

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

Financial Report
June 30, 2015

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Project Hope – The People-to-People Health Foundation, Inc. (the Foundation), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, cash flows and functional expenses 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 June 30, 2015, 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.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2014 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 14, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, 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 report dated November 2, 2015, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

RSM US LLP

McLean, Virginia
November 2, 2015

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

Statement of Financial Position

June 30, 2015

(With Comparative Totals for 2014)

(In Thousands)

	2015	2014
Assets		
Cash and Cash Equivalents	\$ 6,062	\$ 6,421
Contributions Receivable, Net (Notes 3 and 13)	11,103	9,713
Grants, Contracts, and Other Receivables, Net	3,642	4,340
Inventory, Net (Note 10)	16,388	32,566
Investments (Notes 4 and 5)	17,650	21,292
Loan Program Assets	352	386
Land, Buildings and Equipment, Net (Note 6)	4,945	4,563
Other Assets	558	369
	<hr/>	<hr/>
Total assets	\$ 60,700	\$ 79,650
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 5,284	\$ 3,819
Accrued pension expense (Note 9)	10,253	7,891
Deferred revenues	4,885	5,806
Loan program obligations	352	386
Charitable gift annuities payable	1,059	1,135
	<hr/>	<hr/>
Total liabilities	21,833	19,037
 Commitments and Contingencies (Note 12)		
 Net Assets		
Unrestricted	999	7,765
Temporarily restricted (Note 7)	28,704	43,918
Permanently restricted (Note 8)	9,164	8,930
	<hr/>	<hr/>
Total net assets	38,867	60,613
	<hr/>	<hr/>
Total liabilities and net assets	\$ 60,700	\$ 79,650

See Notes to Financial Statements.

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

Statement of Activities

Year Ended June 30, 2015

(With Comparative Totals for 2014)

(In Thousands)

	2015			Total	2014
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues From Operations					
Individual giving (Note 11)	\$ 13,408	\$ 887	\$ 234	\$ 14,529	\$ 22,239
Foundations and corporate giving	3,631	11,814	-	15,445	12,612
Corporate gifts-in-kind (Note 10)	-	206,590	-	206,590	245,524
Government grants (Note 11)	14,601	-	-	14,601	14,772
Subscription revenue	2,687	-	-	2,687	2,737
Other (Note 4)	2,762	209	-	2,971	3,046
Net assets released from restriction (Note 7)	234,522	(234,522)	-	-	-
Total revenues from operations	271,611	(15,022)	234	256,823	300,930
Expenses					
Program services:					
Health education and assistance	252,217	-	-	252,217	255,474
Health policy	8,340	-	-	8,340	7,094
Total program services	260,557	-	-	260,557	262,568
Supporting services:					
Fund-raising	8,345	-	-	8,345	8,267
Management and general	5,665	-	-	5,665	4,378
Total supporting services	14,010	-	-	14,010	12,645
Total expenses	274,567	-	-	274,567	275,213
Changes in net assets from operations	(2,956)	(15,022)	234	(17,744)	25,717
Non-Operating Items					
Net investment (loss) gain (Note 4)	(712)	(192)	-	(904)	1,570
Pension related changes other than net periodic pension cost (Note 9)	(3,098)	-	-	(3,098)	(72)
Change in net assets	(6,766)	(15,214)	234	(21,746)	27,215
Net Assets					
Beginning	7,765	43,918	8,930	60,613	33,398
Ending	\$ 999	\$ 28,704	\$ 9,164	\$ 38,867	\$ 60,613

See Notes to Financial Statements.

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

Statement of Cash Flows

Year Ended June 30, 2015

(With Comparative Totals for 2014)

(In Thousands)

