VITAMIN ANGEL ALLIANCE, INC.

FINANCIAL STATEMENTS

December 31, 2016

DAMITZ
BROOKS
NIGHTINGALE
TURNER
MORRISSET

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, 2016, 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.

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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, 2016, 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 2015 financial statements, and our report dated November 21, 2016, 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, 2015, 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 29, 2017

VITAMIN ANGEL ALLIANCE, INC.
Statement of Financial Position
December 31, 2016
(With Summarized Comparative Totals for 2015)

Assets	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
Cash	$ 7,158,055	$ -	$ 7,158,055	$ 5,556,893
Investments	4,206,669	-	4,206,669	4,116,715
Inventory	32,061,628	-	32,061,628	28,612,945
Pledges receivable	-	3,624,425	3,624,425	3,383,475
Prepaid expenses and deposits	61,647	-	61,647	49,511
Office furniture and equipment, net	79,198	-	79,198	68,768
Intangible assets, net	185,887	-	185,887	272,650
Total assets	$ 43,753,084	$ 3,624,425	$ 47,377,509	$ 42,060,957
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 545,494	$ -	$ 545,494	$ 709,994
Accrued payroll liabilities	342,514	-	342,514	293,750
Accrued deferred compensation	80,000	-	80,000	80,000
Total liabilities	968,008	-	968,008	1,083,744
Net Assets				
Unrestricted				
Board designated	4,125,376	-	4,125,376	4,036,263
Other unrestricted net assets	38,659,700	-	38,659,700	33,557,475
Temporarily restricted	-	3,624,425	3,624,425	3,383,475
Total net assets	42,785,076	3,624,425	46,409,501	40,977,213
	$ 43,753,084	$ 3,624,425	$ 47,377,509	$ 42,060,957

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

VITAMIN ANGEL ALLIANCE, INC.
Statement of Activity
Year Ended December 31, 2016
(With Summarized Comparative Totals for 2015)

	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
Revenues and Other Support				
In-kind contributions	$ 67,334,909	$ -	$ 67,334,909	$ 56,133,640
Contributions	10,490,421	3,624,425	14,114,846	13,789,965
Special event income	333,815	-	333,815	530,870
Investment income (loss)	102,206	-	102,206	(9,686)
Net assets released from restrictions	3,383,475	(3,383,475)	-	-
Total revenues and other support	81,644,826	240,950	81,885,776	70,444,789
Expenses				
Nutrition and health projects	71,044,218	-	71,044,218	59,965,774
Management and general	1,797,946	-	1,797,946	1,657,449
Special events and fundraising	3,611,324	-	3,611,324	2,791,380
Total expenses	76,453,488	-	76,453,488	64,414,603
Increase in net assets	5,191,338	240,950	5,432,288	6,030,186
Net assets, beginning of year	37,593,738	3,383,475	40,977,213	34,947,027
Net assets, end of year	$ 42,785,076	$ 3,624,425	$ 46,409,501	$ 40,977,213

VITAMIN ANGEL ALLIANCE, INC.
Statement of Functional Expenses
Year Ended December 31, 2016
(With Summarized Comparative Totals for 2015)

	Program Services	Supporting Services		Total	
	Nutrition and Health Projects	Management and General	Special Events and Fundraising	2016	2015
Salaries	$ 1,050,970	$ 1,174,614	$ 865,505	$ 3,091,089	$ 2,629,815
Payroll taxes and benefits	199,633	223,119	164,404	587,156	465,030
Total salaries and benefits	1,250,603	1,397,733	1,029,909	3,678,245	3,094,845
Conferences and meetings	-	8,678	-	8,678	11,764
Consulting	1,223,310	11,720	322,693	1,557,723	1,327,180
Depreciation and amortization	64,575	25,830	38,745	129,150	56,263
Development and promotion	-	-	1,494,111	1,494,111	824,616
Information technology	164,910	65,964	98,946	329,820	142,181
Insurance	42,022	16,809	25,213	84,044	78,216
Legal and accounting	124,655	156,414	-	281,069	432,256
Loss on disposal of asset	1,111	444	666	2,221	395
Occupancy	99,028	39,611	59,417	198,056	184,899
Office expenses	86,691	34,676	52,015	173,382	216,708
Postage and shipping	589,657	5,135	-	594,792	424,164
Products distributed - contributed	63,298,840	-	-	63,298,840	53,201,902
Products distributed - purchased	3,164,103	-	-	3,164,103	3,000,751
Program direct expense	861,568	-	-	861,568	790,528
Special events	-	-	99,405	99,405	206,641
Travel	73,145	34,932	390,204	498,281	421,294
	$ 71,044,218	$ 1,797,946	$ 3,611,324	$ 76,453,488	$ 64,414,603

