

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

REPORT ON AUDIT OF COMBINED
FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

Table of Contents

December 31, 2019 and 2018

	<u>PAGE</u>
Independent Auditor's Report	1
Combined Financial Statements	
Combined Statements of Financial Position.....	2-2A
Combined Statements of Activities	3-3A
Combined Statements of Functional Expenses	4-4A
Combined Statements of Cash Flows	5
Notes to Combined Financial Statements	6-16

KIMBERLY F. PALMISANO, CPA, P.A.

Certified Public Accountant

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

INDEPENDENT AUDITOR'S REPORT

To The Board 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, 2019 and 2018, 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, 2019 and 2018, and the changes in their net assets 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
August 28, 2020

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

December 31,	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 106,031	\$ 80,629
Contributions Receivable	28,048	19,692
Investments	2,125,146	2,262,977
Prepaid Expenses	<u>44,734</u>	<u>37,711</u>
TOTAL CURRENT ASSETS	<u>2,303,959</u>	<u>2,401,009</u>
FIXED ASSETS		
Equipment	35,724	28,507
Furniture and Fixtures	<u>13,966</u>	<u>13,966</u>
Total	49,690	42,473
Less: Accumulated Depreciation	<u>(38,362)</u>	<u>(35,790)</u>
TOTAL FIXED ASSETS, NET	<u>11,328</u>	<u>6,683</u>
OTHER ASSETS		
Deposits	<u>6,955</u>	<u>6,955</u>
TOTAL ASSETS	<u><u>\$ 2,322,242</u></u>	<u><u>\$ 2,414,647</u></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 FINANCIAL POSITION

December 31,	2019	2018
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 117,669	\$ 115,203
Deferred Registration	<u>1,415</u>	<u>1,300</u>
TOTAL CURRENT LIABILITIES	<u>119,084</u>	<u>116,503</u>
NET ASSETS		
Without Donor Restrictions	625,410	1,861,620
Without Donor Restrictions - Board Designated	<u>989,188</u>	<u>-</u>
Total Net Assets Without Donor Restrictions	<u>1,614,598</u>	<u>1,861,620</u>
With Donor Restrictions	<u>588,560</u>	<u>436,524</u>
TOTAL NET ASSETS	<u>2,203,158</u>	<u>2,298,144</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 2,322,242</u></u>	 <u><u>\$ 2,414,647</u></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 ACTIVITIES

For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
INCOME			
Contributions			
In-Kind Contributions	\$ 8,002,985	\$ -	\$ 8,002,985
Member Contributions	218,840		218,840
Contributions - Other	285,426	201,876	487,302
Workplace Giving Contributions	4,812	-	4,812
Program Fees, Registration, Publications	14,640	-	14,640
Grant Income	-	337,686	337,686
Investment Income, Net	409,120	-	409,120
Overhead	35,122	-	35,122
Net Assets Released From Restriction:			
Satisfaction of Donor Restricted Purpose	387,526	(387,526)	-
TOTAL INCOME	9,358,471	152,036	9,510,507
General and Administrative Expenses	226,479	-	226,479
PROGRAM EXPENSES			
In-Kind Expenditures			
Professional Services Donations	7,159,541	-	7,159,541
Travel and Living Costs Paid by Volunteers	608,543	-	608,543
Equipment and Other Donations	234,901	-	234,901
Other Program	1,287,636	-	1,287,636
TOTAL PROGRAM EXPENSES	9,290,621	-	9,290,621
Fundraising Expenses	88,393	-	88,393
TOTAL EXPENSES	9,605,493	-	9,605,493
CHANGE IN NET ASSETS	(247,022)	152,036	(94,986)
Net Assets - Beginning of Year	1,861,620	436,524	2,298,144
NET ASSETS - END OF YEAR	\$ 1,614,598	\$ 588,560	\$ 2,203,158

