



**Financial Statements
(Together with Independent Auditors' Report)**

Years Ended September 30, 2019 and 2018

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, 2019 AND 2018

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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, 2019 and 2018, 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 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 Catholic Medical Mission Board, Inc. as of September 30, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2Q to the financial statements, during the year ended September 30, 2019, the Organization adopted Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities* Topic 958 – *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Marks Paneth LLP

New York, NY
January 10, 2020

CATHOLIC MEDICAL MISSION BOARD, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents (Notes 2D and 14)	\$ 5,283,805	\$ 5,520,433
Investments (Notes 2E and 4)	22,733,974	25,581,405
Inventory (Note 2F)	26,494,689	180,702,778
Accrued interest and other receivables (Note 2H)	326,675	336,655
Contributions and pledges receivable (Notes 2H and 5)	1,171,585	915,039
Government grants receivable, net (Note 2H)	1,526,169	1,361,291
Prepaid expenses	265,607	235,514
Beneficial interest in charitable lead annuity trust (Note 6)	4,387,953	-
Gift annuity investments (Notes 2E, 2M, 4 and 8)	3,762,578	3,807,470
Assets held in charitable remainder annuity trust (Note 12)	13,516	45,347
Property and equipment, net (Notes 2G, 7 and 13)	<u>306,596</u>	<u>400,490</u>
TOTAL ASSETS	<u>\$ 66,273,147</u>	<u>\$ 218,906,422</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 3,214,343	\$ 3,743,655
Deferred revenue (Note 2I)	1,544,596	465,744
Deferred rent (Notes 2J and 13)	254,403	294,076
Gift annuity payable (Notes 2M and 8)	1,828,781	1,746,057
Charitable remainder annuity trust payable (Note 12)	<u>13,312</u>	<u>44,666</u>
TOTAL LIABILITIES	<u>6,855,435</u>	<u>6,294,198</u>
COMMITMENTS AND CONTINGENCIES (Notes 2K and 13)		
NET ASSETS (Note 2B)		
Without donor restrictions (Note 11)	50,947,551	207,700,040
With donor restrictions (Note 10)	<u>8,470,161</u>	<u>4,912,184</u>
TOTAL NET ASSETS	<u>59,417,712</u>	<u>212,612,224</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 66,273,147</u>	<u>\$ 218,906,422</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, 2019 AND 2018

	<u>For the Year Ended September 30, 2019</u>			<u>For the Year Ended September 30, 2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
OPERATING ACTIVITIES						
Support and Revenue						
Donated pharmaceuticals, equipment and supplies (Notes 2C and 14A)	\$ 398,686,349	\$ -	\$ 398,686,349	\$ 703,685,270	\$ -	\$ 703,685,270
Donated services (Note 2C)	5,287,028	-	5,287,028	5,453,566	-	5,453,566
Grants and contributions (Notes 2K and 6)	24,628,031	8,180,873	32,808,904	25,246,464	4,332,663	29,579,127
Wills and legacies	2,346,438	-	2,346,438	1,347,510	-	1,347,510
Dividends and interest (Notes 2E, 4 and 8)	18,511	-	18,511	16,812	-	16,812
Net assets released from restrictions (Note 10)	4,622,896	(4,622,896)	-	4,386,314	(4,386,314)	-
TOTAL SUPPORT AND REVENUE	<u>435,589,253</u>	<u>3,557,977</u>	<u>439,147,230</u>	<u>740,135,936</u>	<u>(53,651)</u>	<u>740,082,285</u>
EXPENSES (Note 2N):						
Program Services (Note 1):						
Programs	21,368,607	-	21,368,607	20,262,434	-	20,262,434
Volunteers (Note 2C)	5,829,240	-	5,829,240	5,937,856	-	5,937,856
Medical Donations Program (Note 2C)	<u>554,592,954</u>	<u>-</u>	<u>554,592,954</u>	<u>599,452,903</u>	<u>-</u>	<u>599,452,903</u>
Total Program Services	<u>581,790,801</u>	<u>-</u>	<u>581,790,801</u>	<u>625,653,193</u>	<u>-</u>	<u>625,653,193</u>
Supporting Services:						
Fundraising	5,967,104	-	5,967,104	5,481,853	-	5,481,853
Administration	<u>4,677,654</u>	<u>-</u>	<u>4,677,654</u>	<u>4,844,787</u>	<u>-</u>	<u>4,844,787</u>
Total Supporting Services	<u>10,644,758</u>	<u>-</u>	<u>10,644,758</u>	<u>10,326,640</u>	<u>-</u>	<u>10,326,640</u>
TOTAL EXPENSES	<u>592,435,559</u>	<u>-</u>	<u>592,435,559</u>	<u>635,979,833</u>	<u>-</u>	<u>635,979,833</u>
Change in Net Assets from Operations	<u>(156,846,306)</u>	<u>3,557,977</u>	<u>(153,288,329)</u>	<u>104,156,103</u>	<u>(53,651)</u>	<u>104,102,452</u>
NONOPERATING ACTIVITIES						
Unrealized gain on investments and gift annuity investments (Notes 2E, 4 and 8)	239,841	-	239,841	1,144,398	-	1,144,398
Realized gain on sales of investments and gift annuity investments (Notes 2E, 4 and 8)	30,602	-	30,602	30,474	-	30,474
Change in valuation of gift annuity payable (Note 8)	(176,149)	-	(176,149)	176,315	-	176,315
Change in valuation of charitable remainder annuity trust payable (Note 12)	<u>(477)</u>	<u>-</u>	<u>(477)</u>	<u>(1,683)</u>	<u>-</u>	<u>(1,683)</u>
TOTAL NONOPERATING ACTIVITIES	<u>93,817</u>	<u>-</u>	<u>93,817</u>	<u>1,349,504</u>	<u>-</u>	<u>1,349,504</u>
CHANGE IN TOTAL NET ASSETS (Note 15)	<u>(156,752,489)</u>	<u>3,557,977</u>	<u>(153,194,512)</u>	<u>105,505,607</u>	<u>(53,651)</u>	<u>105,451,956</u>
Net assets - beginning of year	<u>207,700,040</u>	<u>4,912,184</u>	<u>212,612,224</u>	<u>102,194,433</u>	<u>4,965,835</u>	<u>107,160,268</u>
NET ASSETS - END OF YEAR	<u>\$ 50,947,551</u>	<u>\$ 8,470,161</u>	<u>\$ 59,417,712</u>	<u>\$ 207,700,040</u>	<u>\$ 4,912,184</u>	<u>\$ 212,612,224</u>

