The Organizations design and implement educational programs in developing countries staffed by short-term volunteer physicians, nurses, dentists and other health care professionals. They are sent to sites in developing countries where they teach health and medical skills to local caregivers.

### **Basis of Combination**

The combined financial statements include the accounts of Health Volunteers Overseas, Inc. (HVO) and Orthopaedics Overseas, Inc. (OO). All significant inter-company accounts and transactions have been eliminated in combination. Expenses are allocated between HVO and OO (the Organizations) based on percentages agreed upon by both Boards of Directors. These expenses are allocated between functional categories based on estimated percentages of time.

### **Basis of Presentation**

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification. As required by the Non-Profit Entities topic of the FASB Accounting Standard Codification, *Financial Statements of Not-for-Profit Organizations*, the Organizations are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

These classes of net assets are based on the existence or absence of externally (donor) imposed restrictions. Accordingly, net assets of the Organizations and changes therein are classified and reported as follows:

**Unrestricted net assets:** Unrestricted net assets are not subject to donor-imposed stipulations and reflect revenue earned and expenses incurred in the operation of all the Organizations' activities. Contributions received in support of activities and investment earnings are recorded as revenue in this category unless such amounts are restricted by the donor.

**Temporarily restricted net assets:** Temporarily restricted net assets are subject to donor-imposed stipulations that can be met through the passage of time (time restrictions) or actions of the Organizations (purpose restrictions). As grants are awarded, expenses are incurred or time periods are met which satisfy the requirements of the restrictions, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

**Permanently restricted net assets:** Permanently restricted net assets are subject to the restrictions imposed by donors who require that the principal be invested in perpetuity and only the investment earnings be expended.

The Organizations had no permanently restricted net assets as of December 31, 2013 and 2012.

### **Property and Equipment**

Donations of property and equipment are recorded at cost if purchased, or as support at their estimated fair value. 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, the Organizations report expirations of donor restrictions when the donated or acquired assets are placed in

# HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

## NOTES TO COMBINED FINANCIAL STATEMENTS

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December 31, 2013 and 2012

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **Property and Equipment (Continued)**

service as instructed by the donor. The Organizations reclassify temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets, which are determined as three to five years.

#### **Use of Estimates**

The Organizations use estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

#### **Promises to Give**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

#### **Marketable Securities**

Marketable Securities, whether purchased or donated, are recorded at fair value based on quoted market prices. All gains and losses are included in the statement of activities. Unrealized gains or losses on such securities are based on the change in market value of the assets from the beginning to the end of the fiscal year. Realized gains or losses are based on the change in the market value of the assets from the beginning of the fiscal year to the date of sale.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near-term and that such changes could materially affect the Organizations and the amounts reported in the combined statement of activities.

#### **Cash Equivalents**

Cash equivalents or temporary cash investments are carried at cost, which approximates market. For purposes of the statement of cash flows, the Organizations consider all temporary cash investments purchased with a maturity of three months or less and certain certificates of deposit to be cash equivalents.

#### **In-Kind Contributions**

For the year ended December 31, 2013, 454 volunteers completed 506 assignments. These volunteers donated significant amounts of their time to serve in developing countries. Almost all travel and living expenses associated with the visits to teach local people appropriate health care are paid for by the participating physicians and other health professionals. During 2013, these volunteers contributed approximately 6,853 days of service in developing countries around the world. Management's estimate of the value of such time and related travel and living expenses paid personally by such professionals is \$5,684,744. In addition to the services and expenses donated during 2013, management's estimate of the value of equipment and supplies donated to sites in developing countries, along with other in-kind support, is \$1,755,593. These donations of in-kind support are reflected on the financial statements as offsetting contributions and program expenses.

# HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

## NOTES TO COMBINED FINANCIAL STATEMENTS

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December 31, 2013 and 2012

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### **Note 1: Summary of Significant Accounting Policies (Continued)**

#### **In-Kind Contributions (Continued)**

For the year ended December 2012, 509 volunteers completed 554 assignments. These volunteers donated significant amounts of their time to serve in developing countries. Almost all travel and living expenses associated with the visits to teach local people appropriate health care are paid for by the participating physicians and other health professionals. During 2012, these volunteers contributed approximately 7,763 days of service in developing countries around the world. Management's estimate of the value of such time and related travel and living expenses paid personally by such professionals is \$5,208,671. In addition to the services and expenses donated during 2012, management's estimate of the value of equipment and supplies donated to sites in developing countries, along with other in-kind support, is \$1,258,304. These donations of in-kind support are reflected on the financial statements as offsetting contributions and program expenses.