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

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

For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
INCOME			
Contributions			
In-Kind Contributions	\$ 7,535,522	\$ -	\$ 7,535,522
Member Contributions	227,945	-	227,945
Contributions - Other	288,838	222,555	511,393
Workplace Giving Contributions	6,571	-	6,571
Program Fees, Registration, Publications	16,567	-	16,567
Grant Income	-	200,486	200,486
Investment Income (Loss), Net	(128,457)	-	(128,457)
Overhead	34,356	-	34,356
Net Assets Released From Restriction:			
Expiration of Time Restriction	340,000	(340,000)	-
Satisfaction of Donor Restricted Purpose	354,955	(354,955)	-
TOTAL INCOME	8,676,297	(271,914)	8,404,383
General and Administrative Expenses	220,629	-	220,629
PROGRAM EXPENSES			
In-Kind Expenditures			
Professional Services Donations	6,743,485	-	6,743,485
Travel and Living Costs Paid by Volunteers	673,180	-	673,180
Equipment and Other Donations	118,857	-	118,857
Other Program	1,293,086	-	1,293,086
TOTAL PROGRAM EXPENSES	8,828,608	-	8,828,608
Fundraising Expenses	73,157	-	73,157
TOTAL EXPENSES	9,122,394	-	9,122,394
CHANGE IN NET ASSETS	(446,097)	(271,914)	(718,011)
Net Assets - Beginning of Year	2,307,717	708,438	3,016,155
NET ASSETS - END OF YEAR	\$ 1,861,620	\$ 436,524	\$ 2,298,144

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, 2019

	General and Administrative	Fundraising	Program	Total
FUNCTIONAL EXPENSES				
In-Kind Expenditures				
Professional Services	\$ -	\$ -	\$ 7,159,541	\$ 7,159,541
Travel and Living	-	-	608,543	608,543
Equipment and Other	-	-	234,901	234,901
Salary, Payroll Taxes and Benefits	173,275	61,049	698,842	933,166
Bank and Credit Card Fees	1,227	432	4,949	6,608
Communications	779	2,464	4,922	8,165
Depreciation	478	168	1,926	2,572
Equipment and Books	-	-	18,996	18,996
Housing	-	-	46,799	46,799
Insurance	1,939	683	7,818	10,440
Licenses and Fees	548	4,921	-	5,469
Meetings, Conferences, Trainings	1,316	69	7,046	8,431
Miscellaneous	-	-	8,356	8,356
Office Supplies	427	149	1,858	2,434
Overhead	-	-	35,122	35,122
Postage	1,734	1,515	6,227	9,476
Printing	1,989	4,020	10,271	16,280
Professional Fees	12,836	2,330	29,435	44,601
Rent	26,606	9,370	107,297	143,273
Shipping	-	-	6,189	6,189
Special Projects	-	-	5,991	5,991
Stipends	-	-	29,840	29,840
Telephone and Internet	902	318	3,636	4,856
Travel	2,423	905	252,116	255,444
TOTAL FUNCTIONAL EXPENSES	\$ 226,479	\$ 88,393	\$ 9,290,621	\$ 9,605,493

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, 2018

	General and Administrative	Fundraising	Program	Total
FUNCTIONAL EXPENSES				
In-Kind Expenditures				
Professional Services	\$ -	\$ -	\$ 6,743,485	\$ 6,743,485
Travel and Living	-	-	673,180	673,180
Equipment and Other	-	-	118,857	118,857
Salary, Payroll Taxes and Benefits	166,961	46,021	705,360	918,342
Bank and Credit Card Fees	1,269	350	5,363	6,982
Communications	1,391	2,656	6,604	10,651
Depreciation	650	179	2,748	3,577
Equipment and Books	-	-	4,597	4,597
Housing	-	-	50,486	50,486
Insurance	1,880	518	7,943	10,341
Licenses and Fees	550	3,983	375	4,908
Meetings, Conferences, Trainings	2,636	69	9,198	11,903
Miscellaneous	-	-	8,021	8,021
Office Supplies	521	378	2,316	3,215
Overhead	-	-	34,356	34,356
Postage	2,048	1,876	7,644	11,568
Printing	2,060	3,609	8,917	14,586
Professional Fees	10,290	5,147	35,379	50,816
Rent	25,457	7,015	107,554	140,026
Shipping	-	-	1,267	1,267
Special Projects	-	-	5,746	5,746
Stipends	-	-	28,880	28,880
Telephone and Internet	787	217	3,327	4,331
Travel	4,129	1,139	257,005	262,273
TOTAL FUNCTIONAL EXPENSES	\$ 220,629	\$ 73,157	\$ 8,828,608	\$ 9,122,394

