

**The Human Development Foundation  
Of North America**

Comparative Financial Statements and Audit Report

December 31, 2013 and 2012

**THE HUMAN DEVELOPMENT FOUNDATION OF NORTH AMERICA**

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## INDEPENDENT AUDITORS' REPORT

To Board of Directors  
The Human Development Foundation of North America

We have audited the accompanying comparative financial statements of The Human Development Foundation of North America (a nonprofit organization), which comprise the comparative statements of financial position as of December 31, 2013 and 2012, and the related comparative statements of activities and cash flows for the years 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 comparative financial statements referred to above present fairly, in all material respects, the financial position of The Human Development Foundation of North America as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

CYGAN HAYES, LTD.  
Certified Public Accountants

Frankfort, Illinois  
July 10, 2014

**The Human Development Foundation of North America**  
**Statements of Financial Position**  
**December 31, 2013 and 2012**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	2013 Total	2012 Total
<b>ASSETS:</b>						
<b>Current Assets:</b>						
Cash and cash equivalents	\$ 101,616	\$ 367,582	\$ 506,786	\$ -	\$ 975,984	\$ 1,008,265
Investments	-	-	736,727	-	736,727	622,101
Contributions receivable	4,675	-	-	-	4,675	3,518
Prepaid expenses	4,294	-	-	-	4,294	9,766
Inter fund receivable	-	-	148,747	(148,747)	-	-
<b>Total current assets</b>	<b>110,585</b>	<b>367,582</b>	<b>1,392,260</b>	<b>(148,747)</b>	<b>1,721,680</b>	<b>1,643,650</b>
<b>Fixed Assets:</b>						
Furniture and fixtures	5,658	-	-	-	5,658	5,658
Equipment	12,031	-	-	-	12,031	12,031
Computers	14,411	-	-	-	14,411	14,411
	32,100	-	-	-	32,100	32,100
Accumulated depreciation	(32,100)	-	-	-	(32,100)	(32,100)
<b>Total fixed assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Other Assets:</b>						
Security deposits	1,675	-	-	-	1,675	1,675
<b>Total assets</b>	<b>112,260</b>	<b>367,582</b>	<b>1,392,260</b>	<b>(148,747)</b>	<b>1,723,355</b>	<b>1,645,325</b>
<b>LIABILITIES AND NET ASSETS:</b>						
<b>Current Liabilities:</b>						
Accounts payable	4,877	-	-	-	4,877	58,781
Accrued vacation	2,514	-	-	-	2,514	5,000
Inter fund payable	148,747	-	-	(148,747)	-	-
<b>Total current liabilities</b>	<b>156,138</b>	<b>-</b>	<b>-</b>	<b>(148,747)</b>	<b>7,391</b>	<b>63,781</b>
<b>Net Assets:</b>						
Unrestricted net assets	(43,878)	-	-	-	(43,878)	(251,124)
Temporarily restricted	-	367,582	-	-	404,719	489,530
Permanently restricted	-	-	1,392,260	-	1,355,123	1,343,138
<b>Total net assets</b>	<b>(43,878)</b>	<b>367,582</b>	<b>1,392,260</b>	<b>-</b>	<b>1,715,964</b>	<b>1,581,544</b>
<b>Total liabilities and net assets</b>	<b>\$ 112,260</b>	<b>\$ 367,582</b>	<b>\$ 1,392,260</b>	<b>\$ (148,747)</b>	<b>\$ 1,723,355</b>	<b>\$ 1,645,325</b>

