



Financial Statements
(Together with Independent Auditors' Report)
Years Ended September 30, 2018 and 2017

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, 2018 AND 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 18, 2018

CATHOLIC MEDICAL MISSION BOARD, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents (Notes 2D and 12)	\$ 5,520,433	\$ 6,279,795
Investments (Notes 2E and 3)	25,581,405	24,537,615
Inventory (Note 2F)	180,702,778	75,087,449
Accrued interest and other receivables (Note 2H)	336,655	202,550
Contributions and pledges receivable (Notes 2H and 4)	915,039	153,895
Government grants receivable, net (Note 2H)	1,361,291	1,377,881
Prepaid expenses	235,514	166,173
Property and equipment, net (Notes 2G, 5 and 11)	400,490	371,552
Gift annuity investments (Notes 2E, 2M, 3 and 6)	3,807,470	4,103,567
Assets held in charitable remainder annuity trust (Note 10)	<u>45,347</u>	<u>157,572</u>
TOTAL ASSETS	<u>\$ 218,906,422</u>	<u>\$ 112,438,049</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,743,655	\$ 2,244,381
Deferred revenue (Note 2I)	465,744	588,716
Deferred rent (Notes 2J and 11)	294,076	333,760
Gift annuity payable (Notes 2M and 6)	1,746,057	1,955,716
Charitable remainder annuity trust payable (Note 10)	<u>44,666</u>	<u>155,208</u>
TOTAL LIABILITIES	<u>6,294,198</u>	<u>5,277,781</u>
COMMITMENTS AND CONTINGENCIES (Notes 2K and 11)		
NET ASSETS (Note 2B)		
Unrestricted (Note 9)	207,700,040	102,194,433
Temporarily restricted (Note 8)	<u>4,912,184</u>	<u>4,965,835</u>
TOTAL NET ASSETS	<u>212,612,224</u>	<u>107,160,268</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 218,906,422</u>	<u>\$ 112,438,049</u>

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, 2018 AND 2017

	For the Year Ended September 30, 2018			For the Year Ended September 30, 2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING ACTIVITIES						
Support and Revenue						
Donated pharmaceuticals, equipment and supplies (Notes 2C and 12)	\$ 703,685,270	\$ -	\$ 703,685,270	\$ 568,943,681	\$ -	\$ 568,943,681
Donated services (Note 2C)	5,453,566	-	5,453,566	5,236,727	-	5,236,727
Grants and contributions (Note 2K)	25,246,464	4,332,663	29,579,127	22,427,403	5,298,313	27,725,716
Wills and legacies	1,347,510	-	1,347,510	1,884,742	-	1,884,742
Dividends and interest (Notes 2E, 3 and 6)	16,812	-	16,812	98,609	-	98,609
Net assets released from restrictions (Note 8)	4,386,314	(4,386,314)	-	5,132,080	(5,132,080)	-
TOTAL SUPPORT AND REVENUE	740,135,936	(53,651)	740,082,285	603,723,242	166,233	603,889,475
EXPENSES (Note 2N):						
Program Services (Note 1):						
Programs	20,262,434	-	20,262,434	17,785,150	-	17,785,150
Volunteers (Note 2C)	5,937,856	-	5,937,856	5,695,516	-	5,695,516
Medical Donations Program (Note 2C)	599,452,903	-	599,452,903	553,511,381	-	553,511,381
Total Program Services	625,653,193	-	625,653,193	576,992,047	-	576,992,047
Supporting Services:						
Fundraising	5,481,853	-	5,481,853	5,144,186	-	5,144,186
Administration	4,939,522	-	4,939,522	4,781,778	-	4,781,778
Total Supporting Services	10,421,375	-	10,421,375	9,925,964	-	9,925,964
TOTAL EXPENSES	636,074,568	-	636,074,568	586,918,011	-	586,918,011
Change in Net Assets from Operations	104,061,368	(53,651)	104,007,717	16,805,231	166,233	16,971,464
NONOPERATING ACTIVITIES						
Unrealized gain on investments and gift annuity investments (Notes 2E, 3 and 6)	1,239,133	-	1,239,133	1,742,880	-	1,742,880
Realized gain on sales of investments and gift annuity investments (Notes 2E, 3 and 6)	30,474	-	30,474	433,309	-	433,309
Change in valuation of gift annuity payable (Note 6)	176,315	-	176,315	247,660	-	247,660
Change in valuation of charitable remainder annuity trust payable (Note 10)	(1,683)	-	(1,683)	396	-	396
TOTAL NONOPERATING ACTIVITIES	1,444,239	-	1,444,239	2,424,245	-	2,424,245
CHANGE IN TOTAL NET ASSETS	105,505,607	(53,651)	105,451,956	19,229,476	166,233	19,395,709
Net assets - beginning of year	102,194,433	4,965,835	107,160,268	82,964,957	4,799,602	87,764,559
NET ASSETS - END OF YEAR	\$ 207,700,040	\$ 4,912,184	\$ 212,612,224	\$ 102,194,433	\$ 4,965,835	\$ 107,160,268

