



Financial Statements
(Together with Independent Auditors' Report)
Years Ended September 30, 2017 and 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

CATHOLIC MEDICAL MISSION BOARD, INC.

**FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	2
Statements of Activities.....	3
Statements of Functional Expenses	4-5
Statements of Cash Flows	6
Notes to Financial Statements.....	7-17

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Catholic Medical Mission Board, Inc.

We have audited the accompanying financial statements of Catholic Medical Mission Board, Inc. (the "Organization") which comprise the statements of financial position as of September 30, 2017 and 2016, 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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 Catholic Medical Mission Board, Inc. as of September 30, 2017 and 2016, 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.

Marks Paneth LLP

New York, NY
December 20, 2017

CATHOLIC MEDICAL MISSION BOARD, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents (Notes 2D and 12)	\$ 6,279,795	\$ 6,029,374
Investments (Notes 2E and 3)	24,537,615	22,599,491
Inventory (Note 2F)	75,087,449	58,499,921
Accrued interest and other receivables (Note 2H)	202,550	379,402
Contributions and pledges receivable (Notes 2H and 4)	153,895	641,198
Government grants receivable (Note 2H)	1,377,881	308,087
Prepaid expenses	166,173	142,654
Property and equipment, net (Notes 2G, 5 and 11)	371,552	332,709
Gift annuity investments (Notes 2E, 2M, 3 and 6)	4,103,567	3,478,403
Assets held in charitable remainder annuity trust (Note 10)	157,572	694,949
TOTAL ASSETS	\$ 112,438,049	\$ 93,106,188
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,244,381	\$ 2,047,046
Deferred revenue (Note 2I)	588,716	580,267
Deferred rent (Note 2J and 11)	333,760	373,422
Gift annuity payable (Notes 2M and 6)	1,955,716	2,211,634
Charitable remainder annuity trust payable (Note 10)	155,208	129,260
TOTAL LIABILITIES	5,277,781	5,341,629
COMMITMENTS AND CONTINGENCIES (Notes 2K and 11)		
NET ASSETS (Note 2B)		
Unrestricted (Note 9)	102,194,433	82,964,957
Temporarily restricted (Note 8)	4,965,835	4,799,602
TOTAL NET ASSETS	107,160,268	87,764,559
TOTAL LIABILITIES AND NET ASSETS	\$ 112,438,049	\$ 93,106,188

The accompanying notes are an integral part of these financial statements.

CATHOLIC MEDICAL MISSION BOARD, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>For the Year Ended September 30, 2017</u>			<u>For the Year Ended September 30, 2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING ACTIVITIES						
Support and Revenue						
Donated pharmaceuticals, equipment and supplies (Notes 2C and 12)	\$ 568,943,681	\$ -	\$ 568,943,681	\$ 344,685,734	\$ -	\$ 344,685,734
Donated services (Note 2C)	5,236,727	-	5,236,727	3,600,557	-	3,600,557
Grants and contributions (Note 2K)	22,427,403	5,298,313	27,725,716	17,121,945	4,663,330	21,785,275
Wills and legacies	1,884,742	-	1,884,742	1,695,769	-	1,695,769
Dividends and interest (Notes 2E, 3 and 6)	98,609	-	98,609	93,833	-	93,833
Net assets released from restrictions (Note 8)	5,132,080	(5,132,080)	-	3,701,105	(3,701,105)	-
TOTAL SUPPORT AND REVENUE	<u>603,723,242</u>	<u>166,233</u>	<u>603,889,475</u>	<u>370,898,943</u>	<u>962,225</u>	<u>371,861,168</u>
EXPENSES (Note 2N):						
Program Services (Note 1):						
Programs	17,785,150	-	17,785,150	13,528,422	-	13,528,422
Volunteers (Note 2C)	5,695,516	-	5,695,516	4,258,959	-	4,258,959
Healing Help (Note 2C)	553,511,381	-	553,511,381	358,862,574	-	358,862,574
Total Program Services	<u>576,992,047</u>	<u>-</u>	<u>576,992,047</u>	<u>376,649,955</u>	<u>-</u>	<u>376,649,955</u>
Supporting Services:						
Fundraising	5,144,186	-	5,144,186	4,426,568	-	4,426,568
Administration	4,781,778	-	4,781,778	5,072,087	-	5,072,087
Total Supporting Services	<u>9,925,964</u>	<u>-</u>	<u>9,925,964</u>	<u>9,498,655</u>	<u>-</u>	<u>9,498,655</u>
TOTAL EXPENSES	<u>586,918,011</u>	<u>-</u>	<u>586,918,011</u>	<u>386,148,610</u>	<u>-</u>	<u>386,148,610</u>
Change in Net Assets from Operations	<u>16,805,231</u>	<u>166,233</u>	<u>16,971,464</u>	<u>(15,249,667)</u>	<u>962,225</u>	<u>(14,287,442)</u>
NONOPERATING ACTIVITIES						
Unrealized gain on investments and gift annuity investments (Notes 2E, 3 and 6)	1,742,880	-	1,742,880	1,347,213	-	1,347,213
Realized gain (loss) on sales of investments and gift annuity investments (Notes 2E, 3 and 6)	433,309	-	433,309	(2,670)	-	(2,670)
Change in valuation of gift annuity payable (Note 6)	247,660	-	247,660	(34,316)	-	(34,316)
Change in valuation of charitable remainder annuity trust payable (Note 10)	396	-	396	(702)	-	(702)
TOTAL NONOPERATING ACTIVITIES	<u>2,424,245</u>	<u>-</u>	<u>2,424,245</u>	<u>1,309,525</u>	<u>-</u>	<u>1,309,525</u>
CHANGE IN TOTAL NET ASSETS	<u>19,229,476</u>	<u>166,233</u>	<u>19,395,709</u>	<u>(13,940,142)</u>	<u>962,225</u>	<u>(12,977,917)</u>
Net assets - beginning of year	<u>82,964,957</u>	<u>4,799,602</u>	<u>87,764,559</u>	<u>96,905,099</u>	<u>3,837,377</u>	<u>100,742,476</u>
NET ASSETS - END OF YEAR	<u>\$ 102,194,433</u>	<u>\$ 4,965,835</u>	<u>\$ 107,160,268</u>	<u>\$ 82,964,957</u>	<u>\$ 4,799,602</u>	<u>\$ 87,764,559</u>

