

HEALTH VOLUNTEERS OVERSEAS, INC.

REPORT ON AUDIT OF COMBINED  
FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

HEALTH VOLUNTEERS OVERSEAS, INC.

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For the Years Ended December 31, 2010 and 2009

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# MISTER, BURTON, PALMISANO & FRENCH, LLC

Certified Public Accountants

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307 International Circle, Suite 570 Hunt Valley, Maryland 21031

## INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
Health Volunteers Overseas, Inc.

We have audited the accompanying combined statements of financial position of Health Volunteers Overseas, Inc. as of December 31, 2010 and 2009, and the related combined statements of activities, functional expenses, and cash flows for the years then ended. These combined financial statements are the responsibility of Health Volunteers Overseas, Inc.'s management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Health Volunteers Overseas, Inc. as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Mister, Burton, Palmisano & French, LLC*

Mister, Burton, Palmisano & French, LLC  
Hunt Valley, Maryland  
May 18, 2011

HEALTH VOLUNTEERS OVERSEAS, INC.  
COMBINED STATEMENTS OF FINANCIAL POSITION

December 31,	2010	2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 238,591	\$ 149,015
Accounts Receivable	36,167	13,978
Marketable Securities	931,459	855,051
Prepaid Expenses	19,107	11,126
	<u>1,225,324</u>	<u>1,029,170</u>
<b>TOTAL CURRENT ASSETS</b>		
<b>FURNITURE AND EQUIPMENT</b>		
Equipment	16,913	16,308
Furniture and Fixtures	7,375	7,375
	<u>24,288</u>	<u>23,683</u>
<b>Total</b>	<b>24,288</b>	<b>23,683</b>
Less: Accumulated Depreciation	<u>(19,460)</u>	<u>(22,497)</u>
	<u>4,828</u>	<u>1,186</u>
<b>TOTAL FURNITURE AND EQUIPMENT</b>		
<b>OTHER ASSETS</b>		
Investments - Other	127,561	113,514
Deposits	5,355	5,355
Promises to Give	584,138	499,199
	<u>717,054</u>	<u>618,068</u>
<b>TOTAL OTHER ASSETS</b>		
	<u>717,054</u>	<u>618,068</u>
<b>TOTAL ASSETS</b>		
	<u><u>\$ 1,947,206</u></u>	<u><u>\$ 1,648,424</u></u>

The independent auditors' report and accompanying notes  
are an integral part of these financial statements.

HEALTH VOLUNTEERS OVERSEAS, INC.  
 COMBINED STATEMENTS OF FINANCIAL POSITION

December 31,	2010	2009
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 81,620	\$ 47,562
Deferred Registration	1,920	1,120
<b>TOTAL CURRENT LIABILITIES</b>	<b>83,540</b>	<b>48,682</b>
<b>NET ASSETS</b>		
Unrestricted	977,743	905,081
Temporarily Restricted	885,923	694,661
<b>TOTAL NET ASSETS</b>	<b>1,863,666</b>	<b>1,599,742</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,947,206</b>	<b>\$ 1,648,424</b>

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HEALTH VOLUNTEERS OVERSEAS, INC.  
COMBINED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Total
<b>INCOME</b>			
Contributions			
In-Kind Contributions	\$ 6,301,761	\$ -	\$ 6,301,761
Member Contributions	323,880	-	323,880
Contributions - Other	200,037	258,208	458,245
Workplace Giving Contributions	19,706	-	19,706
Charitable Remainder Trust - Change in Fair Value	-	84,939	84,939
Publications	3,055	-	3,055
Registration	8,710	-	8,710
Grant Income	-	159,137	159,137
Investment Income	119,777	-	119,777
Overhead	27,887	-	27,887
Miscellaneous	2,220	-	2,220
Net Assets Released from Restriction	311,022	(311,022)	-
<b>TOTAL INCOME</b>	<b>7,318,055</b>	<b>191,262</b>	<b>7,509,317</b>
General and Administrative Expenses	139,251	-	139,251
<b>PROGRAM EXPENSES</b>			
In-Kind Expenditures			
Professional Services Donations	3,449,659	-	3,449,659
Travel and Living Costs Paid by Volunteers	994,124	-	994,124
Equipment and Other Donations	1,857,978	-	1,857,978
Other Program	773,787	-	773,787
<b>TOTAL PROGRAM EXPENSES</b>	<b>7,075,548</b>	<b>-</b>	<b>7,075,548</b>
Fundraising Expenses	30,594	-	30,594
<b>TOTAL EXPENSES</b>	<b>7,245,393</b>	<b>-</b>	<b>7,245,393</b>
<b>CHANGE IN NET ASSETS</b>	<b>72,662</b>	<b>191,262</b>	<b>263,924</b>
Net Assets - Beginning of Year	905,081	694,661	1,599,742
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 977,743</b>	<b>\$ 885,923</b>	<b>\$ 1,863,666</b>

