

Financial Statements
Year Ended
December 31, 2013
With Comparative Totals for 2012



PHYSICIANS
FOR PEACE

teach one. heal many.

Physicians for Peace

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Report of Independent Auditors

Board of Directors
Physicians for Peace

We have audited the accompanying financial statements of ***Physicians for Peace*** (Organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditors' 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 ***Physicians for Peace*** as of December 31, 2013, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited ***Physicians for Peace's*** 2012 financial statements, and expressed an unmodified opinion on those financial statements in our report dated May 20, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Norfolk, Virginia
May 20, 2014

Physicians for Peace

Statements of Financial Position

December 31,	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 220,684	\$ 425,715
Current portion of contributions receivable	290,903	59,100
Other receivables	-	4,893
Inventory	3,563,591	8,859,420
Total current assets	4,075,178	9,349,128
Furniture and equipment - net	23,138	31,168
Investments	7,514,267	8,327,884
Contributions receivable - net of current portion	34,030	76,249
Deposits	15,136	15,136
	\$ 11,661,749	\$ 17,799,565
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 98,867	\$ 77,209
Security deposit	1,600	1,600
Accrued rent	41,510	43,245
Total liabilities	141,977	122,054
Net assets		
Unrestricted	3,493,487	8,931,204
Unrestricted - board designated	7,514,267	8,464,999
Temporarily restricted	472,018	241,308
Permanently restricted	40,000	40,000
Total net assets	11,519,772	17,677,511
	\$ 11,661,749	\$ 17,799,565

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

Physicians for Peace

Statements of Activities

Year Ended December 31, 2013 with Comparative Totals for 2012

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total 2013	Total 2012
Public support and revenue					
In-kind contributions - supplies	\$ 3,488,849	\$ -	\$ -	\$ 3,488,849	\$ 15,770,547
In-kind contributions - services and other	885,795	-	-	885,795	742,746
	<u>4,374,644</u>	<u>-</u>	<u>-</u>	<u>4,374,644</u>	<u>16,513,293</u>
Contributions	518,791	448,491	-	967,282	956,908
Special events revenue	182,468	-	-	182,468	245,254
Rental income	10,200	-	-	10,200	10,450
	<u>711,459</u>	<u>448,491</u>	<u>-</u>	<u>1,159,950</u>	<u>1,212,612</u>
Net assets released from restrictions	217,781	(217,781)	-	-	-
Total public support, revenue and other income	<u>5,303,884</u>	<u>230,710</u>	<u>-</u>	<u>5,534,594</u>	<u>17,725,905</u>
Expenses					
Program services	11,423,495	-	-	11,423,495	9,779,512
Management and general	435,894	-	-	435,894	344,163
Fundraising	743,534	-	-	743,534	573,952
Total expenses	<u>12,602,923</u>	<u>-</u>	<u>-</u>	<u>12,602,923</u>	<u>10,697,627</u>
Change in net assets from operations	<u>(7,299,039)</u>	<u>230,710</u>	<u>-</u>	<u>(7,068,329)</u>	<u>7,028,278</u>
Investment income (expense)					
Investment income	163,826	-	-	163,826	209,767
Investment expenses	(42,054)	-	-	(42,054)	(42,722)
Net realized and unrealized gains	788,818	-	-	788,818	887,574
	<u>910,590</u>	<u>-</u>	<u>-</u>	<u>910,590</u>	<u>1,054,619</u>
Change in net assets	<u>(6,388,449)</u>	<u>230,710</u>	<u>-</u>	<u>(6,157,739)</u>	<u>8,082,897</u>
Transfers of net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets - beginning of year	<u>17,396,203</u>	<u>241,308</u>	<u>40,000</u>	<u>17,677,511</u>	<u>9,594,614</u>
Net assets - end of year	<u>\$ 11,007,754</u>	<u>\$ 472,018</u>	<u>\$ 40,000</u>	<u>\$ 11,519,772</u>	<u>\$ 17,677,511</u>