CATHOLIC MEDICAL MISSION BOARD, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2017
(With Comparative Totals for 2016)

	<u>Programs</u>	<u>Volunteers</u>	<u>Healing Help</u>	<u>Total Program Services</u>	<u>Fundraising</u>	<u>Administration</u>	<u>Total Supporting Services</u>	<u>Total 2017</u>	<u>Total 2016</u>
Salaries	\$ 4,918,504	\$ 154,881	\$ 643,765	\$ 5,717,150	\$ 1,045,969	\$ 2,185,855	\$ 3,231,824	\$ 8,948,974	\$ 8,032,015
Payroll taxes and fringe benefits (Note 7)	1,521,795	44,000	161,056	1,726,851	297,332	592,884	890,216	2,617,067	2,139,767
Total Salaries and Related Costs	6,440,299	198,881	804,821	7,444,001	1,343,301	2,778,739	4,122,040	11,566,041	10,171,782
Temporary help	390,169	-	-	390,169	838	10,718	11,556	401,725	273,223
Postage and mailing	5,053	-	535	5,588	985,960	5,541	991,501	997,089	991,707
Rent and utilities (Note 11)	563,004	46,290	102,175	711,469	92,814	187,984	280,798	992,267	900,836
Telephone and communications	278,761	2,086	10,169	291,016	9,705	21,764	31,469	322,485	255,514
Supplies	2,466,364	44,990	38,423	2,549,777	8,482	110,890	119,372	2,669,149	1,649,098
Insurance	84,251	10,244	8,454	102,949	37,148	83,078	120,226	223,175	226,110
Maintenance	289,469	-	16,313	305,782	430	14,840	15,270	321,052	304,802
Professional services	633,051	69,558	105	702,714	1,750,604	514,914	2,265,518	2,968,232	2,481,334
Investment fees and bank charges (Notes 3 and 6)	62,981	465	-	63,446	76,206	203,663	279,869	343,315	380,114
Foreign currency translation loss	109,413	-	-	109,413	-	-	-	109,413	40,286
Bad debt expense	-	-	-	-	-	-	-	-	200,153
Conventions, meetings and workshops	1,465,973	8,824	4,468	1,479,265	27,968	66,158	94,126	1,573,391	1,109,256
Travel	681,587	47,676	7,570	736,833	37,048	104,590	141,638	878,471	881,337
Fees and membership	26,807	1,727	8,055	36,589	15,304	68,304	83,608	120,197	111,081
Advertising and publicity	5,746	1,065	-	6,811	16,155	231,051	247,206	254,017	157,315
Printing	32,832	4,624	3	37,459	689,178	40,189	729,367	766,826	1,165,493
Shipping, freight and storage	44,762	-	30,568	75,330	-	-	-	75,330	119,988
Staff training	23,422	6,005	-	29,427	-	23,249	23,249	52,676	130,075
Service contracts	125,379	4,354	57,461	187,194	47,891	277,214	325,105	512,299	433,619
Miscellaneous	27,732	12,000	-	39,732	-	-	-	39,732	-
Total Before Other Expenses	13,757,055	458,789	1,089,120	15,304,964	5,139,032	4,742,886	9,881,918	25,186,882	21,983,123
Other Expenses:									
Medical assistance to missions (Note 2C)	4,028,095	-	552,035,778	556,063,873	-	-	-	556,063,873	359,990,620
Donated services (Note 2C)	-	5,236,727	-	5,236,727	-	-	-	5,236,727	3,600,557
Inventory obsolescence (Note 2C)	-	-	366,284	366,284	-	-	-	366,284	515,797
Depreciation (Notes 2G and 5)	-	-	20,199	20,199	5,154	38,892	44,046	64,245	58,513
Total Other Expenses	4,028,095	5,236,727	552,422,261	561,687,083	5,154	38,892	44,046	561,731,129	364,165,487
Total Operating Expenses	\$17,785,150	\$ 5,695,516	\$ 553,511,381	\$ 576,992,047	\$ 5,144,186	\$ 4,781,778	\$ 9,925,964	\$ 586,918,011	\$ 386,148,610

