ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2013 AND 2012

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MATTHEWS, CARTER & BOYCE

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Island Press - Center for Resource Economics
Washington, DC

We have audited the accompanying financial statements of Island Press - Center for Resource Economics (the Center), which comprise the statements of financial positions as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, cash flows and functional expenses 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Island Press - Center for Resource Economics 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.

Matthews, Carter and Boyce

Fairfax, Virginia
May 21, 2014

ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2013 AND 2012

	December 31, 2013			December 31, 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ 1,542,775	$ 140,980	$ 1,683,755	$ 917,889	$ 286,922	$ 1,204,811
Grants and contributions receivable, current portion	46,325	178,000	224,325	10,728	248,250	258,978
Accounts receivable, net	608,784	-	608,784	751,011	-	751,011
Inventory, net	1,334,317	-	1,334,317	1,376,661	-	1,376,661
Prepublication costs	37,758	-	37,758	47,583	-	47,583
Royalty advances, net	274,767	-	274,767	359,143	-	359,143
Other current assets	115,270	-	115,270	59,547	-	59,547
Total Current Assets	$ 3,959,996	$ 318,980	$ 4,278,976	$ 3,522,562	$ 535,172	$ 4,057,734
GRANTS AND CONTRIBUTIONS RECEIVABLE, net of current portion	-	-	-	-	50,000	50,000
PROPERTY AND EQUIPMENT, NET	49,410	-	49,410	56,588	-	56,588
TOTAL ASSETS	$ 4,009,406	$ 318,980	$ 4,328,386	$ 3,579,150	$ 585,172	$ 4,164,322

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

ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2013 AND 2012

	December 31, 2013			December 31, 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable and accrued expenses	$ 168,500	$ -	$ 168,500	$ 293,787	$ -	$ 293,787
Accrued payroll and related liabilities	212,837	-	212,837	203,958	-	203,958
Royalties payable	152,885	-	152,885	167,272	-	167,272
Deferred rent, current portion	2,768	-	2,768	2,768	-	2,768
Line of credit	-	-	-	250,000	-	250,000
Notes payable, current portion	100,000	-	100,000	-	-	-
Total Current Liabilities	$ 636,990	$ -	$ 636,990	$ 917,785	$ -	$ 917,785
Deferred rent, net of current portion	102,456	-	102,456	54,859	-	54,859
Notes payable, net of current portion	-	-	-	100,000	-	100,000
Total Liabilities	$ 739,446	$ -	$ 739,446	$ 1,072,644	$ -	$ 1,072,644
NET ASSETS						
Unrestricted						
Board-designated	$ 1,273,453	$ -	$ 1,273,453	$ 510,000	$ -	$ 510,000
Undesignated	1,996,507	-	1,996,507	1,996,506	-	1,996,506
Temporarily restricted	-	318,980	318,980	-	585,172	585,172
Total Net Assets	$ 3,269,960	$ 318,980	$ 3,588,940	$ 2,506,506	$ 585,172	$ 3,091,678
TOTAL LIABILITIES AND NET ASSETS	$ 4,009,406	$ 318,980	$ 4,328,386	$ 3,579,150	$ 585,172	$ 4,164,322

