



## **Financial Statements**

**Year Ended December 31, 2017 with Comparative Totals for 2016**

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## **Independent Auditors' Report**

Board of Directors  
Physicians for Peace  
Norfolk, Virginia

We have audited the accompanying financial statements of Physicians for Peace (Organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and net assets, 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, 2017, and the changes in its 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 2016 financial statements, and expressed an unmodified opinion on those financial statements in our report dated June 2, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Dixon Hughes Goodman LLP*

**Norfolk, Virginia  
June, 18 2018**

**Physicians for Peace**  
**Statement of Financial Position**  
**December 31, 2017 with Comparative Totals for 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 366,131	\$ 143,956
Current portion of promises to give	2,820	9,664
Other receivables	1,667	-
	<u>370,618</u>	<u>153,620</u>
Furniture and equipment, net	-	1,899
Investments	2,339,829	3,192,765
Deposits	-	11,151
	<u>\$ 2,710,447</u>	<u>\$ 3,359,435</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 72,564	\$ 19,273
Accrued rent	-	9,227
	<u>72,564</u>	<u>28,500</u>
Net assets:		
Unrestricted	205,983	45,319
Unrestricted, board designated	2,339,829	3,192,765
Temporarily restricted	52,071	52,851
Permanently restricted	40,000	40,000
	<u>2,637,883</u>	<u>3,330,935</u>
Total net assets	<u>\$ 2,710,447</u>	<u>\$ 3,359,435</u>

See accompanying notes.

**Physicians for Peace**  
**Statement of Activities and Net Assets**  
**Year Ended December 31, 2017 with Comparative Totals for 2016**

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total 2017	Total 2016
Public support, revenue and other income:					
In-kind contributions, services and other	\$ 350,761	\$ -	\$ -	\$ 350,761	\$ 445,870
Contributions and promises to give income	233,887	36,824	-	270,711	267,212
Grant income	-	-	-	-	29,670
Gain on sale of furniture and equipment	8,117	-	-	8,117	691
Rental income	12,000	-	-	12,000	-
	<u>604,765</u>	<u>36,824</u>	<u>-</u>	<u>641,589</u>	<u>743,443</u>
Net assets released from restrictions	<u>37,604</u>	<u>(37,604)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total public support, revenue and other income	<u>642,369</u>	<u>(780)</u>	<u>-</u>	<u>641,589</u>	<u>743,443</u>
Expenses:					
Program services	1,070,518	-	-	1,070,518	1,347,681
Management and general	94,728	-	-	94,728	274,286
Fundraising	245,445	-	-	245,445	645,309
Total expenses	<u>1,410,691</u>	<u>-</u>	<u>-</u>	<u>1,410,691</u>	<u>2,267,276</u>
Change in net assets from operations	<u>(768,322)</u>	<u>(780)</u>	<u>-</u>	<u>(769,102)</u>	<u>(1,523,833)</u>
Investment income (expense):					
Investment income	37,862	-	-	37,862	75,912
Investment expenses	-	-	-	-	(29,856)
Net realized and unrealized gains	38,188	-	-	38,188	120,665
	<u>76,050</u>	<u>-</u>	<u>-</u>	<u>76,050</u>	<u>166,721</u>
Change in net assets	<u>(692,272)</u>	<u>(780)</u>	<u>-</u>	<u>(693,052)</u>	<u>(1,357,112)</u>
Net assets, beginning of year	<u>3,238,084</u>	<u>52,851</u>	<u>40,000</u>	<u>3,330,935</u>	<u>4,688,047</u>
Net assets, end of year	<u>\$ 2,545,812</u>	<u>\$ 52,071</u>	<u>\$ 40,000</u>	<u>\$ 2,637,883</u>	<u>\$ 3,330,935</u>

See accompanying notes.

**Physicians for Peace**  
**Statement of Functional Expenses**  
**Year Ended December 31, 2017 with Comparative Totals for 2016**

	<b>Program Expenses</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total 2017</b>	<b>Total 2016</b>
Staff costs	\$ 398,161	\$ 48,816	\$ 164,605	\$ 611,582	\$ 1,137,102
Donated services	349,435	-	1,326	350,761	445,870
Local mission support	97,642	-	-	97,642	169,741
Consulting fees	81,717	1,188	7,500	90,405	79,403
Technology and equipment	33,764	8,885	25,637	68,286	62,461
Mission travel	60,830	-	-	60,830	69,732
Professional fees	7,802	27,626	4,041	39,469	55,644
Rent and occupancy	15,802	4,233	8,183	28,218	129,594
Office expense	16,577	2,205	7,734	26,516	20,445
Direct mail, annual report, photo/video	-	-	15,743	15,743	53,049
Special events	-	-	8,773	8,773	-
Insurance	5,791	984	1,903	8,678	12,497
Other	2,081	-	-	2,081	70
Medical equipment and supplies	916	-	-	916	25,912
Depreciation	-	791	-	791	4,726
Shipping	-	-	-	-	1,030
	<b>\$ 1,070,518</b>	<b>\$ 94,728</b>	<b>\$ 245,445</b>	<b>\$ 1,410,691</b>	<b>\$ 2,267,276</b>

See accompanying notes.

