

Project HOPE – The People-to-People Health Foundation, Inc.

Financial Report
For the 18 Months Ended December 31, 2016

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Independent Auditor's Report

To the Audit Committee
Project HOPE – The People-to-People Health Foundation, Inc.
Millwood, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Project Hope – The People-to-People Health Foundation, Inc. (the Foundation), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the 18 months 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2016, and the changes in its net assets and its cash flows for the 18 months then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2017, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

RSM US LLP

McLean, Virginia
June 13, 2017

Project HOPE – The People-to-People Health Foundation, Inc.

**Statement of Financial Position
December 31, 2016
(In Thousands)**

Assets

Cash and cash equivalents	\$	6,665
Contributions receivable, net (Note 3)		7,983
Grants, contracts and other receivables, net		3,674
Inventory, net (Note 10)		11,883
Investments (Notes 4 and 5)		13,520
Land, buildings and equipment, net (Note 6)		4,688
Other assets		517
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Total assets	\$	48,930

Liabilities and Net Assets

Accounts payable and accrued expenses	\$	4,966
Deferred revenues		5,055
Charitable gift annuities payable		997
Accrued pension liability (Note 9)		11,281
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Total liabilities		22,299

Commitments and contingencies (Note 12)

Net assets:

Unrestricted (deficit)	(2,320)
Temporarily restricted (Note 7)	19,779
Permanently restricted (Note 8)	9,172
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Total net assets	26,631

Total liabilities and net assets

\$ 48,930

See notes to financial statements.

Project HOPE – The People-to-People Health Foundation, Inc.

**Statement of Activities
For the 18 Months Ended December 31, 2016
(In Thousands)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues from operations:				
Individual giving (Note 11)	\$ 23,711	\$ 305	\$ 8	\$ 24,024
Foundations and corporate giving	12,149	10,855	-	23,004
Corporate gifts-in-kind (Note 10)	-	114,084	-	114,084
Government grants	24,273	-	-	24,273
Subscription revenue	3,884	-	-	3,884
Other	2,457	586	-	3,043
Net assets released from restriction (Note 7)	134,449	(134,449)	-	-
Total revenues from operations	200,923	(8,619)	8	192,312
Expenses:				
Program services:				
Health education and assistance	169,067	-	-	169,067
Health policy	12,997	-	-	12,997
Total program services	182,064	-	-	182,064
Supporting services:				
Fund-raising	13,540	-	-	13,540
Management and general	6,087	-	-	6,087
Total supporting services	19,627	-	-	19,627
Total expenses	201,691	-	-	201,691
Change in net assets from operations	(768)	(8,619)	8	(9,379)
Non-operating items:				
Net investment (loss) (Note 4)	(589)	(306)	-	(895)
Pension-related changes other than net periodic pension cost (Note 9)	(1,962)	-	-	(1,962)
Change in net assets	(3,319)	(8,925)	8	(12,236)
Net assets:				
Beginning	999	28,704	9,164	38,867
Ending	\$ (2,320)	\$ 19,779	\$ 9,172	\$ 26,631

See notes to financial statements.

Project HOPE – The People-to-People Health Foundation, Inc.

**Statement of Functional Expenses
For the 18 Months Ended December 31, 2016
(In Thousands)**

	Health Education and Assistance	Health Policy	Total Program Services	Fund-Raising	Management and General	Total Supporting Services	Total
Salaries and wages	\$ 13,434	\$ 6,958	\$ 20,392	\$ 1,702	\$ 2,780	\$ 4,482	\$ 24,874
Donated services	3,067	14	3,081	4	372	376	3,457
Employee benefits	2,546	1,106	3,652	261	424	685	4,337
Payroll taxes	860	472	1,332	117	186	303	1,635
Total compensation and benefits	19,907	8,550	28,457	2,084	3,762	5,846	34,303
Supplies, publications, equipment and handling	127,180	113	127,293	60	124	184	127,477
Occupancy and insurance	2,164	996	3,160	385	691	1,076	4,236
Professional services	3,728	868	4,596	3,959	361	4,320	8,916
Travel and transportation	2,907	654	3,561	213	317	530	4,091
Training	5,345	12	5,357	10	11	21	5,378
Postage and shipping	313	113	426	2,421	26	2,447	2,873
Information services	1,128	919	2,047	1,242	419	1,661	3,708
Awards and grants	4,753	83	4,836	-	1	1	4,837
Printing and graphics	425	514	939	2,911	35	2,946	3,885
Telephone and internet	429	112	541	50	71	121	662
Other	788	63	851	205	269	474	1,325
Total	\$ 169,067	\$ 12,997	\$ 182,064	\$ 13,540	\$ 6,087	\$ 19,627	\$ 201,691