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, 2018
(With Comparative Totals for 2017)

	Programs	Volunteers	Medical Donations Program	Total Program Services	Fundraising	Administration	Total Supporting Services	Total 2018	Total 2017
Salaries	\$ 6,720,277	\$ 189,796	\$ 719,818	\$ 7,629,891	\$ 1,300,745	\$ 2,090,654	\$ 3,391,399	\$ 11,021,290	\$ 8,948,974
Payroll taxes and fringe benefits (Note 7)	1,654,500	59,987	207,483	1,921,970	336,459	588,813	925,272	2,847,242	2,617,067
Total Salaries and Related Costs	8,374,777	249,783	927,301	9,551,861	1,637,204	2,679,467	4,316,671	13,868,532	11,566,041
Temporary help	298,950	-	90	299,040	110,454	18,789	129,243	428,283	401,725
Postage and mailing	9,098	1,137	314	10,549	870,153	17,133	887,286	897,835	997,089
Rent and utilities (Note 11)	646,016	54,943	104,580	805,539	91,498	126,061	217,559	1,023,098	992,267
Telephone and communications	242,322	5,477	11,398	259,197	13,097	33,966	47,063	306,260	322,485
Supplies	2,050,399	3,067	35,405	2,088,871	2,655	135,289	137,944	2,226,815	2,669,149
Insurance	67,064	10,027	31,248	108,339	22,505	142,607	165,112	273,451	223,175
Maintenance	613,042	-	16,305	629,347	-	9,149	9,149	638,496	321,052
Professional services	298,243	58,082	11,145	367,470	1,161,215	625,724	1,786,939	2,154,409	2,968,232
Investment fees and bank charges (Notes 3 and 6)	93,866	594	10	94,470	62,005	205,042	267,047	361,517	343,315
Foreign currency translation loss	64,484	-	-	64,484	-	-	-	64,484	109,413
Bad debt expense	107,360	-	-	107,360	-	-	-	107,360	-
Conventions, meetings and workshops	1,916,861	21,006	11,358	1,949,225	21,820	91,025	112,845	2,062,070	1,573,391
Travel	798,760	74,800	21,325	894,885	45,590	109,971	155,561	1,050,446	878,471
Fees and membership	33,012	1,260	22,725	56,997	23,591	47,402	70,993	127,990	120,197
Advertising and publicity	11,302	-	-	11,302	137,377	245,668	383,045	394,347	254,017
Printing	99,663	15	-	99,678	1,068,608	42,106	1,110,714	1,210,392	766,826
Shipping, freight and storage	4,817	-	115,212	120,029	-	-	-	120,029	75,330
Staff training	43,719	6,653	-	50,372	-	65,967	65,967	116,339	52,676
Service contracts	196,251	4,249	33,244	233,744	180,677	303,723	484,400	718,144	512,299
Miscellaneous	45,972	(6,803)	30	39,199	1,359	1,542	2,901	42,100	39,732
Total Before Other Expenses	16,015,978	484,290	1,341,690	17,841,958	5,449,808	4,900,631	10,350,439	28,192,397	25,186,882
Other Expenses:									
Medical assistance to missions (Note 2C)	4,246,456	-	598,063,118	602,309,574	-	-	-	602,309,574	556,063,873
Donated services (Note 2C)	-	5,453,566	-	5,453,566	-	-	-	5,453,566	5,236,727
Inventory obsolescence (Note 2C)	-	-	30,176	30,176	-	-	-	30,176	366,284
Depreciation (Notes 2G and 5)	-	-	17,919	17,919	32,045	38,891	70,936	88,855	64,245
Total Other Expenses	4,246,456	5,453,566	598,111,213	607,811,235	32,045	38,891	70,936	607,882,171	561,731,129
Total Operating Expenses	\$20,262,434	\$ 5,937,856	\$ 599,452,903	\$ 625,653,193	\$ 5,481,853	\$ 4,939,522	\$ 10,421,375	\$ 636,074,568	\$ 586,918,011

