

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

REPORT ON AUDIT OF COMBINED
FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

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Certified Public Accountant

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, 2017 and 2016, 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, 2017 and 2016, 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
June 5, 2018

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

December 31,	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 182,039	\$ 97,613
Contributions Receivable	42,414	89,031
Marketable Securities	2,511,408	1,409,921
Promise To Give	340,000	340,000
Prepaid Expenses	36,575	24,465
TOTAL CURRENT ASSETS	3,112,436	1,961,030
FURNITURE AND EQUIPMENT		
Equipment	28,506	35,438
Furniture and Fixtures	13,966	14,589
Total	42,472	50,027
Less: Accumulated Depreciation	(32,212)	(35,633)
TOTAL FURNITURE AND EQUIPMENT, NET	10,260	14,394
OTHER ASSETS		
Deposits	6,955	8,455
Promise To Give	-	326,910
Charitable Remainder Trust Receivable	-	832,136
TOTAL OTHER ASSETS	6,955	1,167,501
TOTAL ASSETS	\$ 3,129,651	\$ 3,142,925

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,	2017	2016
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 112,096	\$ 67,722
Deferred Registration	1,400	11,400
TOTAL CURRENT LIABILITIES	113,496	79,122
NET ASSETS		
Unrestricted	2,307,717	1,181,456
Temporarily Restricted	708,438	1,882,347
TOTAL NET ASSETS	3,016,155	3,063,803
TOTAL LIABILITIES AND NET ASSETS	\$ 3,129,651	\$ 3,142,925

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

For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
INCOME			
Contributions			
In-Kind Contributions	\$ 7,643,921	\$ -	\$ 7,643,921
Member Contributions	239,939	-	239,939
Contributions - Other	381,290	162,561	543,851
Workplace Giving Contributions	7,419	-	7,419
Charitable Remainder Trust -			
Change in Fair Value	-	325,732	325,732
Program Service Fees	8,030	-	8,030
Publications	1,925	-	1,925
Registration	6,744	-	6,744
Grant Income	-	116,717	116,717
Investment Income	201,821	-	201,821
Overhead	27,857	-	27,857
Miscellaneous	157	-	157
Net Assets Released from Restriction	1,778,919	(1,778,919)	-
TOTAL INCOME	10,298,022	(1,173,909)	9,124,113
General and Administrative Expenses	212,219	-	212,219
PROGRAM EXPENSES			
In-Kind Expenditures			
Professional Services Donations	6,623,403	-	6,623,403
Travel and Living Costs Paid by Volunteers	802,942	-	802,942
Equipment and Other Donations	217,576	-	217,576
Other Program	1,229,703	-	1,229,703
TOTAL PROGRAM EXPENSES	8,873,624	-	8,873,624
Fundraising Expenses	85,918	-	85,918
TOTAL EXPENSES	9,171,761	-	9,171,761
CHANGE IN NET ASSETS	1,126,261	(1,173,909)	(47,648)
Net Assets - Beginning of Year	1,181,456	1,882,347	3,063,803
NET ASSETS - END OF YEAR	\$ 2,307,717	\$ 708,438	\$ 3,016,155

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

For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
INCOME			
Contributions			
In-Kind Contributions	\$ 6,748,075	\$ -	\$ 6,748,075
Member Contributions	251,727	-	251,727
Contributions - Other	370,218	185,334	555,552
Workplace Giving Contributions	10,060	-	10,060
Charitable Remainder Trust - Change in Fair Value	-	36,391	36,391
Program Service Fees	12,410	-	12,410
Publications	2,400	-	2,400
Registration	4,900	-	4,900
Grant Income	-	223,149	223,149
Investment Income	75,868	-	75,868
Overhead	29,824	-	29,824
Miscellaneous	113	-	113
Net Assets Released from Restriction	603,460	(603,460)	-
TOTAL INCOME	8,109,055	(158,586)	7,950,469
General and Administrative Expenses	224,874	-	224,874
PROGRAM EXPENSES			
In-Kind Expenditures			
Professional Services Donations	5,593,126	-	5,593,126
Travel and Living Costs Paid by Volunteers	778,165	-	778,165
Equipment and Other Donations	376,784	-	376,784
Other Program	1,105,430	-	1,105,430
TOTAL PROGRAM EXPENSES	7,853,505	-	7,853,505
Fundraising Expenses	60,075	-	60,075
TOTAL EXPENSES	8,138,454	-	8,138,454
CHANGE IN NET ASSETS	(29,399)	(158,586)	(187,985)
Net Assets - Beginning of Year	1,210,855	2,040,933	3,251,788
NET ASSETS - END OF YEAR	\$ 1,181,456	\$ 1,882,347	\$ 3,063,803

