

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

REPORT ON AUDIT OF COMBINED
FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

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December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 3, 2019

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

December 31,	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 80,629	\$ 182,039
Contributions Receivable	19,692	42,414
Investments	2,262,977	2,511,408
Promise To Give	-	340,000
Prepaid Expenses	<u>37,711</u>	<u>36,575</u>
TOTAL CURRENT ASSETS	<u>2,401,009</u>	<u>3,112,436</u>
FIXED ASSETS		
Equipment	28,507	28,506
Furniture and Fixtures	<u>13,966</u>	<u>13,966</u>
Total	42,473	42,472
Less: Accumulated Depreciation	<u>(35,790)</u>	<u>(32,212)</u>
TOTAL FIXED ASSETS, NET	<u>6,683</u>	<u>10,260</u>
OTHER ASSETS		
Deposits	<u>6,955</u>	<u>6,955</u>
TOTAL ASSETS	<u>\$ 2,414,647</u>	<u>\$ 3,129,651</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,	2018	2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 115,203	\$ 112,096
Deferred Registration	<u>1,300</u>	<u>1,400</u>
TOTAL CURRENT LIABILITIES	<u>116,503</u>	<u>113,496</u>
NET ASSETS		
Without Donor Restrictions	1,861,620	2,307,717
With Donor Restrictions	<u>436,524</u>	<u>708,438</u>
TOTAL NET ASSETS	<u>2,298,144</u>	<u>3,016,155</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,414,647</u></u>	<u><u>\$ 3,129,651</u></u>

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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

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

For the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	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 Fees, Registration, Publications	16,856	-	16,856
Grant Income	-	116,717	116,717
Investment Income, Net	201,821	-	201,821
Overhead	27,857	-	27,857
Net Assets Released From Restriction:			
Expiration of Time Restriction	1,497,869	(1,497,869)	-
Satisfaction of Donor Restricted Purpose	281,050	(281,050)	-
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 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

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

For the Year Ended December 31, 2017

	General and Administrative	Fundraising	Program	Total
FUNCTIONAL EXPENSES				
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	\$ 212,219	\$ 85,918	\$ 8,873,624	\$ 9,171,761

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,	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (718,011)	\$ (47,648)
Adjustments to Reconcile Change in Net Assets to Net Cash Used In Operating Activities		
Charitable Remainder Trust - Change in Fair Value	-	(325,732)
Net Realized and Unrealized (Gains) and Losses - Marketable Securities	222,614	(153,000)
Depreciation	3,577	4,135
(Increase) Decrease in Operating Assets:		
Contributions Receivable	22,722	46,617
Prepaid Expenses	(1,136)	(12,110)
Deposits	-	1,500
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	3,107	44,374
Deferred Registration	100	(10,000)
NET CASH USED IN OPERATING ACTIVITIES	<u>(467,027)</u>	<u>(451,864)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Promises To Give	340,000	326,910
Proceeds from Charitable Remainder Trust	-	1,157,868
Purchase of Marketable Securities	(560,301)	(1,312,300)
Proceeds from Sales of Marketable Securities	585,918	363,812
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>365,617</u>	<u>536,290</u>
NET INCREASE (DECREASE) IN CASH	(101,410)	84,426
Cash and Cash Equivalents - Beginning of Year	<u>182,039</u>	<u>97,613</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 80,629</u>	<u>\$ 182,039</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

December 31, 2018 and 2017

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 health and 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 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 Organizations' net assets and their 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. 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 Organizations report gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the 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

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, 2018 and 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Fixed Assets (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.

Impairment of Long-Lived Assets

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360, "Property, Plant and Equipment," requires the Organizations 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 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 that fair value of the asset. There were no impairments recognized in 2018 and 2017.

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.

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, 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.

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018 and 2017

Note 1: Summary of Significant Accounting Policies (Continued)

In-Kind Contributions (Continued)

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.

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.

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 Organizations' 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 Organizations and the amounts reported in the combined statement of activities.

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE

NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2018 and 2017

Note 1: Summary of Significant Accounting Policies (Continued)

Date of Management's Review

The Organizations have evaluated subsequent events through June 3, 2019, 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

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 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 presented. These financial statements reflect implementation of this ASU.

