



PEACE FIRST, INC.

Financial Statements

June 30, 2020



Kevin P. Martin & Associates, P.C.

PEACE FIRST, INC.

Index

June 30, 2020

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, 2020, 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, 2020, 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. 2018-08, *Clarified Scope and Accounting Guidance for Contributions Received and Made*. Our opinion is not modified with respect to these matters.

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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 3, 2020. 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Braintree, Massachusetts
May 13, 2021

PEACE FIRST, INC.

Statement of Financial Position

As of June 30, 2020

With Comparative Totals as of June 30, 2019

Current Assets	<u>2020</u>	<u>2019</u>
Cash - operating	\$ 662,435	\$ 328,349
Accounts receivable	15,882	-
Promises to give, current portion, net	416,037	631,712
Prepaid expenses	<u>5,554</u>	<u>5,080</u>
Total current assets	<u>1,099,908</u>	<u>965,141</u>
 Fixed Assets		
Equipment and software	<u>343,423</u>	<u>342,075</u>
Total fixed assets	343,423	342,075
Less: accumulated depreciation	<u>(260,289)</u>	<u>(166,374)</u>
Total net fixed assets	<u>83,134</u>	<u>175,701</u>
 Other Assets		
Promises to give, long term portion, net	379,921	769,396
Cash held for others	18,500	18,500
Security deposit	<u>12,666</u>	<u>12,666</u>
Total other assets	<u>411,087</u>	<u>800,562</u>
Total Assets	<u><u>\$ 1,594,129</u></u>	<u><u>\$ 1,941,404</u></u>
 Current Liabilities		
Line of credit	\$ 1,245,862	\$ 1,245,862
Note payable - paycheck protection program (see Notes 4 and 14)	238,747	-
Accounts payable and accrued expenses	74,899	73,112
Due to officer	-	38,967
Cash held for others	18,500	18,500
Accrued payroll and benefits	65,540	65,980
Prepaid rent	<u>-</u>	<u>4,636</u>
Total liabilities	<u>1,643,548</u>	<u>1,447,057</u>
 Net Assets		
Net assets without donor restrictions	(860,877)	(1,050,399)
Net assets with donor restrictions	<u>811,458</u>	<u>1,544,746</u>
Total net assets	<u>(49,419)</u>	<u>494,347</u>
Total Liabilities and Net Assets	<u><u>\$ 1,594,129</u></u>	<u><u>\$ 1,941,404</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, 2020
With Comparative Totals for the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Revenue and Support				
Contributions and grants	\$ 811,185	\$ 459,961	\$ 1,271,146	\$ 2,206,191
In-kind contributions	152,606	-	152,606	573,221
Rental	76,466	-	76,466	22,088
Other	800	-	800	5,386
Program service fees	-	-	-	100
Interest	-	-	-	11
Net assets released from restrictions	1,193,249	(1,193,249)	-	-
Total revenue and support	2,234,306	(733,288)	1,501,018	2,806,997
Expenses				
Program services	1,597,757	-	1,597,757	2,244,281
General and administrative	278,745	-	278,745	414,187
Fundraising	168,282	-	168,282	157,329
Total expenses	2,044,784	-	2,044,784	2,815,797
Change in net assets from operations	189,522	(733,288)	(543,766)	(8,800)
Other Changes in Net Assets				
Foregiveness of debt	-	-	-	125,000
Total other changes in net assets	-	-	-	125,000
Total Change in Net Assets	189,522	(733,288)	(543,766)	116,200
Net Assets at Beginning of Year	(1,050,399)	1,544,746	494,347	378,147
Net Assets at End of Year	\$ (860,877)	\$ 811,458	\$ (49,419)	\$ 494,347

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

PEACE FIRST, INC.