The categories of occupancy and insurance, information services, and telephone and internet include allocations from compensation expense and benefits totaling approximately \$2,353,000 for the 18-month period ended December 31, 2016.

See notes to financial statements.

Project HOPE – The People-to-People Health Foundation, Inc.

**Statement of Cash Flows
For the 18 Months Ended December 31, 2016
(In Thousands)**

Cash flows from operating activities:	
Change in net assets	\$ (12,236)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	608
Gain on asset disposals	(5)
Change in market value of investments	895
Change in allowance for doubtful contributions receivable and discount	(563)
Change in allowance for obsolete inventory	3,469
Write-off of obsolete inventory	14,804
Contributions restricted for long-term investment	(8)
(Increase) decrease in:	
Contributions receivable	3,655
Grants, contracts and other receivables	(4)
Donated inventory and equipment, net	(13,768)
Loan program assets	(352)
Other assets	(84)
Increase (decrease) in:	
Accounts payable and accrued expenses	(326)
Accrued liabilities	133
Accrued pension liability	1,028
Deferred revenues	170
Loan program obligations	352
Net cash used in operating activities	<u>(2,232)</u>
Cash flows from investing activities:	
Purchases of equipment and vehicles	(345)
Proceeds from sales of investments	15,135
Purchases of investments	(11,901)
Net cash provided by investing activities	<u>2,889</u>
Cash flows from financing activities:	
Contributions restricted for:	
Investment subject to annuity agreements	48
Investment in perpetuity	8
Other financing activities:	
Payments of annuity obligations	(296)
Interest and dividends restricted for reinvestment	186
Net cash used in financing activities	<u>(54)</u>
Net increase in cash and cash equivalents	603
Cash and cash equivalents:	
Beginning	<u>6,062</u>
Ending	<u>\$ 6,665</u>

See notes to financial statements.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements December 31, 2016

Note 1. Mission and Sources of Support

Project HOPE – The People-to-People Health Foundation, Inc. (the Foundation) is a nonprofit organization that provides humanitarian assistance, health services, medical supplies, and health education programs to developing countries. The Foundation also performs national and international health policy research.

The Foundation receives support in the form of donations, grants, and contracts from both the private sector and United States government agencies. Donated materials and supplies, which constitute a majority of the Foundation's operating revenues, are derived from a number of corporate sponsors each year. Federal funding, which is derived primarily from the U.S. Agency for International Development, approximated \$18.1 million for the 18-month period ended December 31, 2016.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The accompanying financial statements present the financial position and activities of the Foundation on the accrual basis of accounting.

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

The Foundation generally considers all revenues, expenses and other changes, except realized and unrealized gains and losses on investments, and pension changes other than net periodic pension costs, to be part of changes in net assets from operations. Realized and unrealized gains and losses on investments include any gain or loss on foreign currency translation.

Unrestricted contributions: Unconditional contributions whose use is not subject to donor-imposed stipulations that limit their use are recognized when received.

Restricted contributions: The Foundation reports unconditional gifts of cash and other assets as restricted revenue if they are received with donor stipulations that, either temporary or permanent, limit their use. When a temporary donor restriction expires, that is, when a stipulated time restriction lapses or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Income earned from contributions is classified as either temporarily restricted or unrestricted in accordance with donor stipulations.

