

*Financial Statements*  
*Years Ended*  
*December 31, 2012 and 2011*



PHYSICIANS *for* PEACE

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FOUNDED 1989



**DIXON HUGHES GOODMAN** LLP  
Certified Public Accountants and Advisors

*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, 2012, 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, 2012, 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* 2011 financial statements, and expressed an unmodified opinion on those financial statements in our report dated June 22, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Dixon Hughes Goodman LLP*

Virginia Beach, Virginia  
May 20, 2013

*Physicians for Peace*

*Statements of Financial Position*

December 31,	2012	2011
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 425,715	\$ 235,903
Cash and cash equivalents - restricted	-	52,739
Current portion of contributions receivable	59,100	33,500
Other receivables	4,893	4,893
Inventory	8,859,420	413,281
<b>Total current assets</b>	<b>9,349,128</b>	<b>740,316</b>
<b>Furniture and equipment - net</b>	<b>31,168</b>	<b>35,051</b>
<b>Investments</b>	<b>8,327,884</b>	<b>8,928,081</b>
<b>Contributions receivable - net of current portion</b>	<b>76,249</b>	<b>25,145</b>
<b>Deposits</b>	<b>15,136</b>	<b>12,936</b>
	<b>\$ 17,799,565</b>	<b>\$ 9,741,529</b>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 77,209	\$ 103,139
Security deposit	1,600	1,600
Accrued rent	43,245	42,176
<b>Total liabilities</b>	<b>122,054</b>	<b>146,915</b>
<b>Net assets</b>		
Unrestricted	8,931,204	382,346
Unrestricted - board designated	8,464,999	8,928,081
Temporarily restricted	241,308	244,187
Permanently restricted	40,000	40,000
<b>Total net assets</b>	<b>17,677,511</b>	<b>9,594,614</b>
	<b>\$ 17,799,565</b>	<b>\$ 9,741,529</b>

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

*Physicians for Peace*

*Statements of Activities*

**Year Ended December 31, 2012 with Comparative Totals for 2011**

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total 2012	Total 2011
<b>Public support and revenue</b>					
In-kind contributions - supplies	\$ 15,770,547	\$ -	\$ -	\$ 15,770,547	\$ 8,060,200
In-kind contributions - services and other	742,746	-	-	742,746	765,216
	16,513,293	-	-	16,513,293	8,825,416
Contributions	564,907	392,001	-	956,908	1,239,958
Special events revenue	245,254	-	-	245,254	178,292
Rental income	10,450	-	-	10,450	7,700
	820,611	392,001	-	1,212,612	1,425,950
Net assets released from restrictions	394,880	(394,880)	-	-	-
<b>Total public support, revenue and other income</b>	17,728,784	(2,879)	-	17,725,905	10,251,366
<b>Expenses</b>					
Program services	9,779,512	-	-	9,779,512	11,074,904
Management and general	344,163	-	-	344,163	266,769
Fundraising	573,952	-	-	573,952	452,117
<b>Total expenses</b>	10,697,627	-	-	10,697,627	11,793,790
<b>Change in net assets from operations</b>	7,031,157	(2,879)	-	7,028,278	(1,542,424)
<b>Investment income (expense)</b>					
Investment income	209,767	-	-	209,767	208,906
Investment expenses	(42,722)	-	-	(42,722)	(38,856)
Net realized and unrealized gains (losses)	887,574	-	-	887,574	(135,807)
	1,054,619	-	-	1,054,619	34,243
<b>Change in net assets</b>	8,085,776	(2,879)	-	8,082,897	(1,508,181)
<b>Net assets - beginning of year</b>	9,310,427	244,187	40,000	9,594,614	11,102,795
<b>Net assets - end of year</b>	\$ 17,396,203	\$ 241,308	\$ 40,000	\$ 17,677,511	\$ 9,594,614

