

# **Project HOPE – The People-To-People Health Foundation, Inc.**

Financial Statements  
June 30, 2013

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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 statements of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 2013 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Foundation's 2012 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 25, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material aspects, with the audited financial statements from which it has been derived.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 8, 2013, 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 those reports 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. Those reports are 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.

The image shows a handwritten signature in cursive script that reads "McGladrey LLP". The signature is written in dark ink and is positioned above the typed name and date.

Vienna, Virginia  
October 8, 2013

**Project HOPE – The People-To-People Health Foundation, Inc.**

**Statement Of Financial Position**

**June 30, 2013**

**(With Comparative Totals For 2012)**

**(In Thousands)**

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Cash And Cash Equivalents	\$ 7,000	\$ 7,559
Contributions Receivable, net (Note 3)	5,843	8,744
Grants, Contracts, And Other Receivables	3,825	2,132
Inventory, net (Note 10)	12,642	6,460
Investments (Note 4)	16,023	17,719
Loan Program Assets	396	835
Land, Buildings, And Equipment, net (Note 6)	4,605	4,553
Other Assets	261	285
<b>Total assets</b>	<b>\$ 50,595</b>	<b>\$ 48,287</b>
<b>Liabilities And Net Assets</b>		
Liabilities:		
Accounts payable and accrued expense	\$ 3,076	\$ 3,525
Accrued pension expense (Note 9)	7,916	11,518
Deferred revenues	4,593	3,150
Loan program obligations	396	835
Charitable gift annuities payable	1,162	1,284
Capital lease payable	54	117
<b>Total liabilities</b>	<b>17,197</b>	<b>20,429</b>
Net assets:		
Unrestricted	6,491	2,445
Temporarily restricted (Note 7)	23,888	22,672
Permanently restricted (Note 8)	3,019	2,741
<b>Total net assets</b>	<b>33,398</b>	<b>27,858</b>
<b>Total liabilities and net assets</b>	<b>\$ 50,595</b>	<b>\$ 48,287</b>

See Accompanying Notes To Financial Statements.

**Project HOPE – The People-To-People Health Foundation, Inc.**

**Statement Of Activities  
Year Ended June 30, 2013  
(With Comparative Totals For 2012)  
(In Thousands)**

	2013			Totals	2012
	Unrestricted	Temporarily restricted	Permanently restricted		
Revenues from operations:					
Individual giving (Note 11)	\$ 12,949	\$ 176	\$ 278	\$ 13,403	\$ 11,515
Foundations and corporations	2,179	5,939	-	8,118	17,649
Corporate gifts-in-kind (Note 10)	-	248,277	-	248,277	173,576
Government grants (Note 11)	14,701	-	-	14,701	11,708
Subscription revenue	2,549	-	-	2,549	2,380
Other (Note 4)	3,242	99	-	3,341	3,470
Net assets released from restriction (Note 7)	253,485	(253,485)	-	-	-
<b>Total revenues from operations</b>	<b>289,105</b>	<b>1,006</b>	<b>278</b>	<b>290,389</b>	<b>220,298</b>
Expenses:					
Program services:					
Health education and assistance	269,123	-	-	269,123	214,961
Health policy	7,839	-	-	7,839	7,895
<b>Total program services</b>	<b>276,962</b>	<b>-</b>	<b>-</b>	<b>276,962</b>	<b>222,856</b>
Supporting services:					
Fund-raising	8,214	-	-	8,214	8,073
Management and general	4,239	-	-	4,239	4,080
<b>Total supporting services</b>	<b>12,453</b>	<b>-</b>	<b>-</b>	<b>12,453</b>	<b>12,153</b>
<b>Total expenses</b>	<b>289,415</b>	<b>-</b>	<b>-</b>	<b>289,415</b>	<b>235,009</b>
<b>Changes in net assets from operations</b>	<b>(310)</b>	<b>1,006</b>	<b>278</b>	<b>974</b>	<b>(14,711)</b>
Nonoperating items:					
Net investment (loss) gain (Note 4)	493	210	-	703	(887)
Pension related changes other than net periodic pension cost (Note 9)	3,863	-	-	3,863	(6,992)
<b>Change in net assets</b>	<b>4,046</b>	<b>1,216</b>	<b>278</b>	<b>5,540</b>	<b>(22,590)</b>
Net assets:					
Beginning	2,445	22,672	2,741	27,858	50,448
Ending	<b>\$ 6,491</b>	<b>\$ 23,888</b>	<b>\$ 3,019</b>	<b>\$ 33,398</b>	<b>\$ 27,858</b>