The accompanying notes are an integral part of these financial statements.

**CATHOLIC MEDICAL MISSION BOARD, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>Programs</u>	<u>Volunteers</u>	<u>Healing Help</u>	<u>Total Program Services</u>	<u>Fundraising</u>	<u>Administration</u>	<u>Total Supporting Services</u>	<u>Total 2016</u>
Salaries	\$ 4,432,995	\$ 217,298	\$ 645,320	\$ 5,295,613	\$ 755,178	\$ 1,981,224	\$ 2,736,402	\$ 8,032,015
Payroll taxes and fringe benefits (Note 7)	<u>1,157,014</u>	<u>60,957</u>	<u>162,115</u>	<u>1,380,086</u>	<u>212,614</u>	<u>547,067</u>	<u>759,681</u>	<u>2,139,767</u>
Total Salaries and Related Costs	5,590,009	278,255	807,435	6,675,699	967,792	2,528,291	3,496,083	10,171,782
Temporary help	231,491	13,540	-	245,031	320	27,872	28,192	273,223
Postage and mailing	5,267	266	768	6,301	975,600	9,806	985,406	991,707
Rent and utilities (Note 11)	386,442	9,108	77,301	472,851	-	427,985	427,985	900,836
Telephone and communications	196,942	267	6,164	203,373	1,374	50,767	52,141	255,514
Supplies	1,471,663	49,205	37,972	1,558,840	3,655	86,603	90,258	1,649,098
Insurance	52,099	9,431	-	61,530	-	164,580	164,580	226,110
Maintenance	279,138	-	15,834	294,972	-	9,830	9,830	304,802
Professional services	541,128	74,753	126	616,007	1,164,781	700,546	1,865,327	2,481,334
Investment fees and bank charges (Notes 3 and 6)	63,487	120	10	63,617	101,498	214,999	316,497	380,114
Foreign currency translation loss	40,286	-	-	40,286	-	-	-	40,286
Bad debt expense	200,153	-	-	200,153	-	-	-	200,153
Conventions, meetings and workshops	994,900	2,133	8,310	1,005,343	21,508	82,405	103,913	1,109,256
Travel	664,731	42,123	3,705	710,559	34,442	136,336	170,778	881,337
Fees and membership	16,750	75	26,007	42,832	6,281	61,968	68,249	111,081
Advertising and publicity	2,244	1,375	-	3,619	18,483	135,213	153,696	157,315
Printing	17,573	-	-	17,573	1,082,821	65,099	1,147,920	1,165,493
Shipping, freight and storage	23,920	-	94,418	118,338	1,650	-	1,650	119,988
Staff training	41,698	5,527	-	47,225	44,818	38,032	82,850	130,075
Service contracts	<u>104,728</u>	<u>5,450</u>	<u>28,455</u>	<u>138,633</u>	<u>1,545</u>	<u>293,441</u>	<u>294,986</u>	<u>433,619</u>
Total Before Other Expenses	<u>10,924,649</u>	<u>491,628</u>	<u>1,106,505</u>	<u>12,522,782</u>	<u>4,426,568</u>	<u>5,033,773</u>	<u>9,460,341</u>	<u>21,983,123</u>
Other Expenses:								
Medical assistance to missions (Note 2C)	2,603,612	166,935	357,220,073	359,990,620	-	-	-	359,990,620
Donated services (Note 2C)	161	3,600,396	-	3,600,557	-	-	-	3,600,557
Inventory obsolescence (Note 2C)	-	-	515,797	515,797	-	-	-	515,797
Depreciation (Notes 2G and 5)	<u>-</u>	<u>-</u>	<u>20,199</u>	<u>20,199</u>	<u>-</u>	<u>38,314</u>	<u>38,314</u>	<u>58,513</u>
Total Other Expenses	<u>2,603,773</u>	<u>3,767,331</u>	<u>357,756,069</u>	<u>364,127,173</u>	<u>-</u>	<u>38,314</u>	<u>38,314</u>	<u>364,165,487</u>
Total Operating Expenses	<u>\$13,528,422</u>	<u>\$4,258,959</u>	<u>\$ 358,862,574</u>	<u>\$ 376,649,955</u>	<u>\$ 4,426,568</u>	<u>\$ 5,072,087</u>	<u>\$ 9,498,655</u>	<u>\$ 386,148,610</u>

The accompanying notes are an integral part of these financial statements.