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

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE
COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (94,986)	\$ (718,011)
Adjustments to Reconcile Change in Net Assets to Net Cash Used In Operating Activities		
Net Realized and Unrealized (Gains) and Losses -		
Marketable Securities	(362,434)	222,614
Depreciation	2,572	3,577
(Increase) Decrease in Operating Assets:		
Contributions Receivable	(8,356)	22,722
Prepaid Expenses	(7,023)	(1,136)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	2,466	3,107
Deferred Registration	115	100
	<u>(467,646)</u>	<u>(467,027)</u>
NET CASH USED IN OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(7,217)	-
Promises To Give	-	340,000
Purchase of Marketable Securities	(349,736)	(560,301)
Proceeds from Sales of Marketable Securities	850,001	585,918
	<u>493,048</u>	<u>365,617</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	25,402	(101,410)
Cash and Cash Equivalents - Beginning of Year	<u>80,629</u>	<u>182,039</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 106,031</u>	<u>\$ 80,629</u>

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

December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies

The Organization

Health Volunteers Overseas, Inc. ("HVO") and Orthopaedics Overseas, Inc. ("OO"), (collectively the Organization) were incorporated as nonprofit organizations. The purpose of the Organization is to improve the availability and quality of health care through the education, training, and professional development of the health workforce in resource-scarce countries throughout the world. The Organization's model combines a cost-efficient and innovative volunteer structure to deliver health training and education with a collaborative partnership philosophy leading to sustained and measurable improvements in health care delivery at sites. The intended impact of the Organization's model is: 1) to improve health care availability by training new providers and sustaining existing providers through professional development opportunities; and, 2) to improve health care quality by training, teaching and mentoring providers.

The Organization accomplishes its mission primarily by sending highly skilled health professionals to complete teaching assignments (1-6 months in duration) at partner institutions (universities, hospitals and clinics) to build the knowledge, skills and leadership capacity of students, residents and faculty. In 2019, the Organization formally launched an "e-volunteering initiative" to encourage experienced volunteers to teach and train remotely as a complement to its in-person "traditional" training approach.

Basis of Combination

The combined financial statements include the accounts of Health Volunteers Overseas, Inc. (HVO) and Orthopaedics Overseas, Inc. (OO). On March 29, 2019, Orthopaedics Overseas merged with and into the surviving entity Health Volunteers Overseas, Inc (See Note 8). All significant inter-company accounts and transactions have been eliminated in combination. Expenses are allocated between HVO and OO 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 accompanying financial statements have been prepared on the accrual basis of accounting and have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applicable to not-for-profit organizations.

Net Asset Classification

The Organization's net assets and its support, revenue and expenses are based on the existence or absence of donor-imposed restrictions. The amounts are classified in either of the two classes of net assets defined below and displayed in the statement of financial position, and the amounts of change in each of those classes of net assets are displayed in the statement of activities.

These classes are defined as follows:

Without Donor Restrictions - This class consists of net assets that are not subject to donor-imposed stipulations and are, therefore, available for general operations. Certain net assets without donor restrictions are designated by the Board of Directors for specified purposes. Revenues are reported as increases in net assets without donor restrictions, unless their use is limited by donor-imposed restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by donors or law. Expenses are reported as decreases in net assets without donor restrictions.

