Financial Statements
Year Ended
December 31, 2010

PHYSICIANS *for* PEACE

FOUNDED 1989

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Physicians for Peace

Contents

	Page
Report of Independent Auditors	1
Financial Statements	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 15

Report of Independent Auditors

Board of Directors
Physicians for Peace

We have audited the accompanying statement of financial position of ***Physicians for Peace*** as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of ***Physicians for Peace***. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Virginia Beach, Virginia
May 24, 2011

Physicians for Peace

Statement of Financial Position

December 31, 2010

Assets	
Current assets	
Cash and cash equivalents	$ 582,558
Current portion of contributions receivable	30,200
Inventory	965,531
Total current assets	1,578,289
Furniture and equipment - net	26,340
Investments	9,612,274
Contributions receivable - net of current portion	24,469
Deposits	20,216
	$11,261,588
Liabilities and Net Assets	
Current liabilities	
Accounts payable and accrued expenses	$ 118,229
Security deposit	1,600
Accrued rent	38,964
Total liabilities	158,793
Net assets	
Unrestricted	1,087,430
Unrestricted - board designated	9,612,274
Temporarily restricted	363,091
Permanently restricted	40,000
Total net assets	11,102,795
	$11,261,588

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

Physicians for Peace

Statement of Activities

Year Ended December 31, 2010

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Public support, revenue, and other income				
In-kind contributions - supplies	$ 9,930,491	$ -	$ -	$ 9,930,491
Contributions	515,740	636,542	-	1,152,282
In-kind contributions - services and other	925,503	-	-	925,503
Net realized and unrealized investment gains	840,898	-	-	840,898
Investment income	230,758	-	-	230,758
Special events revenue	142,096	-	-	142,096
Rental income	11,854	-	-	11,854
Net assets released from restrictions	912,412	(912,412)	-	-
Total public support, revenue and other income	13,509,752	(275,870)	-	13,233,882
Expenses				
Program services				
Seeing clearly	7,726,392	-	-	7,726,392
Walking free	2,583,722	-	-	2,583,722
Surgery	1,006,378	-	-	1,006,378
Maternal and child	619,749	-	-	619,749
Burn care	236,869	-	-	236,869
Dental	92,913	-	-	92,913
Other	13,498	-	-	13,498
Total program services	12,279,521	-	-	12,279,521
Supporting services				
Management and general	301,652	-	-	301,652
Fundraising	310,852	-	-	310,852
Total supporting services	612,504	-	-	612,504
Total expenses	12,892,025	-	-	12,892,025
Change in net assets	617,727	(275,870)	-	341,857
Transfers of net assets	85,485	(85,485)	-	-
Net assets - beginning of year	9,996,492	724,446	40,000	10,760,938
Net assets - end of year	$10,699,704	$ 363,091	$ 40,000	$11,102,795