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

Physicians for Peace

Statements of Functional Expenses

Year Ended December 31, 2013 with Comparative Totals for 2012

	Program Expenses	Management and General	Fundraising	Total 2013	Total 2012
In-kind donations	\$ 8,784,629	\$ -	\$ 219,851	\$ 9,004,480	\$ 7,469,062
Donated services	665,943	-	-	665,943	598,092
	<u>9,450,572</u>	<u>-</u>	<u>219,851</u>	<u>9,670,423</u>	<u>8,067,154</u>
Staff costs	935,309	302,899	278,739	1,516,947	1,233,984
Mission travel	283,578	-	-	283,578	230,175
Local mission support	209,402	-	-	209,402	140,667
Medical equipment and supplies	157,222	-	-	157,222	65,428
Rent and occupancy	95,272	28,055	32,730	156,057	167,874
Direct mail, annual report, photo/video	40,631	-	107,344	147,975	75,284
Consulting fees	82,147	21,249	-	103,396	250,554
Technology and equipment	29,238	25,062	40,414	94,714	77,832
Office expense	26,973	30,575	28,094	85,642	64,245
Special events	41,228	-	32,792	74,020	70,079
Shipping	56,513	-	-	56,513	64,883
Insurance	11,576	3,059	3,570	18,205	17,593
Accounting and audit	-	16,965	-	16,965	17,630
Depreciation	-	8,030	-	8,030	7,882
Other	3,834	-	-	3,834	6,600
Grants to subrecipients	-	-	-	-	137,263
Uncollectible pledge expense	-	-	-	-	2,500
	<u>1,972,923</u>	<u>435,894</u>	<u>523,683</u>	<u>2,932,500</u>	<u>2,630,473</u>
	<u>\$ 11,423,495</u>	<u>\$ 435,894</u>	<u>\$ 743,534</u>	<u>\$ 12,602,923</u>	<u>\$ 10,697,627</u>

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

Physicians for Peace

Statements of Cash Flows

Years Ended December 31	2013	2012
Cash flows from operating activities		
Change in net assets	\$ (6,157,739)	\$ 8,082,897
Adjustments to reconcile to cash from operating activities:		
Depreciation	8,030	7,882
Net realized and unrealized gains on investments	(788,818)	(887,574)
Reinvested interest and dividends	(163,826)	(209,767)
Uncollectible pledge expense	-	2,500
Change in:		
Contributions receivable	(189,584)	(79,204)
Other receivables	4,893	-
Inventory	5,295,829	(8,446,139)
Deposits	-	(2,200)
Accounts payable and accrued expenses	19,923	(24,861)
Net cash from operating activities	(1,971,292)	(1,556,466)
Cash flows from investing activities		
Purchase of furniture and equipment	-	(3,999)
Proceeds from sale of investments	2,308,604	1,938,622
Purchase of investments	(542,343)	(241,084)
Net cash from investing activities	1,766,261	1,693,539
Net change in cash and cash equivalents	(205,031)	137,073
Cash and cash equivalents - beginning of year	425,715	288,642
Cash and cash equivalents - end of year	\$ 220,684	\$ 425,715

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

Physicians for Peace

Notes to Financial Statements

December 31, 2013

1. Organization and Nature of Activities

Physicians for Peace (Organization) is a private, not-for-profit, organization founded in 1989. Based in Virginia, the Organization works to end inequalities in global healthcare by training, supporting and empowering healthcare professionals who are working with the world's underserved populations.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash and cash equivalents.

Inventory

Inventory is composed primarily of medical supplies, personal care items and other commodities and is stated at the lower of cost, determined using the average cost method of valuation, or market. Approximately \$3,364,162 or 94% of inventory at December 31, 2013 consisted of eyeglass frames and orthotic supplies for prosthetic limbs.