See Accompanying Notes To Financial Statements.

**Project HOPE – The People-To-People Health Foundation, Inc.**

**Statement Of Cash Flows**

**Year Ended June 30, 2013**

**(With Comparative Totals For 2012)**

**(In Thousands)**

	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ 5,540	\$ (22,590)
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities:		
Depreciation and loss on asset disposals	383	362
Gains on sales of investments, net	(657)	(378)
Unrealized and realized investment and foreign currency (gains) losses, net	(297)	954
Change in allowance for doubtful contributions receivable	41	45
Write-off of obsolete inventory	476	629
Contributions restricted to investment in perpetuity	(278)	(1,006)
Decrease in contributions receivable	2,860	3,578
(Increase) in grants, contracts, and other receivables	(1,693)	(955)
Decrease (increase) in inventory	(6,658)	12,833
Decrease in loan program assets	439	34
Decrease (increase) in other assets	24	(83)
Increase (decrease) in accounts payable and accrued expenses	(449)	689
Increase (decrease) in accrued pension expense	(3,602)	5,969
Increase in deferred revenues	1,443	358
(Decrease) in loan program obligations	(439)	(34)
<b>Net cash (used in) provided by operating activities</b>	<b>(2,867)</b>	<b>405</b>
Cash flows from investing activities:		
Purchases of equipment and vehicles	(435)	(468)
Proceeds from sales of investments	8,128	5,026
Purchases of investments	(5,479)	(5,425)
<b>Net cash provided by (used in) investing activities</b>	<b>2,214</b>	<b>(867)</b>
Cash flows from financing activities:		
Contributions restricted for:		
Investment subject to annuity agreements	(109)	(18)
Investment in perpetuity	278	1,006
Other financing activities:		
Payments of annuity obligations	(12)	(19)
Payments on capital lease	(63)	(93)
<b>Net cash provided by financing activities</b>	<b>94</b>	<b>876</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(559)</b>	<b>414</b>
Cash and cash equivalents:		
Beginning	7,559	7,145
Ending	<b>\$ 7,000</b>	<b>\$ 7,559</b>

See Accompanying Notes To Financial Statements.