With Donor Restrictions – This class consists of net assets with donor restrictions whose use is limited by donor-imposed, time and/or purpose restrictions. The Organization reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Net Asset Classification (Continued)

donated assets. When a donor restriction expires, as when a stipulated time restriction ends or a purpose restriction is accomplished, the net assets are reclassified as net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

Fixed Assets

Fixed assets are recorded at cost or, if contributed, at market value at date of contribution. Maintenance and repairs are charged to expense in period incurred and betterments are capitalized. It is the Organization's policy to capitalize all fixed asset purchases greater than \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives. Depreciation of equipment, furniture and fixtures is computed using the straight-line method over 3-5 years.

Impairment of Long-Lived Assets

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, "Property, Plant and Equipment," requires the Organization to review long-lived assets, such as fixed assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairments recognized in 2019 and 2018.

Use of Estimates

The Organization uses 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.

Cash Equivalents

Cash equivalents or temporary cash investments are carried at cost, which approximates market. For purposes of the statement of cash flows, the Organization considers 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, 2019, 380 volunteers completed 425 overseas assignments. These volunteers donated significant amounts of their time to serve overseas. During 2019, HVO volunteers contributed approximately 6,768 days of service in resource-scarce countries around the world. In addition, there were 89 e-volunteering assignments completed for a total of 3,600 hours of remote mentoring and clinical consultation. Management also estimates that more than 1,157 days of service were provided by volunteers serving in leadership positions, including steering committee members and project directors. Management's estimate of the value of all such donated time is \$7,159,541. Almost all travel and living

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

In-Kind Contributions (Continued)

expenses associated with the training visits are paid for by the participating health professionals. Management's estimate of the value of donated travel and living expenses is \$608,543. Finally, management's estimate of the value of other in-kind support, including equipment and supplies donated to sites, is \$234,901.

For the year ended December 31, 2018, 411 volunteers completed 449 overseas assignments. These volunteers donated significant amounts of their time to serve overseas. During 2018, HVO volunteers contributed approximately 7,169 days of service in resource-scarce countries around the world. In addition, management estimates that more than 1,304 days of service were provided by volunteers serving in leadership positions, including steering committee members and project directors. Management's estimate of the value of such donated time is \$6,743,485. Almost all travel and living expenses associated with the training visits are paid for by the participating health professionals. Management's estimate of the value of donated travel and living expenses is \$673,180. Finally, management's estimate of the value of other in-kind support, including equipment and supplies donated to sites, is \$118,857.

These donations of in-kind support are reflected on the financial statements as offsetting contributions (without donor restrictions) and program expenses. Management believes that the 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 (HVO and OO) 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" remain subject to examination by the IRS, generally for three years after filing.

Contributions Receivable

Receivables are recorded at their net realizable values, based upon an estimated allowance for doubtful accounts. The amounts receivable represent contributions unconditionally donated as of the year end but not as yet received, and other miscellaneous receivables. Pledges and contributions receivable due after one year are discounted to net present value using the risk-adjusted interest rate in effect on the date of the gifts.

Provision for Doubtful Accounts

The Organization provides an allowance for doubtful accounts for contributions receivable that are specifically identified by management as to their uncertainty in regard to collectability. As of December 31, 2019 and 2018, the Organization considered contributions receivable fully collectible, therefore no allowance for doubtful accounts is required.

Contributions and Promises to Give

Contributions and promises to give are recorded as revenue when either unsolicited cash is received or when donors make a promise to give. Contributions and promises to give are classified as either without donor restrictions or with donor restrictions.

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Investments

Investments are reported at fair value based upon quoted market prices. Investment return, net is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and any direct internal investment expenses. Investment income and gains restricted by donors are reported as increases in net assets with donor restrictions 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 net assets without restrictions.

Risks and Uncertainties

The Organization's investments consist of a variety of investment securities and investment funds. Investments in general are exposed to various risks, such as interest rate, credit, and overall market volatility risk. 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 Organization and the amounts reported in the combined statement of activities.

Date of Management's Review

The Organization has evaluated subsequent events through August 28, 2020 the date which the financial statements were available to be issued.

Cost Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Compensation and benefits are allocated on the basis of estimates of time and effort. Other costs are allocated based on estimates of the relative utilization of such support activities.

