



Financial Statements as of and for the
Year Ended December 31, 2014 with Comparative
Totals for 2013 and Independent Auditors' Report

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, 2014, 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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Report on Summarized Comparative Information

We have previously audited Physicians for Peace's 2013 financial statements, and expressed an unmodified opinion on those financial statements in our report dated May 20, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dixon Hughes Goodman LLP

*Norfolk, Virginia
May 6, 2015*

Physicians for Peace

Statement of Financial Position

December 31, 2014 with Comparative Totals for 2013

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 355,120	\$ 218,012
Current portion of promises to give	22,900	290,903
Other receivables	17,414	2,672
Inventory	2,934,534	3,563,591
Total current assets	3,329,968	4,075,178
Furniture and equipment - net	15,205	23,138
Investments	6,012,693	7,514,267
Promises to give - net of current portion	19,854	34,030
Deposits	15,136	15,136
	\$ 9,392,856	\$ 11,661,749
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 69,543	\$ 98,867
Security deposit	1,600	1,600
Accrued rent	36,920	41,510
Total liabilities	108,063	141,977
Net assets		
Unrestricted	3,070,662	3,493,487
Unrestricted - board designated	6,012,693	7,514,267
Temporarily restricted	161,438	472,018
Permanently restricted	40,000	40,000
Total net assets	9,284,793	11,519,772
	\$ 9,392,856	\$ 11,661,749

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

Physicians for Peace

Statement of Activities

Year Ended December 31, 2014 with Comparative Totals for 2013

	Unrestricted Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total 2014	Total 2013
Public support and revenue					
In-kind contributions - supplies	\$ 471,837	\$ -	\$ -	\$ 471,837	\$ 3,488,849
In-kind contributions - services and other	743,937	-	-	743,937	885,795
	<u>1,215,774</u>	<u>-</u>	<u>-</u>	<u>1,215,774</u>	<u>4,374,644</u>
Contributions and promises to give income	371,582	105,129	-	476,711	671,491
Grant income	-	207,278	-	207,278	295,791
Special events revenue	171,367	-	-	171,367	182,468
Rental income	14,400	-	-	14,400	10,200
	<u>557,349</u>	<u>312,407</u>	<u>-</u>	<u>869,756</u>	<u>1,159,950</u>
Net assets released from restrictions	622,987	(622,987)	-	-	-
Total public support, revenue and other income	<u>2,396,110</u>	<u>(310,580)</u>	<u>-</u>	<u>2,085,530</u>	<u>5,534,594</u>
Expenses					
Program services	3,543,244	-	-	3,543,244	11,423,495
Management and general	358,105	-	-	358,105	435,894
Fundraising	773,471	-	-	773,471	743,534
	<u>4,674,820</u>	<u>-</u>	<u>-</u>	<u>4,674,820</u>	<u>12,602,923</u>
Change in net assets from operations	<u>(2,278,710)</u>	<u>(310,580)</u>	<u>-</u>	<u>(2,589,290)</u>	<u>(7,068,329)</u>
Investment income (expense)					
Investment income	104,227	-	-	104,227	163,826
Investment expenses	(32,827)	-	-	(32,827)	(42,054)
Net realized and unrealized gains	282,911	-	-	282,911	788,818
	<u>354,311</u>	<u>-</u>	<u>-</u>	<u>354,311</u>	<u>910,590</u>
Change in net assets	<u>(1,924,399)</u>	<u>(310,580)</u>	<u>-</u>	<u>(2,234,979)</u>	<u>(6,157,739)</u>
Net assets - beginning of year	<u>11,007,754</u>	<u>472,018</u>	<u>40,000</u>	<u>11,519,772</u>	<u>17,677,511</u>
Net assets - end of year	<u>\$ 9,083,355</u>	<u>\$ 161,438</u>	<u>\$ 40,000</u>	<u>\$ 9,284,793</u>	<u>\$ 11,519,772</u>

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

Physicians for Peace

Statement of Functional Expenses

Year Ended December 31, 2014 with Comparative Totals for 2013

	Program Expenses	Management and General	Fundraising	Total 2014	Total 2013
In-kind donations	\$ 1,057,227	\$ -	\$ 129,405	\$ 1,186,632	\$ 9,004,480
Donated services	613,470	-	-	613,470	665,943
	<hr/> 1,670,697	<hr/> -	<hr/> 129,405	<hr/> 1,800,102	<hr/> 9,670,423
Staff costs	875,830	234,591	250,457	1,360,878	1,516,947
Local mission support	252,442	-	-	252,442	209,402
Mission travel	240,341	-	-	240,341	283,578
Direct mail, annual report, photo/video	27,953	-	186,553	214,506	147,975
Medical equipment and supplies	209,179	-	-	209,179	157,222
Rent and occupancy	113,821	32,043	33,041	178,905	156,057
Consulting fees	61,900	10,075	45,155	117,130	103,396
Special events	-	-	81,064	81,064	74,020
Technology and equipment	28,920	24,056	25,858	78,834	94,714
Office expense	17,418	21,745	18,290	57,453	85,642
Shipping	31,791	-	-	31,791	56,513
Accounting and audit	-	22,504	-	22,504	16,965
Insurance	11,230	4,096	3,508	18,834	18,205
Depreciation	-	7,933	-	7,933	8,030
Other	1,722	1,062	140	2,924	3,834
	<hr/> 1,872,547	<hr/> 358,105	<hr/> 644,066	<hr/> 2,874,718	<hr/> 2,932,500
	<hr/> \$ 3,543,244	<hr/> \$ 358,105	<hr/> \$ 773,471	<hr/> \$ 4,674,820	<hr/> \$ 12,602,923