Donated services: Donated services of medical personnel provided to Foundation programs are reported as unrestricted contribution revenue and program expense in the period received. Such services are valued at medical industry published estimated median hourly rates of compensation for such personnel. Consistent with U.S. generally accepted accounting principles, services of volunteers who have donated their time to the Foundation for fund-raising efforts, but who do not possess specialized skills related to these efforts, are not recognized as revenue and expense.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements December 31, 2016

Note 2. Summary of Significant Accounting Policies (Continued)

Donated materials: Donated materials for use in the Foundation's operations are recorded as contribution revenue and as inventory on the date received. Donated materials have explicit or implied donor restrictions that such items be used exclusively for the Foundation's humanitarian assistance program and are, therefore, recorded as temporarily restricted assets. In the period consumed by Foundation programs, the value of materials is released from temporarily restricted assets to unrestricted assets, and inventory is relieved as a program expense

Gifts-in-kind revenue is recognized in circumstances in which the Foundation has sufficient discretion over the use and disposition of the items to recognize a contribution in conformity with the Codification. Accordingly, the recognition of gifts-in-kind revenue is limited to circumstances in which the Foundation takes constructive possession of the gifts-in-kind and the Foundation is the recipient of the gift, rather than an agent or intermediary (as defined by the Codification).

The Foundation obtains United States Food Drug Administration (FDA) approved pharmaceuticals directly from donors (pharmaceutical companies) for distribution in developing countries or areas where disasters have occurred. Management has concluded that the geographical areas do not represent its principal market and, therefore, considers the United States region as its principal market for determining the fair value of these donated prescription drugs. The principal market is the market in which the Foundation would sell the asset with the greatest volume and level of activity for the asset.

Contributions of FDA approved pharmaceuticals are recorded at the Average Wholesale Price (AWP) as published by Thomson Reuters in the Red Book. The Red Book is an industry recognized drug pricing reference guide for pharmaceuticals in the United States and is used by various similar organizations to value donated pharmaceuticals. The Foundation, like many other organizations that receive donations of pharmaceutical products, is regularly assessing its valuation methodology. Although some organizations have recently changed their valuation sources, the management of the Foundation has not identified a source that it feels is more accurate than its current method. The management follows the industry updates very closely and ensures the value used is in accordance with these. The Foundation receives donated drugs manufactured in the United States that are FDA approved and in those cases the exit market valuation meets the FASB Accounting Standards Update (ASU), *Fair Value Measurement (Topic 820)*, definition of fair value because it is "the price that would be paid to sell an asset in an orderly transaction in the principal market at the measurement date under current market conditions using a directly observable valuation technique." The Foundation may choose to accept and distribute donations from other countries and will value these donations from sources used in the exit countries for those markets. Contributions of medical equipment and supplies are recorded also at estimated wholesale value based upon appropriate wholesale price guides or other online pricing sources as applicable.

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

Planned giving programs: The Foundation provides charitable annuity trusts under which contributors receive an agreed upon return on their contributions for specified periods or during the lifetime of one or more beneficiaries. Contributions received in the form of annuity trusts are generally recorded as unrestricted contributions in the year received, net of the present value of annuities payable to the named income beneficiary. The Foundation invests the charitable gift annuities in accordance with limitations imposed by relevant state laws.

Project Hope – The People-to-People Health Foundation, Inc.

**Notes to Financial Statements
December 31, 2016**

Note 2. Summary of Significant Accounting Policies (Continued)

Endowment funds: Gifts with donor restrictions whereby the principal cannot be expended are classified as permanently restricted net assets. Income in excess of the original principal gift amount (including net appreciation or depreciation) is recorded as a change in temporarily restricted net assets. Such amounts are released to unrestricted net assets to the extent allocated endowment earnings are appropriated for the donor-stipulated purpose.

