



VITAMIN ANGEL ALLIANCE, INC.

FINANCIAL STATEMENTS

December 31, 2017

VITAMIN ANGEL ALLIANCE, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Vitamin Angel Alliance, Inc.

We have audited the accompanying financial statements of Vitamin Angel Alliance, Inc. (a nonprofit organization) which comprise the statement of financial position as of December 31, 2017, and the related statements of activity, 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.

Auditor's 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 auditor's 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 Vitamin Angel Alliance, Inc. as of December 31, 2017, 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 Vitamin Angel Alliance's 2016 financial statements, and our report dated June 29, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

DAMITZ, BROOKS, NIGHTINGALE, TURNER & MORRISSET

Damitz, Brooks, Nightingale,
Turner & Morrisset
Santa Barbara, California
June 27, 2018

VITAMIN ANGEL ALLIANCE, INC.
Statement of Financial Position
December 31, 2017
(With Summarized Comparative Totals for 2016)

<i>Assets</i>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2017</u>	<u>2016</u>
Cash	\$ 6,048,631	\$ -	\$ 6,048,631	\$ 7,158,055
Investments	4,619,883	-	4,619,883	4,206,669
Inventory	36,884,712	-	36,884,712	32,061,628
Pledges receivable	-	4,898,992	4,898,992	3,624,425
Prepaid expenses and deposits	62,251	-	62,251	61,647
Office furniture and equipment, net	81,491	-	81,491	79,198
Intangible assets, net	76,687	-	76,687	185,887
<i>Total assets</i>	<u>\$ 47,773,655</u>	<u>\$ 4,898,992</u>	<u>\$ 52,672,647</u>	<u>\$ 47,377,509</u>
 <i>Liabilities and Net Assets</i> 				
<i>Liabilities</i>				
Accounts payable	\$ 697,012	\$ -	\$ 697,012	\$ 545,494
Accrued payroll liabilities	414,657	-	414,657	342,514
Accrued deferred compensation	140,000	-	140,000	80,000
<i>Total liabilities</i>	<u>1,251,669</u>	<u>-</u>	<u>1,251,669</u>	<u>968,008</u>
 <i>Net Assets</i>				
Unrestricted				
Board designated	4,457,742	-	4,457,742	4,125,376
Other unrestricted net assets	42,064,244	-	42,064,244	38,659,700
Temporarily restricted	-	4,898,992	4,898,992	3,624,425
<i>Total net assets</i>	<u>46,521,986</u>	<u>4,898,992</u>	<u>51,420,978</u>	<u>46,409,501</u>
	<u>\$ 47,773,655</u>	<u>\$ 4,898,992</u>	<u>\$ 52,672,647</u>	<u>\$ 47,377,509</u>

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

VITAMIN ANGEL ALLIANCE, INC.
Statement of Activity
Year Ended December 31, 2017
(With Summarized Comparative Totals for 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
<i>Revenues and Other Support</i>				
In-kind contributions	\$ 75,721,296	\$ -	\$ 75,721,296	\$ 67,334,909
Contributions	9,170,473	4,898,992	14,069,465	14,114,846
Special event income	330,940	-	330,940	333,815
Investment income	364,023	-	364,023	102,206
Net assets released from restrictions	3,624,425	(3,624,425)	-	-
<i>Total revenues and other support</i>	<u>89,211,157</u>	<u>1,274,567</u>	<u>90,485,724</u>	<u>81,885,776</u>
<i>Expenses</i>				
Nutrition and health projects	79,373,766	-	79,373,766	71,044,218
Management and general	2,092,989	-	2,092,989	1,797,946
Special events and fundraising	4,007,492	-	4,007,492	3,611,324
<i>Total expenses</i>	<u>85,474,247</u>	<u>-</u>	<u>85,474,247</u>	<u>76,453,488</u>
<i>Increase in net assets</i>	<u>3,736,910</u>	<u>1,274,567</u>	<u>5,011,477</u>	<u>5,432,288</u>
<i>Net assets, beginning of year</i>	<u>42,785,076</u>	<u>3,624,425</u>	<u>46,409,501</u>	<u>40,977,213</u>
<i>Net assets, end of year</i>	<u>\$ 46,521,986</u>	<u>\$ 4,898,992</u>	<u>\$ 51,420,978</u>	<u>\$ 46,409,501</u>