Reclassifications

Certain prior-year amounts have been reclassified to conform with the current year presentation.

Recently Adopted Accounting Pronouncements

Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, "Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) – Presentation of Financial Statements for Not-for-Profit Entities". The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: a) requiring the presentation of only two classes of net assets, "net assets without donor restrictions" and "net assets with donor restrictions"; (b) modifying the presentation of underwater endowment funds and related disclosures; (c) requiring the use of placed-in-service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets, absent explicit donor stipulations otherwise; (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs; (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for the Organization's financial statements for fiscal years beginning after December 15, 2017. The provisions of the ASU must be applied on a retrospective basis for all years

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncements (Continued)

presented. Management adopted this ASU in 2018 and these financial statements reflect the implementation of this ASU.

Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cashflows arising from contracts with customers, including significant judgements and changes in judgements. The provisions of ASU 2014-09 originally became effective for entities beginning January 1, 2019. On June 3, 2020 the FASB issued ASU 2020-05 which delayed the effective date of ASU 2014-09 for certain entities by one year. The Organization elected to adopt ASU 2014-09 early, beginning January 1, 2019. The adoption of the ASU did not have a material impact on the financial statements.

Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the FASB issued ASU 2018-08, "Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." The update clarifies and improves current guidance by providing criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred, which, depending on the outcome, determines whether the Organization follows contribution guidance or exchange transactions guidance in the revenue recognition and other applicable standards. The update also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The guidance is effective for the Organization's fiscal year 2019, and the adoption of this update did not have a material impact on the Organization's financial statements.

Note 2: Liquidity and Availability of Resources

Financial assets available within one year of the balance sheet dates, December 31, 2019 and 2018, for general expenditures are as follows:

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

December 31, 2019 and 2018

Note 2: Liquidity and Availability of Resources (Continued)

	2019	2018
Financial Assets At Year End *	\$ 2,259,225	\$ 2,363,298
Less: Financial Assets Generally Unavailable for General Expenditures		
Within One Year Due to:		
Donor Implied Restrictions:		
Restricted by Donor With Time and / or Purpose Restrictions	(588,560)	(436,524)
Board Designations	(989,188)	-
Financial Assets Available to Meet Cash Needs for General Expenditures		
Within One Year	\$ 681,477	\$ 1,926,774

*Financial assets are defined as total assets less non-financial assets consisting of prepaid expenses and other assets and fixed assets, net.

The Organization is supported by unrestricted and restricted donor contributions. Because a donor's restriction requires resources to be used for a specific purpose or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Accordingly, a portion of the Organization's financial assets may not be available for general expenditures within one year of the accompanying financial statement dates.

As a result of the above, the Organization has an investment policy in place to ensure the availability of funds to meet obligations as they become due. Financial assets not required to meet near-term obligations are invested over various time horizons to insure liquidity, preservation of capital and the balancing of market risk and minimalization of volatility. In order to meet those objectives, the Organization has established the following financial asset pools:

- *Operating Fund* - This consists of funds needed to manage short-term cash flow needs. The maturities on investments for the Operating Fund are limited to one year or less.
- *Long-Term Fund* - This is comprised of financial assets invested over a longer-term horizon to provide financial stability to meet the future needs of the Organization, and to provide a source of revenue to temporarily bridge a possible shortfall in a given year, while balancing additional market risk and liquidity. The time horizon for this asset pool is 5 to 7 years.

Note 3: Commitments

On April 7, 2009, the Organization (HVO) entered into an amended non-cancellable lease agreement for the operating facilities for a term of ten years commencing May 1, 2009. Monthly rentals are adjusted throughout the lease term as defined in the lease. During the year ended December 31, 2016, the lease was further amended for additional term of six years, expiring in April 2026.

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

December 31, 2019 and 2018

Note 3: Commitments (Continued)

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

2020	\$ 137,940
2021	141,733
2022	145,631
2023	149,636
2024	153,751
Thereafter	<u>211,595</u>
TOTAL	<u>\$ 940,286</u>

Total rent expense for the years ended December 31, 2019 and 2018 amounted to \$143,273 and \$140,026, respectively.

