

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

Uniform Guidance
Supplementary Financial Report
December 31, 2017

Contents

Independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	1-2
Independent auditor's report on compliance for each major federal program; report on internal control over compliance; and report on the schedule of expenditures of federal awards required by the Uniform Guidance and related schedules	3-4
Schedule of expenditures of federal awards	5
Notes to schedule of expenditures of federal awards	6
Schedule of indirect cost allocation rates	7
Notes to schedule of indirect cost allocation rates	8
Schedule of program services expenses	9
Schedule of findings and questioned costs	10-11
Summary schedule of prior audit findings	12
Management's response	13

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the 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, the financial statements of Project HOPE – The People-to-People Health Foundation, Inc.'s (the Foundation), which comprise the statement of financial position as of December 31, 2017, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questionable costs, that we consider to be a significant deficiency. See Finding 2017-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Foundation's Response to the Finding

The Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and management's response. The Foundation's response was not subject to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

McLean, Virginia
June 12, 2018

**Independent Auditor’s Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance and Related Schedules**

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

Report on Compliance for the Major Federal Program

We have audited Project HOPE – The People-to-People Health Foundation, Inc.’s (the Foundation) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Foundation’s major federal program for the year ended December 31, 2017. The Foundation’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Foundation’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Foundation’s compliance.

Opinion on the Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and Related Schedules (Schedule of Indirect Cost Allocation Rates and the Schedule of Program Services Expenses)

We have audited the financial statements of the Foundation as of and for the year ended December 31, 2017, and have issued our report thereon dated June 12, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. The related schedules (schedule of indirect cost allocation rates and schedule of program services expenses) are also presented for purposes of additional analysis and are not required parts of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards and the related schedules are fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

McLean, Virginia
June 12, 2018

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

**Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017**

Federal Granting Agency and Program Title	CFDA or Grant Number	Federal Expenditures	Amounts Provided to Subrecipients
U.S. Agency for International Development			
Foreign assistance for programs overseas:			
CAR TB Regional Project, Tajikistan and Uzbekistan	98.001	\$ 5,616,462	\$ 715,585
Namibia Adherence and Retention Project	98.001	3,452,430	718,770
Ethiopia Community HIV Care and Treatment	98.001	394,758	49,198
Strengthening Capacity for Vector Borne Diseases	98.001	5,263	-
Pass-through from:			
JHU – Malawi One Community Activity	98.001	3,046,669	-
Amref – Ethiopia Transform Health in Developing Regions	98.001	209,952	-
Chemonics – Strengthening TB Control in Ukraine – Indefinite Quantity Contract	98.001	171,278	-
HIFASS – Nigeria Local Partners for OVC Region 3 (LOPIN 3)	98.001	109,610	-
KNCV – Challenge TB Project	98.001	(34,503)	-
Total foreign assistance for programs overseas:		12,971,919	1,483,553
Foreign assistance to American schools and hospitals abroad:			
China SCMC ASHA Medical Equipment	98.006	141,911	-
Total for U.S. Agency for International Development		13,113,830	2,967,106
U.S. Department of State			
China Palliative Care Training Program	19.040	10,672	-
U.S. Department of Health and Human Services			
AHRQ – Diffusion of Innovation	93.XXX	16,086	-
Total federal awards		\$ 13,140,588	\$ 2,967,106

See notes to schedule of expenditures of federal awards.

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

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) presents the expenditures incurred by Project HOPE – The People-to-People Health Foundation, Inc.'s (the Foundation) in connection with its federally sponsored programs for the year ended December 31, 2017, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance).

For purposes of the Schedule, federal awards include all grants, contracts and other financial assistance entered into directly between the Foundation and agencies and departments of the federal government, as well as pass-through sub-awards from nonfederal organizations made under federally-sponsored agreements.

Note 2. Summary of Significant Accounting Policies

Basis of accounting: The accompanying schedule has been prepared on the accrual basis of accounting as described below.

Expenditures: Expenditures for federal awards of the Foundation are determined using the cost accounting principles and procedures set forth the cost principles contained in the Uniform Guidance. Under these cost principles, certain expenditures are not allowable or are limited as to reimbursement.

