



PEACE FIRST, INC.

Financial Statements

June 30, 2019



Kevin P. Martin & Associates, P.C.

PEACE FIRST, INC.

Index

June 30, 2019

Independent Auditors' Report

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Independent Auditors' Report

To the Board of Directors of
Peace First, Inc.

We have audited the accompanying financial statements of Peace First, Inc. (a nonprofit organization), (the Organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019, 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.

Emphasis of Matter - Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, the Organization has adopted ASU No. 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Emphasis of Matter - Economic Uncertainty

As discussed in Note 10 to the financial statements, the Organization has incurred significant operating expenses and as a result of slow payments on promises to give has had to almost fully draw down its \$1,250,000 line of credit to cover these costs. Management's evaluation of the events and conditions and management's plans regarding those matters also are described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2018. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Braintree, Massachusetts
April 3, 2020

PEACE FIRST, INC.

Statement of Financial Position

As of June 30, 2019

With Comparative Totals as of June 30, 2018

| Current Assets | <u>2019</u> | <u>2018</u> |
|--|----------------------------|----------------------------|
| Cash - operating | \$ 328,349 | \$ 106,527 |
| Cash held for others | <u>18,500</u> | <u>12,500</u> |
| Total cash and cash equivalents | 346,849 | 119,027 |
| Promises to give, current portion | 631,712 | 452,300 |
| Prepaid expenses | <u>5,080</u> | <u>21,479</u> |
| Total current assets | <u>983,641</u> | <u>592,806</u> |
| Fixed Assets | | |
| Equipment and software | <u>342,075</u> | <u>255,955</u> |
| Total fixed assets | 342,075 | 255,955 |
| Less: accumulated depreciation | <u>(166,374)</u> | <u>(90,782)</u> |
| Total net fixed assets | <u>175,701</u> | <u>165,173</u> |
| Other Assets | | |
| Promises to give, net of current portion | 769,396 | 314,852 |
| Security deposit | <u>12,666</u> | <u>12,666</u> |
| Total other assets | <u>782,062</u> | <u>327,518</u> |
| Total Assets | <u><u>\$ 1,941,404</u></u> | <u><u>\$ 1,085,497</u></u> |
| Current Liabilities | | |
| Line of credit | \$ 1,245,862 | \$ 369,462 |
| Note payable | - | 150,000 |
| Accounts payable and accrued expenses | 73,112 | 66,466 |
| Due to officer | 38,967 | - |
| Cash held for others | 18,500 | 12,500 |
| Accrued payroll and benefits | 65,980 | 108,922 |
| Prepaid rent | <u>4,636</u> | <u>-</u> |
| Total current liabilities | <u>1,447,057</u> | <u>707,350</u> |
| Net Assets | | |
| Net assets without donor restrictions | (1,050,399) | (580,005) |
| Net assets with donor restrictions | <u>1,544,746</u> | <u>958,152</u> |
| Total net assets | <u>494,347</u> | <u>378,147</u> |
| Total Liabilities and Net Assets | <u><u>\$ 1,941,404</u></u> | <u><u>\$ 1,085,497</u></u> |

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

PEACE FIRST, INC.

Statement of Activities

For the Year Ended June 30, 2019
With Comparative Totals for the Year Ended June 30, 2018