Statement of Cash Flows

For the Year Ended June 30, 2020
With Comparative Totals for the Year Ended June 30, 2019

Cash Flows from Operating Activities	<u>2020</u>	<u>2019</u>
Change in Net Assets	\$ (543,766)	\$ 116,200
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	93,915	75,592
Forgiveness of debt	-	(125,000)
Decrease (increase) in assets:		
Promises to give	605,150	(664,956)
Accounts receivable	(15,882)	-
Prepaid expenses	(474)	16,399
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	1,787	6,646
Due to officer	(38,967)	38,967
Cash held for others	-	6,000
Accrued payroll and benefits	(440)	(42,942)
Prepaid rent	(4,636)	4,636
Net Cash Provided by (Used in) Operating Activities	<u>96,687</u>	<u>(568,458)</u>
Cash Flows from Investing Activities		
Purchase of equipment and software	(1,348)	(86,120)
Net Cash Used in Investing Activities	<u>(1,348)</u>	<u>(86,120)</u>
Cash Flows from Financing Activities		
Proceeds note payable - paycheck protection program	238,747	-
Proceeds from line of credit	-	1,155,000
Repayments on line of credit	-	(278,600)
Net Cash Provided by Financing Activities	<u>238,747</u>	<u>876,400</u>
Net Increase in Cash and Cash Equivalents	334,086	221,822
Cash and Cash Equivalents - Beginning	<u>328,349</u>	<u>106,527</u>
Cash and Cash Equivalents - Ending	<u>\$ 662,435</u>	<u>\$ 328,349</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	<u>\$ 59,838</u>	<u>\$ 56,466</u>

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

PEACE FIRST, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2020

With Comparative Totals for the Year Ended June 30, 2019

	Total Program Services	General and Administrative	Fundraising	2020 Total	2019 Total
Salaries	\$ 581,532	\$ 119,498	\$ 106,304	\$ 807,334	\$ 1,254,764
Employee benefits	64,410	13,235	11,774	89,419	119,582
Payroll taxes	52,696	10,829	9,633	73,158	90,663
Subtotal	<u>698,638</u>	<u>143,562</u>	<u>127,711</u>	<u>969,911</u>	<u>1,465,009</u>
Depreciation	75,131	9,392	9,392	93,915	75,592
Insurance	12,379	2,544	2,263	17,186	13,814
Interest expense	-	64,044	-	64,044	63,400
Membership dues	35,563	-	8,891	44,454	20,298
Grant expense	175,307	-	-	175,307	38,268
Printing and postage	374	115	86	575	1,731
Professional fees	267,141	14,061	-	281,202	288,537
Professional fees - in-kind	84,661	4,455	-	89,116	372,819
Rent	84,719	10,590	10,590	105,899	107,526
Rent - in-kind	17,192	2,149	2,149	21,490	34,403
Repairs and maintenance	-	135	-	135	5,660
Supplies	25,814	8,414	-	34,228	20,268
Supplies - in-kind	31,358	10,642	-	42,000	165,999
Taxes, licenses and permits	7,924	3,302	1,981	13,207	9,592
Transportation and travel	76,154	4,230	4,231	84,615	109,257
Utilities	-	-	-	-	23,624
Bad debt	5,402	1,110	988	7,500	-
Subtotal	<u>5,402</u>	<u>1,110</u>	<u>988</u>	<u>7,500</u>	<u>-</u>
Total expenses	<u>\$ 1,597,757</u>	<u>\$ 278,745</u>	<u>\$ 168,282</u>	<u>\$ 2,044,784</u>	<u>\$ 2,815,797</u>

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

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(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, 2020

(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, 2020

(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, 2020

(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, 2020.

(e) Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2020, management has determined any allowance would be immaterial.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies - continued

(e) Accounts Receivable - continued

The Organization does not have a policy to accrue interest on receivables. The Organization has no policies requiring collateral or other security to secure the accounts receivable.

(f) Revenue Recognition

The Organization recognizes revenue as follows:

Contributions - In accordance with ASC Sub Topic 958-605, *Revenue Recognition*, the Organization must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include measurable performance-related barrier or other measurable barrier, a stipulation that limits discretion by the recipient on the conduct of an activity and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Organization should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met.