Expenditures also include indirect costs relating primarily to facilities operation and maintenance and general, divisional, departmental administration services, which are allocated to direct cost objectives (including federal awards) based on negotiated formulas referred to as indirect cost rates. Indirect costs allocated to awards are generally based on provisional rates negotiated with the cognizant federal agency, the U.S. Agency for International Development. When funding for indirect costs is limited based on specific agreement provisions or by total program funding requirements, a lower rate may be used, which is reflected in the Schedule. In such instances, the Foundation is electing to not bill or collect the full provisional rate for these specific awards. The Foundation did not elect to use the 10% de minimis cost rate as covered in §200.414 Indirect (F&A) costs.

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

**Schedule of Indirect Cost Allocation Rates
For the Year Ended December 31, 2017
(In Thousands)**

	Base Amount	Indirect Costs	Rate
Health policy programs:			
Total direct costs	\$ 6,923	\$ -	-
Program management and technical assistance	-	1,349	19.49%
General and administrative expenses	-	808	11.67%
Total	\$ 6,923	\$ 2,157	31.16%
Health education and assistance programs:			
Total direct costs, including donated services	\$ 25,571	\$ -	-
Program management and technical assistance	-	4,579	17.91%
General and administrative expenses	-	2,460	9.62%
Total	\$ 25,571	\$ 7,039	27.53%

See notes to schedule of indirect cost allocation rates.

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

**Notes to Schedule of Indirect Cost Allocation Rates
For the Year Ended December 31, 2017**

Note 1. Basis of Presentation

Program management and technical assistance costs are indirect costs as shown below:

Health education and assistance programs costs include the costs associated with operations, program planning, strategic planning, medical and health services and the international administrative division.

Health policy programs costs include all costs specifically assigned to cost centers designated for general program costs, as well as the administrative costs for the Health Affairs Journal.

In accordance with the Foundation's indirect cost rate agreement, the application base is direct costs, excluding:

- (1) The portion of subcontracts in excess of \$25,000
- (2) Equipment purchases in excess of \$1,000
- (3) The fair value of distributions of gifts-in-kind donations
- (4) Fundraising costs
- (5) Conference costs

Handling costs of materials are included as part of the direct cost for each direct cost base function. Donated services are included in the indirect rate cost base.

Note 2. Distribution of General and Administrative Expenses

General and administrative expenses have been allocated to the various functions: direct and indirect Health education and assistance programs, direct and indirect health policy programs, the conference center and fundraising, in the ratio that the total adjusted costs for each of those functional areas bears to the aggregate total costs for all of those functional areas, as follows (dollars in thousands):

	Adjusted Expenses (Per Page 9)	Ratio to Total Adjusted Expenses	Allocated General and Administrative Expenses
Health education and assistance – direct	\$ 25,571	54.42%	\$ 2,460
Health education and assistance – indirect	4,579	9.74%	-
Health policy programs – direct	6,923	14.72%	808
Health policy programs – indirect	1,349	2.87%	-
Fundraising	8,286	17.63%	1,027
Conference center	281	0.60%	21
General investment	-	0.00%	-
	<u>\$ 46,989</u>	<u>99.98%</u>	<u>\$ 4,316</u>