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>2019 Total</u> | <u>2018 Total</u> |
|--|---------------------------------------|------------------------------------|--------------------------|--------------------------|
| Revenue and Support | | | | |
| Contributions and grants | \$ 416,591 | \$ 1,789,600 | \$ 2,206,191 | \$ 1,975,221 |
| In-kind contributions | 573,221 | - | 573,221 | 274,307 |
| Rental | 22,088 | - | 22,088 | 9,600 |
| Other | 5,386 | - | 5,386 | 11,627 |
| Program service fees | 100 | - | 100 | - |
| Interest | 11 | - | 11 | 267 |
| Net assets released from restrictions | <u>1,203,006</u> | <u>(1,203,006)</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | <u>2,220,403</u> | <u>586,594</u> | <u>2,806,997</u> | <u>2,271,022</u> |
| Expenses | | | | |
| Program services | 2,244,281 | - | 2,244,281 | 2,066,218 |
| General and administrative | 414,187 | - | 414,187 | 357,591 |
| Fundraising | <u>157,329</u> | <u>-</u> | <u>157,329</u> | <u>146,528</u> |
| Total expenses | <u>2,815,797</u> | <u>-</u> | <u>2,815,797</u> | <u>2,570,337</u> |
| Change in net assets from operations | <u>(595,394)</u> | <u>586,594</u> | <u>(8,800)</u> | <u>(299,315)</u> |
| Other Changes in Net Assets | | | | |
| Forgiveness of debt | <u>125,000</u> | <u>-</u> | <u>125,000</u> | <u>-</u> |
| Total other changes in net assets | <u>125,000</u> | <u>-</u> | <u>125,000</u> | <u>-</u> |
| Total Change in Net Assets | <u>(470,394)</u> | <u>586,594</u> | <u>116,200</u> | <u>(299,315)</u> |
| Net Assets at Beginning of Year | <u>(580,005)</u> | <u>958,152</u> | <u>378,147</u> | <u>677,462</u> |
| Net Assets at End of Year | <u><u>\$ (1,050,399)</u></u> | <u><u>\$ 1,544,746</u></u> | <u><u>\$ 494,347</u></u> | <u><u>\$ 378,147</u></u> |

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

PEACE FIRST, INC.

Statement of Cash Flows

For the Year Ended June 30, 2019
With Comparative Totals for the Year Ended June 30, 2018

| Cash Flows from Operating Activities | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Change in Net Assets | \$ 116,200 | \$ (299,315) |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: | | |
| Depreciation | 75,592 | 50,995 |
| Forgiveness of debt | (125,000) | - |
| Decrease (increase) in assets: | | |
| Promises to give | (658,956) | 289,131 |
| Prepaid expenses | 16,399 | 761 |
| Increase (decrease) in liabilities: | | |
| Accounts payable and accrued expenses | 6,646 | (43,549) |
| Due to officer | 38,967 | - |
| Cash held for others | 6,000 | (28,000) |
| Accrued payroll and benefits | (42,942) | 43,890 |
| Prepaid rent | 4,636 | - |
| Net Cash (Used in) Provided by Operating Activities | <u>(562,458)</u> | <u>13,913</u> |
| Cash Flows from Investing Activities | | |
| Purchase of equipment and software | <u>(86,120)</u> | <u>(97,737)</u> |
| Net Cash Used in Investing Activities | <u>(86,120)</u> | <u>(97,737)</u> |
| Cash Flows from Financing Activities | | |
| Proceeds from note payable | - | 150,000 |
| Repayments of note payable | - | (7,406) |
| Proceeds from line of credit | 1,155,000 | 354,000 |
| Repayments on line of credit | <u>(278,600)</u> | <u>(628,326)</u> |
| Net Cash Provided by (Used in) Financing Activities | <u>876,400</u> | <u>(131,732)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 227,822 | (215,556) |
| Cash and Cash Equivalents - Beginning | <u>119,027</u> | <u>334,583</u> |
| Cash and Cash Equivalents - Ending | <u>\$ 346,849</u> | <u>\$ 119,027</u> |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid during the year for interest | <u>\$ 63,400</u> | <u>\$ 32,680</u> |

Supplemental Data for Noncash Investing and Financing Activities

See Note 4(b).