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

ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	For the Year Ended December 31, 2013			For the Year Ended December 31, 2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT						
Book sales, net of returns	$ 2,538,499	$ -	$ 2,538,499	$ 2,766,503	$ -	$ 2,766,503
Grants, institutional foundations	1,415,442	454,158	1,869,600	469,724	982,102	1,451,826
Grants and contributions, family foundations and individuals	573,124	-	573,124	445,543	135,161	580,704
Interest and other income, net	11,141	-	11,141	32,174	-	32,174
Net assets released from restrictions	720,350	(720,350)	-	943,087	(943,087)	-
Total Revenues and Support	$ 5,258,556	$ (266,192)	$ 4,992,364	$ 4,657,031	$ 174,176	$ 4,831,207
EXPENSES						
Program services						
Research and publication	$ 1,874,614	$ -	$ 1,874,614	$ 1,995,448	$ -	$ 1,995,448
Marketing and distribution	1,067,402	-	1,067,402	1,220,608	-	1,220,608
Program assistance	537,706	-	537,706	557,556	-	557,556
Supporting services						
General and administrative	570,554	-	570,554	612,803	-	612,803
Fundraising	444,826	-	444,826	443,821	-	443,821
Total Expenses	$ 4,495,102	$ -	$ 4,495,102	$ 4,830,236	$ -	$ 4,830,236
INCREASE (DECREASE) IN NET ASSETS	$ 763,454	$ (266,192)	$ 497,262	$ (173,205)	$ 174,176	$ 971
NET ASSETS AT BEGINNING OF THE YEAR	2,506,506	585,172	3,091,678	2,679,711	410,996	3,090,707
NET ASSETS AT END OF THE YEAR	$ 3,269,960	$ 318,980	$ 3,588,940	$ 2,506,506	$ 585,172	$ 3,091,678

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

ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 497,262	$ 971
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Loss from sales of equipment	$ 29	$ 57
Depreciation and amortization	12,728	8,271
Increase (decrease) in allowance for book returns	(16,157)	(27,012)
Increase (decrease) in allowance for doubtful accounts	(1,600)	818
Increase (decrease) in allowances for inventory and royalty advances	33,829	(62,926)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Grants and contributions receivable	84,653	(104,364)
Accounts receivable	159,984	(81,778)
Inventory	36,778	106,545
Prepublication costs	9,825	8,731
Royalty advances	56,113	65,772
Other current assets	(55,723)	25,358
Increase (decrease) in:		
Accounts payable and accrued expenses	(125,288)	(77,376)
Accrued payroll and related liabilities	8,879	12,276
Royalties payable	(14,387)	24,187
Deferred rent	47,597	44,353
Total Adjustments	$ 237,260	$ (57,088)
Net Cash Provided (Used) by Operating Activities	$ 734,522	$ (56,117)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	$ (5,578)	$ (46,555)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on line of credit	$ -	$ 250,000
Repayment of line of credit	(250,000)	-
Proceeds from note payable	-	100,000
Repayment of note payable	-	(25,000)
Net Cash Provided (Used) by Financing Activities	$ (250,000)	$ 325,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 478,944	$ 222,328
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,204,811	982,483
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,683,755	$ 1,204,811
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 2,930	$ 5,546

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

ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2013
(With Comparative Totals for 2012)

	Program Services				Supporting Services		Total for the Year Ended December 31, 2013	Total for the Year Ended December 31, 2012
	Research and Publication	Marketing and Distribution	Program Assistance	Total Program Services	General and Administrative	Fundraising		
Salaries, payroll taxes and employee benefits	$ 661,200	$ 488,915	$ 255,319	$ 1,405,434	$ 420,322	$ 326,958	$ 2,152,714	$ 2,148,879
Cost of books sold	1,079,920	-	-	1,079,920	-	-	1,079,920	1,108,864
Professional fees	8,128	289,646	101,438	399,212	46,714	1,394	447,320	579,768
Promotions	5,903	167,272	1,505	174,680	555	3,204	178,439	213,482
Program production	-	-	68,531	68,531	-	-	68,531	127,534
Occupancy	51,208	84,128	34,785	170,121	35,060	47,135	252,316	247,109
Travel and conferences	43,138	278	55,148	98,564	23,132	31,793	153,489	191,419
Postage and shipping	3,113	1,462	1,913	6,488	3,152	4,006	13,646	16,627
Supplies	10,694	12,404	5,262	28,360	21,494	14,827	64,681	77,520
Insurance	20,210	15,520	9,064	44,794	8,953	9,285	63,032	63,881
Telephone	4,717	1,840	1,242	7,799	7,580	1,946	17,325	25,866
Depreciation and amortization	3,818	3,229	1,886	8,933	1,863	1,932	12,728	8,271
Bank and interest charges	2,964	2,507	1,496	6,967	1,613	2,226	10,806	16,241
Bad debt expense (recovery)	(20,636)	-	-	(20,636)	-	-	(20,636)	3,538
Sales taxes and other fees/dues	237	201	117	555	116	120	791	1,237
Total for the year ended December 31, 2013	$ 1,874,614	$ 1,067,402	$ 537,706	$ 3,479,722	$ 570,554	$ 444,826	$ 4,495,102	
Total for the year ended December 31, 2012	$ 1,995,448	$ 1,220,608	$ 557,556	$ 3,773,612	$ 612,803	$ 443,821		$ 4,830,236