CATHOLIC MEDICAL MISSION BOARD, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2019
(With Comparative Totals for 2018)

	<u>Programs</u>	<u>Volunteers</u>	<u>Medical Donations Program</u>	<u>Total Program Services</u>	<u>Fundraising</u>	<u>Administration</u>	<u>Total Supporting Services</u>	<u>Total 2019</u>	<u>Total 2018</u>
Salaries	\$ 8,069,652	\$ 210,233	\$ 798,457	\$ 9,078,342	\$ 1,254,618	\$ 2,135,444	\$ 3,390,062	\$ 12,468,404	\$ 11,021,290
Payroll taxes and fringe benefits (Note 9)	1,955,404	67,096	229,709	2,252,209	340,684	598,864	939,548	3,191,757	2,847,242
Total Salaries and Related Costs	10,025,056	277,329	1,028,166	11,330,551	1,595,302	2,734,308	4,329,610	15,660,161	13,868,532
Temporary help	104,982	-	-	104,982	27,905	77,396	105,301	210,283	428,283
Postage and mailing	5,976	-	53	6,029	988,656	11,809	1,000,465	1,006,494	897,835
Rent and utilities (Note 13)	608,317	39,565	117,134	765,016	101,115	157,230	258,345	1,023,361	1,023,098
Telephone and communications	266,574	4,834	14,296	285,704	13,303	31,713	45,016	330,720	306,260
Supplies	2,273,855	29,103	40,195	2,343,153	8,187	165,781	173,968	2,517,121	2,226,815
Insurance	77,539	20,284	52,117	149,940	54,279	138,810	193,089	343,029	273,451
Maintenance	822,057	141	4,690	826,888	-	8,833	8,833	835,721	638,496
Professional services	367,287	59,263	123,983	550,533	1,539,422	414,857	1,954,279	2,504,812	2,154,409
Investment fees and bank charges (Notes 4 and 8)	96,257	102	13	96,372	30,598	113,683	144,281	240,653	266,782
Foreign currency translation loss	33,905	-	-	33,905	-	-	-	33,905	64,484
Bad debt	656,941	-	-	656,941	-	-	-	656,941	107,360
Conventions, meetings and workshops	2,588,901	16,355	4,171	2,609,427	6,744	50,024	56,768	2,666,195	2,062,070
Travel	841,498	79,064	24,956	945,518	10,000	64,452	74,452	1,019,970	1,050,446
Fees and membership	21,193	1,437	16,325	38,955	14,833	75,018	89,851	128,806	127,990
Advertising and publicity	2,328	-	-	2,328	271,629	88,394	360,023	362,351	394,347
Printing	32,500	-	-	32,500	1,106,824	52,141	1,158,965	1,191,465	1,210,392
Shipping, freight and storage	10,910	-	154,557	165,467	-	-	-	165,467	120,029
Staff training	33,213	7,753	-	40,966	-	113,569	113,569	154,535	116,339
Service contracts	437,774	4,699	52,889	495,362	152,576	337,770	490,346	985,708	718,144
Miscellaneous	14,936	2,283	10,502	27,721	1,555	2,975	4,530	32,251	42,100
Total Before Other Expenses	19,321,999	542,212	1,644,047	21,508,258	5,922,928	4,638,763	10,561,691	32,069,949	28,097,662
Other Expenses:									
Medical assistance to missions (Note 2C)	2,046,608	-	546,325,299	548,371,907	-	-	-	548,371,907	602,309,574
Donated services (Note 2C)	-	5,287,028	-	5,287,028	-	-	-	5,287,028	5,453,566
Inventory obsolescence (Note 2C)	-	-	6,612,781	6,612,781	-	-	-	6,612,781	30,176
Depreciation (Notes 2G and 7)	-	-	10,827	10,827	44,176	38,891	83,067	93,894	88,855
Total Other Expenses	2,046,608	5,287,028	552,948,907	560,282,543	44,176	38,891	83,067	560,365,610	607,882,171
Total Operating Expenses	\$ 21,368,607	\$ 5,829,240	\$ 554,592,954	\$ 581,790,801	\$ 5,967,104	\$ 4,677,654	\$ 10,644,758	\$ 592,435,559	\$635,979,833