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

VITAMIN ANGEL ALLIANCE, INC.
Statement of Functional Expenses
Year Ended December 31, 2017
(With Summarized Comparative Totals for 2016)

	Program Services	Supporting Services		Total	
	Nutrition and Health Projects	Management and General	Special Events and Fundraising	2017	2016
Salaries	\$ 1,214,266	\$ 1,357,121	\$ 999,984	\$ 3,571,371	\$ 3,091,089
Payroll taxes and benefits	219,900	245,771	181,094	646,765	587,156
Total salaries and benefits	1,434,166	1,602,892	1,181,078	4,218,136	3,678,245
Conferences and meetings	-	11,243	-	11,243	8,678
Consulting	1,464,146	88,978	609,094	2,162,218	1,557,723
Depreciation and amortization	69,175	27,670	41,505	138,350	129,150
Development and promotion	-	-	1,500,657	1,500,657	1,494,111
Information technology	177,202	70,881	106,321	354,404	329,820
Insurance	46,765	18,706	28,059	93,530	84,044
Legal and accounting	147,406	179,166	-	326,572	281,069
Loss on disposal of asset	927	371	556	1,854	2,221
Occupancy	95,683	38,273	57,410	191,366	198,056
Office expenses	81,127	32,451	48,676	162,254	173,382
Postage and shipping	726,816	1,826	-	728,642	594,792
Products distributed - contributed	70,583,751	-	-	70,583,751	63,298,840
Products distributed - purchased	3,622,725	-	-	3,622,725	3,164,103
Program direct expense	852,079	-	-	852,079	861,568
Special events	-	-	107,938	107,938	99,405
Travel	71,798	20,532	326,198	418,528	498,281
	\$ 79,373,766	\$ 2,092,989	\$ 4,007,492	\$ 85,474,247	\$ 76,453,488

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

VITAMIN ANGEL ALLIANCE, INC.
Statement of Cash Flows
Year Ended December 31, 2017
(With Summarized Comparative Totals for 2016)

	2017	2016
<i>Cash flows from operating activities</i>		
Increase in net assets	\$ 5,011,477	\$ 5,432,288
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Amortization	109,200	105,840
Depreciation	29,150	23,310
Donated securities	(25,973)	(10,422)
Net realized gain on investments	(84,936)	(2,614)
Net unrealized gain on investments	(213,180)	(62,341)
Net realized loss on disposal of fixed assets	1,854	2,221
Increase in:		
Inventory	(4,823,084)	(3,448,683)
Pledges receivable	(1,274,567)	(240,950)
Prepaid expenses and deposits	(604)	(12,136)
Increase (decrease) in:		
Accounts payable	151,518	(164,500)
Accrued payroll liabilities	72,143	48,764
Accrued deferred compensation	60,000	-
	(987,002)	1,670,777
<i>Net cash provided (used) by operating activities</i>		
<i>Cash flows from investing activities</i>		
Purchase of investments	(796,897)	(477,097)
Proceeds from sales of investments	707,772	462,520
Website development expenditures	-	(19,076)
Purchase of office furniture and equipment	(33,297)	(35,962)
	(122,422)	(69,615)
<i>Net cash used by investing activities</i>		
Net increase (decrease) in cash and cash equivalents	(1,109,424)	1,601,162
<i>Cash, beginning of year</i>	7,158,055	5,556,893
<i>Cash, end of year</i>	\$ 6,048,631	\$ 7,158,055

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

VITAMIN ANGEL ALLIANCE, INC.
Notes to Financial Statements
December 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Vitamin Angel Alliance, Inc. (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Organization

The Organization, a California nonprofit corporation, was founded in 1998 and is headquartered in Santa Barbara, California. The mission of the Organization is to mobilize and deploy private sector resources to advance availability, access and use of micronutrients, especially vitamin A, for at-risk populations around the world.