**Project HOPE – The People-To-People Health Foundation, Inc.**

**Statement Of Functional Expenses  
Year Ended June 30, 2013  
(With Comparative Totals For 2012)  
(In Thousands)**

	2013							2012
	Health Education and Assistance	Health Policy	Total Program Services	Fund-raising	Management and General	Total Supporting Services	Total	
Salaries and wages	\$ 8,167	\$ 3,833	\$ 12,000	\$ 1,989	\$ 2,276	\$ 4,265	\$ 16,265	\$ 16,121
Donated services	2,691	45	2,736	56	-	56	2,792	1,534
Employee benefits	1,768	640	2,408	325	415	740	3,148	2,472
Payroll taxes	526	261	787	134	150	284	1,071	1,024
<b>Total compensation and benefits</b>	<b>13,152</b>	<b>4,779</b>	<b>17,931</b>	<b>2,504</b>	<b>2,841</b>	<b>5,345</b>	<b>23,276</b>	<b>21,151</b>
Supplies, publications, equipment, and handling	245,380	30	245,410	45	49	94	245,504	190,295
Occupancy and insurance	1,831	567	2,398	241	365	606	3,004	3,080
Professional services	1,343	700	2,043	1,883	475	2,358	4,401	7,256
Travel and transportation	1,799	469	2,268	431	146	577	2,845	2,996
Training	2,311	6	2,317	-	2	2	2,319	2,504
Postage and shipping	681	133	814	1,351	21	1,372	2,186	2,109
Information services	543	487	1,030	437	251	688	1,718	1,796
Awards and grants	1,213	89	1,302	-	-	-	1,302	964
Printing and graphics	225	451	676	1,208	20	1,228	1,904	1,853
Telephone and communications	304	61	365	47	41	88	453	514
Miscellaneous	341	67	408	67	28	95	503	491
<b>Total</b>	<b>\$ 269,123</b>	<b>\$ 7,839</b>	<b>\$ 276,962</b>	<b>\$ 8,214</b>	<b>\$ 4,239</b>	<b>\$ 12,453</b>	<b>\$ 289,415</b>	<b>\$ 235,009</b>

The categories of occupancy and insurance, information services, and telephone and communications include allocations from compensation and benefit expense totaling approximately \$1,464,000 and \$1,428,000 for 2013 and 2012, respectively.

See Accompanying Notes To Financial Statements.

## **Project Hope – The People-To-People Health Foundation, Inc.**

### **Notes To Financial Statements**

**June 30, 2013 (With Comparative Totals For 2012)**

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#### **Note 1. Mission And Sources Of Support**

Project HOPE – The People-to-People Health Foundation, Inc. (the Foundation) is a not-for-profit 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 is derived primarily from the U.S. Agency for International Development and approximated \$9.8 million and \$8.8 million for fiscal years 2013 and 2012, respectively.

#### **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 Statement of Financial 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 net, and permanently restricted.

The statement of activities includes certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

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.

Restricted contributions: The Foundation reports gifts of cash and other assets as restricted revenue if they are received with donor stipulations, either temporary or permanent, that limits 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.

## **Project Hope – The People-To-People Health Foundation, Inc.**

### **Notes To Financial Statements**

**June 30, 2013 (With Comparative Totals For 2012)**

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#### **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 Federal 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 United States 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) titled, *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**

**June 30, 2013 (With Comparative Totals For 2012)**

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#### **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. If the donor of such endowments restricts the use of related earnings, all 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 expended 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 \$4.3 million and \$3.9 million at June 30, 2013 and 2012, respectively.

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 June 30, 2013.

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.

Inventory: Inventory consists of pharmaceuticals, medical supplies and publications and is recorded at the lower of cost or fair value. 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 \$298,000 as of June 30, 2013 and 2012.

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.

## **Project Hope – The People-To-People Health Foundation, Inc.**

### **Notes To Financial Statements**

**June 30, 2013 (With Comparative Totals For 2012)**

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#### **Note 2. Summary Of Significant Accounting Policies (Continued)**

Investments (continued): 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 recorded at fair values with any net appreciation or loss reported annually in the statement of activities. Contributed investments are recorded at fair value on the date received. 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.

Loan program: The Foundation manages community based loan programs in developing countries. These programs are intended to encourage entrepreneurship and self-reliance. Program assets consist of outstanding loans and cash available from repayment of previous loans and related interest. The offsetting liability represents the Foundation's obligation to the funding sponsor to hold the program assets exclusively for the benefit of targeted communities.

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. Leasehold improvements are amortized over the shorter of the estimated economic life of the improvements or the estimated remaining term of the lease. 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 June 30, 2013 and 2012, respectively, and are not depreciated.

The Foundation accounts for the valuation of long-lived assets in accordance with the Codification. As required by the Codification topic, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets and certain identifiable intangible assets are to be 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 2013 and 2012.