Board-designated net assets: The Foundation's Board has designated certain net assets to provide for the financial effects of any unforeseen events that might threaten the continued viability of the Foundation, or for other uses as approved by the Board. These board-designated funds amounted to approximately \$3.1 million at December 31, 2016. As of December 31, 2016, the Foundation's unrestricted net assets are broken out as follows (dollars in thousands):

Unrestricted net assets:	
General	\$ 1,128
Pension	(11,281)
Board-designated	3,145
Investments in land, buildings and equipment	4,688
Total unrestricted	<u>\$ (2,320)</u>

The Foundation's unrestricted net assets are less than the board-designated net assets due to the employee pension plan being under funded. See Note 9 for more details on the pension plan.

Cash equivalents: Cash equivalents consist of highly-liquid investments purchased with an original maturity of three months or less. For reporting purposes, cash or securities received with donor imposed restrictions that limit their use to long-term purposes are not classified as cash equivalents. The Foundation has classified any cash or money market accounts held by external investment managers as investments as the intent is to hold and reinvest these amounts in the long-term investment portfolio.

The Foundation maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant financial risk on cash.

Contributions receivable: Unconditional promises to give are recorded as contribution revenue upon receipt of the promise. Promises that are expected to be collected within one year are recorded at their net realizable value. Promises that are expected to be collected beyond one year are recorded at their net present value. Promises that are expected to be collected in future years are discounted at an appropriate discount rate commensurate with the risks involved. An allowance for uncollectible contributions receivable is provided based upon management's judgment of potential defaults.

Conditional promises to give, if any, are not reported as revenue until such time as the conditions are substantially met. No material conditional promises to give were outstanding at December 31, 2016.

Government grants and contracts: The Foundation receives grants and enters into contracts with the U.S. government, foreign governments, and multi-lateral organizations, which support various Foundation programs on a cost reimbursement basis. Revenues are recognized as reimbursable expenditures are incurred. These revenues include recoveries of facilities and other administrative costs determined through a negotiated or agreed upon percentage of direct costs, with certain adjustments. Payments received before reimbursable expenditure are incurred are included in deferred revenues.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements December 31, 2016

Note 2. Summary of Significant Accounting Policies (Continued)

Inventory: Inventory consists of pharmaceuticals, medical supplies and publications and is recorded at cost or fair value on the date of donation, and at the lower of cost or net realizable value at year end. Pharmaceutical inventory that must be discarded upon reaching its regulatory expiration date is recognized as a reduction in temporarily restricted net assets and as a reduction of inventory. An allowance for obsolete inventory is provided based upon management's judgment of discards. The allowance was \$3,800,000 as of December 31, 2016.

Investments: Investments are reported at management's estimate of fair value in the statement of financial position. Fair value is determined by using quoted market prices on marketable securities. Other investments including managed hedge funds and futures funds are estimated based on various valuation techniques developed by the investment fund managers. Because these alternative investments are not readily marketable, their estimated value is subject to additional uncertainty, and their values realized upon disposition may vary significantly from their currently reported values.

The Foundation's investments, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility risks. In addition, due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statement of financial position.

Purchased investments are initially recorded at cost and contributed investments are initially recorded at fair value on the date received, any net appreciation or loss, arising thereafter reported annually in the statement of activities. Gains and losses on investments, including changes in market value, are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation.

Land, buildings and equipment: The Foundation's property is recorded at cost or, if donated, at fair value at the date of gift. Depreciation of buildings and other property is computed using the straight-line method over the estimated service lives of the assets, ranging from 3 to 45 years. The Foundation capitalizes all property and equipment with a cost of \$5,000 or more.

Property acquired exclusively for certain current health programs for which title does not rest with the Foundation is expensed to program services upon purchase. Property designated as historical landmarks and collections is recorded at approximately \$1.9 million as of December 31, 2016, and is not depreciated.

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell. The Foundation had no impairment of long-lived assets during the 18-month period ended December 31, 2016.

Deferred revenues: Revenues from subscriptions to Health Affairs magazine are deferred and recognized over the period of the subscription, generally one year.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements December 31, 2016

Note 2. Summary of Significant Accounting Policies (Continued)

Income taxes: The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on activities unrelated to its exempt purpose. In addition, the Foundation qualifies for the charitable contribution deduction and has been classified as an organization that is not a private foundation.