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

PEACE FIRST, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2019

With Comparative Totals for the Year Ended June 30, 2018

| | Total Program Services | General and Administrative | Fundraising | 2019 Total | 2018 Total |
|-----------------------------|------------------------------|-------------------------------|-------------------|---------------------|---------------------|
| Salaries | \$ 1,038,898 | \$ 112,414 | \$ 103,452 | \$ 1,254,764 | \$ 1,183,950 |
| Employee benefits | 98,676 | 10,887 | 10,019 | 119,582 | 91,557 |
| Payroll taxes | 74,813 | 8,254 | 7,596 | 90,663 | 97,380 |
| Subtotal | <u>1,212,387</u> | <u>131,555</u> | <u>121,067</u> | <u>1,465,009</u> | <u>1,372,887</u> |
| Depreciation | 72,414 | 1,655 | 1,523 | 75,592 | 50,995 |
| Insurance | 11,399 | 1,258 | 1,157 | 13,814 | 15,211 |
| Interest expense | - | 63,400 | - | 63,400 | 32,680 |
| Membership dues | 9,698 | 7,742 | 2,858 | 20,298 | 17,668 |
| Grant expense | 38,268 | - | - | 38,268 | 39,480 |
| Printing and postage | 1,428 | 158 | 145 | 1,731 | 559 |
| Professional fees | 207,227 | 70,974 | 10,336 | 288,537 | 467,750 |
| Professional fees - in-kind | 257,719 | 115,100 | - | 372,819 | 198,985 |
| Rent | 88,727 | 9,790 | 9,009 | 107,526 | 109,875 |
| Rent - in-kind | 34,403 | - | - | 34,403 | - |
| Repairs and maintenance | 4,671 | 515 | 474 | 5,660 | 3,925 |
| Supplies | 16,537 | 2,052 | 1,679 | 20,268 | 21,104 |
| Supplies - in-kind | 165,999 | - | - | 165,999 | 75,322 |
| Taxes, licenses and permits | 1,292 | 7,837 | 463 | 9,592 | 1,508 |
| Transportation and travel | 102,618 | - | 6,639 | 109,257 | 129,936 |
| Utilities | 19,494 | 2,151 | 1,979 | 23,624 | 32,452 |
| Subtotal | <u>1,212,387</u> | <u>131,555</u> | <u>121,067</u> | <u>1,465,009</u> | <u>1,372,887</u> |
| Total expenses | <u>\$ 2,244,281</u> | <u>\$ 414,187</u> | <u>\$ 157,329</u> | <u>\$ 2,815,797</u> | <u>\$ 2,570,337</u> |

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

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The significant accounting policies followed by Peace First, Inc. (the Organization) are described below to enhance the usefulness of the financial statements to the reader.

(a) Nature of Activities

The Organization was founded by teenagers in 1992 at Harvard University with a powerful idea: if we are going to solve the world's greatest problems, we must support this generation of young people with the skills and commitments to solve problems by connecting with others with compassion, standing up for ideals and others with courage, and creating collaborative change.

As young people work to create change, the Organization is growing a powerful model for investment in youth-led ideas for improving the world. Unlike traditional models, which invest money around youth, the Organization is investing in youth – by putting tools and funds directly in their hands to build and run programs – and with youth – by giving them authority to determine where funds are best invested for impact.

Our Model

Our model, the **Peace First Challenge**, is a global call to action designed by and for young people to speak up for their values and to make change. The Challenge invites young people to actively address an injustice, challenge, or opportunity they face in their own lives and communities. The key activities the Organization executes to support young people include the following three “big ideas,” which the Organization views as essential cornerstones of youth-led social change:

1. **Building a Generation of Innovators for Good** by using a combined model of both digital and in-person recruitment and engagement tactics, radically expanding the pool of young people involved in social action through broad-based support and mini-grants of \$250.
 - a. **A blended learning platform - PeaceFirst.org** - co-designed by an international cohort of youth leaders, the Organization's digital platform combines decades of knowledge from the Organization's in-school curriculum with imagination and insights from today's youth to create an always-on, trusted resource for youth inspired to change the world. Through the platform, teams of young people take part in a guided training using **digital design tools** to create social change projects that are brought to life with best-in-class tools, a caring community of peers and adult mentors, and mini-grants to support implementation and provide resources to all youth in need of them.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(a) Nature of Activities - continued

- b. **Peace First Labs** are implemented virtually and in-person by our trained, on-the-ground Fellows-in-Residence, in partnership with schools and community organizations, Labs provide young people with an introduction to the Organization and guidance on how to join our global community through the Peace First platform.
 - c. **A global community** of young people interact and are connected to others on the platform, which means young people can browse other projects to connect with, learn from, and partner with thousands of other youth leaders around the world. A dedicated community management team provides moderation and support.
 - d. **Funding** in the form of non-competitive mini-grants; up to \$250 for each funded project so that no young person is excluded due to lack of resources. Mini-grants are approved after young people have completed a project plan that goes through multiple stages of review, and are distributed directly to young people.
 - e. **Caring mentors** provide tailored feedback and direct support to every single young person on our platform - all of whom receive intensive training, undergo a background check, and use their skills and expertise to support youth peacemakers around the world.
2. **Scaling Young People's Best Solutions to our Global Problems** by investing in powerful youth-led projects that have the potential for greater impact. Once young people have completed the first round of their project they are invited to apply for the Peace First Accelerator program to grow their impact and share their learning. This includes:
- a. **Intensive Accelerator experiences** (in-person and virtual), where teams of young people receive personalized coaching, connect with content experts in their issue area, get peer support from a community of fellow leaders, and use customized Peace First tools to build out and implement a nine-month plan to scale their project.
 - b. **Accelerator grants of up to \$2,500** to help teams carry out their scale plans, deepening or replicating their work and multiplying their impact.
 - c. **Share their learning** with a global audience through pitch opportunities, having their story shared through social media and on our platform, and presenting their innovations to policymakers and influencers.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(a) Nature of Activities - continued