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, 2017

			Medical				Total	
	Programs	Volunteers	Donations	Total Program	Fundraising	Administration	Supporting	Total
			Program	Services			Services	2017
Salaries	\$ 4,918,504	\$ 154,881	\$ 643,765	\$ 5,717,150	\$ 1,045,969	\$ 2,185,855	\$ 3,231,824	\$ 8,948,974
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
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
Temporary help	390,169	-	-	390,169	838	10,718	11,556	401,725
Postage and mailing	5,053	-	535	5,588	985,960	5,541	991,501	997,089
Rent and utilities (Note 11)	563,004	46,290	102,175	711,469	92,814	187,984	280,798	992,267
Telephone and communications	278,761	2,086	10,169	291,016	9,705	21,764	31,469	322,485
Supplies	2,466,364	44,990	38,423	2,549,777	8,482	110,890	119,372	2,669,149
Insurance	84,251	10,244	8,454	102,949	37,148	83,078	120,226	223,175
Maintenance	289,469	-	16,313	305,782	430	14,840	15,270	321,052
Professional services	633,051	69,558	105	702,714	1,750,604	514,914	2,265,518	2,968,232
Investment fees and bank charges (Notes 3 and 6)	62,981	465	-	63,446	76,206	203,663	279,869	343,315
Foreign currency translation loss	109,413	-	-	109,413	-	-	-	109,413
Conventions, meetings and workshops	1,465,973	8,824	4,468	1,479,265	27,968	66,158	94,126	1,573,391
Travel	681,587	47,676	7,570	736,833	37,048	104,590	141,638	878,471
Fees and membership	26,807	1,727	8,055	36,589	15,304	68,304	83,608	120,197
Advertising and publicity	5,746	1,065	-	6,811	16,155	231,051	247,206	254,017
Printing	32,832	4,624	3	37,459	689,178	40,189	729,367	766,826
Shipping, freight and storage	44,762	-	30,568	75,330	-	-	-	75,330
Staff training	23,422	6,005	-	29,427	-	23,249	23,249	52,676
Service contracts	125,379	4,354	57,461	187,194	47,891	277,214	325,105	512,299
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
Other Expenses:								
Medical assistance to missions (Note 2C)	4,028,095	-	552,035,778	556,063,873	-	-	-	556,063,873
Donated services (Note 2C)	-	5,236,727	-	5,236,727	-	-	-	5,236,727
Inventory obsolescence (Note 2C)	-	-	366,284	366,284	-	-	-	366,284
Depreciation (Notes 2G and 5)	-	-	20,199	20,199	5,154	38,892	44,046	64,245
Total Other Expenses	4,028,095	5,236,727	552,422,261	561,687,083	5,154	38,892	44,046	561,731,129
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

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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 105,451,956	\$ 19,395,709
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	88,855	64,245
Increase in inventory (net of inventory obsolescence)	(105,615,329)	(16,587,528)
Bad debt expense	107,360	-
Amortization of discount on property held in trust	-	(42,895)
Realized gain on sale of investments and gift annuity investments	(30,474)	(433,309)
Unrealized gain on investments and gift annuity investments	(1,239,133)	(1,742,880)
Change in valuation of gift annuity payable	(176,315)	(247,660)
Change in valuation of charitable remainder annuity trust payable	1,683	(396)
Deferred rent	(39,684)	(39,662)
Subtotal	(1,451,081)	365,624
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest and other receivables	(134,105)	176,852
(Increase) decrease in contributions and pledges receivable	(761,144)	487,303
Increase in government grants receivable	(90,770)	(1,069,794)
Increase in prepaid expenses	(69,341)	(23,519)
Increase in accounts payable and accrued expenses	1,499,274	197,335
(Decrease) increase in deferred revenue	(122,972)	8,449
Net cash (used in) provided by operating activities	<u>(1,130,139)</u>	<u>142,250</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities and gift annuity investment	1,600,716	4,208,358
Purchases of marketable securities and gift annuity investments	(1,078,802)	(4,595,457)
Purchases of property and equipment	(117,793)	(103,088)
Proceeds from sale of property held in trust	-	606,616
Net cash provided by investing activities	<u>404,121</u>	<u>116,429</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of gift annuity obligations	(33,344)	(8,258)
Net cash used in financing activities	<u>(33,344)</u>	<u>(8,258)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(759,362)	250,421
Cash and cash equivalents at beginning of year	6,279,795	6,029,374
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,520,433</u>	<u>\$ 6,279,795</u>

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

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

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, 2018 and 2017.

