***Financial Statements***
***Years Ended***
***December 31, 2011 and 2010***

PHYSICIANS *for* PEACE

FOUNDED 1989

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

***Physicians for Peace***

***Contents***

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## *Report of Independent Auditors*

Board of Directors
***Physicians for Peace***

We have audited the accompanying statement of financial position of ***Physicians for Peace*** (Organization) as of December 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from ***Physicians for Peace's*** December 31, 2010 financial statements and, in our report dated May 24, 2011, we expressed an unqualified opinion on those financial statements.

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 purpose of expressing an opinion on the effectiveness of the Organization'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, 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Virginia Beach, Virginia
June 22, 2012



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*Physicians for Peace*

## *Statements of Financial Position*

| December 31, | 2011 | 2010 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 235,903 | $ 582,558 |
| Cash and cash equivalents - restricted | 52,739 | - |
| Current portion of contributions receivable | 33,500 | 30,200 |
| Other receivables | 4,893 | - |
| Inventory | 413,281 | 965,531 |
| **Total current assets** | 740,316 | 1,578,289 |
| **Furniture and equipment - net** | 35,051 | 26,340 |
| **Investments** | 8,928,081 | 9,612,274 |
| **Contributions receivable - net of current portion** | 25,145 | 24,469 |
| **Deposits** | 12,936 | 20,216 |
| | $ 9,741,529 | $ 11,261,588 |
| **Liabilities and Net Assets** | | |
| **Current liabilities** | | |
| Accounts payable and accrued expenses | $ 103,139 | $ 118,229 |
| **Security deposit** | 1,600 | 1,600 |
| **Accrued rent** | 42,176 | 38,964 |
| **Total liabilities** | 146,915 | 158,793 |
| **Net assets** | | |
| Unrestricted | 382,346 | 1,087,430 |
| Unrestricted - board designated | 8,928,081 | 9,612,274 |
| Temporarily restricted | 244,187 | 363,091 |
| Permanently restricted | 40,000 | 40,000 |
| **Total net assets** | 9,594,614 | 11,102,795 |
| | $ 9,741,529 | $ 11,261,588 |

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

*Physicians for Peace*

*Statements of Activities*

**Year Ended December 31, 2011 with Comparative Totals for 2010**

| | Unrestricted Funds | Temporarily Restricted Funds | Permanently Restricted Funds | Total | Total 2010 |
|---|---|---|---|---|---|
| **Public support and revenue** | | | | | |
| In-kind contributions - supplies | $ 8,030,358 | $ 29,842 | $ - | $ 8,060,200 | $ 9,930,491 |
| In-kind contributions - services and other | 680,395 | - | - | 680,395 | 925,503 |
| | 8,710,753 | 29,842 | - | 8,740,595 | 10,855,994 |
| Contributions | 460,040 | 779,918 | - | 1,239,958 | 1,152,282 |
| Special events revenue | 178,292 | - | - | 178,292 | 142,096 |
| Rental income | 7,700 | - | - | 7,700 | 11,854 |
| | 646,032 | 779,918 | - | 1,425,950 | 1,306,232 |
| Net assets released from restrictions | 929,068 | (929,068) | - | - | - |
| **Total public support, revenue and other income** | 10,285,853 | (119,308) | - | 10,166,545 | 12,162,226 |
| **Expenses** | | | | | |
| Program services | 11,074,904 | - | - | 11,074,904 | 12,279,521 |
| Management and general | 266,769 | - | - | 266,769 | 250,845 |
| Fundraising | 367,296 | - | - | 367,296 | 310,852 |
| **Total expenses** | 11,708,969 | - | - | 11,708,969 | 12,841,218 |
| **Change in net assets from operations** | (1,423,116) | (119,308) | - | (1,542,424) | (678,992) |
| **Investment income (expense)** | | | | | |
| Investment income | 208,502 | 404 | - | 208,906 | 229,319 |
| Investment expenses | (38,856) | - | - | (38,856) | (50,807) |
| Net realized and unrealized gains (losses) | (135,807) | - | - | (135,807) | 840,898 |
| | 33,839 | 404 | - | 34,243 | 1,019,410 |
| **Change in net assets** | (1,389,277) | (118,904) | - | (1,508,181) | 341,857 |
| **Net assets - beginning of year** | 10,699,704 | 363,091 | 40,000 | 11,102,795 | 10,760,938 |
| **Net assets - end of year** | $ 9,310,427 | $ 244,187 | $ 40,000 | $ 9,594,614 | $ 11,102,795 |