Note 4: Deferred Compensation Plan

The Organization has available to all eligible employees a deferred compensation plan. The Organization matches 100% of the employee's salary deferrals up to 4% of salary. The Organization may also make an additional discretionary contribution on an annual basis. Contributions to the plan totaled \$62,329 and \$55,508 for the years ended December 31, 2019 and 2018, respectively.

Note 5: Concentration of Credit Risk

The Organization maintains cash and cash equivalents in certain financial institutions. At times during the year, balances in these institutions may exceed federally insured limits. The Organization has 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: Investments and Fair Value Measurements

The aggregate amount of investments by major type recorded at fair value at December 31, 2019 and 2018 were as follows:

<u>December 31, 2019</u>	Fair Value	Original Cost	Gross Unrealized Gains
Money Market Funds	\$ 4,196	\$ 4,196	\$ -
Fixed Income	796,076	787,180	8,896
Equity Mutual Funds	<u>1,324,874</u>	<u>1,058,878</u>	<u>265,996</u>
TOTAL INVESTMENTS	<u>\$ 2,125,146</u>	<u>\$ 1,850,254</u>	<u>\$ 274,892</u>

Investment return is summarized as follows:

Interest and Dividend Income, Net	\$ 46,686
Net Realized and Unrealized Gains (Losses)	<u>362,434</u>
INVESTMENT INCOME, NET	<u>\$ 409,120</u>

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

December 31, 2019 and 2018

Note 6: Investments and Fair Value Measurements (Continued)

<u>December 31, 2018</u>	<u>Fair Value</u>	<u>Original Cost</u>	<u>Gross Unrealized Gains (Losses)</u>
Money Market Funds	\$ 10,376	\$ 10,376	\$ -
Fixed Income	940,134	969,868	(29,734)
Certificates of Deposit	50,000	50,000	-
Equity Mutual Funds	1,262,467	1,235,221	27,246
TOTAL INVESTMENTS	<u>\$ 2,262,977</u>	<u>\$ 2,265,465</u>	<u>\$ (2,488)</u>

Investment return is summarized as follows:

Interest and Dividend Income, Net	\$ 94,157
Net Realized and Unrealized Gains (Losses)	<u>(222,614)</u>
INVESTMENT INCOME (LOSS), NET	<u>\$ (128,457)</u>

Investment Impairment

At December 31, 2018, the Organization deemed that certain securities that were in an unrealized loss position were temporarily impaired. Positive evidence considered in reaching the Organization's conclusion that the investments in an unrealized loss position were not other-than-temporarily impaired consisted of:

- there were no specific events that caused concerns
- the Organization's ability and intent to retain the investment for a sufficient amount of time to allow an anticipated recovery in value
- the Organization also determined that the changes in market value were considered normal in relation to overall fluctuations in market conditions

Fair Value Measurement

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.

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2019 and 2018

Note 6: Investments and Fair Value Measurements (Continued)

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 Organization assesses 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 Organization's accounting policy regarding the recognition of transfers between the levels of the fair value hierarchy. For the years ended December 31, 2019 and 2018, there were no transfers.

Fair value estimates are made at a specific point in time, based on available market information and judgements about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset.

The Organization's investments include various money market funds, certificates of deposit, equities, mutual funds and government securities and bonds.

Money Market Funds and Certificates of Deposit

Money Market deposit accounts are valued at cost plus interest, which approximates fair value, and are classified as level 1.

Equities

These investments are priced using nationally recognized pricing services based on observable market data and are classified as level 1.

Mutual funds

Mutual funds are valued at the last reported NAV of shares held at year-end and are classified as level 1.

Fixed Income, and Government Securities and Bonds

Fixed income and government securities and bonds are valued at the last reported market value by the holding institution and are classified as level 1.

The Organization had no financial assets and liabilities that were measured at fair value on a non-recurring basis (level 3) during the years ended December 31, 2019 and 2018. In addition, there were no transfers between the levels during the years ended December 31, 2019 and 2018.