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

Capital lease payable: The Foundation entered into a capital lease with BB&T during fiscal year 2010. The lease totals approximately \$296,000 for a period of 60 months. This lease was used to finance the purchase of equipment.

## **Project Hope – The People-To-People Health Foundation, Inc.**

### **Notes To Financial Statements June 30, 2013 (With Comparative Totals For 2012)**

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#### **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 de-recognition, 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 2010.

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 balance sheet date at the exchange rate in effect at year-end. Gains and losses from foreign currency transactions 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.

Reclassifications: Certain items in the June 30, 2012 financial statements have been reclassified to conform to the June 30, 2013 financial statement presentation. The reclassifications had no effect on the previously reported change in net assets.

Subsequent events: The Foundation evaluated subsequent events through October 8, 2013, which is the date the financial statements were available to be issued.

## Project Hope – The People-To-People Health Foundation, Inc.

### Notes To Financial Statements June 30, 2013 (With Comparative Totals For 2012)

#### Note 3. Contributions Receivable

As of June 30, 2013 and 2012, contributors to the Foundation have made unconditional promises to give as follows (dollars in thousands):

	2013	2012
Due within:		
Less than one year	\$ 3,937	\$ 6,118
One to five years	3,173	3,917
<b>Total contributions receivables</b>	<b>7,110</b>	<b>10,035</b>
Less:		
Allowance for uncollectible pledges	(1,143)	(1,183)
Discount to present value (rates from 0.39% to 1.57%)	(124)	(108)
<b>Total contributions receivables, net</b>	<b>\$ 5,843</b>	<b>\$ 8,744</b>

#### Note 4. Investments

Investments consist of the following at June 30 (dollars in thousands):

	2013	2012
Equities	\$ 9,791	\$ 10,073
Fixed income	5,748	5,843
Managed hedge funds and futures contracts	-	1,118
Cash and cash equivalents	484	685
<b>Total investments</b>	<b>\$ 16,023</b>	<b>\$ 17,719</b>

Investments held for charitable gift annuities are included above and totaled \$3,479,000 and \$3,426,000 at June 30, 2013 and 2012, respectively.

Interest income and dividends from investments of \$309,000 and \$376,000 for 2013 and 2012, respectively, are included in other revenue in the statement of activities. Net investment gain of \$703,000 and loss of \$887,000 are reported as non-operating items for 2013 and 2012, respectively.

#### Note 5. Fair Value Measurements

The Foundation follows the Codification topic, *Fair Value Measurements*, 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.

**Project Hope – The People-To-People Health Foundation, Inc.**

**Notes To Financial Statements  
June 30, 2013 (With Comparative Totals For 2012)**

**Note 5. Fair Value Measurements (Continued)**

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 values 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.

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

Fair values of assets measured on a recurring basis at June 30, are as follows (dollars in thousands):

Description	June 30, 2013			Total
	Level 1	Level 2	Level 3	
Common stocks:				
Financials	\$ 1,545	\$ -	\$ -	\$ 1,545
Information technology	770	-	-	770
Healthcare	707	-	-	707
Industrials	620	-	-	620
Consumer discretionary	613	-	-	613
Energy	587	-	-	587
Consumer staples	474	-	-	474
Materials	278	-	-	278
Telecommunication services	171	-	-	171
Utilities	149	-	-	149
Total common stocks	5,914	-	-	5,914
Multi-strategy equity funds	2,036	-	-	2,036
Multi-strategy bond funds	4,723	-	-	4,723
U.S. Government and Agency obligations	-	1,025	-	1,025
Global Funds	1,841	-	-	1,841
Total assets at fair value	\$ 14,514	\$ 1,025	\$ -	15,539
Total cash and cash equivalents held with investments				484
Total investments				\$ 16,023