The Foundation follows the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes and accounting in interim periods.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2013.

Foreign currency translation: The functional currency of the Foundation is the U.S. dollar. The financial statements and transactions of the Foundation's foreign operations are generally maintained in the relevant local currency. Where local currencies are used, assets and liabilities are remeasured at the statement of financial position date at the exchange rate in effect at year-end. Gains and losses from foreign currency translation are included in change in the net assets.

Foreign currency transactions: Monthly expenses that are incurred by project field office operations in foreign countries are translated using the adjusted weighted monthly average exchange rate in effect at the end of each month. At year-end, balances denominated in foreign currency are valued at the exchange rate in effect at year-end, with gains and losses recognized in the statement of activities.

Subscription revenue: Subscription renewals for Global or Consortia Licenses are on a calendar basis, due every January. All other subscriptions are on a rolling renewal basis. Some subscribers have multi-year subscriptions. Subscription revenue is recognized as the issue is pulled from the fulfillment database.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Recent accounting pronouncements: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation is currently evaluating the impact of its pending adoption of the new standard on the financial statements.

Project Hope – The People-to-People Health Foundation, Inc.

**Notes to Financial Statements
December 31, 2016**

Note 2. Summary of Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a nonprofit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions, and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, with early adoption permitted. The Foundation is currently evaluating the impact the adoption of this guidance will have on its combined financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers* and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts* and create new Subtopic 340-40, *Other Assets and Deferred Costs – Contracts with Customers*. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2018. The impact of adopting ASU 2014-09 on the Foundation's financial statements for subsequent periods has not yet been determined.

Subsequent events: The Foundation evaluated subsequent events through June 13, 2017, which is the date the financial statements were available to be issued.

Note 3. Contributions Receivable

As of December 31, 2016, contributors to the Foundation have made unconditional promises to give as follows (dollars in thousands):

Due within:	
Less than one year	\$ 8,398
One to five years	605
Gross contributions receivable	<u>9,003</u>
Less:	
Allowance for uncollectible pledges	(1,005)
Discount to present value (rates from 0.39% to 1.57%)	(15)
Net contributions receivable	<u><u>\$ 7,983</u></u>

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements December 31, 2016

Note 4. Investments

Investments consist of the following at December 31, 2016 (dollars in thousands):

Fixed income	\$	5,507
Equities		7,677
Cash and cash equivalents		336
	\$	<u>13,520</u>

Investments held for charitable gift annuities are included above and totaled \$1,621,000 at December 31, 2016.

Net investment losses of (\$895,000) are reported in non-operating items for the 18-month period ended December 31, 2016.

Note 5. Fair Value Measurements

The Foundation follows the Codification topic, Fair Value Measurement, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. 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). The three levels of the fair value hierarchy are described below:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The estimated fair value of the Foundation's short-term financial instruments, including receivables and payables arising in the ordinary course of operations, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements December 31, 2016

Note 5. Fair Value Measurements (Continued)

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy.

The fair value of assets measured on a recurring basis at December 31, 2016, is as follows (dollars in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 336	\$ -	\$ -	\$ 336
Multi-strategy bond funds	5,406	-	-	5,406
Multi-strategy equity funds	6,771	-	-	6,771
U.S. government and agency obligations	-	101	-	101
Alternative mutual funds	906	-	-	906
Total investments	<u>\$ 13,419</u>	<u>\$ 101</u>	<u>\$ -</u>	<u>\$ 13,520</u>

Money market funds, multi-strategy bond funds, multi-strategy equity funds and alternative mutual funds are classified as Level 1 instruments as they are actively traded on public exchanges.

U.S. government and agency obligations are classified as Level 2 instruments as there are not quoted market prices in active markets for identical assets. These assets are traded in an active market for similar assets or an inactive market for identical assets. Their value is determined using models and other valuation methodologies, which are corroborated by market data.