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HEALTH VOLUNTEERS OVERSEAS, INC.  
COMBINED STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2009

	Unrestricted	Temporarily Restricted	Total
<b>INCOME</b>			
Contributions			
In-Kind Contributions	\$ 4,716,816	\$ -	\$ 4,716,816
Member Contributions	282,366	-	282,366
Contributions - Other	148,275	113,052	261,327
Workplace Giving Contributions	34,857	-	34,857
Charitable Remainder Trust - Change in Fair Value	-	88,188	88,188
Publications	3,500	-	3,500
Registration	8,880	-	8,880
Grant Income	-	147,655	147,655
Investment Income	181,323	-	181,323
Overhead	26,340	-	26,340
Miscellaneous	32	-	32
Net Assets Released from Restriction	270,178	(270,178)	-
<b>TOTAL INCOME</b>	<b>5,672,567</b>	<b>78,717</b>	<b>5,751,284</b>
General and Administrative Expenses	118,853	-	118,853
<b>PROGRAM EXPENSES</b>			
In-Kind Expenditures			
Professional Services Donations	3,224,700	-	3,224,700
Travel and Living Costs Paid by Volunteers	1,060,122	-	1,060,122
Equipment and Other Donations	431,994	-	431,994
Other Program	726,503	-	726,503
<b>TOTAL PROGRAM EXPENSES</b>	<b>5,443,319</b>	<b>-</b>	<b>5,443,319</b>
Fundraising Expenses	19,378	-	19,378
<b>TOTAL EXPENSES</b>	<b>5,581,550</b>	<b>-</b>	<b>5,581,550</b>
<b>CHANGE IN NET ASSETS</b>	<b>91,017</b>	<b>78,717</b>	<b>169,734</b>
Net Assets - Beginning of Year	814,064	615,944	1,430,008
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 905,081</b>	<b>\$ 694,661</b>	<b>\$ 1,599,742</b>

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HEALTH VOLUNTEERS OVERSEAS, INC.  
COMBINED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2010

	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Program</u>	<u>Total</u>
<b>FUNCTIONAL EXPENSES</b>				
In-Kind Expenditures				
Professional Services	\$ -	\$ -	\$ 3,449,659	\$ 3,449,659
Travel and Living	-	-	994,124	994,124
Equipment and Other	-	-	1,857,978	1,857,978
Salary, Payroll Taxes and Benefits	90,478	17,886	330,134	438,498
Bank, Credit Card, and Investment Fees	3,186	-	12,258	15,444
Commodities	-	-	6,986	6,986
Communications	2,117	516	9,480	12,113
Depreciation	283	56	1,031	1,370
Dues and Subscriptions	909	-	3,017	3,926
Fundraising	-	1,839	-	1,839
Housing	-	-	21,082	21,082
Insurance	1,196	-	4,601	5,797
Licenses and Fees	-	1,497	-	1,497
Meetings	1,363	-	20,647	22,010
Miscellaneous	-	-	16,886	16,886
Office Supplies	786	155	2,868	3,809
Overhead	-	-	27,887	27,887
Postage	2,660	497	10,113	13,270
Printing	3,297	2,495	14,514	20,306
Professional Fees	8,344	802	53,065	62,211
Rent	21,235	4,200	77,497	102,932
Shipping	-	-	4,835	4,835
Special Projects	-	-	5,382	5,382
Stipends	-	-	11,540	11,540
Telephone	873	173	4,999	6,045
Travel	2,524	478	134,965	137,967
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 139,251</b>	<b>\$ 30,594</b>	<b>\$ 7,075,548</b>	<b>\$ 7,245,393</b>