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

**Schedule of Program Services Expenses
Year Ended December 31, 2017
(In Thousands)**

	Health Education and Assistance Programs		Health Policy Programs		Fundraising	General and Administrative	Conference Center	General Investment	Total Expenses
	Direct Cost	Indirect Cost	Direct Cost	Indirect Cost					
Elements of cost:									
Salaries and wages	\$ 7,727	\$ 1,854	\$ 4,303	\$ 276	\$ 1,315	\$ 2,496	\$ 74	\$ -	\$ 18,045
Donated services	1,514	-	-	-	137	-	-	-	1,651
Employee health and retirement benefits	1,628	388	712	46	212	416	12	-	3,414
Payroll taxes	367	113	299	19	91	173	5	-	1,067
Subtotal	11,236	2,355	5,314	341	1,755	3,085	91	-	24,177
Supplies, publications, equipment and handling									
	48,291	81	39	7	10	23	15	-	48,466
Professional fees	3,635	310	326	2	2,423	380	3	12	7,091
Training	4,144	7	2	-	3	3	-	-	4,159
Awards and grants	3,813	-	43	-	-	1	-	-	3,857
Travel and transportation	2,079	218	457	3	142	100	108	-	3,107
Occupancy and insurance	931	621	59	592	267	372	31	-	2,873
Computer and data processing charges	4	757	264	344	827	260	17	-	2,473
Printing and artwork	279	17	301	1	1,411	17	9	-	2,035
Postage and shipping	197	22	60	3	1,317	15	1	-	1,615
Telephone and data communications	234	79	9	55	27	36	3	-	443
Miscellaneous	153	54	35	-	89	2	-	15	348
Depreciation	216	9	3	1	60	-	-	-	289
Books and publication	31	52	11	-	30	42	3	-	169
Total expenses	75,243	4,582	6,923	1,349	8,361	4,336	281	27	101,102
Expense adjustments:									
Unallowable costs	(1)	(1)	-	-	-	(1)	-	-	(3)
Equipment purchases	(1,576)	-	-	-	-	-	-	-	(1,576)
Portions of sub-contracts in excess of \$25,000	(2,872)	-	-	-	-	-	-	-	(2,872)
Gifts-in-kind distributions	(45,057)	-	-	-	-	-	-	-	(45,057)
General investment costs	-	-	-	-	-	-	-	(27)	(27)
Excluded depreciation	(167)	-	-	-	-	-	-	-	(167)
Severance	-	(3)	-	-	(75)	(20)	-	-	(98)
Add back unallowable costs	1	1	-	-	-	1	-	-	3
Adjusted expenses	\$ 25,571	\$ 4,579	\$ 6,923	\$ 1,349	\$ 8,286	\$ 4,316	\$ 281	\$ -	\$ 51,305
Distribution of general and administrative:									
Allocation base	\$ 25,571	\$ 4,579	\$ 6,923	\$ 1,349	\$ 8,286	\$ -	\$ 281	\$ -	\$ 46,989
Allocated expense	2,460	-	808	-	1,027	(4,316)	21	-	-

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

**Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2017**

Section II. Financial Statement Findings

Finding No. 2017 – 001 Inventory and Gifts-in-kind Valuation

Significant Deficiency

Criteria: In order to produce financial statements in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP), financial management systems shall provide for accurate, current and complete disclosure of the financial results of each project or program, whereas all issues and adjustments noted as part of the reconciliation process must be timely and properly reflected in the accounting records of the organization. U.S. GAAP also requires that gift-in-kind contributions received be measured at their fair values. The fair value of contributed inventory items may be obtained from published catalogs, vendors, independent appraisals, and other sources. Additionally, the Committee of Sponsoring Organizations of the Treadway Commission framework, although not a legal requirement, provides best practices for non-public entities for the five components of internal control, including control activities.

Condition and context: During our testing of the inventory and gift-in-kind items, we selected 16 high value and a sample of ten other items to test for valuation assertion. Based on our testing of the ten high value items, we noted two errors that resulted in an adjustment for \$1,321,540. The first error and adjustment was an overstatement of the revenue by \$802,162, related expense by \$772,462 and inventory by 29,700 for donated inventory from Ireland. In this situation, the error was due to using the wrong currency used to evaluate the donation. When inventory is received from sources outside the United States, management has established a policy to evaluate the donated value to an outside source and value the donation in U.S. dollars. When the donation was received, the amount recognized was based on the valuation as outside source using a foreign currency rather than U.S. dollars. The second error and adjustment was to decrease revenue and inventory for \$519,378, which is the net adjustment for two inaccuracies related to recognizing revenue and inventory in the wrong period.

Cause: Due to the turnover within the accounting department and the change in the inventory management system, the Foundation did not catch the errors made in the review process.

Effect: The revenue and expenses as well as the inventory account were overstated.

Recommendation: We understand that the Foundation has a policy for monthly reconciliations and reviews. We recommend that the Foundation also establishes policies to address additional controls that maybe required in case of employee turnover.

Views of responsible officials and planned corrective actions: See management's response.

Section III. Federal Award Findings and Questioned Costs

None reported.

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

**Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017**

There were no findings reported for the 18-month period ended December 31, 2016



Project HOPE
255 Carter Hall Lane
P.O. Box 250
Millwood, Virginia 22646
(540) 837-2100
Fax: (540) 837-1813
www.projecthope.org

To address the issue of GIK valuation, HOPE has revised the processes which were in place for year 2017. In 2017 HOPE discontinued the warehouse operation and the GIK valuation function was transferred from warehouse staff to Global Health Support Staff (GHSC) admin.