CATHOLIC MEDICAL MISSION BOARD, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 19,395,709	\$ (12,977,917)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	64,245	58,513
(Increase) decrease in inventory (net of inventory obsolescence)	(16,587,528)	13,034,789
Bad debt expense	-	200,153
Amortization of discount on property held in trust	(42,895)	(17,093)
Realized (gain) loss on sale of investments and gift annuity investments	(433,309)	2,670
Unrealized gain on investments and gift annuity investments	(1,742,880)	(1,347,213)
Change in valuation of gift annuity payable	(247,660)	34,316
Change in valuation of charitable remainder annuity trust payable	(396)	702
Deferred rent	(39,662)	(39,674)
	365,624	(1,050,754)
Subtotal		
Changes in operating assets and liabilities:		
Decrease (Increase) in accrued interest and other receivables	176,852	(194,603)
Decrease in contributions and pledges receivable	487,303	247,886
(Increase) decrease in government grants receivable	(1,069,794)	153,172
Increase in prepaid expenses	(23,519)	(13,614)
Increase in accounts payable and accrued expenses	197,335	217,495
Increase in deferred revenue	8,449	327,293
Decrease in other liabilities	-	(87,897)
	142,250	(401,022)
Net cash provided by (used in) operating activities	142,250	(401,022)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities and gift annuity investments	4,208,358	624,527
Purchases of marketable securities and gift annuity investments	(4,595,457)	(7,501,708)
Purchases of property and equipment	(103,088)	(16,209)
Proceeds from sale of property held in trust, net	606,616	-
	116,429	(6,893,390)
Net cash provided by (used in) investing activities	116,429	(6,893,390)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of gift annuity obligations	(8,258)	(100,775)
	(8,258)	(100,775)
Net cash used in financing activities	(8,258)	(100,775)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	250,421	(7,395,187)
Cash and cash equivalents at beginning of year	6,029,374	13,424,561
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 6,279,795	\$ 6,029,374

The accompanying notes are an integral part of these financial statements.

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 1 – ORGANIZATION

The Catholic Medical Mission Board, Inc. (the “Organization” or “CMMB”) was incorporated in New York in 1928 as a nonprofit corporation. CMMB delivers quality healthcare services and medicines to people in need throughout the world. The Organization builds sustainable healthcare programs that target leading causes of illness, suffering and death. The Organization strives to strengthen local capabilities through its programs. The healthcare programs provided include integrated management of childhood illness, primary healthcare and HIV and AIDS prevention, treatment of HIV-infected individuals, voluntary counseling and testing, improving access to medical services, training nurses and doctors in prevention, care and counseling.

The Organization ships medicines and supplies to local care providers in resource-poor countries. These medicines are dispensed and distributed free of charge. CMMB places doctors, nurses and other volunteers in locations where their professional expertise is urgently needed. The Organization also provides disaster relief to regions hit by natural or political catastrophes.

The Organization operates throughout the world and maintains offices in New York, Haiti, Kenya, Peru, South Sudan and Zambia.

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of accounting

The Organization prepares its financial statements on the accrual basis of accounting. The Organization adheres to accounting principles Generally Accepted in the United States of America (“U.S. GAAP”).

B. Basis of presentation

The Organization classifies its support as unrestricted, temporarily restricted or permanently restricted depending upon the absence or existence of donor-imposed restrictions or stipulations.

Unrestricted is support which can be used for any legal purpose, over which the Board of Directors has discretionary control.

Temporarily restricted is a donor-imposed restriction that specifies the use of the support and is satisfied either through the passage of time or by the Organization’s actions, and permits the Organization to use or expend part of the support. When a donor-imposed restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted is a donor-imposed restriction, which requires the Organization to maintain the contributed assets permanently, but permits the Organization to use or expend part of the income from the contributed assets. There were no permanently restricted net assets as of September 30, 2017 and 2016.