3. **Elevating Groundbreaking Ideas with the Peace First Prize** by providing intensive support to truly transformative ideas and young leaders, ready to scale on a global level.
 - a. **The Peace First Prize**, envisioned as a “Nobel Peace Prize” for youth, is awarded to selected Accelerator teams who have demonstrated growth and sustainability throughout the Accelerator process. Through a rigorous application process, young people will receive feedback from peers and experts around the globe and have the opportunity to build a sound plan for scaling their project, whether or not they receive the Prize. Winners are awarded \$25,000 to scale their work, plus an additional \$75,000 worth of wrap-around services for organizational management, marketing, and leadership.

The Organization’s programs are led by a team of **Fellows-in-Residence, young leaders ages 18-25**, who are located in all of the regions around the world. They work full-time to support, connect, and scale youth-led social innovation in their region. Fellows are supported by staff specialists who have experience and competency in foundational operational areas (e.g., technology, finance, evaluation, program design, compliance, community-building, fundraising, etc.). Specifically, Fellows-in-Residence:

- Lead the delivery of the Organization’s programs in their respective regions, from activation to Prize selection to program monitoring and evaluation;
- Dramatically expand the Organization’s cultural competency from local expertise to language skills; and
- Act as key internal advisers and decision-makers, signing off on all youth grants and program designs.

In order for the Organization to achieve the long-term goal of supporting a global movement of 2.5 million engaged, compassionate, and creative youth over the next three years, a group of young people and donors came together to launch a **\$10 million Global Youth Investment Fund** to provide the financial spark to support efforts for social change. Focusing primarily on individual donors, with support from institutional donors providing critical regionally-focused funds, it represents the single largest **direct** investment in youth social action ever.

(b) Basis of Presentation

The statement of activities reports all changes in net assets, including changes in net assets without donor restrictions from operating activities. Operating revenues consist of those monies received and other contributions attributable to the Organization’s ongoing efforts.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(c) Standards of Accounting and Reporting

The Organization's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents two classes of net assets (net assets without donor restrictions and net assets with donor restrictions) and the statement of activities displays the change in each class of net assets. The classes of net assets applicable to the Organization are presented as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions consist of assets and contributions available for the support of operations. These net assets may be designated for specific purposes by management or the Board of Directors.

Net Assets With Donor Restrictions - Net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

(d) Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash equivalents.

The Organization maintains its cash balances at several financial institutions located in Massachusetts. The cash balances are insured by the Federal Deposit Insurance Corporation. At times these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of June 30, 2019.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(e) Revenue Recognition

The Organization recognizes revenue as follows:

Contributions and Grants - Contributions and grants are recorded upon receipt or pledge as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions. All contributions and grants are considered to be available for unrestricted use unless specifically restricted by the donor.

In-kind Contributions - Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Organization. Volunteers also provided fund-raising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met. Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Rental - Rental income is derived from commercial tenant rent from a sublease relationship. Rental revenue is recognized as occupancy is provided.

Program Service Fees - Program service fee revenue is earned and recognized by the Organization when units or services are provided and billed.

A majority of the Organization's revenues are derived from its activities in Massachusetts. During the year ended June 30, 2019, the Organization derived approximately 75% of its total revenue from contributions and grants, 20% from in-kind donations and pro-bono services, 4% from forgiveness of debt, see Note 4(b) and 1% from rental and other income. All revenue is recorded at the estimated net realizable amounts.