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

*Physicians for Peace*

*Statements of Functional Expenses*

**Year Ended December 31, 2012 with Comparative Totals for 2011**

	<b>Program Expenses</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total 2012</b>	<b>Total 2011</b>
In-kind donations	\$ 7,324,408	\$ -	\$ 144,654	\$ 7,469,062	\$ 8,697,271
Donated services	598,092	-	-	598,092	677,396
	7,922,500	-	144,654	8,067,154	9,374,667
Staff costs	769,364	234,654	233,506	1,237,524	972,250
Consulting fees	198,063	14,472	38,019	250,554	39,819
Mission travel	230,175	-	-	230,175	260,502
Rent and occupancy	105,648	28,720	33,506	167,874	174,198
Grants to subrecipients	137,263	-	-	137,263	389,805
Technology and equipment	48,079	17,562	32,817	98,458	87,612
Direct mail, annual report, photo/video	35,956	-	39,328	75,284	67,299
Special events	36,038	-	34,041	70,079	75,167
Medical equipment and supplies	65,428	-	-	65,428	29,937
Shipping	64,883	-	-	64,883	85,051
Contract labor	62,229	-	-	62,229	64,635
Office expense	26,226	18,738	15,741	60,705	47,481
Direct mission support	57,812	-	-	57,812	59,904
Accounting and audit	-	17,630	-	17,630	27,205
Insurance	13,248	2,005	2,340	17,593	16,559
Depreciation	-	7,882	-	7,882	8,522
Other	6,600	-	-	6,600	7,977
Uncollectible pledge expense	-	2,500	-	2,500	5,200
	1,857,012	344,163	429,298	2,630,473	2,419,123
	\$ 9,779,512	\$ 344,163	\$ 573,952	\$ 10,697,627	\$ 11,793,790

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

## *Physicians for Peace*

### *Statements of Cash Flows*

<b>Years Ended December 31</b>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 8,082,897	\$ (1,508,181)
Adjustments to reconcile to cash from operating activities:		
Depreciation	7,882	8,522
Net realized and unrealized (gains) losses on investments	(887,574)	135,807
Reinvested interest and dividends	(209,767)	(208,906)
Uncollectible pledge expense	2,500	5,200
Loss on disposal	-	874
Change in:		
Contributions receivable	(79,204)	(9,176)
Other receivables	-	(4,893)
Inventory	(8,446,139)	552,250
Deposits	(2,200)	7,280
Accounts payable and accrued expenses	(24,861)	(11,877)
<b>Net cash from operating activities</b>	<b>(1,556,466)</b>	<b>(1,033,100)</b>
<b>Cash flows from investing activities</b>		
Purchase of furniture and equipment	(3,999)	(18,858)
Proceeds on sale of assets	-	750
Proceeds from sale of investments	1,938,622	857,292
Purchase of investments	(241,084)	(100,000)
<b>Net cash from investing activities</b>	<b>1,693,539</b>	<b>739,184</b>
<b>Net change in cash and cash equivalents</b>	<b>137,073</b>	<b>(293,916)</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>288,642</b>	<b>582,558</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 425,715</b>	<b>\$ 288,642</b>

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



# *Physicians for Peace*

## *Notes to Financial Statements*

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December 31, 2012

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### 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.

#### **Restricted Cash**

During 2011, the Organization received grant funds used to fund certain programs that were required to be held in a separate bank account. There were no funds held in restricted cash accounts at December 31, 2012.

#### **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 \$8,640,000 or 97.5% of inventory at December 31, 2012 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 4.5% 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, 2012.

## **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 \$15,770,547 during 2012.

### **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 \$677,676 during 2012. 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 \$65,070 during 2012.

### **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 \$2,593 in 2012.

### **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. The amounts on deposit at December 31, 2012 exceeded the FDIC limit by \$162,665.

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, 2012, the Organization's unprotected investments over the SIPC limit of \$500,000 were approximately \$7,313,000.

At December 31, 2012, three pledges represent 77% of the outstanding contributions receivable balance. In addition, three companies contributed 89% of the total in-kind contributions - supplies in 2012.