While the Organization believes 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, 2019 and 2018

Note 6: Investments and Fair Value Measurements (Continued)

The following tables show, by level within the fair value hierarchy, the Organization's financial assets that are accounted for at fair value on a recurring basis as of December 31, 2019 and 2018. The financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels.

Fair Values For the Year Ended December 31, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 4,196	\$ -	\$ -	\$ 4,196
Fixed Income	796,076	-	-	796,076
Equity Mutual Funds	1,324,874	-	-	1,324,874
Total Investments at Fair Value	<u>\$ 2,125,146</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,125,146</u>

Fair Values For the Year Ended December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money Market Funds	\$ 10,376	\$ -	\$ -	\$ 10,376
Fixed Income	940,134	-	-	940,134
Certificates of Deposit	50,000	-	-	50,000
Equity Mutual Funds	1,262,467	-	-	1,262,467
Total Investments at Fair Value	<u>\$ 2,262,977</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,262,977</u>

Note 7: Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2019 and 2018, represent contributions from donors specified to be used in various overseas programs sponsored by the Organization and consisted of the following as of December 31:

	<u>2019</u>	<u>2018</u>
Funds designated By Donors to Support Specific Activities and Programs at Various HVO Project Sites	<u>\$ 588,560</u>	<u>\$ 436,524</u>

Note 8: Board Designated Net Assets

On February 22, 2019, the boards of directors voted to formally merge Health Volunteers Overseas, Inc. and Orthopaedics Overseas, Inc. In addition, the voting membership of Orthopaedics Overseas, Inc. also voted to approve the merger. On March 29, 2019, Orthopaedics Overseas merged with and into the surviving entity Health Volunteers Overseas, Inc.

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

December 31, 2019 and 2018

Note 8: Board Designated Net Assets (Continued)

As per the executed plan of merger, the board of directors agreed to the establishment of two board designated net asset funds in the total amount of \$989,188, effective as of the date of merger. The Orthopaedic Education Fund, with an initial allocation of \$415,459 will be used to support travel-related expenses for orthopaedic fellowships and scholarships. The Orthopaedic Innovation Fund, with an initial allocation of \$573,729, will be used to support innovative programmatic opportunities related to musculoskeletal, orthopaedic, and/or rehabilitation care. There were no disbursements from either fund in 2019. These two funds comprise the total of \$989,188 in board-designated funds as of December 31, 2019.

Note 9: Subsequent Events

The Organization evaluated events subsequent to December 31, 2019 through August 28, 2020, the date on which the financial statements were available to be issued. Other than the uncertainty regarding the COVID-19 pandemic (described below), there were no subsequent events requiring adjustment to the financial statements or disclosures stated herein.

In March 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact the Organization's operations. Immediate impacts have included a temporary suspension of programs placing in-person volunteers in overseas assignments. Longer-term consequences may include economic impacts from a continued slowdown in the US economy and its effects on individual and organizational donors.

In response to the pandemic, HVO has focused on expanding and diversifying its existing e-volunteering programs and is focusing on providing services remotely. These efforts include sharing and reviewing research, offering video training and seminars, providing COVID-related resources online, developing curriculum, and offering ongoing mentoring at project sites. The Organization continues to recruit volunteers and plan placements for future in-person assignments.

Given the overall uncertainty surrounding COVID-19's potential effects on future economic and public health conditions, both in the US and around the world, the Organization is not able to estimate the effects of the pandemic on its fiscal year 2020 operations, financial condition, or liquidity.

On March 27, 2020, the "Coronavirus Aid, Relief and Economic Security (CARES) Act" was signed into law. The CARES Act, among other things, appropriated funds for the Small Business Administration Paycheck Protection Program loans that are forgivable in certain situations to promote continued employment. The Organization was approved for a loan through the Paycheck Protection Program in the amount \$141,700 and received the funds on May 4, 2020. The Organization expects the full amount of the loan to be forgiven.