(f) Income Taxes

The Organization qualifies as a corporation formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and is generally not subject to income tax. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject as unrelated business income. In addition, the Organization is not a private foundation under Section 509(a)(1) of the IRC.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(g) Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date.

Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collections trends that differ from scheduled collections on individual promises. As of June 30, 2019, management has determined any allowance would be immaterial.

(h) Fixed Assets

Fixed assets are recorded at cost or if donated, fair value on the date of receipt. Website software development costs are capitalized once the application stage has commenced and cease when the website is available for general use. Website software development costs as of June 30, 2019 total \$258,358 and are included in fixed assets. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Capital expenditures in excess of \$1,000, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

The Organization computes depreciation using the straight-line method over the following estimated lives:

| | |
|------------------------|---------|
| Equipment and software | 3 years |
|------------------------|---------|

Depreciation expense charged to operations amounted to \$75,592 at June 30, 2019.

(i) Contributed Services and Gifts in Kind

Donated materials are reported as contributions in the financial statements at their estimated fair values at the time of receipt. Donated services are similarly reported when services are performed which would otherwise have been purchased or performed by Organization personnel.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(i) Contributed Services and Gifts in Kind - continued

Volunteers

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with program and fund-raising services. The Organization would not have paid for these volunteered services if they had not been donated and therefore, they have not been reflected in the financial statements. For the year ended June 30, 2019, the value of volunteer hours received, but not reflected in the financial statements is immaterial.

(j) Fair Value Measurements

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels used to measure fair value are as follows:

Level 1: Quoted prices for identical instruments traded in active markets.

Level 2: Observable inputs other than quoted prices included in Level 1. Assets and liabilities included in this level are valued using quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant inputs to the valuation model are unobservable.

Recurring Measurements

In accordance with U.S. GAAP, certain assets and liabilities are required to be recorded at fair value on a recurring basis. The Organization currently has no assets or liabilities that are adjusted to fair value on a recurring basis. The Organization's policy is to recognize transfers in and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels during the year ended June 30, 2019.

Nonrecurring Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Organization records assets and liabilities at fair value on a nonrecurring basis as required by U.S. GAAP. The Organization's assets that are adjusted to fair value on a nonrecurring basis are described below. The Organization currently has no liabilities that are adjusted to fair value on a nonrecurring basis.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(j) Fair Value Measurements - continued

Nonrecurring Measurements - continued

Promises to Give: The promises to give received in the current year that are due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 3% and were classified as Level 2. Gross new promises received during the year ended June 30, 2019 totaled \$757,612. These new promises were discounted by \$47,596 for a net value of \$710,016.

(k) Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Organization. Fundraising expenses as a percentage of total contribution was 7% for the year ended June 30, 2019. The ratio of expenses to amounts raised is computed using actual expenses and related revenue on an accrual basis.

(l) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Payroll and associated costs are allocated to functions based upon actual time charges. Occupancy and insurance costs are allocated based upon the allocation of salary.

(m) Use of Estimates

In preparing the Organization's financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(1) Summary of Significant Accounting Policies - continued

(n) Summarized Financial Information for 2018

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, the financial statements do not include a full presentation of the statement of functional expenses, as certain prior year summarized comparative information is presented in total but not by functional classification. In addition, the financial statements do not include full financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

(o) Recent Accounting Standard Adopted

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. As a result, the Organization has adopted this ASU as of and for the year ended June 30, 2019. As a result, the Organization changed the presentation of its net asset classes and expanded the footnote disclosures as required by the ASU, with no effect on previously reported change in net assets. Other than these reclassifications, the adoption of ASU 2016-14 did not have a material impact on the Organization's financial position, results of activities or cash flows.