Effective of 2018, HOPE has implemented following process. HOPE's Controller will oversee the process and ensure the accuracy of data.

- HOPE's Purchasing Manager who has valued products over the last 30 years will continue to value GIK products using the "Red Book". The Red Book is a comprehensive, consistent drug pricing resource used to value pharmaceuticals originating in the US. HOPE uses the Chemist and Druggist for pharmaceuticals originating in Europe.
- GHSC Admin will prepared the paper work and will be reviewed by another senior GHSC staff before entering the transaction into Inventory management system Tecsys. Purchasing Manager will input the price into Tecsys.
- HOPE's IT department will continue to generate the Journal Entry (JE) from the TecSys and will be shared with Global Operation Finance (GOF). GOF will verify accounting aspects, amount valued and supporting documents before the transaction is posted into Smart Stream.

Signature: RVipani

Name: Rushina Vipani, Controller

Date: June 6th, 2018

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

Financial Report
December 31, 2017

Contents

Independent auditor's report	1-2
<hr/>	
Financial statements	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7-20

Independent Auditor's Report

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

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, 2017, the related statements of activities, functional expenses and cash flows for the year 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, 2017, and the changes in its net assets and its cash flows for the year 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 12, 2018, 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 the effectiveness of the Foundation's 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 12, 2018

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

**Statement of Financial Position
December 31, 2017
(In Thousands)**

Assets	
Cash and cash equivalents	\$ 11,528
Contributions receivable, net (Note 3)	6,616
Grants, contracts and other receivables, net	2,844
Inventory, net (Note 10)	10,436
Investments (Notes 4 and 5)	13,606
Land, buildings and equipment, net (Note 6)	4,147
Other assets	476
	<hr/>
Total assets	\$ 49,653
	<hr/>
Liabilities and Net Assets	
Accounts payable and accrued expenses	\$ 4,318
Deferred revenues	4,763
Charitable gift annuities payable	966
Accrued pension liability (Note 9)	10,506
	<hr/>
Total liabilities	20,553
	<hr/>
Commitments and contingencies (Note 12)	
Net assets:	
Unrestricted deficit (Note 2)	(2,708)
Temporarily restricted (Note 7)	22,692
Permanently restricted (Note 8)	9,116
	<hr/>
Total net assets	29,100
	<hr/>
Total liabilities and net assets	\$ 49,653
	<hr/>

See notes to financial statements.

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

**Statement of Activities
For the Year Ended December 31, 2017
(In Thousands)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenues from operations:				
Individual giving (Note 11 and 13)	\$ 11,177	\$ 1,452	\$ 3	\$ 12,632
Foundations and corporate giving	5,576	11,436	-	17,012
Corporate gifts-in-kind (Note 10)	-	43,629	-	43,629
Government grants	21,765	-	-	21,765
Subscription revenue	2,646	-	-	2,646
Other	1,524	183	-	1,707
Net assets released from restriction (Note 7)	54,443	(54,384)	(59)	-
Total revenues from operations	97,131	2,316	(56)	99,391
Expenses:				
Program services:				
Health education and assistance	79,824	-	-	79,824
Health policy	8,273	-	-	8,273
Total program services	88,097	-	-	88,097
Supporting services:				
Fundraising	8,361	-	-	8,361
Management and general	4,644	-	-	4,644
Total supporting services	13,005	-	-	13,005
Total expenses	101,102	-	-	101,102
Change in net assets from operations	(3,971)	2,316	(56)	(1,711)
Non-operating items:				
Net investment gain (Note 4)	572	597	-	1,169
Net gain on sale of property	2,628	-	-	2,628
Pension-related changes other than net periodic pension cost (Note 9)	383	-	-	383
Change in net assets (deficit)	(388)	2,913	(56)	2,469
Net assets (deficit):				
Beginning	(2,320)	19,779	9,172	26,631
Ending	\$ (2,708)	\$ 22,692	\$ 9,116	\$ 29,100

See notes to financial statements.