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ (21,746)	\$ 27,215
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and loss on asset disposals	405	352
Gain on sale of investments (net of fees) and other assets	(791)	(639)
Unrealized change in market value of investments	1,401	(1,207)
(Increase) decrease in 457 plan investments	(169)	(107)
Change in allowance for doubtful contributions receivable	172	144
Change in allowance for obsolete inventory	8,203	-
Write-off of obsolete inventory	5,428	1,595
Contributions restricted for long-term investment	(234)	(2,959)
(Increase) decrease in:		
Contributions receivable	(1,562)	(4,694)
Grants, contracts and other receivables	698	164
Donated inventory and equipment, net	2,541	(21,502)
Purchased inventories	6	(17)
Loan program assets	34	10
Other assets	(189)	(107)
Increase (decrease) in:		
Accounts payable	470	(123)
Accrued liabilities	410	445
Accrued pension expense	2,362	(25)
Deferred revenues – subscriptions	(41)	1,267
Deferred revenues – grants and contracts	(880)	(54)
Loan program obligations	(34)	(10)
Net cash used in operating activities	(3,516)	(252)
Cash Flows From Investing Activities		
Purchases of equipment and vehicles	(371)	(311)
Proceeds from sales of investments	8,450	9,108
Purchases of investments	(5,080)	(12,002)
Net cash provided by (used in) investing activities	2,999	(3,205)
Cash Flows From Financing Activities		
Contributions restricted for:		
Investment subject to annuity agreements	(240)	(73)
Investment in perpetuity	234	2,959
Other financing activities:		
Payments of annuity obligations	(200)	(232)
Interest and dividends restricted for reinvestment	364	278
Payments on capital lease	-	(54)
Net cash provided by financing activities	158	2,878
Net decrease in cash and cash equivalents	(359)	(579)
Cash and Cash Equivalents		
Beginning	6,421	7,000
Ending	\$ 6,062	\$ 6,421
Supplemental Schedules of Noncash Investing and Financing Activities		
Investments in fixed assets included in accounts payable	\$ 416	\$ -

See Notes to Financial Statements.

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

**Statement of Functional Expenses
Year Ended June 30, 2015
(With Comparative Totals for 2014)
(In Thousands)**

	2015							2014
	Health Education and Assistance	Health Policy	Total Program Services	Fund-Raising	Management and General	Total Supporting Services	Total	
Salaries and Wages	\$ 9,641	\$ 4,234	\$ 13,875	\$ 1,120	\$ 2,725	\$ 3,845	\$ 17,720	\$ 16,165
Donated Services	2,222	-	2,222	4	11	15	2,237	3,646
Employee Benefits	1,899	662	2,561	179	409	588	3,149	2,858
Payroll Taxes	553	280	833	77	186	263	1,096	1,045
Total compensation and benefits	14,315	5,176	19,491	1,380	3,331	4,711	24,202	23,714
Supplies, Publications, Equipment and Handling	225,357	115	225,472	44	90	134	225,606	228,833
Occupancy and Insurance	1,659	615	2,274	255	458	713	2,987	3,047
Professional Services	1,596	1,012	2,608	2,879	1,070	3,949	6,557	5,685
Travel and Transportation	2,333	215	2,548	226	298	524	3,072	3,187
Training	1,784	3	1,787	10	-	10	1,797	1,623
Postage and Shipping	481	92	573	1,245	21	1,266	1,839	2,235
Information Services	614	531	1,145	551	280	831	1,976	1,830
Awards and Grants	3,064	73	3,137	-	-	-	3,137	2,133
Printing and Graphics	319	393	712	1,621	25	1,646	2,358	1,923
Telephone and Communications	304	65	369	36	53	89	458	452
Miscellaneous	391	50	441	98	39	137	578	551
Total	\$ 252,217	\$ 8,340	\$ 260,557	\$ 8,345	\$ 5,665	\$ 14,010	\$ 274,567	\$ 275,213

The categories of occupancy and insurance, information services, and telephone and communications include allocations from compensation expense and benefit totaling approximately \$1,553,000 and \$1,483,000 for 2015 and 2014, respectively.

See Notes to Financial Statements.

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

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 \$10.7 million and \$9.8 million for fiscal years 2015 and 2014, 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 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 statements of activities and functional expenses include certain prior year summarized comparative information in total but not by net asset class or functional expense detail. 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, 2014, 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 that, either temporary or permanent, limit their use. When a temporary donor restriction expires, that is, when a stipulated time restriction lapses or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. Income earned from contributions is classified as either temporarily restricted or unrestricted in accordance with donor stipulations.

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

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

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

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 2. Summary of Significant Accounting Policies (Continued)

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.

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 \$5.0 million and \$4.9 million at June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, the Foundation's unrestricted net assets are broken out as follows (dollars in thousands):

	2015	2014
Unrestricted Net Assets		
General	\$ 1,319	\$ 6,223
Pension	(10,253)	(7,891)
Board-designated	4,988	4,870
Investments in land, buildings and equipment	4,945	4,563
Total unrestricted	\$ 999	\$ 7,765

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.

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2015.

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.