Contributions without donor restrictions are recognized as revenue when received or unconditionally pledged. Contributions with donor restrictions are recorded as revenues and net assets with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions as services are performed and costs are incurred pro-rata over the period covered by the grant or contribution as time restrictions lapse. Contributions with donor restrictions received and satisfied in the same period are included in grants and contributions without donor restrictions.

Grants - The Organization receives funding from various grantors for direct and indirect program costs associated with specific programs and projects. Various grants are subject to certain barriers as outlined in the agreement. Revenue is recognized as the barrier is met. For unconditional grants, revenue is recognized as contribution revenue that increases net assets with donor restrictions at the time the grant is received or pledged and the funds are released from restriction when the restriction has been met.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies - continued

(f) Revenue Recognition - continued

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 rentals come due and are accounted for under Leases (Topic 840). All leases between the Organization and its tenants are operating leases.

A majority of the Organization's revenues are derived from its activities in Massachusetts. During the year ended June 30, 2020, the Organization derived approximately 85% of its total revenue from contributions and grants and 10% from in-kind donations and pro-bono services and 5% from rental and other income. All revenue is recorded at the estimated net realizable amounts.

(g) 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, 2020

(1) Summary of Significant Accounting Policies - continued

(h) 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, 2020, the allowance for doubtful accounts is \$25,455.

(i) 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, 2020 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
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Depreciation expense charged to operations amounted to \$93,915 at June 30, 2020.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies - continued

(j) 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.

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, 2020, the value of volunteer hours received, but not reflected in the financial statements is immaterial.

(k) 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.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies - continued

(k) Fair Value Measurements - continued

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, 2020.

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.

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 3.99% and were classified as Level 2. Gross new multi-year promises received during the year ended June 30, 2020 totaled \$118,500. These new promises were discounted by \$5,016 for a net value of \$113,484.

(l) Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Organization. Fundraising expenses as a percentage of total contribution was 13% for the year ended June 30, 2020. The ratio of expenses to amounts raised is computed using actual expenses and related revenue on an accrual basis.

(m) 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.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies - continued

(n) 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.

(o) Summarized Financial Information for 2019

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, 2019, from which the summarized information was derived.

(p) Paycheck Protection Program Loan

As described at Note 4, the Organization received a Paycheck Protection Program (PPP) loan during the fiscal year ended June 30, 2020. The Organization has elected to follow the guidance regarding Debt found in FASB ASC 470 - *Not-for Profit Entities - Debt* to account for its PPP Loan. As a result, during the year ended June 30, 2020, the Organization recognized \$238,747 of debt.

(q) Recent Accounting Standard Adopted

On July 1, 2019, the Organization adopted ASU 2018-08, *Not-for Profit Entities (Topic 958), Clarified Scope and Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify and improve the guidance in U.S. GAAP for distinguishing transactions that are contributions from those that are exchange transactions. The ASU also provides guidance for determining if a contribution that is a promise to give is conditional. Adoption of this standard did not have a significant impact on recognition of contribution and grant revenue in fiscal year 2020 or on the Organization's opening net asset balance as of July 1, 2019.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies - continued

(r) *Recent Accounting Standards*

In June 2020, FASB issued ASU 2020-05, *Revenue from Contracts with Customers* (Topic 606) and Leases (Topic 842). ASU 2020-05 deferred the implementation date of ASU 2016-02 and ASU 2014-09 by one year. These ASUs are described below.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, ASC 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: Step 1 - identify the contract(s) with the customer; Step 2 - Identify the performance obligations in the contract; Step 3 - determine the transaction price; Step 4 - Allocate the transaction price to the performance obligations in the contract and Step 5 - recognize revenue when (or as) the entity satisfies a performance obligation. Services within the scope of ASU 2014-09 primarily include program service fees. The ASU was set to be effective for fiscal years beginning after December 15, 2018 and has been extended to be effective for fiscal years beginning after December 15, 2019. The Organization is currently evaluating the impact the adoption of this new standard will have on its financial statements.