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

**Statement of Functional Expenses
For the Year Ended December 31, 2017
(In Thousands)**

	Health Education and Assistance	Health Policy	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total
Compensation and benefits:							
Salaries and wages	\$ 9,580	\$ 4,579	\$ 14,159	\$ 1,315	\$ 2,570	\$ 3,885	\$ 18,044
Donated services	1,514	-	1,514	137	-	137	1,651
Employee benefits	2,016	758	2,774	212	427	639	3,413
Payroll taxes	480	318	798	91	178	269	1,067
Total compensation and benefits	13,590	5,655	19,245	1,755	3,175	4,930	24,175
Supplies, publications, equipment and handling	48,372	46	48,418	10	38	48	48,466
Occupancy and insurance	1,552	651	2,203	267	403	670	2,873
Professional services	3,944	327	4,271	2,423	395	2,818	7,089
Travel and transportation	2,298	461	2,759	142	208	350	3,109
Training	4,151	2	4,153	3	3	6	4,159
Postage and shipping	219	63	282	1,317	16	1,333	1,615
Information services	761	608	1,369	827	277	1,104	2,473
Awards and grants	3,813	43	3,856	-	1	1	3,857
Printing and graphics	379	314	693	1,441	71	1,512	2,205
Telephone and internet	313	64	377	28	39	67	444
Other	432	39	471	148	18	166	637
Total	\$ 79,824	\$ 8,273	\$ 88,097	\$ 8,361	\$ 4,644	\$ 13,005	\$ 101,102

The categories of occupancy and insurance, information services, and telephone and internet include allocations from compensation expense and benefits totaling approximately \$1,554,000 for the year ended December 31, 2017.

See notes to financial statements.

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

**Statement of Cash Flows
For the Year Ended December 31, 2017
(In Thousands)**

Cash flows from operating activities:	
Change in net assets	\$ 2,469
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	380
Gain on sale of land, buildings and equipment	(2,628)
Change in market value of investments	(1,228)
Change in allowance for doubtful contributions receivable and discount	(368)
Contributions restricted for long-term investment	56
Decrease in:	
Contributions receivable	1,735
Grants, contracts and other receivables	830
Donated inventory, net	1,428
Purchased inventory	19
Other assets	41
Decrease in:	
Accounts payable and accrued expenses	(648)
Deferred revenues	(292)
Accrued pension liability	(775)
Net cash provided by operating activities	<u>1,019</u>
Cash flows from investing activities:	
Purchases of land, buildings and equipment	(463)
Proceeds from sales of land, buildings and equipment	3,252
Proceeds from sales of investments	9,707
Purchases of investments	(8,565)
Net cash provided by investing activities	<u>3,931</u>
Cash flows from financing activities:	
Contributions restricted for:	
Investment subject to annuity agreements	25
Investment in perpetuity	(56)
Other financing activities:	
Payments of annuity obligations	(186)
Interest and dividends restricted for reinvestment	130
Net cash used in financing activities	<u>(87)</u>
Net increase in cash and cash equivalents	4,863
Cash and cash equivalents:	
Beginning	<u>6,665</u>
Ending	<u>\$ 11,528</u>

See notes to financial statements.

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

Notes to Financial Statements

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 \$13.1 million for the year ended December 31, 2017.

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, unusual gains (losses) on the disposal of land, buildings and equipment, 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 fundraising 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

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 and 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

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 \$2.1 million at December 31, 2017. As of December 31, 2017, the Foundation's unrestricted net assets are broken out as follows (dollars in thousands):

Unrestricted net assets:	
General	\$ 1,524
Board designated	2,127
Investments in land, buildings and equipment	4,147
Pension	(10,506)
Total unrestricted	<u>\$ (2,708)</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, 2017.

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

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. There was no allowance as of December 31, 2017.

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, and any net appreciation or loss arising thereafter is 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 \$1.5 million as of December 31, 2017, 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 year ended December 31, 2017.

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

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 2014.

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. 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.

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 March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires that an entity report the service cost component of net periodic pension and postretirement cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The remaining components of net benefit costs are required to be presented in the income statement separately from the service component and outside a subtotal of income from operations, if one is presented. The amendment further allows only the service cost component of net periodic pension and postretirement costs to be eligible for capitalization. ASU 2017-07 will be effective for the Foundation beginning on January 1, 2019. The Foundation is currently evaluating the impact of the adoption of this guidance on its financial statements.