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Donated pharmaceuticals, equipment, supplies and services

In accordance with U.S GAAP, industry standards and guidelines established by Partnership for Quality Medical Donations, (“PQMD”) donated pharmaceuticals, equipment, supplies and services are recognized in the financial statements on the date received at their estimated fair market value. The Organization’s management estimates the fair value of donated pharmaceuticals on the basis of the wholesale acquisition costs listed in professional reference materials primarily, Thomson Reuters “Red Book” which is an industry recognized drug and pricing reference guide for the pharmaceutical industry in the United States. The wholesale acquisition cost is the approximate selling value of the pharmaceuticals in their principal exit market considering the condition and utility for use at the time the pharmaceuticals are donated. The fair values of donated equipment and supplies are estimated on the basis of prices listed in online reference materials and provided by manufacturers. CMMB’s policy is to distribute the donated pharmaceuticals, equipment and supplies as soon as they are available for use or distribution. However, if the donated pharmaceuticals, equipment and supplies are not distributed, they are reflected as inventory and not expensed until released from CMMB’s inventory. For the years ended September 30, 2017 and 2016, the Organization received donated pharmaceuticals, equipment and supplies of approximately \$569,000,000 and \$345,000,000, respectively. For the years ended September 30, 2017 and 2016, the Organization had obsolescence of inventory of approximately \$366,000 and \$516,000, respectively, due to the expiration of products prior to distribution.

The Organization also received donated services provided by licensed professionals as follows:

	September 30,	
	2017	2016
	Days	Days
Licensed professionals	11,466	8,732

Donated services are recognized only if such services enhance or create nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. The total estimated fair market value of the licensed professionals donated services, determined using the rates published by the United States Bureau of Labor Statistics from the most recent year, for the years ended September 30, 2017 and 2016 was approximately \$5,200,000 and \$3,600,000, respectively, which was recorded in the accompanying statements of activities, as these services meet the aforementioned criteria.

D. Cash and cash equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents.

E. Investments

Investments in marketable securities and gift annuity investments are stated at fair market value as discussed further at Note 2O. Unrealized and realized gains and losses and investment income are reported in the statements of activities as increases or decreases in unrestricted net assets.

F. Inventory

Purchased inventory is stated at the lower of cost or market value, and donated inventory is generally stated at wholesale acquisition cost which approximates fair value as discussed further at Note 2C.

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Property and equipment

Property and equipment is stated at cost less accumulated depreciation. These amounts do not purport to represent replacement or realizable values. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from five to 50 years. The Organization capitalizes property and equipment with a cost of \$5,000 or more and a useful life greater than one year. Certain purchases of equipment are expensed by the Organization rather than capitalizing because the cost of these items was reimbursed by governmental funding sources where the contractual agreement specifies that title to these assets rests with the governmental funding source rather than the Organization.

H. Allowance for uncollectible accounts

The Organization evaluates the need for an allowance for uncollectible accounts based on a combination of factors such as management's assessment of the creditworthiness of its donors and funders, a review of individual accounts outstanding, aged basis of the receivables, current economic conditions and historical experience. No allowance for uncollectible accounts was considered necessary at September 30, 2017 and 2016.

I. Deferred revenue

Deferred revenue represents funding received in advance of program services being provided by the Organization.

J. Deferred rent

The Organization leases real property under an operating lease. Since the rent payments increase over time, the Organization records an adjustment to rent expense to reflect its straight-lining policy. Straight-lining of rent gives rise to a timing difference that is reflected in the accompanying statements of financial position. As of September 30, 2017 and 2016, such deferral amounted to \$333,760 and \$373,422, respectively.

K. Government grants

Government grants are recognized as revenue when the expenses authorized under the contracts are incurred. Pursuant to the Organization's contractual relationships with certain governmental funding sources, outside governmental agencies have the right to examine the books and records of the Organization involving transactions relating to these contracts. The accompanying financial statements make no provision for possible disallowances.

L. Use of estimates

In preparing the financial statements in conformity with U.S. GAAP the Organization makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial statements and the reported amounts of support and expenses during the reporting period. Actual results could differ from those estimates.

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Gift annuity program

The Organization has a gift annuity program whereby it receives contributions from participating donors. Under the arrangement, the Organization agrees to pay certain sums to the donors at prescribed intervals over the lives of the donors or other beneficiaries. The assets received are recorded at their fair value and the related liability is recorded as an annuity obligation at the present value of the estimated future payments to be distributed by the Organization, based on expected mortality and a discount rate. The amount of contribution to the Organization is the difference between the asset and the computed liability.

N. Functional allocation of expenses

The costs of providing various programs and supporting services, such as fundraising and administration, have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated as determined by management among the programs and supporting services benefited.

O. Fair value measurements of financial instruments

Fair value measurements are based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 3.