In March 2016, FASB issued ASU 2016-08, *Revenue from Contracts with Customers* (Topic 606), *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. In December 2016, FASB Issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*. These ASUs will be adopted concurrent with the Organization's adoption of ASU 2014-09.

In February 2016, FASB issued ASU 2016-02, *Leases* (Topic 842) which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today.

The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The ASU was set to be effective on January 1, 2021, with early adoption permitted. The effective date was extended to fiscal years beginning after December 15, 2021. The Organization is currently evaluating the impact the adoption of this new standard will have on its financial statements.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(1) Summary of Significant Accounting Policies - continued

(r) Recent Accounting Standards - continued

In July 2018, FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases (Topic 842), Targeted Improvements*. In December 2018, FASB issued ASU 2018-20, *Leases (Topic 842), Narrow-Scope Improvements for Lessors*. Adoption of these ASUs will run concurrent with the Organization's adoption of ASU 2016-02.

In September 2020, FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for Profit Entities for Contributed Nonfinancial Assets*. The amendments in this update address presentation and disclosure of contributed nonfinancial assets. The ASU is effective for annual periods beginning after June 15, 2021. The Organization is currently evaluating the impact the adoption of this new standard will have on its financial statements.

(s) Reclassifications

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

(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, 2020 are recorded at the present value of their future cash flows using discount rates of 3.99%. Promises to give consist of the following as of June 30, 2020:

	<u>Gross Promise</u>	<u>Allowance</u>	<u>Net Promise</u>	<u>Unamortized Discount</u>	<u>Total</u>
Receivables less than 1 year	\$ 430,600	\$ 14,563	\$ 416,037	\$ -	\$ 416,037
Receivables 1 to 5 years	402,600	10,892	391,708	16,589	375,119
Receivables greater than 5 years	<u>5,000</u>	<u>-</u>	<u>5,000</u>	<u>198</u>	<u>4,802</u>
	<u>\$ 838,200</u>	<u>\$ 25,455</u>	<u>\$ 812,745</u>	<u>\$ 16,787</u>	<u>\$ 795,958</u>

As of June 30, 2020, the Organization has received \$348,000 of conditional commitments to make grants and contributions that have not been recognized in these financial statements. Revenues on these grants and contributions will be recognized by the Organization in future periods as the conditions are met. The Organization expects that \$174,000 of these will be recognized in fiscal year 2021 and \$174,000 will be recognized in fiscal year 2022.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(3) 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 (3.99% as of June 30, 2020) 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 and accrued interest amounted to \$1,245,862 and \$2,252, respectively, as of June 30, 2020.

Interest expense incurred on the above line of credit amounted to \$59,838 for the year ended June 30, 2020.

(4) PPP Loan

During the year ended June 30, 2020, the Organization received a PPP loan from Eastern Bank in the original amount of \$238,747 with a maturity date of April 15, 2022. The loan bears interest at a rate of 1%, which is deferred for the first 6 months. The Small Business Administration (SBA) has disclosed criteria for forgiveness which include but not limited to maintaining the full-time equivalent number of employees over certain time period and expending the funds on eligible expenses over the covered period. If the Organization did not receive loan forgiveness, it would be required to pay monthly principal and interest payments once the deferral period ends. All remaining principal and accrued interest would then be due at the maturity date of the note. As of June 30, 2020, the outstanding balance was \$238,747 and was presented as a current liability on the accompanying statement of financial position in accordance with prevalent industry practice. Management has received full forgiveness subsequent to year end, see Note 14.