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

Physicians for Peace

Statement of Cash Flows

Year Ended December 31, 2014 with Comparative Totals for 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	\$ (2,234,979)	\$ (6,157,739)
Adjustments to reconcile to cash from operating activities:		
Depreciation	7,933	8,030
Net realized and unrealized gains on investments	(282,911)	(788,818)
Inventory write-offs	43,667	-
Change in:		
Promises to give	282,179	(189,584)
Other receivables	(14,742)	2,221
Inventory	585,390	5,295,829
Accounts payable and accrued expenses	(33,914)	19,923
Net cash from operating activities	<u>(1,647,377)</u>	<u>(1,810,138)</u>
Cash flows from investing activities		
Proceeds from sale of investments	3,325,676	2,308,604
Purchase of investments	(1,541,191)	(706,169)
Net cash from investing activities	<u>1,784,485</u>	<u>1,602,435</u>
Net change in cash and cash equivalents	137,108	(207,703)
Cash and cash equivalents - beginning of year	<u>218,012</u>	<u>425,715</u>
Cash and cash equivalents - end of year	<u>\$ 355,120</u>	<u>\$ 218,012</u>

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

Physicians for Peace

Notes to Financial Statements

December 31, 2014

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.

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.

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 medical supplies, personal care items and other commodities. The value is stated at the lower of cost, determined using the average cost method of valuation, or market. Approximately \$2,309,000 or 79% of inventory at December 31, 2014 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 and investment in a limited partnership. 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. Promises to give consist of unconditional promises to give that are expected to be collected in future years and are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution and promises to give revenue. Management reviews promises to give yearly to determine the need for any allowance. Once management determines that a promise to give is unlikely to be collected, an allowance is provided. After all attempts to collect a promise to give have failed, the promise to give is written off against the allowance. Conditional promises to give are not included as support until the conditions are substantially met. Management has determined that no allowance was needed as of December 31, 2014.

Furniture and Equipment

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

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 value at the date of donation and were valued at \$471,837 during 2014.

Revenue from gifts-in-kind declined significantly in 2014 from the previous year because the Organization is strategically refining its solicitation practices to ensure that only “fit for purpose” equipment and supplies are accepted and shipped to partner organizations. While this strategic realignment materially impacted the 2014 financial results, the change did not materially impact the field operations completed by the Organization. The Organization is continuing to analyze its gift-in-kind process to ensure that ongoing solicitations and shipments are partner centered, useful, and cost effective.

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 \$613,470 during 2014.

Donated professional services by volunteer international medical educators only represent those hours performed by US-based practitioners. In 2014, Physicians for Peace conducted 65 training missions, 28 were conducted by US-based medical professionals in other countries and 37 were conducted by Philippines-based medical professionals within the Philippines. The 37 Philippine missions are not included within the total donated services because there is currently no standardized methodology to accurately capture the total number of hours dedicated to a Physicians for Peace mission nor are there accurate, authoritative sources for assessing the hourly value by medical specialty.

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 value at the date of donation and were valued at \$130,467 during 2014.

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 \$6,138 in 2014.

Concentration of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, investments and promises to give. The Organization places its cash and cash equivalents with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution.

The balances are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2014, the Organization's unprotected investments over the FDIC limit were \$63,000.

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, 2014, the Organization's unprotected investments over the SIPC limit of \$500,000 were \$5,078,000.

At December 31, 2014, one promise to give represents 70% of the outstanding promises to give balance. In addition, three companies contributed 69% of the total in-kind contributions - supplies in 2014.

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 functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and the Commonwealth of Virginia; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2014. Years ending on or after December 31, 2011 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 restriction. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's detailed financial statements for 2013 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 May 6, 2015, the date the financial statements were available to be issued.

3. Promises to Give

Promises to give consist of unconditional promises to give. Promises to give are as follows:

Amounts due in:	
Less than one year	\$ 22,900
One to five years	20,000
	<hr/> 42,900
Less - discount	(146)
	<hr/> \$ 42,754

The discount is calculated using risk free rates ranging from .20% - 2.8%.