P. Investment spending policy

The Organization's Board has authorized a policy to invest in accordance with sound investment practices that emphasize long-term investment fundamentals. The objective of this is to maximize long-term returns consistent with prudent levels of risk. Investment returns earned are expected to provide adequate funds to sufficiently support designated needs and preserve or enhance the real value of the investments. In establishing the investment objectives, the Organization has taken into account the time horizon available for the investment, the nature of the investment, and other factors that affect the Organization's risk tolerance. Accordingly, the investment objective is a balanced approach that emphasizes a stable, moderate level of appreciation over the long-term, net of investment costs and spending. Investments are expected to meet or exceed the return of the policy benchmark over a market cycle, expected to be a three to five-year time period. The Organization's Board has designated the Investments as an endowment for five years and has indicated that earnings for that period be reinvested in the fund. After the initial five-year period, beginning in December 2014, earnings can be used for operations at a rate of 4% of the rolling fair market value of the Fund over a three-year period. The board designated endowment fund activities are further described in Note 9.

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value measurements are based on 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. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described below:

Level 1: Valuations based on quoted price (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data exists. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value.

Financial assets carried at fair value at September 30, 2017 are classified in the table as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Treasury Bills	\$ 5,131,784	\$ -	\$ 5,131,784
Mutual Funds			
Growth Funds	-	11,471,472	11,471,472
Inflation Funds	-	2,877,088	2,877,088
Deflation Funds	-	5,057,271	5,057,271
Total Investments	<u>\$ 5,131,784</u>	<u>\$ 19,405,831</u>	<u>\$ 24,537,615</u>
Gift annuity investments:			
Mutual funds			
Large Cap Equities	\$ 1,091,087	\$ -	\$ 1,091,087
International Equities	1,049,701	-	1,049,701
Diversified	142,970	-	142,970
REIT	248,316	-	248,316
Fixed Income	1,230,295	-	1,230,295
Fixed income			
U.S. Corporate Bonds	<u>-</u>	<u>341,198</u>	<u>341,198</u>
Total gift annuity investments	<u>\$ 3,762,369</u>	<u>\$ 341,198</u>	<u>\$ 4,103,567</u>

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Financial assets carried at fair value at September 30, 2016 are classified in the table as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Treasury Bills	\$ 7,064,173	\$ -	\$ 7,064,173
Mutual funds			
Growth Funds	-	10,264,598	10,264,598
Inflation Funds	-	2,105,390	2,105,390
Deflation Funds	-	3,165,330	3,165,330
Total Investments	<u>\$ 7,064,173</u>	<u>\$ 15,535,318</u>	<u>\$ 22,599,491</u>
Gift annuity investments:			
Mutual funds			
Large Cap Equities	\$ 561,299	\$ -	\$ 561,299
Small and Mid Cap Equities	298,215	-	298,215
International Equities	924,509	-	924,509
Diversified	36,050	-	36,050
REIT	171,979	-	171,979
Fixed Income	529,688	-	529,688
Fixed income			
U.S. Corporate Bonds	<u>-</u>	<u>956,663</u>	<u>956,663</u>
Total gift annuity investments	<u>\$ 2,521,740</u>	<u>\$ 956,663</u>	<u>\$ 3,478,403</u>

Investments in treasury bills and mutual funds are valued using real-time quotes or market prices for similar funds in active markets (Levels 1 and 2). Growth Funds, Inflation Funds, Deflation Funds and Corporate Bonds are designated as Level 2 instruments and valuations are obtained from readily-available pricing sources for comparable instruments (credit risk/grade, maturities, etc). The Organization holds Level 2 instruments with Ascension Investments as of September 30, 2017 and 2016. There are no redemption restrictions on the investments.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period. For the years ended September 30, 2017 and 2016 there were no transfers.

Investments are subject to market volatility that could substantially change their carrying value in the near term. The investment return and its classification in the statements of activities for the years ended September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 58	\$ 69
Realized gain (loss) on sale of investments	754	(1,666)
Unrealized gain on investments	<u>1,938,124</u>	<u>1,114,208</u>
Total	<u>\$ 1,938,936</u>	<u>\$ 1,112,611</u>

For the years ended September 30, 2017 and 2016, investment fees amounted to \$50,150 and \$50,180, respectively.

For the years ended September 30, 2017 and 2016, there was interest of \$0 and \$123 respectively, earned on a savings account.