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**

	<u>Programs</u>	<u>Volunteers</u>	<u>Medical Donations Program</u>	<u>Total Program Services</u>	<u>Fundraising</u>	<u>Administration</u>	<u>Total Supporting Services</u>	<u>Total 2018</u>
Salaries	\$ 6,720,277	\$ 189,796	\$ 719,818	\$ 7,629,891	\$ 1,300,745	\$ 2,090,654	\$ 3,391,399	\$ 11,021,290
Payroll taxes and fringe benefits (Note 9)	1,654,500	59,987	207,483	1,921,970	336,459	588,813	925,272	2,847,242
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
Temporary help	298,950	-	90	299,040	110,454	18,789	129,243	428,283
Postage and mailing	9,098	1,137	314	10,549	870,153	17,133	887,286	897,835
Rent and utilities (Note 13)	646,016	54,943	104,580	805,539	91,498	126,061	217,559	1,023,098
Telephone and communications	242,322	5,477	11,398	259,197	13,097	33,966	47,063	306,260
Supplies	2,050,399	3,067	35,405	2,088,871	2,655	135,289	137,944	2,226,815
Insurance	67,064	10,027	31,248	108,339	22,505	142,607	165,112	273,451
Maintenance	613,042	-	16,305	629,347	-	9,149	9,149	638,496
Professional services	298,243	58,082	11,145	367,470	1,161,215	625,724	1,786,939	2,154,409
Investment fees and bank charges (Notes 4 and 8)	93,866	594	10	94,470	62,005	110,307	172,312	266,782
Foreign currency translation loss	64,484	-	-	64,484	-	-	-	64,484
Bad debt	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
Travel	798,760	74,800	21,325	894,885	45,590	109,971	155,561	1,050,446
Fees and membership	33,012	1,260	22,725	56,997	23,591	47,402	70,993	127,990
Advertising and publicity	11,302	-	-	11,302	137,377	245,668	383,045	394,347
Printing	99,663	15	-	99,678	1,068,608	42,106	1,110,714	1,210,392
Shipping, freight and storage	4,817	-	115,212	120,029	-	-	-	120,029
Staff training	43,719	6,653	-	50,372	-	65,967	65,967	116,339
Service contracts	196,251	4,249	33,244	233,744	180,677	303,723	484,400	718,144
Miscellaneous	45,972	(6,803)	30	39,199	1,359	1,542	2,901	42,100
Total Before Other Expenses	16,015,978	484,290	1,341,690	17,841,958	5,449,808	4,805,896	10,255,704	28,097,662
Other Expenses:								
Medical assistance to missions (Note 2C)	4,246,456	-	598,063,118	602,309,574	-	-	-	602,309,574
Donated services (Note 2C)	-	5,453,566	-	5,453,566	-	-	-	5,453,566
Inventory obsolescence (Note 2C)	-	-	30,176	30,176	-	-	-	30,176
Depreciation (Notes 2G and 7)	-	-	17,919	17,919	32,045	38,891	70,936	88,855
Total Other Expenses	4,246,456	5,453,566	598,111,213	607,811,235	32,045	38,891	70,936	607,882,171
Total Operating Expenses	\$20,262,434	\$5,937,856	\$ 599,452,903	\$ 625,653,193	\$ 5,481,853	\$ 4,844,787	\$10,326,640	\$ 635,979,833