**Physicians for Peace**  
**Statement of Cash Flows**  
**Year Ended December 31, 2017 with Comparative Totals for 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (693,052)	\$ (1,357,112)
Adjustments to reconcile to net cash from operating activities:		
Depreciation	791	4,726
Gain on sale of furniture and equipment	(8,117)	(691)
Net realized and unrealized gains on investments	(38,188)	(120,665)
Change in:		
Promises to give	6,844	13,200
Grants receivable	-	19,780
Other receivables	(1,667)	1,251
Prepaid expenses	-	5,173
Deposits	11,151	3,985
Accounts payable and accrued expenses	44,064	(43,353)
Net cash used by operating activities	<u>(678,174)</u>	<u>(1,473,706)</u>
Cash flows from investing activities:		
Proceeds from sale of investments	928,762	3,546,645
Purchase of investments	(37,638)	(2,083,027)
Proceeds from sale of furniture and equipment	9,225	749
Net cash provided by investing activities	<u>900,349</u>	<u>1,464,367</u>
Net change in cash and cash equivalents	222,175	(9,339)
Cash and cash equivalents, beginning of year	<u>143,956</u>	<u>153,295</u>
Cash and cash equivalents, end of year	<u>\$ 366,131</u>	<u>\$ 143,956</u>

See accompanying notes.



## **Notes to Financial Statements**

### **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**

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU 2015-07, Disclosures For Investments in Certain Entities That Calculate Net Asset Value Per Share (or Its Equivalent)), which amends disclosure requirements of Accounting Standard Codification ("ASC") Topic 820, Fair Value Measurement, for reporting entities that measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient, and also remove the requirements to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The Organization adopted ASU 2015-07 in 2017 in Note 5.

#### ***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.

#### Unrestricted Net Assets

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

#### Temporarily Restricted Net Assets

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

#### ***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.

**Physicians for Peace  
Notes to Financial Statements**

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***Investments***

The Organization's investments consist of various cash and cash equivalents, bonds, and equity securities maintained in different investment brokerage accounts and an investment in a limited partnership. The Organization's investments are reported at their fair values or net asset values. Unrealized and realized gains and losses on investments are recognized in the statement of activities and net assets as increases or decreases in unrestricted net assets.

***Contributions***

Contributions, which include unconditional promises to give, are recognized as revenue in the period received. Promises to give 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 contributions and promises to give revenue. Management reviews promises to give yearly to determine the need for any allowance. Once management determines that a promise to give is unlikely to be collected, an allowance is provided. After all attempts to collect a promise to give have failed, the promise to give 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, 2017.

***Grants***

Grants are promises to give, conditioned on future events. Grant income is not recognized until the donor conditions are met. Grants receivable represents amounts due to the Organization upon meeting the grant requirements. Receivables are stated at the amount management expects to collect from balances outstanding. Management closely monitors outstanding balances throughout the year, and writes off all balances that are considered uncollectible. Management has determined that no allowance was needed as of December 31, 2017.

***Furniture and equipment***

Furniture and equipment are recorded at cost, or if donated, such assets are capitalized at the estimated fair value at the date of receipt. It is the Organization's policy to capitalize all purchases of furniture 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

The Organization sold or disposed all their furniture and equipment prior to December 31, 2017.

***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 values when the services are received and were valued at \$349,435 during 2017.

The Organization also receives donations of items and professional services related to their fundraising activities and daily operations. Such items include donated advertising, discounted shipping, and auction items. These gifts are recorded at their estimated fair value at the date of donation and were valued at \$1,326 during 2017.

## **Physicians for Peace Notes to Financial Statements**

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### ***Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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. There were no advertising expenses in 2017.

### ***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 promises to give.

The Organization places its cash and cash equivalents with high credit quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, the Organization places deposits in financial institutions that may be in excess of federal insured limits. The Organization has not experienced any financial loss related to such deposits.

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, 2017, the Organization's unprotected investments over the SIPC limit of \$500,000 were \$1,783,847.

At December 31, 2017, one promise to give represents 71% of the outstanding promises to give balance.