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

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

In February 2016, the FASB issued 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.

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 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 12, 2018, which is the date the financial statements were available to be issued.

Note 3. Contributions Receivable

As of December 31, 2017, contributors to the Foundation have made unconditional promises to give as follows (dollars in thousands):

Due within:	
Less than one year	\$ 6,680
One to five years	589
Gross contributions receivable	<u>7,269</u>
Allowance for uncollectible pledges	(637)
Discount to present value (rates from 0.39% to 1.43%)	(16)
Net contributions receivable	<u><u>\$ 6,616</u></u>

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

Notes to Financial Statements

Note 4. Investments

Investments consist of the following at December 31, 2017 (dollars in thousands):

Fixed income	\$	5,553
Equities		7,399
Cash and cash equivalents		654
	\$	<u>13,606</u>

Investments held for charitable gift annuities are included above and totaled \$1,706,729 at December 31, 2017.

Net investment gains of \$1,169,000 are reported in non-operating items for the year ended December 31, 2017.

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 fair value of assets measured on a recurring basis at December 31, 2017, is as follows (dollars in thousands):

	Level 1	Level 2	Level 3	Total
Multi-strategy equity funds	\$ 6,516	\$ -	\$ -	\$ 6,516
Multi-strategy bond funds	5,553	-	-	5,553
Alternative mutual funds	883	-	-	883
Money market funds	654	-	-	654
Total investments	<u>\$ 13,606</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,606</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.

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

Notes to Financial Statements

Note 6. Land, Buildings and Equipment

Land, buildings and equipment are summarized as follows as of December 31, 2017 (dollars in thousands):

Land and improvements	\$	922
Buildings and improvements		2,219
Furniture, equipment and vehicles		5,231
Historical landmarks and collections		1,918
Total cost		<u>10,290</u>
Less accumulated depreciation		<u>(6,143)</u>
Total land, buildings and equipment, net	\$	<u><u>4,147</u></u>

Depreciation expense was approximately \$380,000 for the year ended December 31, 2017.

During the year ended 2017, the Foundation sold three properties which included all the land, buildings and equipment on those properties. The sales resulted in an approximately \$2.6 million gain which is included in non-operating items in the accompanying statement of activities.

Note 7. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets by purposes for the year ended December 31, 2017, were as follows (dollars in thousands):

	Balance at				Balance at	
	December 31, 2016	Additions	Releases		December 31, 2017	
Health education and assistance	\$ 4,198	\$ 3,764	\$ (3,414)	\$	4,548	
Health policy	3,518	9,152	(5,724)		6,946	
Materials for international and U.S. health programs	11,852	43,629	(45,057)		10,424	
Other	211	752	(189)		774	
Total temporarily restricted net assets	<u>\$ 19,779</u>	<u>\$ 57,297</u>	<u>\$ (54,384)</u>	<u>\$</u>	<u>22,692</u>	

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

Notes to Financial Statements

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.

For the year ended December 31, 2017, the Foundation had the following endowment related activities (dollars in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Net assets, December 31, 2016	\$ 383	\$ 9,172	\$ 9,555
Contributions	-	3	3
Net investment gains	693	-	693
Amounts appropriated/released for expenditure	(173)	(59)	(232)
Net assets, December 31, 2017	<u>\$ 903</u>	<u>\$ 9,116</u>	<u>\$ 10,019</u>

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

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

Notes to Financial Statements

Note 8. Permanently Restricted Net Assets (Continued)

Permanently restricted net assets are summarized as follows at December 31, 2017 (dollars in thousands):

Investment in perpetuity, the income from which is expendable to support:	
Health education and assistance support	\$ 7,816
Unrestricted support to the Foundation	1,300
Total permanently restricted net assets	<u>\$ 9,116</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.

The following table sets forth the Plan's funded status and amounts recognized in the Foundation's statement of financial position at December 31, 2017, based on measurement date of December 31, 2017, (dollars in thousands).