**The Human Development Foundation of North America**  
**Statements of Activities**  
For The Years Ended December 31, 2013 and 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total	2012 Total
<b>SUPPORT AND REVENUE</b>					
<b>Support:</b>					
Contributions	\$ 284,490	\$ 848,109	\$ 44,122	\$ 1,176,721	\$ 1,147,737
Special events (net)	691,455	295,699	5,000	992,154	703,740
Net assets released from restrictions	1,375,180	(1,375,180)	-	-	-
<b>Total support</b>	<b>2,351,125</b>	<b>(231,372)</b>	<b>49,122</b>	<b>2,168,875</b>	<b>1,851,477</b>
<b>Revenues:</b>					
Interest/dividend income	760	15,298	-	16,058	12,217
Net realized/unrealized gain on investments	163	94,126	-	94,289	45,689
Miscellaneous revenue	3,210	-	-	3,210	2,319
<b>Total revenues</b>	<b>4,133</b>	<b>109,424</b>	<b>-</b>	<b>113,557</b>	<b>60,225</b>
<b>Total support and revenue</b>	<b>2,355,258</b>	<b>(121,948)</b>	<b>49,122</b>	<b>2,282,432</b>	<b>1,911,702</b>
<b>EXPENSES:</b>					
<b>Program services:</b>					
Education/community/social mobilization	967,443	-	-	967,443	1,001,166
Economic development	53,016	-	-	53,016	62,852
Emergency relief services	274,580	-	-	274,580	300,366
Health and wellness	233,453	-	-	233,453	265,730
Other program services	321,131	-	-	321,131	308,944
<b>Total program services</b>	<b>1,849,623</b>	<b>-</b>	<b>-</b>	<b>1,849,623</b>	<b>1,939,058</b>
<b>Supporting Services:</b>					
Management and general	186,622	-	-	186,622	182,966
Fundraising	111,767	-	-	111,767	113,302
<b>Total supporting services</b>	<b>298,389</b>	<b>-</b>	<b>-</b>	<b>298,389</b>	<b>296,268</b>
<b>Total expenses</b>	<b>2,148,012</b>	<b>-</b>	<b>-</b>	<b>2,148,012</b>	<b>2,235,326</b>
<b>Change in net assets</b>	<b>207,246</b>	<b>(121,948)</b>	<b>49,122</b>	<b>134,420</b>	<b>(323,624)</b>
<b>Net assets, beginning of year</b>	<b>(251,124)</b>	<b>489,530</b>	<b>1,343,138</b>	<b>1,581,544</b>	<b>1,905,168</b>
<b>Net assets, end of year</b>	<b>\$ (43,878)</b>	<b>\$ 367,582</b>	<b>\$ 1,392,260</b>	<b>\$ 1,715,964</b>	<b>\$ 1,581,544</b>

**The Human Development Foundation of North America**  
**Statements of Cash Flows**  
For The Years Ended December 31, 2013 and 2012

	2013	2012
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ 134,420	\$ (323,624)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net unrealized gains on investments	26,716	38,172
Changes in assets and liabilities:		
(Increase) decrease in receivables	(1,157)	(3,050)
(Increase) decrease in prepaid and deposits	5,472	(5,254)
Increase (decrease) in accounts payable and accrued expenses	(56,390)	63,782
	109,061	(229,974)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	298,588	131,704
Purchase of investments	(439,930)	(183,520)
	(141,342)	(51,816)
Net increase (decrease) in cash and cash equivalents	(32,281)	(281,790)
Cash and cash equivalents, beginning of year	1,008,265	1,290,055
Cash and cash equivalents, end of year	\$ 975,984	\$ 1,008,265

**The Human Development Foundation of North America**  
**Statements of Functional Expenses**  
**For the years ended December 31, 2013 and 2012**

	PROGRAM SERVICES					SUPPORTING SERVICES			2012 TOTAL	
	Education, Community, Social Mobilization	Economic Development	Emergency Relief Services	Health and Wellness	Other Program Services	TOTAL PROGRAM SERVICES	Management and General	Fundraising		2013 TOTAL
Salaries and related expense:										
Salaries	\$ 71,282	\$ -	\$ -	\$ -	\$ 57,427	\$ 128,709	\$ 77,016	\$ 43,437	\$ 249,162	\$ 237,372
Employee benefits	2,658	-	-	-	1,722	4,380	5,329	1,237	10,946	8,064
Payroll taxes	5,510	-	-	-	4,457	9,967	13,047	3,388	26,402	25,465
Salaries and related expense	79,450	-	-	-	63,606	143,056	95,392	48,062	286,510	270,901
Program services and grants	709,021	53,016	274,580	233,453	257,525	1,527,595	-	-	1,527,595	1,604,049
Promotion and awareness	7,436	-	-	-	-	7,436	-	59,096	66,532	124,247
Special events	114,485	-	-	-	-	114,485	-	-	114,485	110,082
Occupancy	14,923	-	-	-	-	14,923	14,923	-	29,846	32,208
Bank charges	7,156	-	-	-	-	7,156	7,156	-	14,312	12,589
Conference and meetings	2,915	-	-	-	-	2,915	8,457	-	11,372	6,598
Dues and subscriptions	-	-	-	-	-	-	1,804	-	1,804	1,992
Insurance	4,782	-	-	-	-	4,782	4,782	-	9,564	6,494
Miscellaneous	751	-	-	-	-	751	1,198	-	1,949	1,077
Office equipment leases	-	-	-	-	-	-	8,871	-	8,871	8,785
Office supplies	-	-	-	-	-	-	4,175	-	4,175	3,718
Outside services	-	-	-	-	-	-	15,041	-	15,041	12,358
Postage and printing	8,498	-	-	-	-	8,498	16,047	4,371	28,916	19,216
Technology	5,318	-	-	-	-	5,318	5,600	-	10,918	13,388
Telephone	965	-	-	-	-	965	965	-	1,930	2,346
Travel	11,743	-	-	-	-	11,743	2,211	238	14,192	5,278
Total before depreciation	967,443	53,016	274,580	233,453	321,131	1,849,623	186,622	111,767	2,148,012	2,235,326
Depreciation	-	-	-	-	-	-	-	-	-	-
Total expenses	\$ 967,443	\$ 53,016	\$ 274,580	\$ 233,453	\$ 321,131	\$ 1,849,623	\$ 186,622	\$ 111,767	\$ 2,148,012	\$ 2,235,326