### ***Functional allocation of expenses***

The costs of providing the various programs and services have been summarized on a functional basis in the statement of activities and net assets and 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 and the Commonwealth of Virginia; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes.

### ***Comparative information***

The financial statements include certain prior year summarized comparative information in total but not by restriction. 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 Organization's detailed financial statements for 2016 from which the summarized information was derived.

### ***Subsequent events***

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 18, 2018, the date the financial statements were available to be issued.

**Physicians for Peace**  
**Notes to Financial Statements**

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**3. Promises to Give**

At December 31, 2017, promises to give consist of two unconditional promises to give due in 2018 for \$2,820.

**4. Investments**

Investments consist of the following:

Cash funds	\$ 1,166,965
Fixed income securities	1,025,197
Equity securities	91,685
Alternative investment	<u>55,982</u>
	<u>\$ 2,339,829</u>

The Organization is a limited partner in a private limited partnership (shown as an 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.

Investment return consists of the following:

Interest and dividends	\$ 37,862
Net realized gains	103,292
Net unrealized losses	<u>(65,104)</u>
	<u>\$ 76,050</u>

There were no investment fees in 2017.

**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.

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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 within 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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Investments (at fair value):</b>				
U.S. equity securities	\$ 91,685	\$ -	\$ -	\$ 91,685
Fixed income securities	1,025,197	-	-	1,025,197
Cash fund	<u>1,166,965</u>	<u>-</u>	<u>-</u>	<u>1,166,965</u>
	<u>\$ 2,283,847</u>	<u>\$ -</u>	<u>\$ -</u>	2,283,847
<b>Investments measured at net asset value (a):</b>				
Investment in limited partnership				<u>55,982</u>
Total investments				<u>\$ 2,339,829</u>

(a) In accordance with ASC 820, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

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 investment in limited partnership is valued utilizing the net asset valuations provided by the underlying private investment company, without adjustment, when the net asset valuations of the investment is calculated in a manner consistent with U.S. Generally accepted accounting principles for investment companies. As indicated in Note 2, the Organization adopted ASU 2015-07 in 2017. Accordingly, investments for which fair value is measured using net asset value as a practical expedient, which is the investment in the limited partnership at year end, has not been categorized within a fair value hierarchy.

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.

**Physicians for Peace**  
**Notes to Financial Statements**

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**6. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of the following:

Accounts payable	\$	14,355
Accrued expenses		39,156
Accrued vacation		<u>19,053</u>
	\$	<u>72,564</u>

**7. Net Assets**

Net assets consist of the following:

Unrestricted:		
Unrestricted	\$	205,983
Unrestricted, board designated		<u>2,339,829</u>
Total unrestricted	\$	<u>2,545,812</u>
Temporarily restricted:		
Time restricted promises to give	\$	2,820
Program specific		<u>49,251</u>
Total temporarily restricted	\$	<u>52,071</u>
Permanently restricted:		
General endowment	\$	<u>40,000</u>

**8. Employee Retirement Plan**

The Organization maintains a 403(b) defined contribution retirement 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 2017, the Organization made a discretionary contribution of 2.5% of each eligible employee's eligible compensation. The Organization incurred \$15,478 in pension expense for 2017.

**9. Endowment Funds**

The Organization's endowment consists of one fund which is included in investments. This fund is a donor-restricted endowment fund established for a variety of purposes. As required by GAAP, net assets associated with the endowment fund 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.

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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, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 40,000	\$ 40,000
Investment return:				
Investment income	560	-	-	560
Net appreciation (realized and unrealized gain)	<u>570</u>	<u>-</u>	<u>-</u>	<u>570</u>
Total investment return	1,136	-	-	1,136
Appropriation of endowment:				
Assets for expenditures	<u>(1,136)</u>	<u>-</u>	<u>-</u>	<u>(1,136)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,000</u>	<u>\$ 40,000</u>

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 seeks to preserve capital to permit planned and approved withdrawals deemed prudent to fund operations.

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).

**10. Commitments**

The Organization leased office equipment and office space under various agreements. The office equipment lease is for \$986 per month and ended in 2017.

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The term of the Virginia office space lease began on August 1, 2010, and ended on May 31, 2017. The monthly rent was \$8,151 with escalating monthly payments in future years and included eight months of free rent. Under the terms of this lease, the Organization was obligated to pay escalation rentals for certain operating expenses and real estate taxes. Beginning February 2017, the Organization subleased a portion of the office space for \$3,000 a month until the office lease expired in May 2017.

There are no future minimum lease payments under these operating leases as the leases terminated prior to December 31, 2017. Rent expense and rental income for 2017 was \$28,218 and \$12,000, respectively.