Investments

The Organization's investments consist of various cash and cash equivalents, equity securities, and mutual funds maintained in different investment brokerage accounts. Also, included in the Organization's investment portfolio is an approximately 3.5% interest in a limited liability company that actively owns and trades debt and equity securities and other financial instruments. The Organization's investments are reported at their fair values. Unrealized and realized gains and losses on investments are recognized in the statement of activities as increases or decreases in unrestricted net assets.

Contributions

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Contributions receivable consist of unconditional promises to give that are expected to be collected in future years and are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Management reviews contributions receivable yearly to determine the need for any allowance. Once management determines that a receivable is unlikely to be collected, an allowance is provided. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Conditional promises to give are not included as support until the conditions are substantially met. Management has determined that no allowance was needed as of December 31, 2013.

Furniture and Equipment

Furniture and equipment are recorded at cost, or if donated, such assets are capitalized at the estimated fair market value at the date of receipt. It is the Organization's policy to capitalize all purchases of property and equipment above \$1,000. When assets are sold or otherwise disposed, the asset and related accumulated depreciation and amortization are removed from the accounts, and any remaining gain or loss is included in operations. Repairs and maintenance are charged to expense when incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets as follows:

Equipment	5 years
Furniture	5 - 7 years
Software	5 years

Unrestricted Net Assets

Unrestricted net assets are available for use in general operations unless designated by the Board of Directors.

Unrestricted - board designated net assets consist of net assets designated by the Board of Directors for use in maintaining the quasi-endowment.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of assets whose use is stipulated by donors for specific operating purposes. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets

Permanently restricted net assets consist of assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permits the Organization to expend the income generated in accordance with the provisions of the agreement.

In-Kind Contributions - Supplies

The Organization receives donations of medical supplies, personal care items and other commodities for use in training and development programs. Such gifts are recorded at their estimated fair market value at the date of donation and were valued at \$3,488,849 during 2013.

Donated Services and Other

The Organization records donated services which consist primarily of time spent by doctors, nurses, and other health practitioners in clinical and educational areas of the Organization's programs. Donated services are recorded at the respective fair market values when the services are received and were valued at \$665,944 during 2013.

Donated professional services by volunteer international medical educators only represent those hours performed by US-based practitioners. In 2013, Physicians for Peace conducted 82 training missions--51 were conducted by US-based medical professionals in other countries and 31 were conducted by Philippines-based medical professionals within the Philippines. The 31 Philippine missions are not included within the total donated services because there is currently no standardized methodology to accurately capture the total number of hours dedicated to a Physicians for Peace mission nor are there accurate, authoritative sources for assessing the hourly value by medical specialty.

The Organization also receives donations of items and professional services related to their annual gala and daily operations. Such items include donated advertising, production videos and gala auction items. These gifts are recorded at their estimated fair market value at the date of donation and were valued at \$219,851 during 2013.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

The Organization follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was \$32,053 in 2013.

Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, investments and pledge receivables.

The Organization places its cash and cash equivalents and restricted cash with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. The balances are insured by the Federal Deposit Insurance Corporation (FDIC). The Organization had no amounts on deposit in excess of the FDIC limit at December 31, 2013.

The Organization has investments in brokerage accounts in excess of the amount protected by the Securities Investor Protection Corporation (SIPC). In monitoring this credit risk, the Organization periodically evaluates the stability of these brokerage accounts. At December 31, 2013, the Organization's unprotected investments over the SIPC limit of \$500,000 were approximately \$6,495,800.

At December 31, 2013, five pledges represent 94% of the outstanding contributions receivable balance. In addition, two companies contributed 89% of the total in-kind contributions - supplies in 2013.

Functional Allocation of Expenses

The costs of providing the various programs and services have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2013. Years ending on or after December 31, 2010 remain subject to examination by federal and state tax authorities.

Comparative Information

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's detailed financial statements for 2012 from which the summarized information was derived.