4. Investments

Investments consist of the following:

Cash funds	\$ 2,948,544
Equity securities	1,899,339
Mutual funds	941,854
Alternative investment	<u>222,956</u>
	<u>\$ 6,012,693</u>

The Organization is a limited partner in a private limited partnership (shown as 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 \$30,000 in the existing partnership at the request of the investment company were in effect as of December 31, 2014. 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	\$ 104,227
Net realized gains	317,383
Net unrealized losses	<u>(34,472)</u>
	<u>\$ 387,138</u>

Investment fees were \$32,827 for 2014.

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 within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques are used to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization's financial instruments consisted of the following at December 31, 2014:

	Level 1	Level 2	Level 3	Total
Investments:				
U.S. equity securities	\$ 1,603,954	\$ -	\$ -	\$ 1,603,954
Foreign equity security	295,385	-	-	295,385
U.S. mutual funds				
Bond	473,824	-	-	473,824
Growth	263,217	-	-	263,217
Small-cap blend	71,528	-	-	71,528
Mid-cap blend	57,525	-	-	57,525
International	75,760	-	-	75,760
Limited partnership	-	-	222,956	222,956
Cash fund	2,948,544	-	-	2,948,544
	\$ 5,789,737	\$ -	\$ 222,956	\$ 6,012,693

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.

Level 3 investments consists of securities held by the limited partnership 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 2014 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 December 31, 2013	\$ 156,152
Unrealized gain on investment	28,436
Sales	(31,632)
Purchases of investments	<u>70,000</u>
Fair value December 31, 2014	<u>\$ 222,956</u>
Amount of net unrealized gains related to financial instruments held at December 31, 2014 included in the statement of activities.	<u>\$ 28,436</u>

6. Furniture and Equipment

Furniture and equipment consist of the following:

Equipment	\$ 24,144
Furniture	40,535
Software	<u>67,948</u>
	132,627
Less - accumulated depreciation	<u>(117,422)</u>
	<u>\$ 15,205</u>

Depreciation expense for 2014 was \$7,933.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

Accounts payable	\$ 32,105
Accrued vacation	<u>37,438</u>
	<u>\$ 69,543</u>

8. Net Assets

Net assets consist of the following:

Unrestricted:	
Unrestricted	\$ 3,070,662
Unrestricted - board designated	<u>6,012,693</u>
Total unrestricted	<u>\$ 9,083,355</u>
Temporarily restricted:	
Time restricted promises to give	\$ 42,754
Program specific:	
Maternal and child	13,938
Other	49,414
Surgery	26,138
Walking free	<u>29,194</u>
Total temporarily restricted	<u>\$ 161,438</u>
Permanently restricted:	
General endowment	<u>\$ 40,000</u>

9. Employee Retirement Plan

The Organization maintains a 403(b) defined contribution retirement plan for eligible employees. Employees who are 18 years of age and older are eligible to defer a portion of eligible compensation subject to the maximum amounts allowable under the Internal Revenue Code. After one year of service, the Organization matches up to 2.5% of an employee's eligible compensation. In addition, in 2014, the Organization made a discretionary contribution of 2.5% of each eligible employee's eligible compensation. The Organization incurred \$24,853 in pension expense for 2014.

10. Endowment Funds

The Organization's endowment consists of one fund which is included in investments. This fund is a donor-restricted endowment fund established for a variety of purposes. As required by U.S. generally accepted accounting principles (GAAP), net assets associated with the endowment fund is 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, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ -	\$ 40,000	\$ 40,000
Investment return:				
Investment income	362	-	-	362
Net appreciation (realized and unrealized gain)	982	-	-	982
Total investment return	1,344	-	-	1,344
Appropriation of endowment:				
Assets for expenditures	(1,344)	-	-	(1,344)
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. Joint Costs

The Organization operates a communications department that educates stakeholders about the Organization's activities and to request volunteer participation in programs. Some of the department's activities include publishing an annual report and direct mail pieces, providing printed and electronic information on program activities, producing videos featuring volunteer medical educators in action, and maintaining a website. Operating costs incurred by the department for these activities totaled \$57,048. The communications staff performs semi-annual time studies to calculate an approximation of the percentage of time spent on program-related activities, and based on these calculations, 49% or \$27,953 of these costs are allocated on the statement of functional expenses to Program Expenses.

12. 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 year. This contract expired in June 2014 and was not renewed. The office equipment lease is for \$986 per month and expires November 2017.

The term of the Virginia office space lease began on August 1, 2010, and ends on May 31, 2017. The monthly rent is \$8,151 with escalating monthly payments in future years and includes 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 is \$4,355 per month and expires May 2016.

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

2015	\$	159,126
2016		128,447
2017		<u>50,796</u>
	\$	<u>338,369</u>

Rent expense for 2014 was \$178,905.

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 \$14,400 during 2014.

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