**The Human Development Foundation of North America**  
Notes to Financial Statements

**NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Activities

The Human Development Foundation of North America ("HDFNA") is a non-profit corporation organized under the laws of the State of Illinois to do the following:

- Undertake and carry out humanitarian relief
- Promote mass literacy among people who do not have access to educational facilities
- To provide preventive health care
- Raise the standard of living of underprivileged

Its primary activity in the United States is to raise funds with which to carry out the above program activities in Pakistan through an affiliated foundation, The Human Development Foundation of Pakistan ("HDFP"). The HDFP is organized under the laws of that country as a company limited by guarantee, but has influence from HDFNA through persons who are directors of both HDFNA and HDFP.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, "Non For Profit Entities". Under ASC 958, the HDFNA is required to distinguish between contributions received that increase permanently restricted net assets. HDFNA is also required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted, which are based on the existence or absence of donor-imposed restrictions.

Contributions

In accordance with ASC 958, contributions received are recorded as unrestricted, temporarily restricted and permanently restricted support. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary 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.

Intensions to Give

For material communications that represents unconditional intentions to give (rather than promises to give), are recorded and treated like unconditional promises to give only if they are legally enforceable or cash is received.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.



**The Human Development Foundation of North America**  
Notes to Financial Statements

**NOTE 1: NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents are defined as cash on hand, amounts held at financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash. Investments with an initial maturity of three months or less are considered short-term for these purposes.

Investments in Securities and Related Income, Gains, and Losses

Investments in marketable securities with readily determinable fair values are reported at their fair value and classified as current even though there were no plans or intentions of disposing of any particular security at December 31, 2013 or 2012. Investments are exposed to various risks such as interest rate, market, and credit risk. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risks in the near-term could materially affect investments balances and the amounts reported in the financial statements. Interest and dividend income from securities and realized and unrealized gains and losses are reported as based upon donor restrictions.

Fixed Assets

HDFNA follows the practice of capitalizing all expenditures for property, furniture, fixtures and office equipment in excess of \$3,000. Depreciation or amortization of all such items is computed on a straight-line basis over the estimated useful lives of three to five years.

Income Taxes

HDFNA is a not-for-profit organization that is exempt from Federal income taxes under Section 501(c) (3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. Accordingly, a provision for Federal income taxes in the accompanying financial statements has not been made. There was no tax on unrelated business income during the years ended December 31, 2013 or 2012.

HDFNA has adopted the revised provisions of FASB ASC 740, relating to uncertain tax positions. These standards require management to perform an evaluation of all income tax positions taken or expected to be taken in the course of preparing any tax returns to determine whether the income tax positions taken meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various status of limitation for federal and state purposes.

With limited exceptions, HDFNA is no longer subject to examination by the Internal Revenue Service for any fiscal year end prior to December 31, 2010. However, HDFNA is not currently under audit nor have they been contacted by any jurisdiction. Based on the evaluation of the Organization's tax positions, management believes that all tax positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions have been recorded for the years ended December 31, 2013 or 2012.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**The Human Development Foundation of North America**  
Notes to Financial Statements

**NOTE 2: CASH AND CASH EQUIVALENTS**

Cash and Cash Equivalents consist of the following:

	<b>2013</b>	<b>2012</b>
Checking accounts	\$ 497,384	\$ 556,395
Money market account	478,579	451,814
Petty cash	21	56
	<u>\$ 975,984</u>	<u>\$ 1,008,265</u>

**NOTE 3: INVESTMENTS**

The Fair Value Measurement and Disclosure topic of the Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820*, establishes a fair value hierarchy that prioritized the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. HDFNA uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, HDFNA measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs would be used only when Level 1 or Level 2 inputs were not available. The value of all of the HDFNA's assets and liabilities which are required to be carried at fair value are valued at quoted prices in active markets for identical assets and liabilities and are, therefore, considered Level 1 assets and liabilities.