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

Physicians for Peace

Statement of Functional Expenses

Year Ended December 31, 2010

	Seeing Clearly	Walking Free	Surgery	Maternal and Child	Burn Care	Dental	Other	Total Program Expenses	Fundraising	Management and General	Total Supporting Services	Expenses Total
In-kind donations	$ 7,545,390	$ 1,807,193	$ 222,177	$ 47,928	$ 5,919	$ 6,485	$ -	$ 9,635,092	$ -	$ -	$ -	$ 9,635,092
Donated services	81,137	138,346	449,507	158,809	12,768	19,385	-	859,951	-	-	-	859,951
Salaries and benefits	3,102	4,888	2,465	10,174	5,135	1,273	514	27,551	398,339	242,264	640,603	668,154
Direct mission support	50,118	254,833	92,592	73,302	89,717	27,508	432	588,502	-	-	-	588,502
Cost allocation of supporting expenses	44,471	182,249	88,032	83,945	102,600	31,800	2,503	535,600	(272,010)	(263,590)	(535,600)	-
Travel	-	91,459	142,933	58,672	15,717	6,463	7,705	322,948	6,728	4,993	11,721	334,669
Consulting fees	-	-	-	107,917	-	-	-	107,917	24,000	2,000	26,000	133,917
Rent	-	-	-	9,900	-	-	-	9,900	-	89,692	89,692	99,592
Office stationary and supplies	330	1,562	1,008	1,728	16	-	28	4,672	7,034	81,093	88,127	92,799
Medical supplies and equipment	999	54,384	6,594	4,153	4,174	-	2,279	72,583	-	-	-	72,583
Contract labor	-	4,189	-	61,650	-	-	-	65,839	-	-	-	65,839
Special events	-	-	-	-	-	-	-	-	64,269	-	64,269	64,269
Investment expenses	-	-	-	-	-	-	-	-	-	53,685	53,685	53,685
Direct mail appeals	-	-	-	-	-	-	-	-	41,807	-	41,807	41,807
Postage and freight	845	19,619	1,070	1,572	823	-	37	23,966	-	4,143	4,143	28,109
Professional fees	-	-	-	-	-	-	-	-	-	26,819	26,819	26,819
Education	-	25,000	-	-	-	-	-	25,000	-	1,376	1,376	26,376
Equipment rental	-	-	-	-	-	-	-	-	-	17,770	17,770	17,770
Net community	-	-	-	-	-	-	-	-	-	15,584	15,584	15,584
Uncollectible pledge expense	-	-	-	-	-	-	-	-	15,000	-	15,000	15,000
Website and online giving	-	-	-	-	-	-	-	-	13,136	-	13,136	13,136
Depreciation	-	-	-	-	-	-	-	-	-	8,308	8,308	8,308
Donor materials	-	-	-	-	-	-	-	-	7,035	-	7,035	7,035
Repairs and maintenance	-	-	-	-	-	-	-	-	-	6,130	6,130	6,130
Dues and fees	-	-	-	-	-	-	-	-	-	5,865	5,865	5,865
Other insurance	-	-	-	-	-	-	-	-	-	5,520	5,520	5,520
Advertising	-	-	-	-	-	-	-	-	2,966	-	2,966	2,966
Public relations	-	-	-	-	-	-	-	-	1,754	-	1,754	1,754
Government relations	-	-	-	-	-	-	-	-	794	-	794	794
	$ 7,726,392	$ 2,583,722	$ 1,006,378	$ 619,749	$ 236,869	$ 92,913	$ 13,498	$ 12,279,521	$ 310,852	$ 301,652	$ 612,504	$ 12,892,025

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

Physicians for Peace

Statement of Cash Flows

Year Ended December 31, 2010

Cash flows from operating activities	
Change in net assets	$ 341,857
Adjustments to reconcile to cash from operating activities:	
Depreciation	8,308
Net realized and unrealized gains on investments	(840,898)
Reinvested interest and dividends	(229,319)
Uncollectible pledge expense	15,000
Change in:	
Contributions receivable	18,604
Inventory	(315,402)
Deposits	(9,384)
Accounts payable and accrued expenses	101,418
Net cash from operating activities	(909,816)
Cash flows from investing activities	
Purchase of furniture and equipment	(22,048)
Proceeds from sale of investments	961,939
Purchase of investments	(6,991)
Net cash from investing activities	932,900
Net change in cash and cash equivalents	23,084
Cash and cash equivalents - beginning of year	559,474
Cash and cash equivalents - end of year	$ 582,558

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

1. Organization and Nature of Activities

Physicians for Peace (Organization) is a private, not-for-profit, medical education organization founded in 1989 to further the cause of world peace and international friendship. The Organization, which is based in Virginia, has conducted numerous medical education programs in various countries for the past two decades with a focus on teaching, long-term sustainability, and self-sufficiency. Effective April 7, 2011, the Organization's name changed from Physicians for Peace Foundation to Physicians for Peace.

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 pharmaceuticals, 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 $868,000 or 90% of inventory at December 31, 2010 consisted of orthotic supplies and 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 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, 2010.

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 building 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 pharmaceuticals, medical supplies, personal care items and other commodities for use in relief and development programs. Such gifts are recorded at their estimated fair market value at the date of donation and were valued at $9,930,491 during 2010.

Donated Services

The Organization records donated services which consists of time spent by doctors, nurses, and other health practioners 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 $925,503 during 2010.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American 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 for 2010 was $2,966.

Concentration of Credit Risk

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

The Organization has investments in brokerage accounts in excess of the amount protected by the Securities Investor Protection Corporation (SPIC). In monitoring this credit risk, the Organization periodically evaluates the stability of these brokerage accounts. At December 31, 2010, the Organization's unprotected investments over the SPIC limit of $500,000 were approximately $8,599,000.

At December 31, 2010, three pledges represent 99.7% of the outstanding contributions receivable balance. In addition, the Organization received approximately 91% of its revenues from contributions in 2010 and three companies contributed 77% of the total in-kind contributions - supplies in 2010.