The Organization's program services, aimed to alleviate under-nutrition using evidence-based approaches, consist of providing: i) essential micronutrients (i.e., vitamin A and various formulations of multivitamins), ii) anti-parasitic agents (i.e., albendazole), iii) informational materials and instruction for health care providers on breast-feeding and good complementary feeding practices, and iv) technical assistance to support deployment of products and services consistent with accepted best practices. We provide our products and services and technical assistance to qualified field partners (i.e., primarily non-governmental organizations (NGOs), and a limited number of national health services) operating in the United States and selected developing countries designated by the World Health Organization (WHO) as experiencing i) moderate to severe micronutrient deficiency, and ii) moderate to severe endemicity with intestinal worms. Field partners deploy micronutrients to communities and individuals at-risk and eligible for universal supplementation (for vitamin A and multivitamins) or mass drug administration (for albendazole) as defined by WHO. Our primary focus is to support universal vitamin A supplementation programs for children 6-59 months of age residing outside the United States for the purpose of reducing childhood mortality and morbidity. Concurrent with our support of universal vitamin A distribution, we support co-administration with albendazole among eligible children 12-59 months of age for the purpose of improving vitamin A status, improving general micronutrient uptake, and decreasing the burden of intestinal worms. An important secondary focus of our organization is to support universal multi-micronutrient supplementation programs for pregnant/lactating women to improve birth outcomes. The Organization promotes breast feeding and good complimentary feeding practices among mothers as a generally accepted approach to ensuring good nutrition for infants. Another initiative of the Organization is small scale support of universal multi-micronutrient supplementation programs for infants and young children 6-59 months of age to advance their cognitive and physical growth.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The majority of products distributed by the Organization through its assistance programs are donated by manufacturers, wholesalers, and other organizations involved with the dietary supplement industry and/or the pharmaceutical industry. The Organization also purchases products for its programs.

Financial Statement Presentation

GAAP requires that the Organization report information regarding its financial position and activities according to three classes of net assets based on the existence and nature of donor imposed restrictions as follows:

Unrestricted net assets generally result from unrestricted contributions and investment income less expenses incurred in providing program services, fund-raising and other administrative expenses.

Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period or for a specific purpose. When a restriction expires or is met, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the accompanying statement of activities as net assets released from restriction.

Permanently restricted net assets consist of assets where the donor has imposed permanent restrictions on use of the principal of assets donated. Interest, dividends and unrealized gains or losses recognized on such assets are either reported as an increase or decrease to permanently restricted net assets or temporarily restricted net assets in conformance with the donor imposed restrictions. As of December 31, 2017 and 2016, the Organization had no permanently restricted net assets.

Prior-Year Summarized Information

The financial statements include certain prior-year summarized comparative information in total but are not presented by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016 from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash consists of cash on hand and cash in banks, and excludes cash equivalents held for investment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Inventory

General

Inventory consists primarily of vitamins, supplements, and anti-parasitic tablets. The Organization's policy is to distribute inventory at the earliest practical date, consistent with sound programmatic principles. While the distribution typically occurs in the same year of receipt, it may occur in the following year. The expense 'products distributed' is recorded when inventory is shipped. Inventory consists of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Health supplies – Anti-parasitic tablets	\$ 24,357,692	\$ 28,034,594
Multivitamins	11,209,412	2,843,136
High-dose vitamin A	1,317,608	1,183,898
	<u>\$ 36,884,712</u>	<u>\$ 32,061,628</u>

Contributed Inventory

The Organization values gifts in-kind (GIK) at fair value. Accounting Standard Codification (ASC) 820 *Fair Value Measurements and Disclosures* issued by the Financial Accounting Standards Board (FASB) defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” The Organization has identified four categories of GIK products: anti-parasitic tablets, high-dose vitamin A, multivitamins, and branded products.

In the case of anti-parasitic tablets donated to the Organization, the principal market for this product is limited to the international commercial marketplace where non-governmental organizations, governments, and local pharmacies transact for this product. The anti-parasitic tablets are an important program service as they increase the efficacy of vitamin A. No beneficiary market exists in the United States for anti-parasitic tablets because the high-dose levels that are intended for international use are not approved by the United States Food and Drug Administration. In addition to the market in which non-governmental organizations and government Ministries of Health procure the product for distribution to beneficiaries, there exists a robust local pharmacy marketplace. The exit price the Organization would receive in exchange for selling anti-parasitic tablets would be the price between a wholesaler and a local pharmacy, or “trade level.” The Organization defines its market as the priority countries for vitamin A supplementation as listed by WHO and the United Nations Children’s Fund (UNICEF).