Investments are composed of mutual funds investing in debt and equity securities and are carried at fair value. Investments at 2013 consist of the following:

	<u>Fair Value</u>	<u>Quoted Market Prices (Level 1)</u>
Permanently Restricted Financial Assets:		
Investments, at fair value:		
US treasuries	\$ 75,784	\$ 75,784
Agency securities	12,419	12,419
Corporate bonds	71,939	71,939
Equities	317,921	317,921
Bond funds	124,448	124,448
Other assets	134,216	134,216
	<u>\$ 736,727</u>	<u>\$ 736,727</u>

Investments are composed of mutual funds investing in debt and equity securities and are carried at fair value. Investments at 2012 consist of the following:

	<u>Fair Value</u>	<u>Quoted Market Prices (Level 1)</u>
Permanently Restricted Financial Assets:		
Investments, at fair value:		
US treasuries	\$ 109,624	\$ 109,624
Agency securities	26,228	26,228
Corporate bonds	125,952	125,952
Equities	357,525	357,525
Publically traded REIT	2,772	2,772
	<u>\$ 622,101</u>	<u>\$ 622,101</u>

**The Human Development Foundation of North America**  
Notes to Financial Statements

**NOTE 3: INVESTMENTS (CONTINUED)**

The following schedule summarizes investment return in the statement of activities for the year ended December 31, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Interest and dividends	\$ 19,863	\$ 16,572
Net realized gain/(loss)	67,572	7,516
Net unrealized gain/(loss)	26,717	38,172
Broker fees and other costs	(4,565)	(5,997)
	<b>\$ 109,587</b>	<b>\$ 56,263</b>

**NOTE 4: CONCENTRATION OF CREDIT RISK**

The HDFNA maintains bank accounts with financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC). At times, bank account balances may be in excess of FDIC limits.

The HDFNA also maintains investments in cash and money market accounts at a broker who is covered by the Securities Investor Protection Corporation (SIPC). The SIPC maintains reserves which protect the investor against broker error and fraud. At times, cash and money market accounts may be in excess of SIPC limits.

**NOTE 5: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at December 31, 2013 and 2012 are available for the following purposes:

	<b>2013</b>	<b>2012</b>
Emergency relief program	\$ 279,742	\$ 472,323
Education	46,144	-
Economic development	1,100	-
Health	6,333	-
Other program services	34,263	17,207
	<b>\$ 367,582</b>	<b>\$ 489,530</b>

**NOTE 6: PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets are donor-restricted and considered an endowment for the continuity of the HDFNA. The endowment consists of gifts received from donors with the stipulation that the principal be invested and the income used for the general purposes of the HDFNA. The HDFNA has invested its excess liquidity in money market funds and broadly diversified range of marketable equity securities, including companies listed on other U.S. and foreign exchanges. Typically, no single security holding is significant to its financial position and no investment sector is greater than 20% of all securities held. The entire amount of investments was classified as permanently restricted net assets. As of December 31, 2013 and 2012 the fair market of investments was \$736,727 and \$622,101, respectively.

**The Human Development Foundation of North America**  
Notes to Financial Statements

**NOTE 7: AMOUNTS RAISED IN FUNDRAISING CAMPAIGNS**

Unrestricted contributions on the statement of activities are represented net of direct fundraising campaign expenses. The table below presents gross contributions raised by the HDFNA in 2013 and the reconciliation to the net amount shown on the statement of activities as of December 31, 2013.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Gross contributions	\$ 899,078	\$ 295,699	\$ 5,000	\$ 1,199,777
Direct fundraising expenses	207,623	-	-	207,623
	<u>\$ 691,455</u>	<u>\$ 295,699</u>	<u>\$ 5,000</u>	<u>\$ 992,154</u>

The table below presents gross contributions raised by the HDFNA in 2012 and the reconciliation to the net amount shown on the statement of activities as of December 31, 2012.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Gross contributions	\$ 547,932	\$ 256,004	-	\$ 803,936
Direct fundraising expenses	100,196	-	-	100,196
	<u>\$ 447,736</u>	<u>\$ 256,004</u>	<u>-</u>	<u>\$ 703,740</u>

**NOTE 8: ALLOCATION OF JOINT COSTS**

In 2013 and 2012, the HDFNA conducted activities that included requests for contributions, as well as program components. Those activities include direct mail and special events. The cost of conducting those activities included a total of \$343,099 for 2013 and \$210,278 for 2012 of joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows.