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, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (153,194,512)	\$ 105,451,956
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	93,894	88,855
Decrease (Increase) in inventory (net of inventory obsolescence)	154,208,089	(105,615,329)
Bad debt	656,941	107,360
Realized gain on sale of investments and gift annuity investments	(30,602)	(30,474)
Unrealized gain on investments and gift annuity investments	(325,588)	(1,239,133)
Change in valuation of gift annuity payable	176,149	(176,315)
Change in valuation of charitable remainder annuity trust payable	477	1,683
Deferred rent	(39,673)	(39,684)
	1,545,175	(1,451,081)
Subtotal		
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest and other receivables	9,980	(134,105)
Increase in contributions and pledges receivable	(256,546)	(761,144)
Increase in government grants receivable	(821,819)	(90,770)
Increase in prepaid expenses	(30,093)	(69,341)
Increase in beneficial interest in charitable lead annuity trust	(4,387,953)	-
(Decrease) increase in accounts payable and accrued expenses	(529,312)	1,499,274
Increase (decrease) in deferred revenue	1,078,852	(122,972)
	(3,391,716)	(1,130,139)
Net cash used in operating activities	(3,391,716)	(1,130,139)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities and gift annuity investment	3,833,420	1,600,716
Purchases of marketable securities and gift annuity investments	(584,907)	(1,078,802)
Purchases of property and equipment	-	(117,793)
	3,248,513	404,121
Net cash provided by investing activities	3,248,513	404,121
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of gift annuity obligations	(93,425)	(33,344)
	(93,425)	(33,344)
Net cash used in financing activities	(93,425)	(33,344)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(236,628)	(759,362)
Cash and cash equivalents at beginning of year	5,520,433	6,279,795
	5,520,433	6,279,795
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,283,805	\$ 5,520,433

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

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

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 depending upon the absence or existence of donor-imposed restrictions or stipulations:
- Without donor restrictions – This is support which can be used for any legal purpose, over which the Board of Directors has discretionary control.
 - With donor restrictions – This represents net assets subject to 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), net assets with donor restrictions are reclassified to net assets without donor restrictions and is reported in the statements of activities as net assets released from restrictions.

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

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, 2019 and 2018, the Organization received donated pharmaceuticals, equipment and supplies of approximately \$399,000,000 and \$704,000,000, respectively. For the years ended September 30, 2019 and 2018, the Organization had obsolescence of inventory of approximately \$6,600,000 and \$30,000, respectively, due to the expiration of products prior to distribution.

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

	September 30,	
	2019	2018
	Days	Days
Licensed professionals	10,980	11,616

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, 2019 and 2018 was approximately \$5,300,000 and \$5,500,000, 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 net assets without donor restrictions.
- 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, 2019 AND 2018

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. An allowance of \$200,000 for uncollectible accounts was considered necessary at September 30, 2019. No allowance for uncollectible accounts was considered necessary at September 30, 2018.
- 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, 2019 and 2018, such deferral amounted to \$254,403 and \$294,076, 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.
- 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 cost of providing the various program and supporting services has been summarized on a functional basis in the statements of functional expenses. Accordingly, expenses that are not directly charged to a specific program, grant, or supporting service are allocated among programs and supporting services. The expenses that are allocated include occupancy, telephone, insurance, payroll taxes, and benefits, which are allocated on the basis of headcount.
- 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 4.