The Organization determines fair value for this product using the mean trade level data for its market, provided by IMS Health, a company that provides market intelligence to pharmaceutical and healthcare industries. The Organization reviews the IMS Health data and updates fair values for anti-parasitic tablets every two years effective January 1. The fair values for anti-parasitic tablets procured during the years ending December 31, 2017 and 2016 were based on 2016 and 2014 IMS Health data, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In the case of high-dose vitamin A donated to the Organization, the principal market for this product is limited to the international commercial marketplace where similar non-governmental organizations and governments transact for these products. No beneficiary market exists in the United States for high-dose vitamin A because the dosage levels that are intended for international use are not approved by the United States Food and Drug Administration. The only identifiable market is that in which organizations like the Organization and government Ministries of Health procure the product for distribution to beneficiaries. The Organization uses the mean price per the International Drug Price Indicator (IDPI) to determine fair value for high-dose vitamin A. The IDPI is published by an international nonprofit organization based on prices from 25 sources including pharmaceutical suppliers, international development organizations and government agencies. The Organization reviews the IDPI data and updates fair values for high-dose vitamin A every two years effective January 1. The fair values for high-dose vitamin A procured during the years ending December 31, 2017 and 2016 were based on 2015 and 2013 IDPI data. This was the most current data available at January 1, 2017 and 2015, respectively.

In addition to high-dose vitamin A and anti-parasitic tablets, the Organization receives multivitamin products that are manufactured by companies in the United States to a formulation specified by the Organization and are distributed domestically and internationally. These formulations are based on the WHO formulation for essential multiple micronutrients for children and for pregnant and lactating women, are non-branded, and not for sale in the United States. Similar to high-dose vitamin A and anti-parasitic tablets, there is no commercial market for these products in the United States. If these generic WHO formulation essential micronutrients are not listed in the IDPI or the “Sources and Prices of Selected Medicines for Children” guide published annually by UNICEF and WHO, then as a last resort, the average wholesale price of the most similar products found in RedBook ® is used as a suitable pricing reference. RedBook ® is published by Thomson Reuters and is based on United States manufacturers’ suggested wholesale prices. The Organization reviews the RedBook ® data and updates fair values for multivitamin products every two years effective January 1. The fair values for multivitamin products procured during the years ending December 31, 2017 and 2016 were based on 2017 and 2015 RedBook ® data, respectively.

The Organization often receives branded products as GIK. These donations mainly consist of multivitamins for children and multivitamins for pregnant and lactating women and can be bought and sold in the United States commercial marketplace. The value of branded products donated to the Organization is established by estimating the price that the Organization would receive if it were to sell the asset.

Purchased Inventory

Purchased inventory is carried at cost, unless the purchase price has been discounted. If the Organization is able to purchase from a vendor at a price below the valuation price, the Organization records the discount as a GIK contribution. The discount is the difference between the amount that would be paid for the quantity of product purchased in an orderly transaction between market participants, and the purchase price paid by the Organization.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Pledges Receivable

Unconditional promises to give are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Pledges receivable consist primarily of promises from corporate donors. The Organization uses the allowance method to determine uncollectible pledges. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible pledges at December 31, 2017 and 2016. There were no pledges receivable at December 31, 2017 with expected due dates beyond December 31, 2017.

Fair Value Measurements

ASC 820 defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. Pursuant to ASC 820, assets and liabilities recorded and maintained at fair value in the financial statements are categorized based upon the level of judgment associated with the inputs used to measure fair value. ASC 820 establishes a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date.

Level 2 – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

The Organization has no liabilities measured at fair value. Following is a description of the valuation methodologies used for cash and investments measured at fair value:

Cash and money market funds - valued at face value (Level 1)

Equities and mutual funds - valued utilizing quoted prices available in active markets for identical investments as of the reporting date. (Level 1)

Fixed income securities - Valued utilizing benchmark yields, reported trades or broker dealer quotes. (Level 2)

Detailed information about fair value of investments and the unrealized gains and losses are discussed in Note 2.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Office Furniture and Equipment

Office furniture and equipment are carried at cost, or if acquired by gift, at the estimated fair market value on the date of donation. Expenditures for major renewals that extend the useful lives of office furniture and equipment are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of office furniture and equipment as follows:

	<u>Years</u>
Furniture and fixtures	5-7
Computers and office equipment	5

Website Development Costs

The Organization capitalizes website development costs when management judges that enhancements to the site result in added functionality. Included are costs for developing the applications and infrastructure as well as developing content and graphics. Costs of operating and maintaining the site are expensed as incurred. The carrying value of website development costs is regularly reviewed for impairment. There were no impairment losses recognized for capitalized website development costs for the year ended December 31, 2017.