	<b>2013</b>	<b>2012</b>
Fundraising	\$ 207,623	\$ 100,196
Community Awareness	135,476	110,082
	<u>\$ 343,099</u>	<u>\$ 210,278</u>

**NOTE 9: EMPLOYEE BENEFIT PLANS**

In 2006, the HDFNA established two 403(b) plans for the benefit of its employees called the "Human Development Foundation of North America Defined Contribution Plan" and the "Human Development Foundation Tax Deferred Annuity Plan". Both have plan year ends of December 31<sup>st</sup>. Under the Defined Contribution Plan, eligible employees receive employer contributions which match their contributions up to a maximum of 3% of their taxable income before the 403(b) deduction. Under the Deferred Annuity Plan, eligible employees do not receive any employer contributions. The HDFNA's contributions for the year ended December 31, 2013 and 2012 was \$2,533 and \$2,670, respectively.

**The Human Development Foundation of North America**  
Notes to Financial Statements

**NOTE 10: AFFILIATED FOUNDATION**

HDFNA transferred funds to the Human Development Foundation of Pakistan (HDFP) for carrying out the HDFNA's programs in Pakistan. Transferred funds consist of the following:

	<b>2013</b>	<b>2012</b>
Education and social mobilization	\$ 709,021	\$ 727,408
Economic development	53,016	62,852
Emergency relief services	274,580	300,366
Health and wellness	233,453	265,730
Other program services	257,525	247,693
	<b>\$ 1,527,595</b>	<b>\$ 1,604,049</b>

**NOTE 11: LEASE COMMITMENTS**

HDFNA leases office space under operating leases which expired February 2014 but was extended through February 2016. Monthly lease payments are \$2,087. The minimum lease commitments are as follows:

For the year ended:		
December 31, 2014	\$	24,047
December 31, 2015		25,047
December 31, 2016		4,175
	<b>\$</b>	<b>53,269</b>

Total rental expense for the year ended December 31, 2013 was \$25,047 and \$25,920 for the year ended December 31, 2012.

**NOTE 12: ENDOWMENT**

The HDFNA's endowment consists of one or more separate funds established for a variety of purposes. The endowment includes permanent endowments only. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Illinois Uniform Prudent Management of Institutional Funds Act (UPMIFA) lists standards in which HDFNA is to manage and invest endowment funds, which are subject to the intent of a donor and the charitable purpose of the HDFNA. The Board of Trustees of the HDFNA Endowment Trust has interpreted the intent of this law to preserve gifts to endowment funds. As a result of this interpretation, HDFNA classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the HDFNA in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the HDFNA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the funds, (2) the general purposes of the organization and the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and appreciation of investments, (6) other resources of the HDFNA, (7) the investment policies of the HDFNA.

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Notes to Financial Statements

**NOTE 12: ENDOWMENT (CONTINUED)**

Spending Policies

The Trustees of the Endowment Trust of the HDFNA shall use the income derived from the endowment funds for the purpose of funding one or more programs to transform the lives of residents of poor communities described in Note 1. The Trustees may, in their absolute discretion, pay any amount or amounts of the income of the endowment funds, at such time or times, and in such a manner as the Trustees, in their absolute discretion, shall determine to or for the benefit of the Programs herein described in Note 1.

The endowment funds of the HDFNA are donor-restricted endowment funds.

Endowment net asset composition by type and changes in endowment net assets for the year ended December 31, 2013 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 1,343,138	\$ 1,343,138
Contributions	-	49,122	49,122
Investment income	15,279	-	15,279
Net appreciation/(depreciation)	94,835	-	94,835
Amounts appropriated for expenditures	(110,114)	-	(110,114)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,392,260</u>	<u>\$ 1,392,260</u>

Endowment net asset composition by type and changes in endowment net assets for the year ended December 31, 2012 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Endowment net assets, beginning of year	\$ -	\$ 1,331,419	\$ 1,331,419
Contributions	-	11,719	11,719
Investment income	10,574	-	10,574
Net appreciation/(depreciation)	45,689	-	45,689
Amounts appropriated for expenditures	(56,263)	-	(56,263)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,343,138</u>	<u>\$ 1,343,138</u>

**NOTE 13: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through July 10, 2014, the date which the financial statements were available to be issued.