Financial Statements
Year Ended
December 31, 2008

PHYSICIANS *for* PEACE

FOUNDED 1989

Goodman
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Certified Public Accountants
Specialized Services
Business Solutions

Physicians for Peace Foundation

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We have audited the accompanying statement of financial position of ***Physicians for Peace Foundation*** as of December 31, 2008, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the management of ***Physicians for Peace Foundation***. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 Foundation*** as of December 31, 2008, 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.

Goodman + Company, LLP

Norfolk, Virginia
September 11, 2009

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Physicians for Peace Foundation

Statement of Financial Position

December 31, 2008

Assets	
Current assets	
Cash and cash equivalents	$ 866,834
Contributions receivable	25,769
Interest receivable	21,498
Inventory	3,465,911
Total current assets	4,380,012
Furniture and equipment - net	32,367
Investments	7,157,653
Contributions receivable	61,758
Deposits	7,172
	$ 11,638,962
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	$ 114,616
Net assets	
Unrestricted	3,764,777
Unrestricted - board designated	6,897,653
Temporarily restricted	601,916
Permanently restricted	260,000
Total net assets	11,524,346
	$ 11,638,962

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

Physicians for Peace Foundation

Statement of Activities

Year Ended December 31, 2008

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total
Public support, revenue, and other income				
In-kind contributions - supplies	$10,679,390	$ -	$ -	$10,679,390
Contributions	891,441	381,464	-	1,272,905
In-kind contributions - services and other	987,269	-	-	987,269
Investment income	367,907	-	-	367,907
Special events revenue	279,869	-	-	279,869
Realized and unrealized investment gains (losses)	(3,226,438)	-	-	(3,226,438)
Net assets released from restrictions	774,495	(774,495)	-	-
Total public support, revenue and other income	10,753,933	(393,031)	-	10,360,902
Expenses				
Program services				
Western Hemisphere Affairs	7,079,573	-	-	7,079,573
African Affairs	3,034,708	-	-	3,034,708
East Asian Pacific Affairs	698,827	-	-	698,827
Program service support	559,516	-	-	559,516
Near Eastern Affairs	85,646	-	-	85,646
South Asian Affairs	69,495	-	-	69,495
European and Eurasian Affairs	22,630	-	-	22,630
Total program services	11,550,395	-	-	11,550,395
Supporting services				
Fundraising	1,002,242	-	-	1,002,242
Management and general	599,976	-	-	599,976
Total supporting services	1,602,218	-	-	1,602,218
Total expenses	13,152,613	-	-	13,152,613
Change in net assets	$ (2,398,680)	$ (393,031)	$ -	$ (2,791,711)

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

Physicians For Peace Foundation

Statement of Changes in Net Assets

Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets - December 31, 2007	$ 13,061,110	$ 994,947	$ 260,000	$ 14,316,057
Change in net assets	(2,398,680)	(393,031)	-	(2,791,711)
Net assets - December 31, 2008	$ 10,662,430	$ 601,916	$ 260,000	$ 11,524,346