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

ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2012

	Program Services				Supporting Services		Total for the
	Research and Publication	Marketing and Distribution	Program Assistance	Total Program Services	General and Administrative	Fundraising	Year Ended December 31, 2012
Salaries, payroll taxes and employee benefits	$ 706,485	$ 480,717	$ 200,571	$ 1,387,773	$ 436,271	$ 324,835	$ 2,148,879
Cost of books sold	1,106,364	-	2,500	1,108,864	-	-	1,108,864
Professional fees	14,811	389,536	104,336	508,683	62,043	9,042	579,768
Promotions	7,577	200,922	1,713	210,212	1,364	1,906	213,482
Program production	1,414	-	126,120	127,534	-	-	127,534
Occupancy	60,431	86,698	27,075	174,204	34,710	38,195	247,109
Travel and conferences	38,876	18,075	72,326	129,277	23,802	38,340	191,419
Postage and shipping	4,764	3,441	2,096	10,301	3,523	2,803	16,627
Supplies	12,372	13,338	10,585	36,295	27,729	13,496	77,520
Insurance	23,622	16,724	5,936	46,282	9,278	8,321	63,881
Telephone	7,106	3,909	1,607	12,622	10,109	3,135	25,866
Depreciation and amortization	2,647	2,456	757	5,860	1,219	1,192	8,271
Bank and interest charges	5,070	4,401	1,822	11,293	2,578	2,370	16,241
Bad debt expense	3,538	-	-	3,538	-	-	3,538
Sales taxes and other fees/dues	371	391	112	874	177	186	1,237
Total for the year ended December 31, 2012	$ 1,995,448	$ 1,220,608	$ 557,556	$ 3,773,612	$ 612,803	$ 443,821	$ 4,830,236

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

Note 1. Organization and Significant Accounting Policies

The Island Press – Center for Resource Economics (the Center – formerly Center for Resource Economics, dba Island Press) was organized in 1978 as a nonprofit corporation under the laws of the state of California to conduct research and educate the public in the area of natural resource conservation and management. In 1984, the Center refocused operations primarily on the publishing and marketing of books related to natural resource conservation and management. In June 1992, the Center was granted an exemption from federal and state income taxes as an independent public charity by the Internal Revenue Service and the state of California Franchise Tax Board, respectively. Currently, the Center is a full-service information provider publishing its own titles, as well as marketing and distributing titles on natural resource management from other publishers.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimates under different assumptions or conditions.

Revenue Recognition

Revenue from book sales is recognized when books are shipped. Book sales are recorded net of estimated returns.

Contributions and grants are accounted for in accordance with the provisions of authoritative guidance issued by the Financial Accounting Standards Board (FASB). Under such guidance, contributions or grants are recognized as revenue when received or pledged.

Noncash contributions are recognized at the fair value of assets received.

Cash Equivalents

The Center considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents.

Note 1. Organization and Significant Accounting Policies (Continued)

Grants and Contributions Receivable

Contributions are recognized when the donor makes a promise to give to the Center that is in substance, unconditional. Unconditional promises to give due in the next year are reflected as current grants and contributions receivable and are recorded at their net realizable value. Unconditional promises to give, due in subsequent years, are reflected as long-term grants and contributions receivable and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. No discounts were recorded in 2013 or 2012 since the discount amounts would not have been significant.