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016

NOTE 4 – CONTRIBUTIONS AND PLEDGES RECEIVABLE

At September 30, 2017 and 2016, contributions and pledges receivable consist of:

	<u>2017</u>	<u>2016</u>
Various individual pledges	\$ -	\$ 600,402
Grants	<u>153,895</u>	<u>40,796</u>
Total	\$ <u><u>153,895</u></u>	\$ <u><u>641,198</u></u>

All contributions and pledges receivable as of September 30, 2017, are expected to be collected during the year ending September 30, 2018.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 39,900	\$ 39,900
Warehouse	346,344	346,344
Warehouse improvements	557,182	557,182
Warehouse equipment	72,360	72,360
Computer equipment	103,088	-
Leasehold Improvements	<u>195,559</u>	<u>195,559</u>
Total property and equipment	1,314,433	1,211,345
Less: accumulated depreciation	<u>(942,881)</u>	<u>(878,636)</u>
Total property and equipment, net	\$ <u><u>371,552</u></u>	\$ <u><u>332,709</u></u>

Depreciation expense amounted to \$64,245 and \$58,513 for the years ended September 30, 2017 and 2016, respectively.

NOTE 6 – GIFT ANNUITY PROGRAM

The Organization has a gift annuity program whereby donors transfer assets to the Organization, and the donor or specified beneficiaries receive fixed payments for the remainder of their lifetimes. A number of factors, including the amount placed in the gift annuity and the age of the donor or beneficiary, determine the amount of the fixed payment to the donor or beneficiary. Amounts received from donors are allocated between contribution support and gift annuity payable based on a predetermined formula. Contribution revenue amounted to \$117,598 and \$48,225 for the years ended September 30, 2017 and 2016, respectively.

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 6 – GIFT ANNUITY PROGRAM (Continued)

Gift annuity program investment return is included in the accompanying statements of activities for the years ended September 30, 2017 and 2016, and is summarized below:

	<u>2017</u>	<u>2016</u>
Dividends and interest	\$ 98,551	\$ 93,764
Realized gain (loss) on sale of gift annuity investments	432,555	(1,004)
Unrealized (loss) gain on gift annuity investments	<u>(195,244)</u>	<u>233,005</u>
Total	<u>\$ 335,862</u>	<u>\$ 325,765</u>

For the years ended September 30, 2017 and 2016, investment fees amounted to \$25,495 and \$33,000, respectively.

NOTE 7 – RETIREMENT PLAN

The Organization sponsors a savings plan under Section 401(k) of the Internal Revenue Code called the Catholic Medical Mission Board, Inc. 401(k) Savings Plan (the “401(k) Plan”). The 401(k) Plan allows eligible employees to contribute up to 20% of their compensation on a pre-tax basis, subject to an annual limitation per employee. The Organization contributes up to one-half of the first 6% of annual eligible compensation of employees participating.

The Organization also has the option of making a discretionary contribution to the 401(k) Plan. For the years ended September 30, 2017 and 2016, the Organization contributed \$348,754 and \$371,649 respectively, to the 401(k) Plan.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets at September 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Haiti grants (A)	\$ 2,115,540	\$ 2,147,972
Zbylut fund (B)	304,000	304,000
MVP restricted funds (C)	470,474	53,431
Healing Help (D)	485,048	364,740
Disaster Relief (E)	145,295	622,089
Reback Trust (F)	-	555,077
Safe Motherhood (G)	39,186	152,567
Peru Grants (H)	48,625	309,764
Zambia Grants (I)	293,904	59,508
Kenya Grants (J)	593,522	19,880
Sudan Grants (K)	453,563	106,062
Other	<u>16,678</u>	<u>104,512</u>
	<u>\$ 4,965,835</u>	<u>\$ 4,799,602</u>

- (A) To be used to support Haiti specific programs.
- (B) To provide funds for the training of nurses in developing countries.
- (C) To be used to support the medical volunteer program.
- (D) To be used to support the Healing Help program.
- (E) To be used to provide relief from natural disasters worldwide.
- (F) Property donated during the year ended September 30, 2009 (see Note 10)

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

(G) To be used to reduce maternal and neonatal mortality in South Sudan

(H) To be used to support Peru specific programs

(I) To be used to support Zambia specific programs

(J) To be used to support Kenya specific programs

(K) To be used to support Sudan specific programs

Net assets of \$5,132,080 and \$3,701,105 were released from restrictions during the years ended September 30, 2017 and 2016, respectively, as a result of satisfying purpose restrictions.

NOTE 9 – BOARD DESIGNATED ENDOWMENT NET ASSETS

The Organization adheres to the New York Prudent Management of Institutional Funds Act (“NYPMIFA”). NYPMIFA creates a rebuttable presumption of imprudence if an organization appropriates more than 7% of a donor-restricted permanent endowment fund’s fair value (averaged over a period of not less than the preceding five years) in any year. In addition, in accordance with U.S. GAAP, any unappropriated earnings on endowment funds that would otherwise be considered unrestricted by the donor should be reflected as temporarily restricted until appropriated by the Board of Directors.

The Organization’s Board of Directors, understood the state law as allowing the Organization to appropriate for expenditure or accumulate so much of an endowment fund as the Organization determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in a board designated fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. The policy for valuing the Organization’s investments is described in Note 2E.