The independent auditors' report and accompanying notes  
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HEALTH VOLUNTEERS OVERSEAS, INC.  
COMBINED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2009

	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Program</u>	<u>Total</u>
<b>FUNCTIONAL EXPENSES</b>				
In-Kind Expenditures				
Professional Services	\$ -	\$ -	\$ 3,224,700	\$ 3,224,700
Travel and Living	-	-	1,060,122	1,060,122
Equipment and Other	-	-	431,994	431,994
Salary, Payroll Taxes and Benefits	77,688	15,297	319,804	412,789
Bank, Credit Card and Investment Fees	2,673	-	11,529	14,202
Communications	2,618	483	13,346	16,447
Depreciation	117	-	503	620
Dues and Subscriptions	194	-	835	1,029
Fundraising	-	934	-	934
Housing	-	-	38,291	38,291
Insurance	1,147	-	4,950	6,097
Licenses and Fees	487	-	2,103	2,590
Meetings	701	-	9,068	9,769
Miscellaneous	162	-	19,703	19,865
Office Supplies	628	-	3,036	3,664
Overhead	-	-	22,740	22,740
Postage	2,426	500	12,340	15,266
Printing	3,120	1,318	16,446	20,884
Professional Fees	6,191	846	52,318	59,355
Rent	18,361	-	79,199	97,560
Shipping	-	-	7,193	7,193
Special Projects	-	-	6,757	6,757
Stipends	-	-	2,557	2,557
Telephone	716	-	4,570	5,286
Travel	1,624	-	99,215	100,839
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 118,853</u>	<u>\$ 19,378</u>	<u>\$ 5,443,319</u>	<u>\$ 5,581,550</u>

The independent auditors' report and accompanying notes  
are an integral part of these financial statements.

HEALTH VOLUNTEERS OVERSEAS, INC.  
COMBINED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 263,924	\$ 169,734
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Charitable Remainder Trust - Change in Fair Value	(84,939)	(88,188)
Net Realized and Unrealized (Gains) and Losses - Marketable Securities	(82,162)	(142,401)
Depreciation	1,370	619
(Increase) Decrease in Operating Assets:		
Accounts and Contributions Receivable	(22,189)	41,814
Prepaid Expenses	(7,981)	(5,983)
Increase in Operating Liabilities:		
Accounts Payable and Accrued Expenses	34,058	17,901
Deferred Registration	800	240
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>102,881</u>	<u>(6,264)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(5,012)	-
Purchases of Marketable Securities	(80,254)	(82,259)
Proceeds from Sales of Marketable Securities	71,961	66,566
NET CASH USED IN INVESTING ACTIVITIES	<u>(13,305)</u>	<u>(15,693)</u>
NET INCREASE (DECREASE) IN CASH	89,576	(21,957)
Cash and Cash Equivalents - Beginning of Year	<u>149,015</u>	<u>170,972</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 238,591</u>	<u>\$ 149,015</u>

The independent auditors' report and accompanying notes  
are an integral part of these financial statements.

HEALTH VOLUNTEERS OVERSEAS, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

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December 31, 2010 and 2009

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**Note 1: Summary of Significant Accounting Policies**

**The Organizations**

Health Volunteers Overseas, Inc. ("HVO") and Orthopaedics Overseas, Inc. ("OO") were incorporated as nonprofit organizations. The purpose of the Organizations is to improve health care in developing countries through training and education. The Organizations design and implement educational programs in developing countries staffed by short-term volunteer physicians, nurses, dentists and other health care professionals. They are sent to sites in developing countries where they teach health and medical skills to local caregivers.

**Basis of Combination**

The combined financial statements include the accounts of Health Volunteers Overseas, Inc. (HVO) and Orthopaedics Overseas, Inc. (OO). All significant inter-company accounts and transactions have been eliminated in combination. Expenses are allocated between HVO and OO (the Organizations) based on percentages agreed upon by both Board of Directors. These expenses are allocated between functional categories based on estimated percentages of time.