**Project Hope – The People-To-People Health Foundation, Inc.**

**Notes To Financial Statements  
June 30, 2013 (With Comparative Totals For 2012)**

**Note 5. Fair Value Measurements (Continued)**

Description	June 30, 2012			
	Level 1	Level 2	Level 3	Total
Common stocks:				
Financials	\$ 800	\$ -	\$ -	\$ 800
Consumer discretionary	400	-	-	400
Information technology	370	-	-	370
Energy	334	-	-	334
Healthcare	330	-	-	330
Consumer staples	291	-	-	291
Industrials	267	-	-	267
Telecommunication services	136	-	-	136
Materials	126	-	-	126
Utilities	99	-	-	99
Total common stocks	3,153	-	-	3,153
Multi-strategy equity funds	6,920	-	-	6,920
Multi-strategy bond funds	4,644	-	-	4,644
U.S. Government and Agency obligations	-	1,199	-	1,199
Managed hedge funds	-	1,118	-	1,118
Total assets at fair value	<u>\$ 14,717</u>	<u>\$ 2,317</u>	<u>\$ -</u>	<u>17,034</u>
Total cash and cash equivalents held with investments				685
Total investments				<u>\$ 17,719</u>

Cash and cash equivalents held with investments are excluded from the fair value hierarchy as cash and cash equivalents are generally measured at cost.

Common stocks, multi-strategy equity funds, and multi-strategy bond 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.

**Project Hope – The People-To-People Health Foundation, Inc.**

**Notes To Financial Statements  
June 30, 2013 (With Comparative Totals For 2012)**

**Note 6. Land, Buildings, And Equipment**

Land, buildings, and equipment are summarized as follows as of June 30 (dollars in thousands):

	2013	2012
Land and improvements	\$ 1,278	\$ 1,278
Buildings and improvements	3,389	3,379
Furniture, equipment and vehicles	4,295	4,038
Historical landmarks and collections	1,923	1,923
<b>Total cost</b>	<b>10,885</b>	<b>10,618</b>
Less accumulated depreciation	(6,280)	(6,065)
<b>Total land, buildings, and equipment, net</b>	<b>\$ 4,605</b>	<b>\$ 4,553</b>

Depreciation expense was approximately \$383,000 and \$362,000 for the years ended June 30, 2013 and 2012, respectively.

**Note 7. Temporarily Restricted Net Assets**

Temporarily restricted net assets were available for the following purposes at June 30, 2013 and 2012 (dollars in thousands):

	Balance at June 30, 2012	Additions	Releases	Balance at June 30, 2013
Health education and assistance	\$ 5,165	\$ 2,535	\$ (4,200)	\$ 3,500
Health policy	6,845	3,713	(5,173)	5,385
Materials for international and U.S. health programs	6,434	248,277	(242,089)	12,622
Other	4,228	176	(2,023)	2,381
<b>Total temporarily restricted net assets</b>	<b>\$ 22,672</b>	<b>\$ 254,701</b>	<b>\$ (253,485)</b>	<b>\$ 23,888</b>

	Balance at June 30, 2011	Additions	Transfer from Permanently Restricted	Releases	Balance at June 30, 2012
Health education and assistance	\$ 8,740	\$ 3,227	\$ -	\$ (6,802)	\$ 5,165
Health policy	2,355	8,452	2,030	(5,992)	6,845
Materials for international and U.S. health programs	19,899	173,576	-	(187,041)	6,434
Other	5,593	215	-	(1,580)	4,228
<b>Total temporarily restricted net assets</b>	<b>\$ 36,587</b>	<b>\$ 185,470</b>	<b>\$ 2,030</b>	<b>\$ (201,415)</b>	<b>\$ 22,672</b>

The transfers from permanently restricted net assets stem directly from requests from donors during the year ended June 30, 2012.