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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, 2018 and 2017, the Organization received donated pharmaceuticals, equipment and supplies of approximately \$704,000,000 and \$569,000,000, respectively. For the years ended September 30, 2018 and 2017, the Organization had obsolescence of inventory of approximately \$30,000 and \$366,000, respectively, due to the expiration of products prior to distribution.

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

	September 30,	
	2018	2017
	Days	Days
Licensed professionals	11,616	11,466

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, 2018 and 2017 was approximately \$5,500,000 and \$5,200,000, 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 original 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 net realizable 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, 2018 AND 2017

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 fifty 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 rest 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, 2018 and 2017.

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, 2018 and 2017, such deferral amounted to \$294,076 and \$333,760, 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, 2018 AND 2017

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.

Q. Recently Adopted Accounting Standards

Effective for year ended September 30, 2018, the Organization adopted the guidance issued by the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2015-07 *Disclosure for Investments in Certain Entities that Calculate NAV*. Under the amendment, investments in entities for which fair value is calculated using the net asset value (NAV) are no longer required to categorize within the fair value hierarchy those investments that use NAV as a practical expedient, although there must be a reconciliation of the fair value hierarchy to amounts presented in the statements of financial position. The Organization has reflected the effects of this amendment as of September 30, 2018 and 2017.

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

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.

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, 2018 are classified in the table as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Treasury Bills	\$ 5,368,388	\$ -	\$ 5,368,388
Mutual Funds			
Growth Funds	-	5,949,869	5,949,869
Inflation Funds	-	1,863,541	1,863,541
Deflation Funds	-	2,465,666	2,465,666
Subtotal	<u>\$ 5,368,388</u>	<u>\$ 10,279,076</u>	<u>15,647,464</u>
Alternative investments valued at net asset value per share practical expedient			<u>9,933,941</u>
Total Assets Carried at Fair Value			<u>\$ 25,581,405</u>
Gift annuity investments:			
Mutual funds			
Large Cap Equities	\$ 1,303,444	\$ -	\$ 1,303,444
International Equities	830,107	-	830,107
Diversified	219,007	-	219,007
REIT	98,906	-	98,906
Fixed Income	1,080,904	-	1,080,904
Fixed income			
U.S. Corporate Bonds	<u>-</u>	<u>275,102</u>	<u>275,102</u>
Total gift annuity investments	<u>\$ 3,532,368</u>	<u>\$ 275,102</u>	<u>\$ 3,807,470</u>

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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	\$ 5,354,449	\$ -	\$ 5,354,449
Mutual funds			
Growth Funds	-	5,131,371	5,131,371
Inflation Funds	-	2,113,020	2,113,020
Deflation Funds	-	2,731,408	2,731,408
Subtotal	<u>\$ 5,354,449</u>	<u>\$ 9,975,799</u>	<u>15,330,248</u>
Alternative investments valued at net asset value per share practical expedient			<u>9,207,367</u>
Total Assets Carried at Fair Value			<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	-	341,198	341,198
Total gift annuity investments	<u>\$ 3,762,369</u>	<u>\$ 341,198</u>	<u>\$ 4,103,567</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 and alternative investments valued at net asset value per share with Ascension Investments as of September 30, 2018 and 2017. There are no redemption restrictions or unfunded commitments 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, 2018 and 2017, 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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 58	\$ 58
Realized (loss) gain on sale of investments	(976)	754
Unrealized gain on investments	<u>1,043,791</u>	<u>1,938,124</u>
Total	<u>\$ 1,042,873</u>	<u>\$ 1,938,936</u>

For each of the years ended September 30, 2018 and 2017, investment fees amounted to \$50,150.

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 4 – CONTRIBUTIONS AND PLEDGES RECEIVABLE

At September 30, 2018 and 2017, contributions and pledges receivable consist of:

	<u>2018</u>	<u>2017</u>
Various individual pledges	\$ 298,078	\$ -
Grants	<u>616,961</u>	<u>153,895</u>
Total	\$ <u>915,039</u>	\$ <u>153,895</u>

All contributions and pledges receivable as of September 30, 2018, are expected to be collected during the year ending September 30, 2019.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</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	220,881	103,088
Leasehold Improvements	<u>195,559</u>	<u>195,559</u>
Total property and equipment	1,432,226	1,314,433
Less: accumulated depreciation	<u>(1,031,736)</u>	<u>(942,881)</u>
Total property and equipment, net	\$ <u>400,490</u>	\$ <u>371,552</u>

Depreciation expense amounted to \$88,855 and \$64,245 for the years ended September 30, 2018 and 2017, 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 \$98,224 and \$117,598 for the years ended September 30, 2018 and 2017, respectively.