### **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, 2012. Years ending on or after December 31, 2009 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 2011 from which the summarized information was derived.

To conform with current year presentation, prior year consulting fees of \$37,319 have been reclassified from staff costs. In addition, in-kind contribution revenue and expense were increased \$84,821 to show the fundraising activities at gross instead of net.

## Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 20, 2013, 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	\$ 59,100
One to five years	77,000
	<hr/>
	136,100
Less - discount	(751)
	<hr/>
	\$ 135,349

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

#### 4. Investments

Investments consist of the following:

Cash equivalents	\$ 17,375
Mutual funds	2,106,867
Equity securities	818,743
Managed investments	5,338,567
Alternative investment	<u>46,332</u>
	<u>\$ 8,327,884</u>

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 \$200,000 in the existing partnership at the request of the investment company were in effect as of December 31, 2012. 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	\$ 209,767
Realized gains	161,443
Unrealized gains	<u>726,131</u>
	<u>\$ 1,097,341</u>

Investment fees were \$42,722 for 2012.

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

Proceeds	\$ 1,938,622
Gross gains	\$ 161,443
Gross losses	\$ -

#### 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, 2012:

	Level 1	Level 2	Level 3	Total
Investments:				
U.S. equity securities	\$ 726,071	\$ -	\$ -	\$ 726,071
Foreign equity security	92,672	-	-	92,672
U.S. mutual funds				
Bond	1,344,156	-	-	1,344,156
Growth	644,453	-	-	644,453
Low duration	104,988	-	-	104,988
Large value stock	13,270	-	-	13,270
U.S. managed investments	-	5,338,567	-	5,338,567
Alternative assets				
Limited partnership	-	-	46,332	46,332
	<u>\$ 2,925,610</u>	<u>\$ 5,338,567</u>	<u>\$ 46,332</u>	<u>\$ 8,310,509</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 2012 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, 2012	\$ -
Unrealized loss on investment	(3,668)
Purchases of investments	50,000
Sales	-
Fair value December 31, 2012	<u>\$ 46,332</u>
Amount of unrealized losses related to financial instruments held at December 31, 2012 included in the statement of activities.	<u>\$ (3,668)</u>

## 6. Furniture and Equipment

Furniture and equipment consist of the following:

Equipment	\$ 24,144
Furniture	40,535
Software	67,948
	<u>132,627</u>
Less - accumulated depreciation	<u>(101,459)</u>
	<u>\$ 31,168</u>

Depreciation expense for 2012 was \$7,882.

## 7. Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of the following:

Accounts payable	\$ 33,421
Accrued vacation	43,788
	<u>\$ 77,209</u>

## 8. Net Assets

Net assets consist of the following:

Unrestricted:	
Unrestricted	\$ 8,931,204
Unrestricted - board designated	<u>8,464,999</u>
Total unrestricted	<u>\$ 17,396,203</u>
Temporarily restricted:	
Time restricted pledges:	\$ 135,349
Program specific:	
Maternal and child	64,988
Other	28,743
Surgery	5,573
Seeing clearly	4,671
Walking free	<u>1,984</u>
Total temporarily restricted	<u>\$ 241,308</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 2012, the Organization made a discretionary contribution of 2.5% of each eligible employee's eligible compensation. The Organization incurred \$30,168 in pension expense for 2012.

## 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, 2012 is as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 40,000	\$ 40,000
Investment return:				
Investment income	875	-	-	875
Net appreciation (realized and unrealized gain)	3,506	-	-	3,506
Total investment return	4,381	-	-	4,381
Appropriation of endowment:				
Assets for expenditures	(4,381)	-	-	(4,381)
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 at \$3,700 per month. 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 \$4,228 per month and expires May 2016.

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

Year Ending December 31:

2013	\$ 160,672
2014	158,517
2015	160,112
2016	128,447
2017	<u>50,796</u>
	<u>\$ 658,544</u>

Rent expense for 2012 was \$158,352.

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 \$10,450 during 2012.

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