Management believes that these estimates of such expenditures provide a reasonable basis for recording offsetting in-kind contributions and donations. The recording of in-kind contributions and donations has no net impact on the reported change in net assets.

#### **Income Taxes**

The Organizations are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. In addition, the Organizations have been determined by the Internal Revenue Service not to be private foundations within the meaning of §509(a) of the code. The Organizations are subject to the examination by taxing authorities of any uncertain tax positions taken. In accordance with FASB Accounting Standards Codification 740 - Income Taxes, management continually evaluates the expiring statutes of limitations, changes in tax laws and new authoritative rulings for potential examinations of income tax returns by the Internal Revenue Service. The Organizations' Forms 990 "Return of Organization Exempt From Income Tax", for the years ended 2010, 2011 and 2012 remain subject to examination by the IRS, generally for three years after filing.

#### **Contributions Receivable**

The Organizations consider contributions receivable fully collectible, therefore no allowance for doubtful accounts is required. The amounts receivable represent contributions unconditionally donated as of the year end but not as yet received, and other miscellaneous receivables.

#### **Investment Income and Gains**

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. Investment income and gains not restricted by donors are reported as increases in unrestricted net assets.

#### **Date of Management's Review**

The Organizations have evaluated subsequent events through June 16, 2014, the date which the financial statements were available to be issued.

### **Note 2: Restrictions on Net Assets**

Temporarily restricted net assets at December 31, 2013 and 2012, represent contributions from donors specified to be used in various programs sponsored by the Organizations.

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS

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December 31, 2013 and 2012

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**Note 3: Commitments**

On January 10, 2003, the Organization (HVO) entered into a non-cancellable lease agreement for the operating facilities for a term of seven years commencing March 1, 2003.

Monthly rentals are adjusted throughout the lease term as defined in the lease. On April 7, 2009, the Organization entered into an amended lease agreement effective May 1, 2009 for a term of ten years.

Future minimum rentals due under the term of these leases (including lease extensions) are the following for the years ending December 31,

2014	107,193
2015	110,409
2016	113,721
2017	117,132
2018	120,645
Thereafter	<u>40,613</u>
TOTAL	<u>\$ 609,713</u>

Total rent expense for the years ended December 31, 2013 and 2012 amounted to \$105,591 and \$106,054, respectively.

**Note 4: Deferred Compensation Plan**

HVO has available to all eligible employees a deferred compensation plan. The Organization's contribution to the Plan totaled \$33,880 and \$30,024 for the years ended December 31, 2013 and 2012, respectively.

**Note 5: Credit Risk**

The Organizations maintain cash and cash equivalents in certain financial institutions. At times during the year, balances in these institutions may exceed federally insured limits. The Organizations have not experienced any losses in such accounts and believe they are not exposed to any to any significant credit risk on cash and cash equivalents.

**Note 6: Charitable Remainder Trust**

The Organization, Orthopaedics Overseas, Inc., is the beneficiary of an irrevocable charitable remainder trust created by a private donor. Upon the death of the life beneficiary, the Organization will receive the residual assets of the trust.

Based on the life beneficiary life expectancy and the use of a 4.2% discount rate, the fair value of the trust attributable to the present value of the future benefits expected to be received by the Organization is estimated to be \$718,772 and \$643,512 as of December 31, 2013 and 2012, respectively. The trust was originally recorded in the statement of activities as a temporarily restricted contribution in the period the trust was established and in the statement of financial position as a charitable remainder trust receivable.

The Organization has not been designated as the trustee of the trust, and therefore does not hold any of the trust assets, nor is it liable for payment of distribution to the life beneficiary. The present value of the

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2013 and 2012

**Note 6: Charitable Remainder Trust (Continued)**

estimated future payments was calculated using a discount rate based on the U.S. Treasury yield rate. The discount period is based on the designated life beneficiary's expected life based on the applicable mortality tables.