Gift annuity program investment return is included in the accompanying statements of activities for the years ended September 30, 2018 and 2017, and is summarized below:

	<u>2018</u>	<u>2017</u>
Dividends and interest	\$ 16,754	\$ 98,551
Realized gain on sale of gift annuity investments	31,450	432,555
Unrealized gain (loss) on gift annuity investments	<u>195,342</u>	<u>(195,244)</u>
Total	\$ <u>243,546</u>	\$ <u>335,862</u>

For the years ended September 30, 2018 and 2017, investment fees amounted to \$44,585 and \$25,495, respectively.

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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, 2018 and 2017, the Organization contributed \$427,822 and \$348,754, respectively, to the 401(k) Plan.

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets at September 30, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Haiti grants (A)	\$ 1,865,562	\$ 2,115,540
Zbylut fund (B)	304,000	304,000
MVP restricted funds (C)	233,080	470,474
Medical Donations Program (D)	561,197	485,048
Disaster Relief (E)	311,392	145,295
Safe Motherhood (F)	-	39,186
Peru Grants (G)	33,089	48,625
Zambia Grants (H)	455,082	293,904
Kenya Grants (I)	297,234	593,522
South Sudan Grants (J)	573,898	453,563
Sudan (K)	120,977	-
CHAMPS (L)	105,920	-
Other (M)	50,753	16,678
	<u>\$ 4,912,184</u>	<u>\$ 4,965,835</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 Medical Donations program.
- (E) To be used to provide relief from natural disasters worldwide.
- (F) To be used to reduce maternal and neonatal mortality in South Sudan.
- (G) To be used to support Peru specific programs.
- (H) To be used to support Zambia specific programs.
- (I) To be used to support Kenya specific programs.
- (J) To be used to support South Sudan specific programs.
- (K) To be used to support Sudan specific programs.
- (L) To be used to support CHAMPS specific programs.
- (M) To be used to support general programs.

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS (Continued)

Net assets of \$4,386,314 and \$5,132,080 were released from restrictions during the years ended September 30, 2018 and 2017, 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, 2018 and 2017, there are no donor restricted endowment funds.

Changes in board designated endowment net assets for years ended September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Board designated endowment net assets, beginning of year	\$ 19,405,831	\$ 15,535,319
Designation to endowment	<u>-</u>	<u>2,000,000</u>
Investment activity:		
Unrealized gain on investments	<u>807,185</u>	<u>1,870,512</u>
Total investment activity	<u>807,185</u>	<u>1,870,512</u>
Board designated endowment net assets, end of year	<u>\$ 20,213,016</u>	<u>\$ 19,405,831</u>

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, 2018 and 2017 was \$45,347 and \$157,572, respectively. For the years ended September 30, 2018 and 2017, 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.

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017

NOTE 10 – CHARITABLE REMAINDER ANNUITY TRUST (Continued)

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. 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 each of the five years ended after September 30, 2018, the future minimum rentals under the lease agreement is as follows:

2019	\$ 448,000
2020	468,000
2021	468,000
2022	468,000
2023	116,000
	<u>\$ 1,968,000</u>

Rental expenses included in the accompanying statements of functional expenses for the years ended September 30, 2018 and 2017 amounted to \$817,010 and \$807,579, respectively.

- B. The Organization is a defendant in a legal action arising out of the normal course of its operations, including a matter underway with the Office of the California Attorney General. 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.
- C. The Organization has no uncertain tax positions as of September 30, 2018 and 2017 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, 2018 and 2017, there was approximately \$3,667,000 and \$4,547,000, respectively, of cash and cash equivalents with one financial institution that exceeded FDIC limits.

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

NOTE 12 – CONCENTRATIONS (Continued)

Donated Pharmaceuticals, Equipment and Supplies

One pharmaceutical company accounted for approximately 79% and 70% of the donated pharmaceuticals, equipment and supplies for the years ended September 30, 2018 and 2017, respectively.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through December 18, 2018, the date the financial statements were available to be issued.