(2) Promises to Give

The Organization has received unconditional promises to give related to a fundraising campaign initiated during prior years and is primarily due from foundations, corporation and individuals. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be received more than a year after June 30, 2019 are recorded at the present value of their future cash flows using discount rates of 3%. Uncollectible amounts of pledges receivable are expected to be immaterial. Accordingly, no provision has been made for uncollectible amounts.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(2) Promises to Give - continued

Promises to give consist of the following as of June 30, 2019:

| | <u>Gross Promise</u> | | <u>Allowance</u> | | <u>Net Promise</u> | | <u>Unamortized Discount</u> | | <u>Total</u> |
|-------------------------------------|--------------------------|----|------------------|----|------------------------|----|---------------------------------|----|------------------|
| Receivables less than 1 year | \$ 631,712 | \$ | - | \$ | 631,712 | \$ | - | \$ | 631,712 |
| Receivables 1 to 5 years | 824,200 | | - | | 824,200 | | (58,869) | | 765,331 |
| Receivables greater than 5 years | <u>5,000</u> | | <u>-</u> | | <u>5,000</u> | | <u>(935)</u> | | <u>4,065</u> |
| | <u>\$ 1,460,912</u> | \$ | <u>-</u> | \$ | <u>1,460,912</u> | \$ | <u>(59,804)</u> | \$ | <u>1,401,108</u> |

(3) Construction in Progress

Construction in progress consisted of website development costs. The project was completed and placed into service during the year ended June 30, 2019.

(4) Debt

(a) Line of Credit

The Organization has available a demand line of credit with Eastern Bank (a Massachusetts bank) of \$1,250,000 to be drawn upon as needed, with a variable interest rate at Eastern Bank's base rate (5.5% as of June 30, 2019) with a minimum base at 3.99%. The line is subject to a borrowing base calculation as defined in the agreement and is secured by the Organization's general business assets. The outstanding line of credit balance amounted to \$1,245,862 as of June 30, 2019.

Interest expense incurred on the above line of credit amounted to \$58,718 for the year ended June 30, 2019.

(b) Note Payable

The Organization had a note payable to a long-time donor in the original amount of \$150,000. The note was due on demand and bore no interest. During 2019, the donor entered into a memorandum of understanding with the Organization to forgive the obligation. This was a non-cash transaction where \$25,000 was applied against an existing promise to give from the donor and the remaining \$125,000 was recognized as a forgiveness of debt. As of June 30, 2019, the note was fully satisfied.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(5) Contributed Services, Space and Supplies In-Kind

Contributed services, space and supplies in-kind for the year ended June 30, 2019 were as follows:

| | |
|-------------------------------------|-------------------|
| Program and development service | \$ 372,819 |
| Program supplies | 165,999 |
| Regional office and classroom space | <u>34,403</u> |
| Total | \$ <u>573,221</u> |

(6) Operating Lease Commitments

The Organization leases office space in Boston, Massachusetts under a non-cancelable operating lease agreement set to expire on June 30, 2020. Terms of the lease call for base monthly lease payments, payable in advance, in the amount of \$8,867 per month, increasing annually in accordance with the lease agreement, plus related common area maintenance operating costs. Rent expense incurred amounted to \$111,771 for the year ended June 30, 2019.

Future minimum operating lease payments are as follows:

| | |
|------|------------|
| 2020 | \$ 114,596 |
|------|------------|

Sublease income

The Organization subleases a portion of the office space to a third-party under a non-cancelable operating lease agreement set to expire June 30, 2020. Terms of the lease call for base monthly lease payments, payable in advance, in the amount of \$5,500 per month. Sublease income amounted to \$22,088 for the year ended June 30, 2019.

Future minimum operating sublease receipts are as follows:

| | |
|------|-----------|
| 2020 | \$ 66,000 |
|------|-----------|

(7) Net Assets With Donor Restrictions

Net assets with donor restrictions consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2019, net assets are restricted for the following purposes or periods:

| | |
|-------------------------------------|---------------------|
| Time restricted - general use | \$ 1,261,108 |
| Time restricted - peace first prize | 140,000 |
| Program restricted | <u>143,638</u> |
| Total restricted net assets | \$ <u>1,544,746</u> |

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(8) Employee Benefits

(a) Defined Contribution Plan

The Organization has a defined contribution pension plan that qualifies as a tax-sheltered account under Section 403(b)(7) of the IRC for the benefit of eligible employees. The revised plan allows eligible employees to contribute a percentage (up to the maximum amounts allowed by the Internal Revenue Service each year) of their gross pay to the plan. Employer contributions and administration fees amounted to \$7,004 for the year ended June 30, 2019.