Projected benefit obligation	<u>\$ 36,211</u>
Plan assets at fair value	\$ 25,705
Less projected benefit obligation for services rendered to date	<u>(36,211)</u>
Deficiency of Plan assets under projected benefit obligation (funded status)	<u>(10,506)</u>
Accrued pension liability	<u>\$ (10,506)</u>
Pension benefits paid	<u>\$ 1,425</u>

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

Notes to Financial Statements

Note 9. Pension Plan (Continued)

The composition of pension plan assets and their relative share of total fair value were as follows at December 31, 2017 (dollars in thousands):

Description	December 31, 2017				
	Level 1	Level 2	Level 3	Total	% Total
Mutual funds:					
Large U.S. equity	\$ 1,564	\$ -	\$ -	\$ 1,564	6.08%
International equity	3,330	-	-	3,330	12.95%
Funds of funds:					
Large U.S. equity	-	4,742	-	4,742	18.45%
Small/Mid U.S. equity	-	1,588	-	1,588	6.18%
International equity	-	3,560	-	3,560	13.85%
Short-term fixed income	-	1,081	-	1,081	4.21%
Fixed income	-	5,234	-	5,234	20.36%
	4,894	16,205	-	21,099	82.08%
Immediate participation:					
Guarantee contract*	-	-	4,606	4,606	17.92%
	<u>\$ 4,894</u>	<u>\$ 16,205</u>	<u>\$ 4,606</u>	<u>\$ 25,705</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.

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2017 (dollars in thousands):

Balance, December 31, 2016	\$ 4,738
Earnings on investments	166
Benefit payments to participants	(471)
Employer contributions	213
Fees	(17)
Loss on investments	(23)
Balance, December 31, 2017	<u>\$ 4,606</u>

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

Notes to Financial Statements

Note 9. Pension Plan (Continued)

The Foundation follows the Codification topic, Compensation – Retirement Benefits. Under this topic, the Foundation records previously unrecognized gains 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 \$383,000 during the year ended December 31, 2017, 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 year ended December 31, 2017, were \$807,165. In fiscal year 2018, the expected contributions due to the Plan are \$1,047,000.

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 December 31:	
2018	\$ 1,640
2019	1,680
2020	1,730
2021	1,800
2022	1,910
2023-2026	10,350
	<u>\$ 19,110</u>

Net pension expense for the year ended December 31, 2017, included the following components (dollars in thousands):

Interest cost	\$ 1,345
Expected return on Plan assets	(1,232)
Net amortization and deferral	303
Net periodic pension expense	416
Other pension related changes	(383)
Total pension costs recognized in the statement of activities	<u>\$ 33</u>

The net amortization and deferral expense for 2018 is expected to be approximately \$303,000 (out of \$10,059,000 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	3.55%
Increase in future compensation levels	N/A

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

Notes to Financial Statements

Note 9. Pension Plan (Continued)

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

Weighted-average discount rate	4.00%
Increase in future compensation levels	N/A
Rate of return on assets	6.25%

Note 10. Inventory

During the year ended December 31, 2017, the Foundation recognized contributions of health related publications, pharmaceuticals, medical equipment and supplies with an estimated fair value of \$43.6 million. During the same year, donated supplies, publications, pharmaceuticals and equipment and space totaling approximating \$46.3 million, were used in the Foundation's operations and recorded as program expenses.

Approximately \$3.9 million of inventory was written off due to regulatory expiration dates during the year ended December 31, 2017.

Approximately 99% of the Foundation's gifts-in-kind revenues were provided by seven companies during the year ended December 31, 2017.

Note 11. Donated Services

The value of donated services of medical and support personnel with specialized skills included in the Foundation's operations approximated \$1.7 million for the year ended December 31, 2017. These amounts are reported within individual giving revenue, with an offsetting amount in program services expense.

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, 2017, are as follows (dollars in thousands):

	Lease Commitments
Years ending December 31:	
2018	\$ 673
2019	688
2020	697
2021	532
	<u>\$ 2,590</u>

Rental expense for the year ended December 31, 2017, approximated \$1,234,000.

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

Notes to Financial Statements

Note 12. Commitments and Contingencies (Continued)

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.

Employment agreements: The Foundation has two employment agreements with its Chief Executive Officer and its President. In the event of termination, the Foundation may be required to pay severance totaling a maximum of six months of the annual salary, performance bonus and other benefits, as defined in the agreements.

Note 13. Related Party Transactions

Support of approximately \$851,000 was recognized from members of the Foundation's Board during the year ended December 31, 2017.