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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. In 2014, the Organization’s Board designated the investments as a Board designated fund. For the initial five years, the earnings are to be reinvested in the fund. After the initial five-year period, beginning in 2019, 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 fund activities are further described in Note 10.
- Q. *Recently adopted accounting standards*** – On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The updates address net asset classification, additional disclosure on liquidity and availability of resources, and allocation of expenses. ASU 2016-14 was adopted by the Organization for the year ended September 30, 2019. The financial statements for the year ended September 30, 2018 were restated to conform to the current year presentation. These changes had no impact on the change in net assets for the year ended September 30, 2019. Specifically, ASU 2016-14 resulted in renaming amounts previously reported as unrestricted net assets as net assets without donor restrictions and temporarily restricted and permanently restricted net assets as net assets with donor restrictions. In addition, required disclosures on liquidity and availability was provided for the current year as disclosed in Note 3.

NOTE 3 – LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable, a board designated fund, and a line of credit.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

As of September 30, 2019, the following table shows the total financial assets held by the Organization and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and cash equivalents	\$ 5,283,805
Accrued interest and other receivables	326,675
Contributions and pledges receivable due within one year	1,004,919
Beneficial interest in charitable lead annuity trust	547,525
Government grants receivable, net	1,526,169
Investments, net of board designated funds	3,038,640
Net assets with donor restrictions	<u>(8,470,161)</u>
	<u>\$ 3,257,572</u>

The Organization also has Board Designated funds of approximately \$19.6 million. The Board has the ability to release these funds upon its discretion as needed.

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE 4 – 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, 2019 are classified in the table as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Investments:			
Treasury Bills	\$ 3,041,804	\$ -	\$ 3,041,804
Mutual Funds			
Growth Funds	-	5,924,635	5,924,635
Inflation Funds	-	2,251,908	2,251,908
Deflation Funds	-	4,636,161	4,636,161
Subtotal	<u>\$ 3,041,804</u>	<u>\$ 12,812,704</u>	<u>15,854,508</u>
Alternative investments valued at net asset value per share practical expedient			<u>6,879,466</u>
Total Assets Carried at Fair Value			<u>\$ 22,733,974</u>
Gift annuity investments:			
Mutual funds			
Large Cap Equities	\$ 1,214,768	\$ -	\$ 1,214,768
International Equities	705,002	-	705,002
Diversified	160,545	-	160,545
REIT	209,407	-	209,407
Fixed Income	1,200,598	-	1,200,598
Fixed income			
U.S. Corporate Bonds	-	272,258	272,258
Total gift annuity investments	<u>\$ 3,490,320</u>	<u>\$ 272,258</u>	<u>\$ 3,762,578</u>

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

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	<u>-</u>	<u>2,465,666</u>	<u>2,465,666</u>
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>

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, 2019 and 2018. 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, 2019 and 2018, 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, 2019 and 2018 are as follows:

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 4 – INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

	2019	2018
Dividends and interest	\$ 453	\$ 58
Realized gain (loss) on sale of investments	6,604	(976)
Unrealized gain on investments	202,568	1,043,791
Less: Investment fees	(50,150)	(50,150)
Total	\$ 159,475	\$ 992,723

For each of the years ended September 30, 2019 and 2018, investment fees amounted to \$50,150.

NOTE 5 – CONTRIBUTIONS AND PLEDGES RECEIVABLE

At September 30, 2019 and 2018, contributions and pledges receivable consist of:

	2019	2018
Various individual pledges	\$ 722,082	\$ 298,078
Grants	449,503	616,961
Total	\$ 1,171,585	\$ 915,039

Other than \$166,666, which is to be collected during the year ended September 30, 2021, all contributions and pledges receivable as of September 30, 2019, are expected to be collected during the year ending September 30, 2020.

NOTE 6 – BENEFICIAL INTEREST IN CHARITABLE LEAD ANNUITY TRUST

The Organization is a beneficiary in a charitable lead annuity trust totaling approximately \$5,500,000, to be paid over 10 years. The Organization determined the discount factor of 2.7%, which represents a risk adjusted market rate on U.S. Treasury securities. This discount amounted to approximately \$600,000. Of the \$4,387,953 outstanding at September 30, 2019, \$547,525 is to be collected within one year. The remainder is to be collected through the year 2028. The amounts expected to be collected are restricted due to time only and can be used for general operations.

NOTE 7 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	2019	2018
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	220,881
Leasehold Improvements	195,559	195,559
Total property and equipment	1,432,226	1,432,226
Less: accumulated depreciation	(1,125,630)	(1,031,736)
Total property and equipment, net	\$ 306,596	\$ 400,490

Depreciation expense amounted to \$93,894 and \$88,855 for the years ended September 30, 2019 and 2018, respectively.

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 8 – 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, 2019 and 2018, respectively.