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

*Physicians for Peace*

*Statements of Functional Expenses*

**Year Ended December 31, 2011 with Comparative Totals for 2010**

| | Program Expenses | Management and General | Fundraising | Expenses Total | Total 2010 |
|---|---|---|---|---|---|
| In-kind donations | $ 8,612,450 | $ - | $ - | $ 8,612,450 | $ 9,635,092 |
| Donated services | 677,396 | - | - | 677,396 | 859,951 |
| | 9,289,846 | - | - | 9,289,846 | 10,495,043 |
| Staff costs | 639,603 | 176,220 | 193,746 | 1,009,569 | 998,902 |
| Grants to subrecipients | 389,805 | - | - | 389,805 | - |
| Mission travel | 260,502 | - | - | 260,502 | 322,948 |
| Rent and occupancy | 106,859 | 30,350 | 36,989 | 174,198 | 200,161 |
| Technology and equipment | 30,321 | 21,789 | 35,502 | 87,612 | 73,328 |
| Shipping | 85,051 | - | - | 85,051 | 92,955 |
| Special events | 41,895 | - | 33,272 | 75,167 | 64,269 |
| Direct mail, annual report, photo/video | 29,936 | - | 37,363 | 67,299 | 53,577 |
| Contract labor | 64,635 | - | - | 64,635 | 65,839 |
| Direct mission support | 59,904 | - | - | 59,904 | 114,938 |
| Office expense | 19,009 | 11,006 | 17,466 | 47,481 | 83,538 |
| Medical equipment and supplies | 29,937 | - | - | 29,937 | 72,583 |
| Accounting and audit | 7,889 | 8,706 | 10,610 | 27,205 | 26,819 |
| Insurance | 12,082 | 2,129 | 2,348 | 16,559 | 14,740 |
| Depreciation | - | 8,522 | - | 8,522 | 8,308 |
| Other | 5,130 | 2,847 | - | 7,977 | 680 |
| Uncollectible pledge expense | - | 5,200 | - | 5,200 | 15,000 |
| Consulting fees | 2,500 | - | - | 2,500 | 134,712 |
| | 1,785,058 | 266,769 | 367,296 | 2,419,123 | 2,343,297 |
| | $ 11,074,904 | $ 266,769 | $ 367,296 | $ 11,708,969 | $ 12,838,340 |

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

*Physicians for Peace*

## *Statements of Cash Flows*

| Years Ended December 31 | 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ (1,508,181) | $ 341,857 |
| Adjustments to reconcile to cash from operating activities: | | |
| Depreciation | 8,522 | 8,308 |
| Net realized and unrealized losses (gains) on investments | 135,807 | (840,898) |
| Reinvested interest and dividends | (208,906) | (229,319) |
| Uncollectible pledge expense | 5,200 | 15,000 |
| Loss on disposal | 874 | - |
| Change in: | | |
| Contributions receivable | (9,176) | 18,604 |
| Other receivables | (4,893) | - |
| Inventory | 552,250 | (315,402) |
| Deposits | 7,280 | (9,384) |
| Accounts payable and accrued expenses | (11,877) | 101,418 |
| **Net cash from operating activities** | (1,033,100) | (909,816) |
| **Cash flows from investing activities** | | |
| Purchase of furniture and equipment | (18,857) | (22,048) |
| Proceeds on sale of assets | 750 | - |
| Proceeds from sale of investments | 857,292 | 961,939 |
| Purchase of investments | (100,000) | (6,991) |
| **Net cash from investing activities** | 739,185 | 932,900 |
| **Net change in cash and cash equivalents** | (293,916) | 23,084 |
| **Cash and cash equivalents - beginning of year** | 582,558 | 559,474 |
| **Cash and cash equivalents - end of year** | $ 288,642 | $ 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.

### Restricted Cash

The Organization currently receives grant funds used to fund certain programs. Included in restricted cash, which are required to be kept in a separate bank account, are amounts received from grantors for the continuance of the Walking Free program. Restricted cash at December 31, 2011 was $52,739.

### 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 $379,000 or 92% of inventory at December 31, 2011 consisted of eyeglasses 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 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, 2011.

### 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 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 $8,060,200 during 2011.

**Donated Services**

The Organization records donated services which consists 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 $680,395 during 2011.

**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 was $6,732 in 2011.

**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 (SIPC). In monitoring this credit risk, the Organization periodically evaluates the stability of these brokerage accounts. At December 31, 2011, the Organization's unprotected investments over the SIPC limit of $500,000 were approximately $7,915,000.