Restrictions on Net Assets

Net assets with donor restrictions at December 31, 2018 and 2017, 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.

Note 2: Liquidity and Availability of Resources

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

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

December 31, 2018 and 2017

Note 2: Liquidity and Availability of Resources (Continued)

Financial Assets At Year End *	\$ 2,363,298
Less: Financial Assets Generally Unavailable for General Expenditures	
Within One Year Due to:	
Contractual or Donor Implied Restrictions:	
Restricted by Donor With Time and / or Purpose Restrictions	(436,524)
Board Designations	<u>-</u>
Financial Assets Available to Meet Cash Needs for General Expenditures	
Within One Year	<u>\$ 1,926,774</u>

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

The Organizations are 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 Organizations 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 (also see Note 9).

As a result of the above, The Organizations have 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.

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,

2019	\$ 134,248
2020	137,940
2021	141,733
2022	145,631
2023	149,636
Thereafter	<u>365,346</u>
TOTAL	<u>\$ 1,074,534</u>

Total rent expense for the years ended December 31, 2018 and 2017 amounted to \$140,026 and \$136,388, respectively.

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

December 31, 2018 and 2017

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 \$55,508 and \$42,786 for the years ended December 31, 2018 and 2017, respectively.

Note 5: Concentration of 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: Investments and Fair Value Measurements

The aggregate amount of investments by major type recorded at fair value at December 31, 2018 and 2017 were as follows:

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

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

December 31, 2018 and 2017

Note 6: Investments and Fair Value Measurements (Continued)

<u>December 31, 2017</u>	<u>Fair Value</u>	<u>Original Cost</u>	<u>Gross Unrealized Gains</u>
Money Market Funds	\$ 38,487	\$ 38,487	\$ -
Fixed Income	906,419	898,351	8,068
Equity Mutual Funds	<u>1,566,502</u>	<u>1,340,558</u>	<u>225,944</u>
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>
INVESTMENT INCOME, NET	<u>\$ 201,821</u>

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, 2018 and 2017, 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

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE
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December 31, 2018 and 2017

Note 6: Investments and Fair Value Measurements (Continued)

comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial asset.

The Organizations' investments include various money market funds, equities, mutual funds and government securities and bonds.

Money Market Funds

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, Government Securities and Bonds

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

The Organizations 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, 2018 and 2017. In addition, there were no transfers between the levels during the years ended December 31, 2018 and 2017.

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.

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>

HEALTH VOLUNTEERS OVERSEAS, INC. AND AFFILIATE
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December 31, 2018 and 2017

Note 6: Investments and 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>
Money Market Funds	\$ 38,487	\$ -	\$ -	\$ 38,487
Fixed Income	906,419	-	-	906,419
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	<u>(1,157,868)</u>
Balance December 31, 2017	<u>\$ -</u>

Note 7: Promise To Give

The promise to give at December 31, 2017 consisted of a contribution in the original amount of \$1,360,000 that was 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 were previously discounted at a rate of 4%.

	<u>2018</u>	<u>2017</u>
Amounts Due In 1 to 5 Years:	\$ -	\$ 340,000
Less: Amounts Considered Uncollectible:	-	-
Less: Present Value Discount:	<u>-</u>	<u>-</u>
Net Amount Due at December 31,	<u>\$ -</u>	<u>\$ 340,000</u>

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Note 8: Net Assets With Donor Restrictions

Net assets with donor restrictions consisted of the following as of December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Time Restrictions - Promise To Give	\$ -	\$ 340,000
Funds designated By Donors to Support Specific Activities and Programs at Various HVO Project Sites	<u>436,524</u>	<u>368,438</u>
Total Net Assets With Donor Restrictions	<u>\$ 436,524</u>	<u>\$ 708,438</u>

Note 9: Subsequent Event

Subsequent to the date of the financial statements, on February 22, 2019, the boards of directors of the Organizations voted to formally merge Health Volunteers Overseas, Inc. and Orthopaedic Overseas, Inc. In addition, the voting membership of Orthopaedic Overseas, Inc. also voted to approve the merger. The merger is effective as of March 29, 2019.

As per the executed plan of merger between the Organizations, the board of directors agreed to the establishment of board designated funds, effective as of the date of merger. The approximate amount of assets to be designated is estimated to be \$1,035,000.