Note 6. Land, Buildings and Equipment

Land, buildings and equipment are summarized as follows as of December 31, 2016 (dollars in thousands):

Land and improvements	\$ 1,313
Buildings and improvements	3,286
Furniture, equipment and vehicles	5,235
Historical landmarks and collections	1,918
Total cost	<u>11,752</u>
Less accumulated depreciation	<u>(7,064)</u>
Total land, buildings and equipment, net	<u>\$ 4,688</u>

Depreciation expense was approximately \$608,000 for the 18-month period ended December 31, 2016.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements December 31, 2016

Note 7. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets by purposes for the 18-month period ended December 31, 2016, were as follows (dollars in thousands):

	Balance at June 30, 2015	Additions	Releases	Balance at December 31, 2016
Health education and assistance	\$ 6,324	\$ 3,098	\$ (5,224)	\$ 4,198
Health policy	4,937	8,488	(9,907)	3,518
Materials for international and U.S. health programs	16,357	114,084	(118,589)	11,852
Other	1,086	(146)	(729)	211
Total temporarily restricted net assets	\$ 28,704	\$ 125,524	\$ (134,449)	\$ 19,779

Note 8. Permanently Restricted Net Assets

The Codification addresses accounting issues related to guidelines in the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), which was adopted by the National Conferences of Commissioners on Uniform State Laws in July 2006. Management has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted contributions as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of permanently restricted cash contributions and (b) the discounted value of future permanently restricted cash contributions, net of allowance for uncollectible pledges. The remaining portion of donor-restricted cash contributions are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted cash contributions:

- The purposes of the Foundation and donor-restricted endowment fund
- The duration and preservation of the fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other available financial resources
- Investment policies

The Foundation has adopted investment and spending policies for permanently restricted contributions that attempt to provide a predictable stream of funding to programs while maintaining purchasing power. The Foundation's investment policy has the objectives of long-term growth of capital and long-term purchasing power, with tolerance of the Board. The permanently restricted earnings are used in accordance with either the donor's stated purpose or to support the Foundation's operations in general as detailed further in this footnote. The Foundation's endowment consists entirely of donor-restricted funds.

Project Hope – The People-to-People Health Foundation, Inc.

**Notes to Financial Statements
December 31, 2016**

Note 8. Permanently Restricted Net Assets (Continued)

For the 18-month period ended December 31, 2016, the Foundation had the following endowment related activities (dollars in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Net assets – June 30, 2015	\$ 373	\$ 9,164	\$ 9,537
Contributions	-	8	8
Net investment gains	78	-	78
Amounts appropriated for expenditure	(68)	-	(68)
Net assets – December 31, 2016	<u>\$ 383</u>	<u>\$ 9,172</u>	<u>\$ 9,555</u>

The endowment assets are primarily comprised of the Foundation's investments, as detailed in Note 4.

Permanently restricted net assets are summarized as follows at December 31, 2016 (dollars in thousands):

Investment in perpetuity, the income from which is expendable to support:

Health education and assistance support	\$ 7,872
Unrestricted support to the Foundation	1,300
Total permanently restricted net assets	<u>\$ 9,172</u>

Note 9. Pension Plan

The Foundation maintains a defined benefit pension plan (the Plan) extended generally to all full-time employees of the Foundation hired on or before October 31, 2007, who have at least 1,000 hours of service and have reached age 21. Employees hired after October 31, 2007, are not eligible to participate in the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

The Plan provides for normal retirement benefits upon reaching age 65, and has provisions for early retirement at age 55, as well as specified death benefits. Benefits under the Plan are determined based upon years of credited service and average compensation (the highest five consecutive annual rates of compensation during the ten plan years before the earlier of the date of the participant's retirement or December 31, 2009), and are payable in the form of a joint and survivor annuity. Effective December 31, 2009, no further years of credited service are accrued under the Plan. Plan participants who were not vested in their benefit as of December 31, 2009, will continue to receive service for Plan vesting purposes for continued employment. Years of service after December 31, 2009, are counted for eligibility for early retirement. The Plan's funding policy is for the Foundation to contribute an amount which will meet or exceed the annual ERISA minimum funding requirement.