The following accounts were reclassified to conform with current year presentation to better represent the activities of the Organization.

Financial statement line	Current Year Presentation	Prior Year Presentation
Staff costs	\$ 1,233,984	\$ 1,237,524
Office expense	64,245	60,705
Local mission support	140,667	-
Technology and equipment	77,832	98,458
Contract labor	-	62,229
Mission expense	-	57,812
	\$ 1,516,728	\$ 1,516,728

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 20, 2014, the date the financial statements were available to be issued.

3. Contributions Receivable

Contributions receivable consist of unconditional promises to give. Contributions receivable are as follows:

Amounts due in:	
Less than one year	\$ 290,903
One to five years	35,000
	<hr/>
	325,903
Less - discount	(970)
	<hr/>
	\$ 324,933

The discount is calculated using risk free rates ranging from .22% - 2.8%.

4. Investments

Investments consist of the following:

Cash equivalents	\$ 32,475
Mutual funds	1,480,607
Equity securities	1,061,441
Managed investments	4,783,592
Alternative investment	156,152
	<hr/>
	\$ 7,514,267

The Organization is a limited partner in a private limited partnership (included in alternative investment above). The investment in this limited partnership has been valued at the respective limited partner's share of the net asset values as reported by the private limited partnership. In addition, signed agreements to invest an additional \$100,000 in the existing partnership at the request of the investment company were in effect as of December 31, 2013. Funds for those investments are currently invested temporarily in marketable securities that will be liquidated as capital calls are made.

Investment return consists of the following:

Interest and dividends	\$ 163,826
Realized gains	695,434
Unrealized gains	93,384
	<hr/>
	\$ 952,644

Investment fees were \$42,054 for 2013.

5. Fair Value Measurements

The Organization follows a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under generally accepted accounting principles are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level with the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques are used to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization's financial instruments consisted of the following at December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
U.S. equity securities	\$ 1,012,371	\$ -	\$ -	\$ 1,012,371
Foreign equity security	49,070	-	-	49,070
U.S. mutual funds				
Bond	771,004	-	-	771,004
Growth	637,604	-	-	637,604
Low duration	71,998	-	-	71,998
U.S. managed investments	-	4,783,593	-	4,783,593
Alternative assets				
Limited partnership	-	-	156,152	156,152
	<u>\$ 2,542,047</u>	<u>\$ 4,783,593</u>	<u>\$ 156,152</u>	<u>\$ 7,481,792</u>

Fair value for level 1 is based upon quoted market prices. Fair value for level 2 is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

The Organization has determined that the managed investments are level 2 inputs. The investments are held within a limited liability company and are valued based upon the Organization's proportionate share of the total portfolio of the assets. The managed investments consist of traditional investment securities which are presented on the limited liability company's audited financial statements ranging from a level 1 to level 2. There are no alternative investments included in the managed investments, and management of the Organization is of the belief that the fair values of the managed investments are based on quoted prices for similar instruments in active markets.

Investments held by the limited partnership consist of securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is the 2013 rollforward of the statement of financial position amounts for financial instruments classified by the Organization within Level 3 of the valuation hierarchy defined above:

Fair value January 1, 2013	\$ 46,332
Unrealized gain on investment	9,820
Purchases of investments	<u>100,000</u>
Fair value December 31, 2013	<u>\$ 156,152</u>
Amount of unrealized losses related to financial instruments held at December 31, 2013 included in the statement of activities.	<u>\$ (9,820)</u>

6. Furniture and Equipment

Furniture and equipment consist of the following:

Equipment	\$ 24,144
Furniture	40,535
Software	<u>67,948</u>
	132,627
Less - accumulated depreciation	<u>(109,489)</u>
	<u>\$ 23,138</u>

Depreciation expense for 2013 was \$8,030.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