## **Project Hope – The People-To-People Health Foundation, Inc.**

### **Notes To Financial Statements**

**June 30, 2013 (With Comparative Totals For 2012)**

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#### **Note 8. Permanently Restricted Net Assets**

The Foundation follows the Codification on *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. 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

**Project Hope – The People-To-People Health Foundation, Inc.**

**Notes To Financial Statements  
June 30, 2013 (With Comparative Totals For 2012)**

**Note 8. Permanently Restricted Net Assets (Continued)**

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 years ended June 30, 2013 and 2012, the Foundation had the following endowment related activities (dollars in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Net assets – June 30, 2012	\$ 131	\$ 2,741	\$ 2,872
Contributions	-	278	278
Net investment gains	140	-	140
Amounts appropriated for expenditure	(130)	-	(130)
Net assets – June 30, 2013	<u>\$ 141</u>	<u>\$ 3,019</u>	<u>\$ 3,160</u>

  

	Temporarily Restricted	Permanently Restricted	Total
Net assets – June 30, 2011	\$ 437	\$ 3,765	\$ 4,202
Contributions	-	1,006	1,006
Net investment gains	67	-	67
Amounts appropriated for expenditure	(373)	-	(373)
Transfers to temporarily restricted	-	(2,030)	(2,030)
Net assets – June 30, 2012	<u>\$ 131</u>	<u>\$ 2,741</u>	<u>\$ 2,872</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 June 30 (dollars in thousands):

	2013	2012
Investment in perpetuity, the income from which is expendable to support:		
Health education and assistance support	\$ 1,719	\$ 1,717
Unrestricted support to the Foundation	1,300	1,024
Total permanently restricted net assets	<u>\$ 3,019</u>	<u>\$ 2,741</u>

**Project Hope – The People-To-People Health Foundation, Inc.**

**Notes To Financial Statements  
June 30, 2013 (With Comparative Totals For 2012)**

**Note 9. Pension Plan**

The Foundation maintains a noncontributory defined benefit pension plan (the Plan) covering substantially all full-time employees. The Foundation's policy is to fund the Plan based on the minimum full funding limitation. The strategy for the pension investments over the next 5 – 7 years is a growth rate target of 7.5% annual return and to minimize the probability of a worst case negative 10% return in any 12-month period. The basis used to determine the overall expected long-term rate of return on assets is the historic market rates of return for the Plan's current asset allocation.

The composition of pension plan assets and their relative share of total fair value were as follows at June 30, 2013 and 2012 (dollars in thousands):

Description	June 30, 2013				Total	
	Level 1	Level 2	Level 3			
Mutual funds						
Alternative funds	\$ 4,325	\$ -	\$ -	\$ 4,325	19.22%	
International funds	3,428	-	-	3,428	15.24%	
Multi-strategy common stock funds	3,781	-	-	3,781	16.81%	
Bond funds	1,526	-	-	1,526	6.78%	
	<b>13,060</b>	<b>-</b>	<b>-</b>	<b>13,060</b>	<b>58.05%</b>	
Immediate participation guarantee contract*	-	-	5,897	5,897	26.21%	
Collective trust funds	-	3,542	-	3,542	15.74%	
	<b>\$ 13,060</b>	<b>\$ 3,542</b>	<b>\$ 5,897</b>	<b>\$ 22,499</b>	<b>100%</b>	

Description	June 30, 2012				Total	
	Level 1	Level 2	Level 3			
Mutual funds						
Alternative funds	\$ 4,103	\$ -	\$ -	\$ 4,103	19.4%	
International funds	3,335	-	-	3,335	15.7%	
Multi-strategy common stock funds	3,381	-	-	3,381	16.0%	
Bond funds	1,052	-	-	1,052	4.9%	
	<b>11,871</b>	<b>-</b>	<b>-</b>	<b>11,871</b>	<b>56.0%</b>	
Immediate participation guarantee contract*	-	-	6,171	6,171	29.1%	
Collective trust funds	-	3,154	-	3,154	14.9%	
	<b>\$ 11,871</b>	<b>\$ 3,154</b>	<b>\$ 6,171</b>	<b>\$ 21,196</b>	<b>100%</b>	

\*This contract is reported at contract value by the insurance company, and therefore, not subject to the Codification, *Fair Value Measurements*, 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 at a daily calculated NAV and traded at a quoted price through the National Securities Clearing Corporation. Collective trust funds are Level 2 assets valued at a daily calculated unit value, not traded in an active market or exchange.