Project Hope – The People-to-People Health Foundation, Inc.

**Notes to Financial Statements
December 31, 2016**

Note 9. Pension Plan (Continued)

The following table sets forth the Plan's funded status and amounts recognized in the Foundation's statements of financial position at December 31, 2016, based on measurement date of December 31, 2016, (dollars in thousands).

Projected benefit obligation	<u>\$ 34,441</u>
Plan assets at fair value	\$ 23,160
Less projected benefit obligation for services rendered to date	<u>(34,441)</u>
Deficiency of plan assets under projected benefit obligation (funded status)	<u>(11,281)</u>
Accrued pension liability	<u>\$ (11,281)</u>
 Pension benefits paid	 <u>\$ 2,011</u>

The composition of pension plan assets and their relative share of total fair value were as follows at December 31, 2016 (dollars in thousands):

Description	December 31, 2016				Total	
	Level 1	Level 2	Level 3			
Mutual funds:						
Large U.S Equity	\$ 1,322	\$ -	\$ -	\$ 1,322	5.71%	
International Equity	3,010	-	-	3,010	13.00%	
Funds of funds:						
Large U.S Equity	-	3,931	-	3,931	16.97%	
Small/Mid U.S. Equity	-	1,315	-	1,315	5.68%	
International Equity	-	3,724	-	3,724	16.08%	
Short-Term Fixed Income	-	1,688	-	1,688	7.29%	
Fixed Income	-	3,432	-	3,432	14.82%	
	<u>4,332</u>	<u>14,090</u>	<u>-</u>	<u>18,422</u>	<u>79.54%</u>	
Immediate participation:						
Guarantee Contract*	-	-	4,738	4,738	20.46%	
	<u>\$ 4,332</u>	<u>\$ 14,090</u>	<u>\$ 4,738</u>	<u>\$ 23,160</u>	<u>100.00%</u>	

*This contract is reported at contract value by the insurance company and, therefore, not subject to the Codification topic, Fair Value Measurement, and not required to be reported at fair value. It is included here only for information purposes of investments. Contract value represents contributions made under the contract, plus earnings, less participant withdrawals and administrative expenses.

The Plan asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Mutual funds are Level 1 assets valued based on quoted prices in active markets for identical assets or liabilities accessible at the measurement date. Fund of funds are Level 2 assets valued based on inputs other than quoted prices that are observable for the assets, either directly or indirectly, such as quoted prices for similar assets in active markets.

Project Hope – The People-to-People Health Foundation, Inc.

**Notes to Financial Statements
December 31, 2016**

Note 9. Pension Plan (Continued)

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the 18 months ended December 31, 2016 (dollars in thousands):

Balance, June 30, 2015	\$	5,302
Earnings on investments		396
Benefit payments to participants		(749)
Employer contributions		-
Fees		(104)
Loss on investments		(107)
Balance, December 31, 2016	\$	<u>4,738</u>

The Foundation follows the Codification topic, Compensation – Retirement Benefits. Under this topic, the Foundation records previously unrecognized losses and prior service cost through changes in unrestricted net assets. These changes are recorded as pension related changes other than net periodic pension cost of approximately \$1,962,000 during the 18-month period ended December 31, 2016, in the accompanying statement of activities. The topic also requires the measurement of plan assets and benefit obligations as of the statement of financial position date.

Contributions due and paid to the Plan during the 18-month period ended December 31, 2016, were \$975,296. In fiscal year 2017, the expected contributions due to the Plan are \$807,165.