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 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 is does not have any material unrecognized tax benefits or obligations as of December 31, 2010. Years ending on or after December 31, 2007 remain subject to examination by federal and state tax authorities.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 24, 2011, 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	$ 30,200
One to five years	25,000
	55,200
Less - discount	(531)
	$ 54,669

The discount is calculated using risk free rates ranging from of .82% - 4.92%

4. Investments

Investments consist of the following:

Cash equivalents	$ 144,910
Mutual funds	2,346,919
Equity securities	857,691
Managed investments	6,262,754
	$ 9,612,274

Investment return consists of the following:

Interest and dividends	$ 229,319
Realized gains	108,230
Unrealized gains	732,668
	$ 1,070,217

Investment fees were $53,685 for 2010.

Proceeds, gross gains and losses realized from the sales of securities were as follows:

Proceeds	$	961,939
Gross gains	$	119,252
Gross losses	$	11,022

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 (levels 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 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, 2010:

	Level 1	Level 2	Level 3	Total
Investments:				
U.S. equity securities	$ 763,675	$ -	$ -	$ 763,675
Foreign equity security	94,016	-	-	94,016
U.S. mutual funds				
Low duration	202,522	-	-	202,522
Large value stock	11,226	-	-	11,226
Growth	606,167	-	-	606,167
Bond	1,527,004	-	-	1,527,004
U.S. managed investments	-	6,262,754	-	6,262,754
	$ 3,204,610	$ 6,262,754	$ -	$ 9,467,364

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, 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.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its 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 fair value measurement at the reporting date.

6. Furniture and Equipment

Furniture and equipment consist of the following:

Equipment	$ 19,930
Furniture	41,135
Software	63,949
	125,014
Less - accumulated depreciation	(98,674)
	$ 26,340

Depreciation expense for 2010 was 8,308.

7. Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of the following:

Accounts payable	$ 51,403
Retirement plan payable	30,998
Accrued vacation	34,917
Payroll liabilities	911
	$ 118,229

8. Net Assets

Net assets consist of the following:

Unrestricted:	
Unrestricted	$ 1,087,430
Unrestricted - board designated	9,612,274
Total unrestricted	$ 10,699,704
Temporarily restricted:	
Time restricted pledges:	$ 54,669
Program specific:	
Maternal and child	183,714
Surgery	69,836
Walking free	26,358
Other	12,351
Burn care	11,492
Seeing clearly	4,671
Total temporarily restricted	$ 363,091
Permanently restricted:	
General endowment	$ 40,000

During 2010, $85,485 was transferred from temporarily restricted net assets to unrestricted net assets of which $14,783 was transferred per the donor's consent. The remaining transfer of $70,652 was board-designated funds that were transferred to unrestricted net assets.

9. Employee Retirement Plan

The Organization maintains a 403(b) defined contribution retirement plan (Plan) for eligible employees. All employees who are 18 years of age and older are eligible for the Plan after one year of service. Employees may contribute 20% of gross salary subject to maximum amounts allowable under the Internal Revenue Code. The Organization will match an additional 2.5% of an employee's contribution. In addition, in 2010, the Organization made a profit sharing contribution of 2.5% of the employee's salary. The Organization incurred $8,746 in Plan expense for 2010.

In 2010, the Organization discovered it did not make the required non-discretionary contributions to the Plan for 2009 and 2010. Late contributions of $30,998 have been accrued at December 31, 2010 and will be paid in 2011. Additional payments related to lost earnings, interest and penalties will be accrued and paid in 2011 when determinable.

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 endowment fund for the year ended December 31, 2010 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 40,000	$ 40,000
Investment return:				
Investment income	829	-	-	-
Net appreciation (realized and unrealized gain)	3,021	-	-	-
Total investment return	3,850	-	-	-
Appropriation of endowment:				
Assets for expenditures	(3,850)	-	-	-
Other changes:				
Transfers	-	-	-	-
Endowment net assets, end of year	$ -	$ -	$ 40,000	$ 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.

The office equipment lease is for $978 per month and expires November 2014.

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 term of the Dominican Republic office lease is for one year commencing September 1, 2010, and ending August 31, 2011. Rent of $800 is due monthly plus $100 for internet and phone usage.

The Organization also rents a warehouse. The warehouse lease is $4,228 per month and expires May 2011.

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

Year Ending December 31:	
2011	$ 144,041
2012	114,951
2014	110,451
2015	105,198
2016	93,515
Thereafter	132,477
	$ 700,633

During 2010, a second warehouse space was donated and an in-kind contribution of $44,000 was recognized. Rent expense, including donated space, for 2010 was $214,598.

In order to minimize its cost, the Organization subleased a portion of its warehouse to a tenant. The operating lease is for a term of one year at $800 per month and expired August 2010. After August 2010, the lease became a month-to-month tenancy. Sublease income from this agreement was $11,854 during 2010.

* * * * *