**Project Hope – The People-To-People Health Foundation, Inc.**

**Notes To Financial Statements  
June 30, 2013 (With Comparative Totals For 2012)**

**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 years ended June 30, 2013 and 2012:

Balance, June 30, 2012	\$	6,171
Earnings on investments		327
Benefit payments to participants		(535)
Fees		(30)
Loss on investments		(36)
Balance, June 30, 2013	<u>\$</u>	<u>5,897</u>
<hr/>		
Balance, June 30, 2011	\$	6,310
Earnings on investments		367
Benefit payments to participants		(536)
Fees		(26)
Gain on investments		56
Balance, June 30, 2012	<u>\$</u>	<u>6,171</u>

The following table sets forth additional disclosures of the Plan's investments whose fair value is estimated using net asset value per share (or its equivalent) as of June 30, 2013:

	Fair Value	Redemption Frequency	Redemption Notice Period
Collective Trust Funds	<u>\$ 3,542</u>	Immediate	None
Total	<u>\$ 3,542</u>		

Collective Trust Funds invest primarily in securities issued by the U.S. government, inflation-protected securities of U.S. and international issuers, equity securities, and foreign securities.

**Project Hope – The People-To-People Health Foundation, Inc.**

**Notes To Financial Statements  
June 30, 2013 (With Comparative Totals For 2012)**

**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 June 30, 2013 and 2012, based on measurement dates of June 30, 2013 and 2012, respectively (in thousands).

	<b>2013</b>	2012
Projected benefit obligation	<u><u>\$ 30,416</u></u>	<u>32,714</u>
Plan assets at fair value	<u>\$ 22,500</u>	<u>21,196</u>
Less projected benefit obligation for services rendered to date	<u>(30,416)</u>	<u>(32,714)</u>
Deficiency of plan assets under projected benefit obligation	<u>(7,916)</u>	<u>(11,518)</u>
<b>Accrued pension expense</b>	<u><u>\$ (7,916)</u></u>	<u><u>\$ (11,518)</u></u>
Pension benefits paid	<u><u>\$ 999</u></u>	<u><u>971</u></u>

The Foundation follows the Codification, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Under this standard, 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 \$3,863,000 and (\$6,992,000) in 2013 and 2012, respectively, in the accompanying statement of activities. The standard 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 in 2013 were \$165,884. Contributions due and paid to the Plan in 2012 were \$853,494. In 2014, the expected contributions due to the Plan are \$167,967.

The 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 (in thousands):

Years Ending June 30,	
2014	\$ 1,245,527
2015	1,306,280
2016	1,374,281
2017	1,512,662
2018	1,609,735
2019 - 2022	8,744,439
	<u><u>\$ 15,792,924</u></u>

**Project Hope – The People-To-People Health Foundation, Inc.**

**Notes To Financial Statements  
June 30, 2013 (With Comparative Totals For 2012)**

**Note 9. Pension Plan (Continued)**

Net pension expense for the years ended June 30, 2013 and 2012, included the following components (in thousands):

	<b>2013</b>	2012
Interest cost	\$ 1,237	\$ 1,431
Expected return on plan assets	(1,472)	(1,601)
Net amortization and deferral	662	-
Net pension expense	<u>\$ 427</u>	<u>\$ (170)</u>

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

	<b>2013</b>	2012
Weighted average discount rate	4.50%	3.85%
Increase in future compensation levels	N/A	N/A

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

	<b>2013</b>	2012
Weighted average discount rate	3.85%	5.40%
Increase in future compensation levels	N/A	N/A
Rate of return on assets	7.00	7.50

Effective December 31, 2009, the Plan was frozen and no additional benefits shall accrue for any participant in the plan. Additionally, no new participants will be admitted to the Plan after December 31, 2009.