Gift annuity program investment return is included in the accompanying statements of activities for the years ended September 30, 2019 and 2018, and is summarized below:

	<u>2019</u>	<u>2018</u>
Dividends and interest	\$ 18,058	\$ 16,754
Realized gain on sale of gift annuity investments	23,998	31,450
Unrealized gain (loss) on gift annuity investments	123,020	195,342
Less: Investment fees	<u>(35,597)</u>	<u>(44,585)</u>
Total	<u>\$ 129,479</u>	<u>\$ 198,961</u>

For the years ended September 30, 2019 and 2018, investment fees amounted to \$35,597 and \$44,585, respectively.

NOTE 9 – 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, 2019 and 2018, the Organization contributed \$409,502 and \$427,822, respectively, to the 401(k) Plan.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS

The net assets with donor restrictions consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Haiti grants (A)	\$ 1,013,899	\$ 1,865,562
Zbylut fund (B)	304,000	304,000
MVP restricted funds (C)	321,944	233,080
Medical Donations Program (D)	534,309	561,197
Disaster Relief (E)	598,891	311,392
Peru Grants (F)	299,809	33,089
Zambia Grants (G)	584,045	455,082
Kenya Grants (H)	41,541	297,234
South Sudan Grants (I)	135,007	573,898
Sudan (J)	105,183	120,977
CHAMPS (K)	108,305	105,920
Restricted for time (L)	4,393,921	-
Other (M)	<u>29,307</u>	<u>50,753</u>
	<u>\$ 8,470,161</u>	<u>\$ 4,912,184</u>

**CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS (Continued)

- (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 support Peru specific programs.
- (G) To be used to support Zambia specific programs.
- (H) To be used to support Kenya specific programs.
- (I) To be used to support South Sudan specific programs.
- (J) To be used to support Sudan specific programs.
- (K) To be used to support CHAMPS specific programs.
- (L) Restricted for time.
- (M) To be used to support general programs.

Net assets of \$4,622,896 and \$4,386,314 were released from restrictions during the years ended September 30, 2019 and 2018, respectively, as a result of satisfying purpose restrictions.

NOTE 11 – BOARD DESIGNATED NET ASSETS

The Organization’s Board designated fund investment policy is to invest primarily in mutual funds based on an asset allocation, approved by the Board of Directors, to satisfy its overall Board designated fund 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 policy for valuing the Organization’s investments is described in Note 2E.

The Organization’s board designated fund is designated by the Board of Directors as noted in Note 2P.

Changes in board designated net assets are as follows for years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Board designated net assets, beginning of year	<u>\$ 20,213,016</u>	<u>\$ 19,405,831</u>
Transfer from Board designated fund	<u>(652,500)</u>	<u>-</u>
Investment activity:		
Unrealized gain on investments	<u>134,818</u>	<u>807,185</u>
Total investment activity	<u>134,818</u>	<u>807,185</u>
Board designated net assets, end of year	<u>\$ 19,695,334</u>	<u>\$ 20,213,016</u>

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE 12 – 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, 2019 and 2018 was \$13,516 and \$45,347, respectively. For the years ended September 30, 2019 and 2018, 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.

NOTE 13 – 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, 2019, the future minimum rentals under the lease agreement is as follows:

2020	\$ 468,000
2021	468,000
2022	468,000
2023	<u>116,000</u>
	<u>\$ 1,520,000</u>

Rental expenses included in the accompanying statements of functional expenses for the years ended September 30, 2019 and 2018 amounted to \$847,016 and \$817,010, 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 and is currently undergoing an appeal process.
- C. The Organization has no uncertain tax positions as of September 30, 2019 and 2018 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 14 – CONCENTRATIONS

- A. **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, 2019 and 2018, there was approximately \$2,853,000 and \$3,667,000, respectively, of cash and cash equivalents with one financial institution that exceeded FDIC limits.

- B. **Donated Pharmaceuticals, Equipment and Supplies** – One pharmaceutical company accounted for approximately 61% and 79% of the donated pharmaceuticals, equipment and supplies for the years ended September 30, 2019 and 2018, respectively.

CATHOLIC MEDICAL MISSION BOARD, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018

NOTE 15 – CHANGE IN NET ASSETS

The Organization had a decrease in net assets of approximately \$153 million for the year ended September 30, 2019. This decrease was due to timing of receipts of donated pharmaceuticals at the end of fiscal year 2018, which were not distributed until fiscal year 2019. As of September 30, 2018, these pharmaceuticals were included in inventory and donated revenue.

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the statement of financial position through January 10, 2020, the date the financial statements were available to be issued.