Inventory: Inventory consists of pharmaceuticals, medical supplies and publications and is recorded at cost or fair value on the date of donation, and at the lower of cost or net realizable value at year end. Pharmaceutical inventory that must be discarded upon reaching its regulatory expiration date is recognized as a reduction in temporarily restricted net assets and as a reduction of inventory. An allowance for obsolete inventory is provided based upon management's judgment of discards. The allowance was \$8,531,000 and \$298,000 as of June 30, 2015 and 2014, respectively.

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

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

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

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.

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 2. Summary of Significant Accounting Policies (Continued)

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

Property acquired exclusively for certain current health programs for which title does not rest with the Foundation is expensed to program services upon purchase. Property designated as historical landmarks and collections is recorded at approximately \$1.9 million as of June 30, 2015 and 2014, 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 2015 and 2014.

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

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 2012.

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

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

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2014, summarized comparative information have been reclassified to conform to the June 30, 2015, financial statement presentation. The reclassifications had no effect on the previously reported change in net assets or net assets.

Subsequent events: The Foundation evaluated subsequent events through November 2, 2015, which is the date the financial statements were available to be issued.

Note 3. Contributions Receivable

As of June 30, 2015 and 2014, contributors to the Foundation have made unconditional promises to give as follows (dollars in thousands):

	2015	2014
Due within		
Less than one year	\$ 10,101	\$ 8,456
One to five years	2,585	2,669
Gross contributions receivable	12,686	11,125
Less		
Allowance for uncollectible pledges	(1,535)	(1,362)
Discount to present value (rates from 0.39% to 1.57%)	(48)	(50)
Net contributions receivable	\$ 11,103	\$ 9,713

Note 4. Investments

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

	2015	2014
Fixed income	\$ 9,634	\$ 6,596
Equities	7,013	13,498
Cash and cash equivalents	1,003	1,198
	\$ 17,650	\$ 21,292

Investments held for charitable gift annuities are included above and totaled \$1,872,000 and \$3,786,000 at June 30, 2015 and 2014, respectively.

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 4. Investments (Continued)

Interest income and dividends from investments of \$530,000 and \$355,000 for 2015 and 2014, respectively, are included in other revenue from operations in the statement of activities. Net investment gains (losses) of (\$904,000) and \$1,570,000, respectively, are reported in non-operating items for 2015 and 2014, respectively.

Note 5. Fair Value Measurements

The Foundation follows the Codification topic, *Fair Value Measurement*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

- Level 1 Quoted market prices in active markets for identical assets or liabilities.
- Level 2 Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3 Unobservable inputs that are not corroborated by market data.

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

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

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

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 5. Fair Value Measurements (Continued)

The fair value of assets measured on a recurring basis at June 30, is as follows (dollars in thousands):

Description	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,003	\$ -	\$ -	\$ 1,003
Multi-strategy bond funds	5,582	-	-	5,582
Multi-strategy equity funds	9,528	-	-	9,528
U.S. government and agency obligations	-	106	-	106
Alternative mutual funds	1,431	-	-	1,431
Total investments	\$ 17,544	\$ 106	\$ -	\$ 17,650

Description	June 30, 2014			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,198	\$ -	\$ -	\$ 1,198
Multi-strategy bond funds	11,945	-	-	11,945
Multi-strategy equity funds	5,516	-	-	5,516
U.S. government and agency obligations	-	1,080	-	1,080
Alternative mutual funds	1,553	-	-	1,553
Total investments	\$ 20,212	\$ 1,080	\$ -	\$ 21,292

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

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

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

**Notes to Financial Statements
June 30, 2015 (With Comparative Totals for 2014)**

Note 6. Land, Buildings and Equipment

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

	2015	2014
Land and improvements	\$ 1,278	\$ 1,278
Buildings and improvements	3,180	3,161
Furniture, equipment and vehicles	5,228	4,623
Historical landmarks and collections	1,923	1,923
Total cost	11,609	10,985
Less accumulated depreciation	(6,664)	(6,422)
Total land, buildings and equipment, net	\$ 4,945	\$ 4,563

Depreciation expense was approximately \$357,000 and \$352,000 for the years ended June 30, 2015 and 2014, respectively.