Unconditional grants and contributions receivable at December 31, 2013 and 2012 are as follows:

	2013	2012
Receivable in less than one year	$ 224,325	$ 258,978
Receivable in two to five years	-	50,000
Total Grants and Contributions Receivable	$ 224,325	$ 308,978

Inventory

Inventory consists of books intended for resale and is stated at the lower of cost (average cost) or net realizable value. Cost of books sold includes plant and manufacturing costs, royalty expenses for books sold, plus write-downs of inventory and royalty advances to net realizable value. Write-downs of inventory and royalty advances totaled $232,735 and $117,848 for the years ended December 31, 2013 and 2012, respectively.

Prepublication Costs

Prepublication costs include plant and manufacturing costs incurred prior to the completion of related books. Editorial costs are expensed as incurred.

Property and Equipment

The Center capitalizes property and equipment additions exceeding $500. Property and equipment is stated at cost. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of three to five years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the term of the related lease.

Note 1. Organization and Significant Accounting Policies (Continued)

Concentrations of Credit Risk

The Center's assets that are exposed to credit risk consist primarily of cash and cash equivalents, grants and contributions receivable and accounts receivable. Grants and contributions receivable consist primarily of amounts due from nonprofit organizations and individuals. Historically, the Center has not experienced losses related to grants and contributions receivable, and accordingly, an allowance for uncollectible grants and contributions receivable is not considered necessary. Accounts receivable consist of amounts due from various customers, including retailers and wholesalers. The Center's management reviews the accounts receivable balances as a whole to determine the adequacy of its allowance for doubtful accounts. The Center maintains cash balances that may at times exceed federally insured limits. Cash balances are maintained at high-quality financial institutions and the Center believes the credit risk related to these cash balances is minimal.

Unrestricted Net Assets

Unrestricted net assets represent unrestricted revenue and expenses and grants or contributions without grantor-imposed restrictions. These funds are available for the overall operation of the Center, and include both internally-designated and undesignated resources.

The Board of Directors of the Center, through Board action, has designated part of the unrestricted fund balance for a specific use. The Center's Board-designated reserve fund is for use in the future if and when total revenues and other support are insufficient to cover total expenses. The level of this reserve is set annually.

Temporarily Restricted Net Assets

The Center reports grants as restricted support if they are received with grantor stipulations, such as time restrictions or restrictions as to the nature of the program that limits the use of the grants. When a grantor restriction expires (i.e., when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. As of December 31, 2013 and 2012, temporarily restricted net assets consist of grant revenues available for expenditure in future years.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Costs which cannot be specifically indentified with a particular function and which benefit more than one functional category are allocated on the basis of the portion of time expended by the staff on the various functions.

Note 1. Organization and Significant Accounting Policies (Concluded)

Income Taxes

The Center has received a determination letter from the Internal Revenue Service, which approves its status as a not-for-profit organization exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Center is not considered to be a private foundation under the provisions of the Internal Revenue Code.

The Center's tax returns filed subsequent to the year ended December 31, 2010 remain subject to examination by the tax jurisdiction where filed.

Uncertainty in income taxes recognized in the Center's financial statements is accounted for in accordance with the provisions of authoritative guidance issued by the FASB. Under this guidance, when tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others may be subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits, along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There was no liability for unrecognized tax benefits recognized in the statements of financial position at December 31, 2013 or 2012.

Note 2. Accounts Receivable

Accounts receivable consist of the following at December 31:

	2013	2012
Trade receivables	$ 751,285	$ 911,269
Allowance for book returns	(134,988)	(151,145)
Allowance for doubtful accounts	(7,513)	(9,113)
	$ 608,784	$ 751,011

Note 3. Inventory

Inventory consists of the following at December 31:

	2013	2012
Books for resale	$ 1,467,861	$ 1,504,639
Provision for write-downs	(133,544)	(127,978)
	$ 1,334,317	$ 1,376,661

Note 4. Royalty Advances

Royalty advances consist of the following at December 31:

	2013	2012
Royalty advances	$ 477,042	$ 533,155
Provision for write-downs	(202,275)	(174,012)
	$ 274,767	$ 359,143

Note 5. Property and Equipment

Property and equipment consists of the following at December 31:

	2013	2012
Equipment	$ 38,295	$ 35,487
Furniture and fixtures	27,758	27,758
Leasehold improvements	24,416	24,416
	$ 90,469	$ 87,661
Less: accumulated depreciation and amortization	(41,059)	(31,073)
	$ 49,410	$ 56,588

Note 6. Notes Payable

Notes payable consist of the following as of December 31:

	2013	2012
Loan payable to a private foundation with an original amount of $100,000. The note requires quarterly interest payments at an annual rate of 2% of the unpaid principal, with the first payment of interest being due and payable on December 31, 2012. The principal will be paid in eleven equal monthly installments of $8,333 beginning January 31, 2014 and one final installment of $8,337 on December 31, 2014.	$ 100,000	$ 100,000
Total notes payable	$ 100,000	$ 100,000
Less: current portion	100,000	-
Noncurrent Portion	$ -	$ 100,000

Note 6. Notes Payable (Concluded)

As of December 31, 2013, the following is a schedule of future principal maturities of the notes payable:

Years Ending December 31,	
2014	$ 100,000

Note 7. Line of Credit

The Center has a line of credit agreement with a bank whereby the Center can borrow up to a maximum of $500,000. Borrowings under this line are due on demand, are secured by all of the Center's assets, and bear interest at the bank's prime rate plus 1.00%. The line of credit agreement requires the Center to maintain certain financial covenants. The line of credit agreement expires in December 2014. The outstanding balance under the line of credit was $0 and $250,000 at December 31, 2013 and 2012, respectively.

Note 8. Related Party Activities

During the years ended December 31, 2013 and 2012, the Center recorded grants from directors and their family members as follows:

Year Issued	Type of Grant	Grant Amount
2013	Unrestricted grants	$ 1,401,550
2013	Restricted grants	$ 193,450
2012	Unrestricted grants	$ 255,781
2012	Restricted grants	$ 56,219

Additionally, during the years ended December 31, 2013 and 2012, the Center recorded unrestricted contributions of $86,350 and $142,200, respectively, from various board members and their families. There were no grants and contributions receivable from related parties as of December 31, 2013 or 2012.

Note 9. Retirement Plan

The Center maintains the Island Press Defined Contribution Retirement Plan (the Plan), a defined contribution plan, for all employees with more than one year of service. The Plan allows for contributions up to the maximum allowable by law. Employer matching contributions are not required, but can be made at the election of the Center. Participants are fully and immediately vested in both employee and Center contributions as well as earnings and losses thereon. The Center made no contributions to the Plan for the years ended December 31, 2013 or 2012.

Note 10. Major Grantors

As of December 31, 2013, three grantors accounted for 93% of the total grants receivable balance. As of December 31, 2012, four grantors accounted for 96% of the grants receivable balance.

During the year ended December 31, 2013 one grantor accounted for 57% of total grant revenue. During the year ended December 31, 2012, three grantors accounted for 43% of total grant revenue.

Note 11. Commitments

As of December 31, 2013, the Center leased office space and equipment under the terms of noncancelable operating leases. The Center entered into a lease for office space which commenced in September 2012 and will continue for a period of ten years and three months at an initial base rent of $17,498 per month. Annual increases under the lease are two and one half percent each year, except for the sixth year, when the increase will be two dollars per square foot. The lease contains certain incentives in the form of a build-out allowance and an abatement of rent for the first ninety-nine days of the lease term. The scheduled future minimum lease payments required under operating leases that have initial or remaining terms in excess of one year are as follows:

Years Ending December 31,	
2014	$ 221,979
2015	227,393
2016	232,942
2017	234,887
2018	240,405
Thereafter	1,040,093
	$ 2,197,699

Note 11. Commitments (Concluded)

In accordance with accounting principles generally accepted in the United States of America, the Center is recognizing the total cost of its office space lease ratably over the lease period. The cumulative difference between rent paid and that expensed is reflected as deferred rent.

Rent expense totaled $234,464 and $211,865 for the years ended December 31, 2013 and 2012, respectively.

Note 12. Subsequent Events

The Center has evaluated events through May 21, 2014, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to December 31, 2013 that would have a material impact on the Center's results of operations or financial position.