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

Contributed services, space and supplies in-kind for the year ended June 30, 2020 were as follows:

Program and development service	\$ 89,116
Program supplies	42,000
Regional office and classroom space	<u>21,490</u>
Total	\$ <u>152,606</u>

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(6) Operating Lease Commitments

The Organization leased office space in Boston, Massachusetts under a non-cancelable operating lease agreement expiring on June 30, 2020. Terms of the lease call for base monthly lease payments, payable in advance, in the amount of \$9,183 per month, increasing annually in accordance with the lease agreement, plus related common area maintenance operating costs. Rent expense incurred amounted to \$105,899 for the year ended June 30, 2020. As of June 30, 2020, the lease is at-will and payable month to month.

Sublease income

The Organization subleased 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 \$76,466 for the year ended June 30, 2020. As of June 30, 2020, the lease is at-will and payable month to month.

(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, 2020, net assets are restricted for the following purposes or periods:

Time restricted - general use	\$ 655,958
Time restricted - peace first prize	140,000
Program restricted	<u>15,500</u>
Total restricted net assets	\$ <u>811,458</u>

Net assets released from restrictions during the year ended June 30, 2020 were \$1,193,249, of which \$438,479 was from program restrictions and \$754,770 was from time restrictions.

(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 \$3,894 for the year ended June 30, 2020.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(8) Employee Benefits - continued

(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, 2020 totaled \$10,000 which was repaid in full by year end. During the year ended June 30, 2020, \$10,000 outstanding from prior year costs were also paid. The Organization also received an operating advance of \$35,000 from the spouse during the year ended June 30, 2020 which was repaid in full by year end.

In addition, the Organization has a promise to give from the spouse for \$10,000 of which \$5,000 was paid during the year ended June 30, 2020, and of the remaining balance, \$5,000 is included in promises 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. A total of \$110,000 was paid during the year ended June 30, 2020, and of the remaining balance, \$240,000 is included in promises to give on the statement of financial position.

During the year ended June 30, 2020, the Organization repaid operating advances from an officer of \$38,967.

(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, 2020. 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. The Organization began making monthly payments of \$12,000 on the line of credit in July, 2020. Management’s has evaluated the events and conditions and has determined that they are significant. Those factors create uncertainty about the Organization's ability to continue as a going concern. Management has evaluated these conditions and determined that the following would alleviate this uncertainty.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(10) Economic Uncertainty - continued

As of June 30, 2020, the Organization has promises to give outstanding of approximately \$795,958, with \$416,037 due in fiscal year 2021 and \$379,921 due in fiscal years 2022 through 2026. Management has taken steps to significantly reduce its operating expense. 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.

(11) Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, 2020, 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	\$ 662,435
Accounts receivable	15,882
Promise to give, current portion	<u>416,037</u>
Total	1,094,354
Less amounts unavailable for general expenditures within one year, due to:	
Restricted by donors for specific purposes	<u>155,500</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>938,854</u>

The Organization is partially supported by restricted contributions. Because a donors 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 3. However, as of June 30, 2020, only \$4,138 of the line of credit was available.

PEACE FIRST, INC.

Notes to Financial Statements

June 30, 2020

(12) Cash Held for Others

The Organization acts as a fiscal sponsor for others. As of June 30, 2020, the asset and liability balance related to such activities amounted to \$18,500.

(13) COVID-19 - *Risks and Uncertainties*

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. At this stage, the impact to the Organization resulted in a loss of revenues and other adverse effects to the Organization's financial position, results of operations, and cash flows. As described in Notes 1(p) and 4, the Organization received a PPP loan. Further, the Organization's liquidity as of June 30, 2020 is documented at Note 11. 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. The Organization does not believe that the impact of COVID-19 would have a material adverse effect on its financial condition or liquidity.

(14) Subsequent Events

The Organization has performed an evaluation of subsequent events through May 13, 2021, 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, 2020 that required recognition or disclosure in these financial statements.

On April 5, 2021, the Organization received approval by the SBA for full forgiveness on the PPP loan. Furthermore, on February 26, 2021, the Organization received a second PPP loan in the amount of \$155,790 which the Organization expects to be forgiven during 2021.