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

For the Year Ended December 31, 2017

FUNCTIONAL EXPENSES	General and Administrative	Fundraising	Program	Total
In-Kind Expenditures				
Professional Services	\$ -	\$ -	\$ 6,623,403	\$ 6,623,403
Travel and Living	-	-	802,942	802,942
Equipment and Other	-	-	217,576	217,576
Salary, Payroll Taxes and Benefits	162,294	59,772	672,784	894,850
Bank, Credit Card and Investment Fees	3,340	1,230	13,844	18,414
Communications	955	2,796	5,673	9,424
Depreciation	750	276	3,109	4,135
Equipment and Books	-	-	6,925	6,925
Housing	-	-	40,938	40,938
Insurance	1,839	677	7,623	10,139
Licenses and Fees	1,343	1,592	-	2,935
Meetings, Conferences, Trainings	1,182	69	7,917	9,168
Miscellaneous	-	-	5,271	5,271
Office Supplies	979	595	4,205	5,779
Overhead	-	-	27,857	27,857
Postage	2,394	1,945	8,297	12,636
Printing	1,569	3,016	7,742	12,327
Professional Fees	7,029	3,438	30,040	40,507
Rent	24,741	9,111	102,536	136,388
Shipping	-	-	2,663	2,663
Special Projects	-	-	47,921	47,921
Stipends	-	-	12,810	12,810
Telephone and Internet	781	288	3,236	4,305
Travel	3,023	1,113	218,312	222,448
 TOTAL FUNCTIONAL EXPENSES	 <u>\$ 212,219</u>	 <u>\$ 85,918</u>	 <u>\$ 8,873,624</u>	 <u>\$ 9,171,761</u>

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

For the Year Ended December 31, 2016

	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Program</u>	<u>Total</u>
FUNCTIONAL EXPENSES				
In-Kind Expenditures				
Professional Services	\$ -	\$ -	\$ 5,593,126	\$ 5,593,126
Travel and Living	-	-	778,165	778,165
Equipment and Other	-	-	376,784	376,784
Salary, Payroll Taxes and Benefits	167,337	37,605	603,330	808,272
Bank, Credit Card, and Investment Fees	3,575	803	12,893	17,271
Communications	1,600	3,589	6,023	11,212
Depreciation	970	218	3,498	4,686
Equipment and Books	-	-	12,347	12,347
Housing	-	-	39,266	39,266
Insurance	2,115	475	7,626	10,216
Licenses and Fees	750	2,056	-	2,806
Meetings, Conferences, Trainings	1,197	310	6,941	8,448
Miscellaneous	-	-	11,732	11,732
Office Supplies	778	409	3,677	4,864
Overhead	-	-	29,824	29,824
Postage	2,206	1,435	8,651	12,292
Printing	2,887	4,421	10,412	17,720
Professional Fees	13,631	2,581	62,302	78,514
Rent	23,229	5,218	83,770	112,217
Shipping	-	-	2,642	2,642
Special Projects	-	-	7,445	7,445
Stipends	-	-	1,640	1,640
Telephone and Internet	858	193	3,595	4,646
Travel	3,741	762	187,816	192,319
TOTAL FUNCTIONAL EXPENSES	<u>\$ 224,874</u>	<u>\$ 60,075</u>	<u>\$ 7,853,505</u>	<u>\$ 8,138,454</u>