Cash versus In-kind Support

The Organization's activities are planned and executed on an operating (or cash) budget that is approved by the Board of Directors prior to the onset of the fiscal year. The cash budget is not directly affected by the value of contributed products. The Organization's program model involves obtaining in-kind donations of essential vitamins, anti-parasitics, and supplements. Cash donations are used to pay for program products as well as the logistics, warehousing, transportation, program oversight, administration, fundraising, salaries, product solicitation, and all other expenses.

Revenue Recognition

The Organization records contributions in the period received or promised as unrestricted revenues unless the donor stipulates any restrictions which are not met within the year the donation is received. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements. Donor restricted contributions whose restrictions are not met within the same year as received are recorded as an increase in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires due to purpose and/or time, temporarily restricted net assets are reclassified as unrestricted.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Contributed Services

The Organization recognizes contribution revenue for specialized services that would otherwise be purchased by the Organization in an amount equal to the fair value of those services. The legal consulting services were donated by a related party (Note 9). The following amounts were contributed and recognized as revenue:

<u>Service Donated</u>	<u>2017 Fair Value</u>	<u>2016 Fair Value</u>	<u>Purpose</u>
Accounting services	\$ 1,500	\$ 5,000	General
Legal consulting	262,940	219,700	General

Functional Expenses

Direct expenses are charged to the appropriate program or supporting services. Indirect expenses, which are less than ten percent of total expenses, have been allocated to program services and supporting services based on management estimates.

Tax Exempt Status

The Organization is an exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, and is considered a public charity.

Uncertain Tax Positions

The Organization's IRS Form 990 is subject to review and examination by Federal and state authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status. The Organization is not aware of any activities that are subject to tax on unrelated business income, excise or other taxes. The Organization's tax returns from the year 2014 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2013 to the present remain subject to examination by the state of California.

Use of Estimates

Financial statements prepared in accordance with GAAP require management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant accounting estimates include valuation of contributed products and functional expense allocations. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through June 27, 2018, the date that the financial statements were available to be issued.

2. INVESTMENTS

At December 31, 2017, unrestricted investments consist of the following:

	<u>Cost</u>	<u>Fair Value</u>	Excess (Deficit) of Fair Value Over Cost
Money market funds (Level 1)	\$ 2,152,741	\$ 2,152,741	\$ -
Mutual and exchange traded funds (Level 1)	290,306	305,287	14,981
Fixed income (Level 2)	851,759	846,026	(5,733)
Equities (Level 1)	<u>1,042,832</u>	<u>1,315,829</u>	<u>272,997</u>
	<u>\$ 4,337,638</u>	<u>\$ 4,619,883</u>	<u>\$ 282,245</u>

At December 31, 2016, unrestricted investments consist of the following:

	<u>Cost</u>	<u>Fair Value</u>	Excess (Deficit) of Fair Value Over Cost
Money market funds (Level 1)	\$ 2,266,276	\$ 2,266,276	\$ -
Mutual and exchange traded funds (Level 1)	163,221	163,758	537
Fixed income (Level 2)	782,641	773,151	(9,490)
Equities (Level 1)	<u>930,070</u>	<u>1,003,484</u>	<u>73,414</u>
	<u>\$ 4,142,208</u>	<u>\$ 4,206,669</u>	<u>\$ 64,461</u>

Investment income for the years ending December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 65,907	\$ 37,251
Net realized gain (loss)	84,936	2,614
Net unrealized gain	<u>213,180</u>	<u>62,341</u>
	<u>\$ 364,023</u>	<u>\$ 102,206</u>

3. OFFICE FURNITURE AND EQUIPMENT

Office furniture and equipment are summarized by major classifications as follows at December 31:

	<u>2017</u>	<u>2016</u>
Furniture and fixtures	\$ 28,172	\$ 23,139
Computers and office equipment	117,911	106,040
Less accumulated depreciation	<u>(64,592)</u>	<u>(49,981)</u>
	<u>\$ 81,491</u>	<u>\$ 79,198</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was approximately \$29,100 and \$23,300, respectively.