Accounts payable	\$ 46,523
Accrued vacation	<u>52,344</u>
	<u>\$ 98,867</u>

8. Net Assets

Net assets consist of the following:

Unrestricted:	
Unrestricted	\$ 3,493,487
Unrestricted - board designated	<u>7,514,267</u>
Total unrestricted	<u>\$ 11,007,754</u>
Temporarily restricted:	
Time restricted pledges:	\$ 324,933
Program specific:	
Maternal and child	23,985
Other	73,882
Surgery	24,210
Seeing clearly	4,671
Walking free	<u>20,337</u>
Total temporarily restricted	<u>\$ 472,018</u>
Permanently restricted:	
General endowment	<u>\$ 40,000</u>

9. Employee Retirement Plan

The Organization maintains a 403(b) defined contribution retirement plan (Plan) for eligible employees. Employees who are 18 years of age and older are eligible to defer a portion of eligible compensation subject to the maximum amounts allowable under the Internal Revenue Code. After one year of service, the Organization matches up to 2.5% of an employee's eligible compensation. In addition, in 2013, the Organization made a discretionary contribution of 2.5% of each eligible employee's eligible compensation. The Organization incurred \$31,900 in pension expense for 2013.

10. Endowment Funds

The Organization's endowment consists of funds which are included in investments. These funds are donor-restricted endowment funds and were established for a variety of purposes. As required by U.S. generally accepted accounting principles (GAAP), net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The management of donor-restricted endowment funds is governed by state law under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the Virginia state legislature in 2008. The law gives guidance for investment and spending practices, giving consideration for donor intent and the organization's overall resources and charitable purpose. Based on their interpretation of law and in compliance with donor intent, the Organization classifies as permanently restricted net assets, the original value of gifts donated to the permanent endowment.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the state UPMIFA law. The Organization appropriates expenditures from time-to-time as a specific need arises. Previously, accumulations on endowment funds with no purpose restriction were classified as unrestricted net assets. The interpretation of the new law did not result in any reclassifications from unrestricted net assets due to the Organization having previously expended all earnings from the endowment assets.

A summary of the activity in the endowment fund for the year ended December 31, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 40,000	\$ 40,000
Investment return:				
Investment income	683	-	-	683
Net appreciation (realized and unrealized gain)	3,289	-	-	3,289
Total investment return	3,972	-	-	3,972
Appropriation of endowment:				
Assets for expenditures	(3,972)	-	-	(3,972)
Endowment net assets, end of year	\$ -	\$ -	\$ -	\$ 40,000

In accordance with state UPMIFA law, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the Organization and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the investment policies of the Organization.

The Organization has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity. Under this policy, as approved by the executive committee, the endowment assets are invested in a manner that is intended to maximize long-term growth using a balanced approach with less than full stock market risk and volatility.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

11. Commitments

The Organization leases office equipment and office and warehouse spaces under various agreements. The Organization is also committed to subscription charges and web-hosting fees for a four-year period beginning June 2010 at \$3,700 per year. The office equipment lease is for \$986 per month and expires November 2017.

The term of the Virginia office space lease is for six years, 10 months beginning on August 1, 2010, and ending on May 31, 2017. The monthly rent is \$8,151 with escalating monthly payments in future years, including eight months of free rent. Under the terms of this lease, the Organization is obligated to pay escalation rentals for certain operating expenses and real estate taxes. There is an option to renew for an additional five years, six months prior to the expiration of the lease.

The Organization also rents warehouse space. The warehouse lease was \$4,355 per month and expires May 2016.

Future minimum lease payments under these operating leases are as follows:

Year Ending December 31:

2014	\$	158,517
2015		160,112
2016		128,447
2017		<u>50,796</u>
	\$	<u>497,872</u>

Rent expense for 2013 was \$156,057.

In order to minimize its cost, the Organization subleases a portion of its warehouse to a tenant on a month-to-month basis. Sublease income from this agreement was \$10,200 during 2013.

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