**Note 10. Inventory**

During the years ended June 30, 2013 and 2012, the Foundation recognized contributions of health related publications, pharmaceuticals, medical equipment and supplies with an estimated fair value of \$248.3 million and \$173.6 million, respectively. During the same two years, donated supplies, publications, pharmaceuticals and equipment, approximating \$242.1 million and \$187.0 million, respectively, were used in the Foundation's operations and recorded as program expenses.

Approximately \$476,000 and \$629,000 of inventory was written off, the majority due to regulatory expiration dates during fiscal years 2013 and 2012, respectively.

Approximately 87% and 77% of the Foundation's gift-in-kind revenues were provided by seven companies in fiscal years 2013 and 2012, respectively (also see Note 13).

**Project Hope – The People-To-People Health Foundation, Inc.**

**Notes To Financial Statements  
June 30, 2013 (With Comparative Totals For 2012)**

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**Note 11. Donated Services**

The value of donated services of medical and support personnel with specialized skills included in the Foundation's operations approximated \$2,792,000 and \$1,534,000 for the years ended June 30, 2013 and 2012, respectively. These amounts are reported within individual giving revenue, with an offsetting amount in program services expense.

In addition, included in government revenues in the statement of activities are approximately \$297,000 and \$345,000 for the years ended June 30, 2013 and 2012, respectively, for donated freight upon government carriers related to overseas shipment of medical supplies.

**Note 12. Commitments And Contingencies**

Leases: The Foundation currently leases and subleases office space and equipment under non-cancelable leases. The Foundation's obligations for future minimum lease payments under such leases at June 30, 2013, are as follows (in thousands):

Years Ending June 30,	Lease Commitment
2014	\$ 621
2015	633
2016	647
2017	656
2018	672
2019	57
	<u>\$ 3,286</u>

Rental expense for the years ended June 30, 2013 and 2012, approximated \$1,163,000 and \$1,188,000, respectively.

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.

## **Project Hope – The People-To-People Health Foundation, Inc.**

### **Notes To Financial Statements**

#### **June 30, 2013 (With Comparative Totals For 2012)**

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#### **Note 13. Related Party Transactions**

The Foundation has contributions receivable due from members of the Foundation's Board of \$2.6 million and \$4.5 million, at June 30, 2013 and 2012, respectively.

The Foundation received donated materials from one pharmaceutical company, whose executive officers are also members of the Foundation's Board, during fiscal years 2013 and 2012, respectively. Donations of approximately \$79 million and \$26 million were received from these companies during fiscal years 2013 and 2012, respectively.

For over 25 years, the Foundation has had a banking relationship with BB&T (formerly F&M Bank before consolidation). In 2005, the Foundation's President, and CEO, was appointed to the board of directors of BB&T. The Foundation's board of directors and legal counsel reviewed this appointment on behalf of the Foundation and set conditions to avoid any real or perceived conflicts of interest. This appointment does not impact on the Foundation's relationship with BB&T.

The Foundation executed a separation agreement with a former officer in fiscal year 2000 which provided for compensation, in return for the performance of advocacy services, as an independent contractor, until age 70, if, on an annual basis, these services are determined to be satisfactorily provided.

The Foundation's affiliated international organization Project HOPE United Kingdom supports Foundation programs. This organization was originally established and funded by the Foundation. Due to the existence of an independent board of directors, the Foundation does not control nor combine the accounts of this international organization in its financial statements. Revenue recognized by the Foundation from services provided to Project HOPE United Kingdom was included in unrestricted foundation revenue and temporarily restricted gift-in-kind. For fiscal years 2013 and 2012, this revenue was \$1,657,000 and \$2,524,000, respectively.