VITAMIN ANGEL ALLIANCE, INC.
Statement of Cash Flows
Year Ended December 31, 2016
(With Summarized Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities		
Increase in net assets	$ 5,432,288	$ 6,030,186
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Amortization	105,839	37,719
Depreciation	23,310	18,544
Donated securities	(10,422)	(3,702)
Net realized (gain) loss on investments	(2,614)	63,626
Net unrealized (gain) loss on investments	(62,341)	(23,883)
Net realized loss on disposal of fixed assets	2,221	395
(Increase) decrease in:		
Inventory	(3,448,683)	(2,951,641)
Pledges receivable	(240,950)	(191,006)
Prepaid expenses and deposits	(12,136)	69,587
Increase (decrease) in:		
Accounts payable	(164,500)	398,393
Accrued payroll liabilities	48,764	83,474
Accrued deferred compensation	-	40,000
Net cash provided by operating activities	1,670,776	3,571,692
Cash flows from investing activities		
Purchase of investments	(477,097)	(1,088,358)
Proceeds from sales of investments	462,520	1,033,234
Website development expenditures	(19,076)	(310,369)
Purchase of office furniture and equipment	(35,961)	(52,810)
Net cash used by investing activities	(69,614)	(418,303)
Net increase in cash and cash equivalents	1,601,162	3,153,389
Cash, beginning of year	5,556,893	2,403,504
Cash, end of year	$ 7,158,055	$ 5,556,893

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. Vitamin Angels promotes breast feeding and good complimentary feeding practices among mothers as a generally accepted approach to ensuring good nutrition for infants. Another initiative of Vitamin Angels 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:

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

<u>Temporarily restricted net assets</u> 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.

<u>Permanently restricted net assets</u> 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, 2016 and 2015, 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, 2015 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:

	2016	2015
Health supplies – Anti-parasitic tablets	$ 28,034,594	$ 22,708,940
Multivitamins	2,843,136	4,470,454
High-dose vitamin A	1,183,898	1,433,551
	$ 32,061,628	$ 28,612,945

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, 2016 and 2015 were based on 2014 IMS Health data.

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, 2016 and 2015 were based on 2013 IDPI data. This was the most current data available at January 1, 2015.

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, 2016 and 2015 were based on 2015 RedBook ® data.

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.

<u>Purchased Inventory</u>

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, 2016 and 2015. There were no pledges receivable at December 31, 2016 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 - *v*alued 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:

	Years
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, 2016.

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:

Service Donated	2016 Fair Value	2015 Fair Value	Purpose
Accounting services	$ 5,000	$ 3,000	General
Legal consulting	219,700	375,100	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 2013 to the present remain subject to examination by the IRS for federal tax purposes, and the tax years from 2012 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 29, 2017, the date that the financial statements were available to be issued.

2. INVESTMENTS

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

	Cost	Fair Value	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)	930,070	1,003,484	73,414
	$ 4,142,208	$ 4,206,669	$ 64,461

At December 31, 2015, unrestricted investments consist of the following:

	Cost	Fair Value	Excess (Deficit) of Fair Value Over Cost
Money market funds (Level 1)	$ 2,619,798	$ 2,619,798	$ -
Mutual and exchange traded funds (Level 1)	150,047	147,040	(3,007)
Fixed income (Level 2)	673,689	665,719	(7,970)
Equities (Level 1)	671,061	684,158	13,097
	$ 4,114,595	$ 4,116,715	$ 2,120

Investment income (loss) for the years ending December 31, 2016 and 2015 consists of the following:

	2016	2015
Interest and dividends	$ 37,251	$ 29,757
Net realized gain (loss)	2,614	(63,326)
Net unrealized gain	62,341	23,883
	$ 102,206	$ (9,686)

3. OFFICE FURNITURE AND EQUIPMENT

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

	2016	2015
Furniture and fixtures	$ 23,139	$ 23,139
Computers and office equipment	106,040	78,088
Less accumulated depreciation	(49,981)	(32,459)
	$ 79,198	$ 68,768

Depreciation expense for the years ended December 31, 2016 and 2015 was approximately $23,300 and $18,500, 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, 2016, the unamortized cost of these intangibles was approximately $329,500, net of accumulated amortization of approximately $143,600.

Future estimated amortization expense related to intangible assets at December 31, 2016 is as follows:

2017	$ 109,815
2018	69,713
2019	6,359
	$ 185,887

Amortization expense related to intangible assets for the years ended December 31, 2016 and 2015 was approximately $105,800 and $37,000, 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 $163,400 and $164,300 for the years ended December 31, 2016 and 2015, respectively.

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

Year ending December 31,		
	2017	$ 167,000
	2018	170,000
		$ 337,000

6. BOARD DESIGNATED NET ASSETS

As of December 31, 2016 and 2015, the board has designated unrestricted net assets in the amount of $4,125,376 and $4,036,263, respectively, as an operating reserve fund.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of pledges receivable totaling $3,624,425 and $3,383,475 as of December 31, 2016 and 2015, 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, 2016, 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 $8,532,000 at December 31, 2016.

For the year ended December 31, 2016, 71% of cash contributions were attributable to two donors and 80% of In-kind contributions were attributable to three donors.

9. RELATED PARTY TRANSACTIONS

A board member is a principal in a law firm that contributed legal consulting services in the amount of $219,700 and $375,100 for the years ended December 31, 2016 and 2015, respectively (Note 1). In addition a board member provided consulting services to the Organization totaling $132,000 for each of the years ended December 31, 2016 and 2015.

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 component, totaled approximately $123,200 and $104,500 and for the years ended December 31, 2016 and 2015, 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	60,000
	$ 200,000

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.