4. INTANGIBLE ASSETS

The Organization has intangible assets relating to the development of its website and these costs are being amortized over three years on a straight-line basis. At December 31, 2017, the unamortized cost of these intangibles was approximately \$329,500, net of accumulated amortization of approximately \$252,800.

Future estimated amortization expense related to intangible assets at December 31, 2017 is as follows:

2018	\$ 71,481
2019	<u>5,206</u>
	<u>\$ 76,687</u>

Amortization expense related to intangible assets for the years ended December 31, 2017 and 2016 was approximately \$109,200 and \$105,800, respectively.

5. OPERATING LEASE

The Organization leases its office under a non-cancelable operating lease agreement with an expiration date of July 31, 2018. Monthly lease payments due under the lease are adjusted by the annual change, if any, in the Consumer Price Index. Annual adjustments will have a minimum increase of 2% and a maximum increase of 5%. The Organization is also required to pay common area costs, including property taxes.

Rent expense for the building including common area costs and property taxes was approximately \$165,800 and \$163,400 for the years ended December 31, 2017 and 2016, respectively.

Future annual minimum lease payments under the existing operating leases are as follows:

Year ending December 31,		
	2018	\$ 168,000
	2019	<u>171,000</u>
		<u>\$ 339,000</u>

6. BOARD DESIGNATED NET ASSETS

As of December 31, 2017 and 2016, the board has designated unrestricted net assets in the amount of \$4,475,742 and \$4,125,376, respectively, as an operating reserve fund.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of pledges receivable totaling \$4,898,992 and \$3,624,425 as of December 31, 2017 and 2016, respectively. These amounts will be unrestricted upon collection.

8. CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. As of December 31, 2017, substantially all of the Organization's cash was maintained in financial institutions. The cash balances held in financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts. Cash balances held in brokerage accounts are insured by the Securities Investor Protection Corporation (SIPC) up to \$250,000 per institution. The Organization's uninsured cash balances totaled approximately \$7,377,000 at December 31, 2017.

For the year ended December 31, 2017, 71% of cash contributions were attributable to two donors and 71% of In-kind contributions were attributable to three donors. Including the in-kind contribution component, 82% of inventory purchases were from three vendors.

9. RELATED PARTY TRANSACTIONS

A board member is a principal in a law firm that contributed legal consulting services in the amount of \$262,900 and \$219,700 for the years ended December 31, 2017 and 2016, respectively (Note 1). In addition a board member provided consulting services to the Organization totaling \$138,140 and \$132,000 for each of the years ended December 31, 2017 and 2016 respectively.

10. EMPLOYEE BENEFITS

Effective April 1, 2013, the Organization established a qualified profit sharing retirement plan with a 401(k) deferred compensation provision covering substantially all employees. Employees must meet the minimum hours of service requirement of one year and be 21 years old in order to qualify for inclusion in the plan. Under the plan, qualified employees may elect to defer up to 90% of their salaries, subject to the Internal Revenue Code (IRC) limits. The Organization makes safe harbor contributions equal to 3% of each participant's compensation, which are 100% vested as of the date of contribution. In addition, the Organization may elect to make discretionary contributions to the plan, subject to IRC limits, which are allocated to participants in accordance with the plan document. Expenses of the plan are paid by the Organization and are included in the financial statements as a component of general and administrative expenses. The Organization's contribution to the plan, consisting of safe harbor and a discretionary contribution component, totaled approximately \$137,000 and \$123,200 and for the years ended December 31, 2017 and 2016, respectively.

The Organization established a non-qualified deferred compensation agreement under Section 457(f) of the IRC effective January 1, 2014. The agreement covers the president of the Organization. The agreement provides for a deferred compensation account to be funded annually as follows:

2014	\$	40,000
2015		40,000
2017		60,000
2018		<u>60,000</u>
	\$	<u>200,000</u>

The account is owned by the Organization and is therefore included in investments on the accompanying Statement of Financial Position. The amount in the account will vest 100% as of December 31, 2018 or at the time of death, disability, or termination of employment without cause.