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

Physicians for Peace Foundation

Statement of Functional Expenses

Year Ended December 31, 2008

	Western Hemisphere Affairs	African Affairs	East Asian Pacific Affairs	European and Eurasian Affairs	Near Eastern Affairs	South Asian Affairs	Program Service Support	Total Program Expenses	Fundraising	Management and General	Total Supporting Services	Expenses Total
In-kind donations	$ 6,651,246	$ 1,969,583	$ 590,149	$ -	$ -	$ 300	$ -	$ 9,211,278	$ -	$ -	$ -	$ 9,211,278
Donated services	227,875	558,230	37,078	15,232	74,720	63,290	-	976,425	-	-	-	976,425
Salaries	-	-	-	-	-	-	188,065	188,065	264,565	261,014	525,579	713,644
Travel	126,034	170,194	43,195	7,321	10,846	5,313	5,888	368,791	10,144	3,637	13,781	382,572
Professional consultant	3,609	266,914	-	-	-	-	56,850	327,373	42,582	590	43,172	370,545
Strategic plan development	-	-	-	-	-	-	71,542	71,542	71,542	35,771	107,313	178,855
Special events	-	-	-	-	-	-	-	-	143,244	-	143,244	143,244
Office expenses	7,926	40,187	10,749	-	-	110	10,765	69,737	3,335	47,921	51,256	120,993
Fringe benefits and payroll taxes	-	5,042		-	-	-	34,493	39,535	36,355	45,093	81,448	120,983
Uncollectible pledge expense	-	-	-	-	-	-	-	-	110,000	-	110,000	110,000
Fundraising tools	-	-	-	-	-	-	-	-	109,679	-	109,679	109,679
Government relations	-	-	-	-	-	-	-	-	90,909	-	90,909	90,909
Office rent	-	-	-	-	-	-	60,992	60,992	10,528	11,497	22,025	83,017
Postage/freight	4,111	19,351	7,754	77	80	135	35,373	66,881	304	3,526	3,830	70,711
Contract labor	52,312		9,000	-	-	-	(576)	60,736	291	8,117	8,408	69,144
Investment expense	-	-	-	-	-	-	-	-	-	58,700	58,700	58,700
Collateral materials	-	-	-	-	-	-	-	-	54,435	-	54,435	54,435
Payroll taxes	-	-	-	-	-	-	14,387	14,387	19,904	19,883	39,787	54,174
Mission support	3,200	469	-	-	-	-	22,100	25,769	7,908	-	7,908	33,677
Warehouse rent/utilities	-	-	-	-	-	-	31,624	31,624	-	-	-	31,624
General insurance	-	-	-	-	-	-	14,715	14,715	-	9,522	9,522	24,237
Professional fees	-	-	-	-	-	-	-	-	-	22,280	22,280	22,280
Depreciation expense	-	-	-	-	-	-	-	-	-	19,954	19,954	19,954
Equipment lease	-	-	-	-	-	-	-	-	-	19,900	19,900	19,900
Trustee expense	-	-	-	-	-	-	-	-	-	17,498	17,498	17,498
Public relations	-	-	-	-	-	-	-	-	16,061	-	16,061	16,061
Warehouse support	-	-	195	-	-	-	9,841	10,036	-	-	-	10,036
Education	750	3,500	-	-	-	-	2,933	7,183	307	2,211	2,518	9,701
Repairs and maintenance	-		-	-	-	-	-	-	-	7,603	7,603	7,603
Advertising/promotions	-		-	-	-	-	-	-	5,475	246	5,721	5,721
Direct mail appeal	-		-	-	-	-	-	-	4,568	-	4,568	4,568
Dues and subscriptions	-		-	-	-	-	45	45	-	3,788	3,788	3,833
Medical supplies	846	982	-	-	-	347	221	2,396	-	-	-	2,396
In-Kind other	1,321	115	707	-	-	-	-	2,143	-	-	-	2,143
Gifts and flowers	343	141	-	-	-	-	-	484	106	1,225	1,331	1,815
Taxes and licenses	-	-	-	-	-	-	258	258	-	-	-	258
	$ 7,079,573	$ 3,034,708	$ 698,827	$ 22,630	$ 85,646	$ 69,495	$ 559,516	$11,550,395	$ 1,002,242	$ 599,976	$ 1,602,218	$13,152,613

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

Physicians for Peace Foundation

Statement of Cash Flows

Year Ended December 31, 2008	
Cash flows from operating activities	
Change in net assets	$ (2,791,711)
Adjustments to reconcile to cash from operating activities:	
Depreciation	19,954
Net realized and unrealized gains on investments	3,226,438
Reinvested interest and dividends	(364,124)
Uncollectible pledge expense	110,000
Change in:	
Contributions receivable	(37,407)
Interest receivable	1,184
Inventory	(1,468,112)
Security deposits	(5,845)
Accounts payable and accrued expenses	74,433
Net cash from operating activities	(1,235,190)
Cash flows from investing activities	
Purchase of furniture and equipment	(7,679)
Proceeds from sale of investments	7,454,223
Purchase of investments	(5,989,674)
Net cash from investing activities	1,456,870
Net change in cash and cash equivalents	221,680
Cash and cash equivalents - beginning of year	645,154
Cash and cash equivalents - end of year	$ 866,834

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

December 31, 2008

1. Foundation and Nature of Activities

Physicians for Peace Foundation (Foundation) is a private, not-for-profit, medical education organization founded to further the cause of world peace and international friendship. The Foundation 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.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting. The Foundation 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 Foundation 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, personnel care items and other commodities and is stated at the lower of cost, determined using the average cost method of valuation, or market. Approximately $2,960,000 or 85% of inventory at December 31, 2008 consisted of eye glasses and cases.

Investments

The Foundation'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 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.

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 Foundation'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:

Computer equipment	5 years
Furniture	7 years
Software	5 years

Unrestricted Net Assets

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

Unrestricted – board designated net assets consist of net assets designated by the Board of Trustees for use in building the endowment.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of assets who 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 Foundation. The restrictions stipulate that resources be maintained permanently but permits the Foundation to expend the income generated in accordance with the provisions of the agreement.

In-Kind Contributions - Supplies

The Foundation 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 $10,679,390 during 2008.

Donated Services

The Foundation records donated services which consists of time spent by doctors and nurses in clinical and educational areas of the Foundation's programs. Donated services are recorded at the respective fair market values when the services are received and were valued at $976,425 during 2008.

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 Foundation follows the policy of charging the costs of advertising to expense as incurred.

Financial Instruments and Concentration of Credit Risk

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and investments. The Foundation seeks to place its cash deposits and temporary cash investments with high credit quality financial institutions. By policy, these cash and investments are kept within limits designed to prevent risks caused by concentration.

At December 31, 2008, the Foundation's uninsured cash balances over the Federal Deposit Insurance Corporation (FDIC) limit of $250,000 were approximately $344,000 and were invested in a money market fund and certificates of deposit. The Foundation's uninsured investments were approximately $7,158,000 and were invested in marketable securities. Two pledges represent 80% of the outstanding contributions receivable balance at December 31, 2008.