Note 7. Temporarily Restricted Net Assets

Changes in temporarily restricted net assets by purposes at June 30, 2015 and 2014, were as follows (dollars in thousands):

	Balance at June 30, 2014	Additions	Releases	Balance at June 30, 2015
Health education and assistance	\$ 4,485	\$ 6,279	\$ (4,440)	\$ 6,324
Health policy	5,029	6,371	(6,463)	4,937
Materials for international and U.S. health programs	32,529	206,589	(222,761)	16,357
Other	1,875	69	(858)	1,086
Total temporarily restricted net assets	\$ 43,918	\$ 219,308	\$ (234,522)	\$ 28,704

	Balance at June 30, 2013	Additions	Releases	Balance at June 30, 2014
Health education and assistance	\$ 3,500	\$ 6,234	\$ (5,249)	\$ 4,485
Health policy	5,385	4,863	(5,219)	5,029
Materials for international and U.S. health programs	12,622	245,524	(225,617)	32,529
Other	2,381	337	(843)	1,875
Total temporarily restricted net assets	\$ 23,888	\$ 256,958	\$ (236,928)	\$ 43,918

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 8. Permanently Restricted Net Assets

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

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

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

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 8. Permanently Restricted Net Assets (Continued)

For the years ended June 30, 2015 and 2014, the Foundation had the following endowment related activities (dollars in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Net assets – June 30, 2014	\$ 511	\$ 8,930	\$ 9,441
Contributions	-	234	234
Net investment gains	8	-	8
Amounts appropriated for expenditure	(146)	-	(146)
Net assets – June 30, 2015	<u>\$ 373</u>	<u>\$ 9,164</u>	<u>\$ 9,537</u>

	Temporarily Restricted	Permanently Restricted	Total
Net assets – June 30, 2013	\$ 141	\$ 3,019	\$ 3,160
Contributions	-	5,911	5,911
Net investment gains	558	-	558
Amounts appropriated for expenditure	(188)	-	(188)
Net assets – June 30, 2014	<u>\$ 511</u>	<u>\$ 8,930</u>	<u>\$ 9,441</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):

	2015	2014
Investment in perpetuity, the income from which is expendable to support		
Health education and assistance support	\$ 7,864	\$ 7,630
Unrestricted support to the Foundation	1,300	1,300
Total permanently restricted net assets	<u>\$ 9,164</u>	<u>\$ 8,930</u>

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

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 to 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, 2015 and 2014 (dollars in thousands):

Description	June 30, 2015				Total	
	Level 1	Level 2	Level 3			
Mutual funds						
Alternative funds	\$ 4,125	\$ -	\$ -	\$ 4,125	17.04%	
International funds	3,951	-	-	3,951	16.32%	
Multi-strategy common stock funds	4,162	-	-	4,162	17.20%	
Bond funds	2,992	-	-	2,992	12.36%	
	15,230	-	-	15,230	62.92%	
Immediate Participation						
Guarantee Contract*	-	-	5,302	5,302	21.91%	
Collective trust funds	-	3,672	-	3,672	15.17%	
	<u>\$ 15,230</u>	<u>\$ 3,672</u>	<u>\$ 5,302</u>	<u>\$ 24,204</u>	<u>100%</u>	

Description	June 30, 2014				Total	
	Level 1	Level 2	Level 3			
Mutual funds						
Alternative funds	\$ 4,952	\$ -	\$ -	\$ 4,952	20.06%	
International funds	3,999	-	-	3,999	16.20%	
Multi-strategy common stock funds	3,818	-	-	3,818	15.47%	
Bond funds	2,591	-	-	2,591	10.50%	
	15,360	-	-	15,360	62.23%	
Immediate Participation						
Guarantee Contract*	-	-	5,633	5,633	22.82%	
Collective trust funds	-	3,691	-	3,691	14.95%	
	<u>\$ 15,360</u>	<u>\$ 3,691</u>	<u>\$ 5,633</u>	<u>\$ 24,684</u>	<u>100%</u>	

*This contract is reported at contract value by the insurance company and, therefore, not subject to the Codification, *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.

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 9. Pension Plan (Continued)

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 net asset value (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.

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, 2015 and 2014 (dollars in thousands):

Balance, June 30, 2014	\$	5,633
Earnings on investments		218
Benefit payments to participants		(522)
Employer contributions		68
Fees		(39)
Loss on investments		(56)
Balance, June 30, 2015	<u>\$</u>	<u>5,302</u>
Balance, June 30, 2013	\$	5,897
Earnings on investments		264
Benefit payments to participants		(530)
Employer contributions		85
Fees		(34)
Loss on investments		(49)
Balance, June 30, 2014	<u>\$</u>	<u>5,633</u>

The following table sets forth additional disclosures of the Plan's investments whose fair value is estimated using net asset value per share (as a practical equivalent) as of June 30, 2015 (dollars in thousands):

	Fair Value	Redemption Frequency	Redemption Notice Period
Collective trust funds	\$ 3,672	Immediate	None
Total	<u>\$ 3,672</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, 2015 (With Comparative Totals for 2014)

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, 2015 and 2014, based on measurement dates of June 30, 2015 and 2014, respectively (dollars in thousands).