The estimated benefits to be paid in each of the next five years, and in the aggregate for the five fiscal years thereafter are summarized in the table below (dollars in thousands):

Years ending June 30:		
2017	\$	1,640
2018		1,650
2019		1,690
2020		1,740
2021		1,800
2022-2026		10,110
	\$	<u>18,630</u>

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**Notes to Financial Statements
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Note 9. Pension Plan (Continued)

Net pension expense for the 18-month period ended December 31, 2016, included the following components (dollars in thousands):

Interest cost	\$ 2,101
Expected return on plan assets	(2,362)
Net amortization and deferral	303
Net periodic pension expense	<u>(42)</u>
Other pension related changes	<u>(1,962)</u>
Total pension costs recognized in the statement of activities	<u>\$ (2,004)</u>

The net amortization and deferral expense for 2017 is expected to be approximately \$303,000 (out of \$10,442,000 not yet recognized net periodic pension expense).

The following assumptions were used in determining the actuarial present value of the projected benefit obligations:

Weighted-average discount rate	4.00%
Increase in future compensation levels	N/A

Following assumptions were used in determining the actuarial present value of the net periodic benefit cost:

Weighted-average discount rate	4.15%
Increase in future compensation levels	N/A
Rate of return on assets	6.60%

Note 10. Inventory

During the 18-month period ended December 31, 2016, the Foundation recognized contributions of health related publications, pharmaceuticals, medical equipment and supplies with an estimated fair value of \$114.1 million. During the same 18-month period, donated supplies, publications, pharmaceuticals and equipment and space totaling approximating \$118.8 million, were used in the Foundation's operations and recorded as program expenses.

Approximately \$14,804,000 of inventory was written off, primarily due to regulatory expiration dates, during the 18-month period ended December 31, 2016.

Approximately 85% of the Foundation's gifts-in-kind revenues were provided by seven companies during the 18-month period ended December 31, 2016 (see Note 13).

Note 11. Donated Services

The value of donated services of medical and support personnel with specialized skills included in the Foundation's operations approximated \$3,457,000 for the 18-month period ended December 31, 2016. These amounts are reported within individual giving revenue, with an offsetting amount in program services expense.

Project Hope – The People-to-People Health Foundation, Inc.

Notes to Financial Statements December 31, 2016

Note 12. Commitments and Contingencies

Leases: The Foundation currently leases and subleases office space and equipment under non-cancelable operating leases. The Foundation's obligations for future minimum lease payments under such leases at December 31, 2016, are as follows (dollars in thousands):

	Lease Commitments
Year ending June 30:	
2017	\$ 674
2018	403
2019	9
2020	1
	<u>\$ 1,086</u>

Rental expense for the 18-month period ended December 31, 2016, approximated \$1,828,000.

Federal awards: The Foundation receives reimbursements for expenditures under federal grants that are subject to annual audits and periodic reviews by grantor agencies. The ultimate determination of amounts reimbursed under these programs is based upon allowable costs reported to and audited by the grantor agencies or their designees. Amounts due to grantor agencies from such compliance audits cannot be determined at this time and are not expected to have a material effect on the financial position of the Foundation.

Litigation: In the normal course of operations, the Foundation is periodically involved in litigation, both in the United States and abroad. Management is of the opinion that as of December 31, 2016, any liability or loss resulting from such litigation will not have a material adverse effect on the financial position, net assets, or cash flows of the Foundation.

The Foundation is subject to certain other claims and assessments that arise during the ordinary course of business. Management believes most of these matters will be resolved in favor of the Foundation or will not have a material impact on the financial position of the Foundation. Other matters in which the Foundation may be liable will be covered by existing insurance.

Note 13. Related Party Transactions

Revenue of approximately \$1.3 million was recognized from members of the Foundation's Board during the 18-month period ended December 31, 2016.

The Foundation received donated materials from two pharmaceutical companies, whose executive officers are also members of the Foundation's Board, during the 18-month period ended December 31, 2016. Donations of approximately \$16.1 million were received from these companies during the 18-month period ended December 31, 2016.

Note 14. Subsequent Events

The Foundation sold three properties between February 15, 2017 and April 28, 2017. The approximate net carrying value was \$572,000, approximate sales price was \$3,197,000 and approximate gain was \$2,625,000.