**Recognition of Donor Restrictions**

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Property and Equipment**

Donations of property and equipment are recorded at cost if purchased, or as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organizations report expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organizations reclassify temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets, which are determined as five (5) years.

**Use of Estimates**

The Organizations use estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Contributions**

In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. There were no permanently restricted net assets as of December 31, 2010 and 2009.

**Promises to Give**

Unconditional promises to give that are expected to be collected within one (1) year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

HEALTH VOLUNTEERS OVERSEAS, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

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December 31, 2010 and 2009

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**Note 1: Summary of Significant Accounting Policies (Continued)**

**Investments**

Investments are recorded at fair value based on quoted market prices. The Organizations record the changes in the fair value of investments (consisting of realized and unrealized gains or losses) in the statement of activities in accordance with ASC 820-10, Fair Value Measurements.

**Cash Equivalents**

Cash equivalents or temporary cash investments are carried at cost, which approximates market. For purposes of the statement of cash flows, the Organizations consider all temporary cash investments purchased with a maturity of three (3) months or less and certain certificates of deposit to be cash equivalents.

**In-Kind Contributions**

For the year ended December 31, 2010, four hundred and forty-nine (449) volunteers completed four hundred and ninety-four (494) assignments. These volunteers donated significant amounts of their time to serve in developing countries. Almost all travel and living expenses associated with the visits to teach local people appropriate health care are paid for by the participating physicians and other health professionals. During 2010, these volunteers contributed approximately 7,838 days of service in developing countries around the world. Management's estimate of the value of such time and related travel and living expenses paid personally by such professionals is \$4,443,783. In addition to the services and expenses donated during 2010, management's estimate of the value of donated equipment and supplies provided by physicians and supporters to developing countries is approximately \$1,857,978. These donations of in-kind support are reflected on the financial statements as offsetting contributions and program expenses.

For the year ended December 31, 2009, four hundred and eighty-eight (488) volunteers completed five hundred and forty-three (543) assignments. These volunteers donated significant amounts of their time to serve in developing countries. Almost all travel and living expenses associated with the visits to teach local people appropriate health care are paid for by the participating physicians and other health professionals. During 2009, these volunteers contributed approximately 8,546 days of service in developing countries around the world. Management's estimate of the value of such time and related travel and living expenses paid personally by such professionals is \$4,284,822. In addition to the services and expenses donated during 2009, management's estimate of the value of donated equipment and supplies provided by physicians and supporters to developing countries is approximately \$431,994. These donations of in-kind support are reflected on the financial statements as offsetting contributions and program expenses.

Management believes that these estimates of such expenditures provide a reasonable basis for recording offsetting in-kind contributions and donations. The recording of in-kind contributions and donations has no net impact on the reported change in net assets.

**Income Taxes**

The Organizations are exempt from federal income tax under §501(c)(3) of the Internal Revenue Code. In addition, the Organizations have been determined by the Internal Revenue Service not to be private foundations within the meaning of §509(a) of the code.

**Accounts Receivable**

The Organizations consider accounts receivable fully collectible, therefore no allowance for doubtful accounts is required.

HEALTH VOLUNTEERS OVERSEAS, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

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December 31, 2010 and 2009

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**Note 1: Summary of Significant Accounting Policies (Continued)**

**Investment Income and Gains**

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. Investment income and gains not restricted by donors are reported as increases in unrestricted net assets.

**Date of Management's Review**

The Organizations have evaluated subsequent events through May 18, 2011, the date which the financial statements were available to be issued.

**Note 2: Restrictions on Net Assets**

Temporarily restricted net assets at December 31, 2010 and 2009, represent contributions from donors specified to be used in various programs sponsored by the Organizations overseas.

**Note 3: Commitments**

On January 10, 2003, the Organization (HVO) entered into a non-cancellable lease agreement for the operating facilities for a term of seven (7) years commencing March 1, 2003. Monthly rentals are adjusted throughout the lease term as defined in the lease. On April 7, 2009, the Organization entered into an amended lease agreement effective May 1, 2009 for a term of ten (10) years.