(b) Section 125 Plan

The Organization has a plan that qualifies as a “Cafeteria Plan” under Section 125 of the IRC. The Plan allows the Organization’s employees to pay for medical and dental insurance and daycare on a pre-tax basis. All employees whose customary employment is at least 32 hours per week are eligible to participate in the Plan.

(9) Related Party Transactions

The Organization has a board member whose spouse provides professional consultant services. The amount of professional consultant services and travel reimbursement incurred for the year ended June 30, 2019 totaled \$10,866 of which \$10,000 is outstanding and is included in accounts payable and accrued expenses on the statement of financial position. The Organization also received an operating advance of \$50,000 from the spouse during the year ended June 30, 2019 which was repaid in full by year end.

In addition, the Organization received a promise to give in 2019 from the spouse for \$15,000 of which \$5,000 was paid during the year ended June 30, 2019, and of the remaining balance, \$5,000 is included in promise to give, current portion on the statement of financial position.

The Organization has promises to give from two board members in the aggregate amount of \$350,000 of which \$150,000 was entered into during the year ended June 30, 2019. No amounts were paid during the year ended June 30, 2019, and of the remaining balance, \$125,000 is included in promise to give, current portion on the statement of financial position.

During the year ended June 30, 2019, the Organization received operating advances from an officer. As of June 30, 2019, \$38,967 remains outstanding.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(10) Economic Uncertainty

During the year ended June 30, 2019, the Organization utilized its available line of credit to fund operating expenditures on a temporary basis, resulting in an outstanding balance of \$1,245,862 as of June 30, 2019. Repayments are contingent upon donor payments on outstanding promises to give. As of the date of the auditors' report, the Organization is in compliance with the terms of the loan and is working with the bank regarding a repayment plan. Management's has evaluated the events and conditions and has determined that they are significant.

As of June 30, 2019, the Organization has promises to give outstanding of approximately \$1,401,108, with \$631,712 due in fiscal year 2020 and \$469,100 due in fiscal year 2021. Subsequent to June 30, 2019, an additional \$395,000 (unaudited) of new cash donations as well as \$300,000 (unaudited) of new promises to give were received. Management has taken steps to significantly reduce its operating expense going into fiscal year 2020, by approximately \$1,000,000 (unaudited). This includes reducing payroll costs by reducing staff and engaging with a Professional Employer Organization to reduce benefits costs, reducing occupancy expense by sharing costs with other organizations and reducing the use of professional services and other variable administrative costs. Management has reviewed cash flow projections, with the above changes, expected contribution payments and other operational activity to ensure sufficient liquidity to manage obligations, as they become due. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(11) Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year from the statement of financial position date.

| | | |
|--|----|-----------------------|
| Financial assets at year end | | |
| Cash - operating | \$ | 328,349 |
| Promise to give, current portion | | <u>631,712</u> |
| Total | | 960,061 |
| Less amounts unavailable for general expenditures within one year, due to: | | |
| Restricted by donors for specific purposes | | <u>(143,638)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | \$ | <u><u>816,423</u></u> |

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2019

(11) Liquidity and Availability of Resources - continued

The Organization is partially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, the Organization also could draw up to \$1,250,000 on its line of credit; see Note 4(a). However, as of June 30, 2019, only \$4,138 of the line of credit was available.

(12) Cash Held for Others

The Organization acts as a fiscal sponsor for others. During the year ended June 30, 2019, the Organization collected payments of \$85,740 and made disbursements of \$79,740. As of June 30, 2019, the asset and liability balance related to such activities amounted to \$18,500.

(13) Subsequent Events

The Organization has performed an evaluation of subsequent events through April 3, 2020, which is the date the Organization's financial statements were available to be issued. No material subsequent events, other than the item disclosed below, have occurred since June 30, 2019 that required recognition or disclosure in these financial statements.

In early 2020, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could result in a loss of grants, contributions and service fee revenue and other material adverse effects to the Organization's financial position, results of operations, and cash flows. The Organization is not able to estimate the length or severity of this outbreak and the related financial impact. Management plans to adjust its operations accordingly and will continue to assess and monitor the situation as it evolves. If the length of the outbreak and related effects on the Organization's operations continue for an extended period of time the Organization may have to seek alternative measures to finance its operations. There is no assurance these measures will be successful. The financial statements do not include any adjustments that might result if the Organization is unable to continue as a going concern.