The Organization’s Board designated endowment investment policy is to invest primarily in mutual funds based on an asset allocation, approved by the Board of Directors, to satisfy its overall endowment financial and investment objectives. The overall investment objective is to maximize the total return from income (dividends and interest) and the appreciation of investments.

The Organization’s board designated endowment fund is restricted by the Board of Directors as noted in Note 2P. As of September 30, 2017 and 2016, there are no donor restricted endowment funds.

Changes in board designated endowment net assets for years ended September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Board designated endowment net assets, beginning of year	\$ <u>15,535,319</u>	\$ <u>14,485,284</u>
Designation to endowment	<u>2,000,000</u>	<u>-</u>
Investment activity:		
Unrealized gain on investments	<u>1,870,512</u>	<u>1,050,035</u>
Total investment activity	<u>1,870,512</u>	<u>1,050,035</u>
Board designated endowment net assets, end of year	\$ <u>19,405,831</u>	\$ <u>15,535,319</u>

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 10 – CHARITABLE REMAINDER ANNUITY TRUST

In September 1997, the Organization was named as trustee for a charitable remainder annuity trust (“CRAT”). The CRAT is required to make annual payments to the donors equal to 7.1% of the net fair market value of the contributed assets as of the date the agreement was executed. Upon the death of the donors, the trustee is required to distribute the assets of the trust to the Little Sisters of the Poor of Los Angeles in the amount of the lesser of fifty percent of the assets or \$1,000,000, and the remainder to the Organization. The fair market value of the trust assets at September 30, 2017 and 2016 was \$157,572 and \$131,228, respectively. For the years ended September 30, 2017 and 2016, actuarial calculations used to measure the Organization’s related liability assumed a discount rate of 7.5% and used the 1983 Individual Annuity Mortality Table.

On September 11, 2009, an order was approved by the Superior Court of the State of California for the County of San Diego for the distribution of the Estate of Frances Reback. The Organization was named as the beneficiary of a property with a fair market value of \$615,000. The property was to be held by the Organization as a life estate for the benefit of certain individuals until their death or until they were no longer able to occupy the property. Upon one of these events, the Organization would be able to sell the property and use the proceeds for the purpose stated in the trust. The property was recorded as an asset and a temporarily restricted contribution at its net present value of \$444,071 as of September 30, 2009, which was calculated using the estimated life expectancy (10 years) of the individuals occupying the property. The discount at 3.31%, in the amount of \$170,929, was being amortized equally into revenue over a 10-year period. The net value of the asset as of September 30, 2017 and 2016, was \$563,721. During the year ended September 30, 2017, the individuals were no longer able to live in the property, and as such, in October 2016, the property was sold.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

- A. In April 2015, the Organization entered into a lease agreement for office space, expiring in 2022, for its New York City headquarters. In connection with the lease, the Organization received four months of free rent and reimbursement from the landlord for leasehold improvements of approximately \$430,000. The reimbursement from the landlord for leasehold improvements, as well as the value of the four months of free rent, have been recorded as a deferred rent obligation and are being amortized over the lease term. Rental expense for this space is recorded on a straight-line basis.

For the years ended after September 30, 2017, the future minimum rentals under the lease agreement is as follows:

2018	\$ 433,000
2019	448,000
2020	468,000
2021	468,000
2022	468,000
Thereafter	<u>116,000</u>
	<u>\$ 2,401,000</u>

Rental expenses included in the accompanying statement of functional expenses for the years ended September 30, 2017 and 2016 amounted to \$807,579 and \$746,706, respectively.

- B. The Organization is a defendant in a legal action arising out of the normal course of its operations. The final outcome of such action cannot be determined at this time. Eventual liability, if any, is likely to be covered by insurance except where the applicable insurance policies expressly exclude certain coverage which arguably relates to the claim.

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

- C. The Organization has no uncertain tax positions as of September 30, 2017 and 2016 in accordance with Accounting Standards Codification (“ASC”) Topic 740, “Income Taxes,” which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

NOTE 12 – CONCENTRATIONS

Credit Risk

Cash and cash equivalents that potentially subject the Organization to a concentration of credit risk include cash accounts with various financial institutions that exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance limits. Interest bearing accounts are insured up to \$250,000 per depositor.

As of September 30, 2017 and 2016, there was approximately \$4,547,000 and \$2,858,000, respectively, of cash and cash equivalents that exceeded FDIC limits.

Donated Pharmaceuticals, Equipment and Supplies

Three pharmaceutical companies accounted for approximately 91% and 71% of the donated pharmaceuticals, equipment and supplies for the years ended September 30, 2017 and 2016, respectively.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through December 20, 2017, the date the financial statements were available to be issued.