Future minimum rentals due under the term of these leases (including lease extensions) follow:

For the Years Ending December 31,

2011	\$ 89,842
2012	101,040
2013	104,071
2014	107,193
2015	110,409
Thereafter	<u>392,111</u>
 TOTAL	 <u>\$ 904,666</u>

Total rent expense for the years ended December 31, 2010 and 2009 amounted to \$102,932 and \$97,560, respectively.

**Note 4: Deferred Compensation Plan**

HVO has available to all eligible employees a deferred compensation plan. The Organization's contribution to the Plan totaled \$23,249 and \$22,152 for the years ended December 31, 2010 and 2009, respectively.

HEALTH VOLUNTEERS OVERSEAS, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

December 31, 2010 and 2009

**Note 5: Credit Risk**

The Organizations maintain accounts with a stock brokerage firm. The account contains cash and securities. Balances are insured up to \$500,000 (with a limit of \$100,000 for cash) by the Securities Investor Protection Corporation.

**Note 6: Marketable Securities**

The Organizations have determined the fair value of certain assets through application of FASB ASC 820-10, Fair Value Measurements. Fair values of assets measured on a recurring basis at December 31, 2010 and 2009 are as follows:

<u>December 31, 2010</u>	<u>Fair Value</u>	<u>Original Cost</u>	<u>Gross Unrealized Gains</u>
Money Market/Cash	\$ 16,034	\$ 16,034	\$ -
Mutual Funds - Equities	560,093	532,508	27,585
Mutual Funds - Fixed Income	355,332	322,598	32,734
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 931,459</u></b>	<b><u>\$ 871,140</u></b>	<b><u>\$ 60,319</u></b>

Investment return is summarized as follows:

Interest and Dividend Income	\$ 37,615
Net Realized and Unrealized Gains and Losses	82,162
<b>TOTAL INVESTMENT INCOME</b>	<b><u>\$ 119,777</u></b>

<u>December 31, 2009</u>	<u>Fair Value</u>	<u>Original Cost</u>	<u>Gross Unrealized Gains (Losses)</u>
Money Market/Cash	\$ 68,230	\$ 68,230	\$ -
Mutual Funds - Equities	485,242	532,746	(47,504)
Mutual Funds - Fixed Income	301,579	283,303	18,276
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 855,051</u></b>	<b><u>\$ 884,279</u></b>	<b><u>\$ (29,228)</u></b>

Investment return is summarized as follows:

Interest and Dividend Income	\$ 38,922
Net Realized and Unrealized Gains and Losses	142,401
<b>TOTAL INVESTMENT INCOME</b>	<b><u>\$ 181,323</u></b>

HEALTH VOLUNTEERS OVERSEAS, INC.  
NOTES TO COMBINED FINANCIAL STATEMENTS

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December 31, 2010 and 2009

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**Note 6: Marketable Securities (Continued)**

FASB ASC 820-10 establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The levels of the hierarchy and those investments included in each are as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 - Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

The Organizations' investments in money market funds, certificates of deposits, mutual funds, equities and fixed income at December 31, 2010 and 2009 are considered Level 1 securities, as defined by the standard.

**Note 7: Charitable Remainder Trusts**

The Organization, Orthopaedics Overseas, Inc. is the beneficiary of a charitable remainder trust created by a private donor (split interest agreement). Upon the death of the life beneficiary, the Organization will receive the residual assets of the trust.

Based on the life beneficiaries' life expectancies and the use of a 4.2% discount rate, the present value of the future benefits expected to be received by the Organization is estimated to be \$584,138 and \$499,199 as of December 31, 2010 and 2009, respectively. This amount is included in Promises to Give on the accompanying financial statement.

**Note 8: Investment - Other**

The Organization (OO) has established an endowment fund in the amount of \$127,561 and \$113,514 as of December 31, 2010 and 2009, respectively, that is being held by the Orthopaedic Research and Education Foundation (OREF). The investment is stated on the equity method according to the terms of the contract between the parties.