	2015	2014
Projected benefit obligation	\$ 34,457	\$ 32,575
Plan assets at fair value	\$ 24,204	\$ 24,684
Less projected benefit obligation for services rendered to date	(34,457)	(32,575)
Deficiency of plan assets under projected benefit obligation (funded status)	(10,253)	(7,891)
Accrued pension expense	\$ (10,253)	\$ (7,891)
Pension benefits paid	\$ 1,217	\$ 1,082

The Foundation follows the Codification topic, *Compensation – Retirement Benefits*. Under this topic, the Foundation records previously unrecognized losses and prior service cost through changes in unrestricted net assets. These changes are recorded as pension related changes other than net periodic pension cost of approximately \$(3,098,000) and \$(72,000) in 2015 and 2014, respectively, 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 in 2015 were \$653,685. Contributions due and paid to the Plan in 2014 were \$253,077. In fiscal year 2016, the expected contributions due to the Plan are \$608,639.

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):

Year Ending June 30,

2016	\$ 1,437
2017	1,584
2018	1,689
2019	1,715
2020 – 2024	11,569
	<u>\$ 17,994</u>

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 9. Pension Plan (Continued)

Net pension expense for the years ended June 30, 2015 and 2014, included the following components (dollars in thousands):

	2015	2014
Interest cost	\$ 1,293	\$ 1,341
Expected return on plan assets	(1,631)	(1,447)
Net amortization and deferral	256	262
Net periodic pension expense	(82)	156
Other pension related changes	3,098	72
Total pension costs recognized in the statement of activities	\$ 3,016	\$ 228

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

	2015	2014
Weighted average discount rate	4.15%	4.05%
Increase in future compensation levels	N/A	N/A

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

	2015	2014
Weighted average discount rate	4.05%	4.50%
Increase in future compensation levels	N/A	N/A
Rate of return on assets	6.60	6.60

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. The net amortization and deferral for the fiscal year ending June 30, 2016 is expected to be \$202,289.

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

Notes to Financial Statements

June 30, 2015 (With Comparative Totals for 2014)

Note 10. Inventory

During the years ended June 30, 2015 and 2014, the Foundation recognized contributions of health related publications, pharmaceuticals, medical equipment and supplies with an estimated fair value of \$206.6 million and \$245.5 million, respectively. During the same two years, donated supplies, publications, pharmaceuticals and equipment, approximating \$222.8 million and \$225.6 million, respectively, were used in the Foundation's operations and recorded as program expenses.

Approximately \$5,428,000 and \$1,595,000 of inventory was written off, primarily due to regulatory expiration dates, during fiscal years 2015 and 2014, respectively.

Approximately 83% and 76% of the Foundation's gifts-in-kind revenues were provided by seven companies in fiscal years 2015 and 2014, respectively. See Note 13.

Note 11. Donated Services

The value of donated services of medical and support personnel with specialized skills included in the Foundation's operations approximated \$2,237,000 and \$3,646,000 for the years ended June 30, 2015 and 2014, 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 \$0 and \$293,000 for the years ended June 30, 2015 and 2014, 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 operating leases. The Foundation's obligations for future minimum lease payments under such leases at June 30, 2015, are as follows (dollars in thousands):

<u>Year Ending June 30,</u>	<u>Lease</u> <u>Commitments</u>
2016	\$ 651
2017	660
2018	672
2019	56
	<u>\$ 2,039</u>

Rental expense for the years ended June 30, 2015 and 2014 approximated \$1,240,000 and \$1,201,000, 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, 2015 (With Comparative Totals for 2014)

Note 13. Related Party Transactions

The Foundation has contributions receivable due from members of the Foundation's Board of \$1.1 million and \$1.9 million at June 30, 2015 and 2014, respectively. Revenue of approximately \$0.8 million and \$1 million were recognized from members of the Foundation's Board during fiscal years 2015 and 2014, respectively.

The Foundation received donated materials from pharmaceutical companies, whose executive officers are also members of the Foundation's Board, during fiscal years 2015 and 2014, respectively. Donations of approximately \$0 million and \$37 million were received from these companies during fiscal years 2015 and 2014, 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 (who resigned in March 2015), 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.