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,	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (47,648)	\$ (187,985)
Adjustments to Reconcile Change in Net Assets to Net Cash Used In Operating Activities		
Charitable Remainder Trust - Change in Fair Value	(325,732)	(36,391)
Net Realized and Unrealized (Gains) and Losses - Marketable Securities	(153,000)	(35,207)
Depreciation	4,135	4,685
(Increase) Decrease in Operating Assets:		
Contributions Receivable	46,617	(57,231)
Prepaid Expenses	(12,110)	(2,074)
Deposits	1,500	(1,500)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	44,374	2,402
Deferred Registration	(10,000)	10,600
NET CASH USED IN OPERATING ACTIVITIES	(451,864)	(302,701)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	-	(11,860)
Promises To Give	326,910	276,624
Proceeds from Charitable Remainder Trust	1,157,868	-
Purchase of Marketable Securities	(1,312,300)	(242,720)
Proceeds from Sales of Marketable Securities	363,812	260,156
NET CASH PROVIDED BY INVESTING ACTIVITIES	536,290	282,200
NET INCREASE (DECREASE) IN CASH	84,426	(20,501)
Cash and Cash Equivalents - Beginning of Year	97,613	118,114
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 182,039	\$ 97,613

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

December 31, 2017 and 2016

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 the availability and quality of health care through the education, training, and professional development of the health workforce in resource-scarce countries. The Organizations design and implement educational programs which are staffed by short-term volunteers (physicians, nurses, dentists and other health care professionals). These volunteers travel overseas to teach and train local health care workers in a wide range of medical specialties.

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, 2017 and 2016.

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

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

Property and Equipment (Continued)

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 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, 2017, 407 volunteers completed 437 overseas assignments. These volunteers donated significant amounts of their time to serve overseas. During 2017, HVO volunteers contributed approximately 7,344 days of service in resource-scarce countries around the world. In addition, management estimates that more than 1,868 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 \$6,623,403. 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 \$802,942. Finally, management's estimate of the value of other in-kind support, including equipment and supplies donated to sites, is \$217,576.

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2017 and 2016

Note 1: Summary of Significant Accounting Policies (Continued)

In-Kind Contributions (Continued)

For the year ended December 31, 2016, 388 volunteers completed 409 overseas assignments. These volunteers donated significant amounts of their time to serve overseas. During 2016, HVO volunteers contributed approximately 6,593 days of service in resource-scarce countries around the world. In addition, management estimates that more than 1,935 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 \$5,593,126. 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 \$778,165. Finally, management's estimate of the value of other in-kind support, including equipment and supplies donated to sites, is \$376,784.

These donations of in-kind support are reflected on the financial statements as offsetting contributions 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 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

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 5, 2018, the date which the financial statements were available to be issued.

Note 2: Restrictions on Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016, represent contributions from donors specified to be used in various programs sponsored by the Organizations, and time restricted contributions such as the present value of promises to give, and the present value of charitable reminder trusts.

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

December 31, 2017 and 2016

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.

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

2018	\$ 130,655
2019	134,248
2020	137,940
2021	141,733
2022	145,631
Thereafter	<u>514,982</u>
TOTAL	<u>\$ 1,205,189</u>

Total rent expense for the years ended December 31, 2017 and 2016 amounted to \$136,387 and \$112,217, respectively.

Note 4: Deferred Compensation Plan

HVO 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. The Organization's contributions to the plan totaled \$42,786 and \$44,658 for the years ended December 31, 2017 and 2016, 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., was the beneficiary of an irrevocable charitable remainder trust created by a private donor. 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 as of December 31, 2016 was estimated to be \$832,136. During the year ended December 31, 2017, upon the death of the income beneficiary, Orthopaedics Overseas received the beneficial remainder of the trust assets.

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 had not been designated as the trustee of the trust, and therefore did not hold any of the trust assets, nor was it liable for payment of distribution to the life beneficiary. The present value of the estimated future payments was calculated using a discount rate based on the U.S.