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.

Tax Status

The Foundation has been granted exemption by the Internal Revenue Service (IRS) from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation did not have any unrelated business income for 2008.

3. Contributions Receivable

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

Amounts due in:		
Less than one year	$	25,769
One to five years		61,758
Total contributions receivable	$	87,527

A discount of $5,873 was recorded as of December 31, 2008. The discount is calculated using risk free rates of 3%.

4. Investments

Investments consist of the following:

Cash equivalents	$	359,040
Mutual funds		2,575,631
Equity securities		4,222,982
	$	7,157,653

Investment return consists of the following:

Interest and dividends	$	364,124
Realized gains (losses)		(428,402)
Unrealized gains (losses)		(2,798,036)
Total	$	(2,862,314)

Investment fees were $58,700 for 2008.

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

Proceeds	$	7,454,223
Gross gains	$	56,645
Gross losses	$	485,047

As of December 31, 2008, the Foundation adopted Statement of Financial Accounting Standard (SFAS) 157, *Fair Value Measurements*. SFAS 157 establishes 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 SFAS 157 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation 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 active 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 Foundation's investment account consisted the following at December 31, 2008:

	Level 1	Level 2	Level 3	Level 4
Investments:				
Cash	$ 198,090	$ -	$ -	$ 198,090
Corporate stocks and bonds	1,050,277	-	-	1,050,277
Mutual funds	1,631,327	-	-	1,631,327
Managed investments	-	4,277,959	-	4,277,959
	$ 2,879,694	$ 4,277,959	$ -	$ 7,157,653

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on 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. Level 3, which consists of ownership in a limited liability company invested in equities, bonds and hedge funds, represents the Foundation's ownership interest in the new asset value (NAV) of the company. The Foundation believes the valuation method is appropriate and consistent with other market participants.

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 Foundation 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.

5. Furniture and Equipment

Furniture and equipment consist of the following:

Computer equipment	$ 16,504
Furniture	28,931
Software	63,949
	109,384
Less - accumulated depreciation	(77,017)
	$ 32,367

Depreciation expense for 2008 was $19,954.

6. Commitments

The Foundation has operating leases for office equipment and the facility it uses. Minimum rental payments under the noncancelable operating leases are as follows:

2009	$ 162,271
2010	113,277
2011	36,404
2012	15,264
	$ 327,216

Rent expense for 2008 was $83,017.

7. Net Assets

Net assets consist of the following:

Unrestricted:	
Unrestricted	$ 3,764,777
Unrestricted - board designated	6,897,653
Total unrestricted	$ 10,662,430
Temporarily restricted:	
Program specific:	
African Affairs	$ 178,236
Western Hemisphere	273,583
South Asian	36,496
East Asian Pacific	57,253
European and Eurasian Affairs	4,506
Near Eastern Affairs	51,842
Total temporarily restricted	$ 601,916
Permanently restricted:	
General endowment	$ 240,000
Montero Philippines endowment	20,000
Total permanently restricted	$ 260,000

8. Employee Retirement Plan

The Foundation maintains a 403(b) defined contribution retirement plan for eligible employees. All employees 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 Foundation contributes 5% of each eligible employee's gross salary to the plan. Additionally, the Foundation will match an additional 2.5% of an employee's contribution. The Foundation incurred $42,806 in pension expense for 2008.

9. Net Assets Released from Restrictions

During 2008, $774,495 of net assets released from restrictions by incurring expenses satisfying the restricted purposes.

10. Effect of Current Economic Conditions on Contributions and Grants

The Foundation received approximately 95% of its revenues from contributions in 2008. Approximately $58,330 was contributed by board members of the Foundation. One company gave 63% of the total in-kind contributions during the year. The ability of certain Foundation contributors to continue providing amounts comparable with prior years may be dependent upon current and future overall economic conditions and the continued deductibility for income tax purposes of contributions. While management believes the Foundation has the resources to continue its programs, its ability to do so and the extent to which it continues, may be dependent on the above factors.

11. Endowment Funds

The Foundation's endowment consists of two 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 Foundation 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 Foundation in a manner consistent with the standard of prudence prescribed by the state UPMIFA law. The Foundation 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 Foundation having previously expended all earnings from the endowment assets.

A summary of the activity in endowment fund for the year ended December 31, 2008 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 260,000	$ 260,000
Investment return:				
Investment income	-	7,064	-	7,064
Net depreciation (realized and unrealized loss)	(54,890)	(7,064)	-	(61,954)
Total investment return	(54,890)	-	-	(54,890)
Endowment net assets, end of year	$ (54,890)	$ -	$ 260,000	$ 205,110

In accordance with state UPMIFA law, the Foundation 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 Foundation 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 Foundation, and (7) the investment policies of the Foundation.

The Foundation 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 Foundation 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 Foundation 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).

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