At December 31, 2011, three pledges represent 97.5% of the outstanding contributions receivable balance. In addition, the Organization received approximately 97% of its revenues from contributions in 2011, and three companies contributed 81% of the total in-kind contributions - supplies in 2011.

**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 is does not have any material unrecognized tax benefits or obligations as of December 31, 2011. Years ending on or after December 31, 2008 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 2010 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 22, 2012, 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 | $ | 33,500 |
| One to five years | | 26,000 |
| | | 59,500 |
| Less - discount | | (855) |
| | $ | 58,645 |

The discount is calculated using risk free rates ranging from of .40% - 2.8%

## 4. Investments

Investments consist of the following:

| | | |
|---|---|---|
| Cash equivalents | $ | 88,261 |
| Mutual funds | | 2,230,450 |
| Equity securities | | 921,103 |
| Managed investments | | 5,688,267 |
| | $ | 8,928,081 |

Investment return consists of the following:

| | | |
|---|---|---|
| Interest and dividends | $ | 208,906 |
| Realized gains | | 160,113 |
| Unrealized losses | | (295,920) |
| | $ | 73,099 |

Investment fees were $38,856 for 2011.

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

| | | |
|---|---|---|
| Proceeds | $ | 857,292 |
| Gross gains | $ | 160,113 |
| 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 (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, 2011:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments: | | | | |
| U.S. equity securities | $ 823,697 | $ - | $ - | $ 823,697 |
| Foreign equity security | 97,406 | - | - | 97,406 |
| U.S. mutual funds | | | | |
| Low duration | 55,860 | - | - | 55,860 |
| Large value stock | 11,853 | - | - | 11,853 |
| Growth | 519,890 | - | - | 519,890 |
| Bond | 1,642,847 | - | - | 1,642,847 |
| U.S. managed investments | - | 5,688,267 | - | 5,688,267 |
| | $ 3,151,553 | $ 5,688,267 | $ - | $ 8,839,820 |

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 | $ 24,144 |
| Furniture | 40,535 |
| Software | 63,949 |
| | 128,628 |
| Less - accumulated depreciation | (93,577) |
| | $ 35,051 |

Depreciation expense for 2011 was $8,522.

7. **Accounts payable and accrued expenses**

Accounts payable and accrued expenses consist of the following:

| | | |
|---|---|---|
| Accounts payable | $ | 67,136 |
| Accrued vacation | | 35,881 |
| Payroll liabilities | | 122 |
| | $ | 103,139 |

8. **Net Assets**

Net assets consist of the following:

| | | |
|---|---|---|
| Unrestricted: | | |
| Unrestricted | $ | 382,346 |
| Unrestricted - board designated | | 8,928,081 |
| Total unrestricted | | 9,310,427 |
| Temporarily restricted: | | |
| Time restricted pledges: | $ | 58,645 |
| Program specific: | | |
| Maternal and child | | 76,319 |
| Walking free | | 60,389 |
| Other | | 38,793 |
| Surgery | | 5,370 |
| Seeing clearly | | 4,671 |
| Total temporarily restricted | $ | 244,187 |
| Permanently restricted: | | |
| General endowment | $ | 40,000 |

## 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 matched an additional 2.5% of an employee's contribution. The Organization incurred $30,097 in pension expense for 2011.

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 were accrued at December 31, 2010 and were paid in 2011. Additional payments related to lost earnings, interest and penalties of $6,145 were paid in 2011.

## 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, 2011 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning of year | $ - | $ - | $ 40,000 | $ 40,000 |
| Investment return: | | | | |
| Investment income | 751 | - | - | 751 |
| Net depreciation (realized and unrealized loss) | (489) | - | - | (489) |
| Total investment return | 262 | - | - | 262 |
| Appropriation of endowment: | | | | |
| Assets for expenditures | (262) | - | - | (262) |
| 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 $808 per month. 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 Dominican Republic office lease was for a period of one year ending August 31, 2011. Rent of $800 was due monthly plus $100 for internet and phone usage.

The Organization also rented a warehouse. The warehouse lease was $4,228 per month and expired May 2012.

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

| Year Ending December 31: | |
|---|---|
| 2012 | $ 136,091 |
| 2013 | 110,451 |
| 2014 | 105,198 |
| 2015 | 93,515 |
| 2016 | 93,575 |
| Thereafter | 38,962 |
| | $ 577,792 |

Rent expense for 2011 was $181,170.

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 $7,700 during 2011.

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