**Note 7: Marketable Securities**

The aggregate amount of marketable securities by major type recorded at fair value at December 31, 2013 and 2012 were as follows:

<u>December 31, 2013</u>	<u>Fair Value</u>	<u>Original Cost</u>	<u>Gross Unrealized Gains</u>
Fixed Income Mutual Funds	\$ 405,779	\$ 398,281	\$ 7,498
Equity Mutual Funds	<u>615,173</u>	<u>512,979</u>	<u>102,194</u>
TOTAL INVESTMENTS	<u>\$ 1,020,952</u>	<u>\$ 911,260</u>	<u>\$ 109,692</u>

Investment return is summarized as follows:

Interest and Dividend Income	\$ 55,203
Net Realized and Unrealized Gains (Losses)	<u>108,777</u>
TOTAL INVESTMENT INCOME	<u>\$ 163,980</u>

<u>December 31, 2012</u>	<u>Fair Value</u>	<u>Original Cost</u>	<u>Gross Unrealized Gains</u>
Fixed Income Mutual Funds	\$ 410,441	\$ 384,850	\$ 25,591
Equity Mutual Funds	<u>553,273</u>	<u>501,016</u>	<u>52,257</u>
TOTAL INVESTMENTS	<u>\$ 963,714</u>	<u>\$ 885,866</u>	<u>\$ 77,848</u>

Investment return is summarized as follows:

Interest and Dividend Income	\$ 49,343
Net Realized and Unrealized Gains (Losses)	<u>80,231</u>
TOTAL INVESTMENT INCOME	<u>\$ 129,574</u>

## HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE NOTES TO COMBINED FINANCIAL STATEMENTS

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December 31, 2013 and 2012

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### **Note 8: Fair Value Measurements**

The Fair Value Measurements and Disclosures topic of the FASB Codification establishes a framework for measuring fair value, a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This topic applies to all financial instruments that are being measured and reported on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under this topic as assumptions market participants would use in pricing an asset or liability.

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 - Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The Organizations assess the levels of investments at each measurement date, and transfers between the levels are recognized on the actual date of the event of change in circumstances that caused the transfer in accordance with the Organizations' accounting policy regarding the recognition of transfers between the levels of the fair value hierarchy. For the years ended December 31, 2013 and 2012, there were no transfers.

Marketable Securities include various mutual funds and government bonds. Mutual funds are stated at their reported net asset value as of the valuation date and government bonds are stated at the last reported sales price on the date of valuation.

Fair value of the assets held in the charitable remainder trust is determined by calculating the present value of the expected cash flows. The discount rate used for the years ended December 31, 2013 and 2012 was 4.2%.

While the Organizations believe that the valuation methods are appropriate and consistent with other market participants, the use of different assumptions or methods to determine fair value could result in a different fair value measurement at the reporting date.



HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2013 and 2012

**Note 8: Fair Value Measurements (Continued)**

**Fair Values For the Year Ended December 31, 2013:**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed Income Mutual Funds	\$ 405,779	\$ -	\$ -	\$ 405,779
Equity Mutual Funds	615,173	-	-	615,173
Charitable Remainder Trust	-	-	718,772	718,772
Total Investments at Fair Value	<u>\$ 1,020,952</u>	<u>\$ -</u>	<u>\$ 718,772</u>	<u>\$ 1,739,724</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Charitable Remainder Trust:

Balance January 1, 2013	\$ 643,512
Change in Value, Net of Discount	75,260
Balance December 31, 2013	<u>\$ 718,772</u>

**Fair Values For the Year Ended December 31, 2012:**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed Income Mutual Funds	\$ 410,441	\$ -	\$ -	\$ 410,441
Equity Mutual Funds	553,273	-	-	553,273
Charitable Remainder Trust	-	-	643,512	643,512
Total Investments at Fair Value	<u>\$ 963,714</u>	<u>\$ -</u>	<u>\$ 643,512</u>	<u>\$ 1,607,226</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Charitable Remainder Trust:

Balance January 1, 2012	\$ 561,606
Change in Value, Net of Discount	81,906
Balance December 31, 2012	<u>\$ 643,512</u>

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE  
NOTES TO COMBINED FINANCIAL STATEMENTS

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December 31, 2013 and 2012

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**Note 9: Investment - Other**

The Organization (OO) has established an endowment fund in the amount of \$149,821 and \$141,842 as of December 31, 2013 and 2012, respectively, that is being held by the Orthopaedic Research and Education Foundation (OREF). The investment is stated based on the original cost basis of the assets held in the fund, plus undistributed investment earnings, less distributions.