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

December 31, 2017 and 2016

Note 6: Charitable Remainder Trust (Continued)

Treasury yield rate. The discount period was 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, 2017 and 2016 were as follows:

<u>December 31, 2017</u>	<u>Fair Value</u>	<u>Original Cost</u>	<u>Gross Unrealized Gains</u>
Fixed Income	\$ 944,906	\$ 936,838	\$ 8,068
Equity Mutual Funds	1,566,502	1,340,558	225,944
TOTAL INVESTMENTS	<u>\$ 2,511,408</u>	<u>\$ 2,277,396</u>	<u>\$ 234,012</u>

Investment return is summarized as follows:

Interest and Dividend Income	\$ 48,821
Net Realized and Unrealized Gains (Losses)	<u>153,000</u>
NET INVESTMENT INCOME (LOSS)	<u>\$ 201,821</u>

<u>December 31, 2016</u>	<u>Fair Value</u>	<u>Original Cost</u>	<u>Gross Unrealized Gains (Losses)</u>
Fixed Income	\$ 512,091	\$ 522,618	\$ (10,527)
Certificates of Deposit	200,000	200,000	-
Equity Mutual Funds	697,830	653,640	44,190
TOTAL INVESTMENTS	<u>\$ 1,409,921</u>	<u>\$ 1,376,258</u>	<u>\$ 33,663</u>

Investment return is summarized as follows:

Interest and Dividend Income	\$ 40,661
Net Realized and Unrealized Gains (Losses)	<u>35,207</u>
NET INVESTMENT INCOME	<u>\$ 75,868</u>

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

December 31, 2017 and 2016

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, 2017 and 2016, 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 was determined by calculating the present value of the expected cash flows. The discount rate used 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.

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December 31, 2017 and 2016

Note 8: Fair Value Measurements (Continued)

Fair Values For the Year Ended December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed Income	\$ 944,906	\$ -	\$ -	\$ 944,906
Equity Mutual Funds	1,566,502	-	-	1,566,502
Total Investments at Fair Value	<u>\$ 2,511,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,511,408</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Charitable Remainder Trust:

Balance January 1, 2017	\$ 832,136
Change in Value, Net of Discount	325,732
Sales/Redemptions	(1,157,868)
Balance December 31, 2017	<u>\$ -</u>

Fair Values For the Year Ended December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed Income	\$ 512,091	\$ -	\$ -	\$ 512,091
Certificates of Deposit	-	200,000	-	200,000
Equity Mutual Funds	697,830	-	-	697,830
Charitable Remainder Trust	-	-	832,136	832,136
Total Investments at Fair Value	<u>\$ 1,209,921</u>	<u>\$ 200,000</u>	<u>\$ 832,136</u>	<u>\$ 2,242,057</u>

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Charitable Remainder Trust:

Balance January 1, 2016	\$ 795,745
Change in Value, Net of Discount	36,391
Balance December 31, 2016	<u>\$ 832,136</u>

Note 9: Promise To Give

The promise to give at December 31, 2017 and 2016 consists of a contribution in the original amount of \$1,360,000 due from a donor in equal installments of \$340,000 per year through December 31, 2018. Any amounts of the promise to give due in more than one year from the balance sheet date are discounted at a rate of 4% as follows:

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Note 9: Promise To Give (Continued)

	<u>2017</u>	<u>2016</u>
Amounts Due In 1 to 5 Years:	\$ 340,000	\$ 680,000
Less: Amounts Considered Uncollectible:	-	-
Less: Present Value Discount:	-	<u>(13,090)</u>
Net Amount Due at December 31,	<u>\$ 340,000</u>	<u>\$ 666,910</u>

Note 10: Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Time Restrictions - Charitable Remainder Trust	\$ -	\$ 832,136
Time Restrictions - Promise To Give	340,000	666,910
Funds designated By Donors to Support Specific Activities and Programs at Various HVO Project Sites	<u>368,438</u>	<u>383,301</u>
Total Temporarily Restricted Net Assets	<u>\$ 708,438</u>	<u>\$ 1,882,347</u>