

SEEDS OF PEACE, INC.

***FINANCIAL STATEMENTS
AND
AUDITORS' REPORT***

DECEMBER 31, 2010 AND 2009



Skody Scot & Company, CPAs, P.C.

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INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
Seeds of Peace, Inc.

We have audited the accompanying statements of financial position of Seeds of Peace, Inc., (a not-for-profit organization) as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Seeds of Peace, Inc. at December 31, 2010 and 2009, and the results of its activities and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Skody Scot & Company, CPAs, P.C.

April 10, 2011

SEEDS OF PEACE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents:		
Unrestricted	\$ 1,136,265	\$ 719,129
Permanently restricted	343,825	343,613
Grants and pledges receivable, net	626,972	521,703
Other receivables	31,783	16,142
Inventory	16,963	23,930
Investments	5,297	6,226
Prepaid expenses	83,537	80,597
Property and equipment, net	165,489	269,620
Intangible assets, net	12,226	13,224
Security deposits	1,244	868
	<hr/>	<hr/>
Total assets	<u>\$ 2,423,601</u>	<u>\$ 1,995,052</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 217,119	\$ 285,210
Loans and notes payable	1,200,000	1,536,833
Deferred income and refundable advances	193,804	5,100
	<hr/>	<hr/>
Total liabilities	<u>1,610,923</u>	<u>1,827,143</u>
Commitments and contingencies (see notes)		
Net Assets:		
Unrestricted	53,947	(682,547)
Temporarily restricted	414,906	506,843
Permanently restricted	343,825	343,613
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Total net assets	<u>812,678</u>	<u>167,909</u>
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Total liabilities and net assets	<u>\$ 2,423,601</u>	<u>\$ 1,995,052</u>

See accompanying notes to financial statements.

SEEDS OF PEACE, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Support and Revenues:		
Unrestricted:		
Contributions (non-event)	\$ 2,374,353	\$ 1,910,698
Government grants	465,386	595,464
Contributions in-kind	97,275	150,582
Camp fees & misc. program services	487,381	379,495
Investment and other income	26,101	8,405
Release of restricted assets	344,929	527,039
Total before special events	<u>3,795,425</u>	<u>3,571,683</u>
Special events:		
Auction sales	24,900	22,775
Event related revenue and support	1,325,718	1,378,481
Less: related direct costs	<u>(208,592)</u>	<u>(400,396)</u>
Net special event income and support	<u>1,142,026</u>	<u>1,000,860</u>
Temporarily restricted:		
Contributions	252,992	104,925
Release of restricted assets	<u>(344,929)</u>	<u>(527,039)</u>
Permanently restricted:		
Investment and other income	<u>212</u>	<u>779</u>
Total support and revenues	<u>4,845,726</u>	<u>4,151,208</u>
Expenses:		
Program Expenses:		
International camp	1,604,854	1,564,380
MiddleEast/Multinational	541,017	1,102,925
Education/Public relations	143,463	324,161
South Asia (SA)	171,961	149,236
Program administration	240,005	281,563
Total program expenses	<u>2,701,300</u>	<u>3,422,265</u>
Supporting Services:		
Management and general	963,972	1,022,991
Fundraising	<u>535,685</u>	<u>684,849</u>
Total expenses	<u>4,200,957</u>	<u>5,130,105</u>
Increase/(Decrease) In Net Assets:		
Unrestricted	736,494	(557,562)
Temporarily restricted	(91,937)	(422,114)
Permanently restricted	<u>212</u>	<u>779</u>
Increase/(decrease) in net assets	<u>644,769</u>	<u>(978,897)</u>
Net assets, beginning of year	<u>167,909</u>	<u>1,146,806</u>
Net assets, end of year	<u>\$ 812,678</u>	<u>\$ 167,909</u>

See accompanying notes to financial statements.

SEEDS OF PEACE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase/(decrease) in net assets	\$ 644,769	\$ (978,897)
Adjustments for non-cash items included in operating activities:		
Depreciation and amortization	79,873	99,064
Loss/(gain) on investments	3,111	(103)
Bad debts	28,150	-
Loss on disposal of assets	36,019	-
Amorization of discount on promises to give	(13,750)	(20,048)
Forgiven debt	(36,000)	-
Changes in assets and liabilities:		
Grants and pledges receivable	(119,669)	253,176
Other receivables	(15,641)	(6,414)
Prepaid expenses	(2,940)	135,395
Inventory	6,967	(9,513)
Security deposits	(376)	940
Accounts payable and accrued expenses	(68,091)	(24,180)
Deferred income and refundable advances	188,704	5,100
Net cash provided/(used) by operating activities	<u>731,126</u>	<u>(545,480)</u>
Cash flows from investing activities:		
Purchase of investments	(105,718)	(102,762)
Sale of investments	103,536	96,639
Purchase of property, equipment and intangibles	(10,763)	(10,900)
Net cash provided/(used) by investing activities	<u>(12,945)</u>	<u>(17,023)</u>
Cash flows from financing activities:		
Proceeds from loans	650,000	36,000
Repayments of loans	(950,833)	(5,000)
Net cash provided/(used) by financing activities	<u>(300,833)</u>	<u>31,000</u>
Net increase/(decrease) in cash and cash equivalents	417,348	(531,503)
Cash and cash equivalents at beginning of year	1,062,742	1,594,245
Cash and cash equivalents at end of year	<u>\$ 1,480,090</u>	<u>\$ 1,062,742</u>
Supplemental information:		
Interest paid	\$ 68,223	\$ 77,667
Disposal of assets	174,301	-

See accompanying notes to financial statements.

SEEDS OF PEACE, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Activities and Summary of Significant Accounting Policies

Organization: Seeds of Peace, Inc., (hereafter referred to as the Organization) is a not-for-profit corporation, incorporated in the State of Delaware on March 8, 1993. The primary purpose of the organization is to empower young leaders from regions of conflict with the leadership skills required to advance reconciliation and coexistence. As young teens, they live together in a summer camp for three weeks to learn conflict management skills. After attending camp, the organization provides participants with follow-up leadership training and dialogue through their college years, and after college, a graduate program to maintain cross-border network and dialogue.

Tax exempt status: The Organization has been granted tax-exempt status by the Internal Revenue Service under Internal Revenue Code Section 501(c)(3) on July 2, 1993. Accordingly, no provision for federal, state or local income taxes has been recorded.

Programs and services provided: The Organization's five major program areas include the following: International Camp – Camp in Maine and other locations where teenagers from regions of conflict spend several weeks together and learn conflict resolution and coexistence techniques; MiddleEast/Multinational – Offices located in Tel Aviv, Ramallah and Lahore where former campers and their parents, teachers and friends can meet and engage in activities that continue to foster peace; Education/Public Relations – Educational initiatives that include higher education scholarships to qualifying alumni, teacher training in conflict resolution and dissemination of conflict resolution techniques and peacemaking information through new media, conferences, speaking tours and other means; South Asia (SA) – Follow-up activities designed to reinforce relationships and experiences campers developed at Camp; and Program Administration – Provides program administration and review of all program activities.

Major source of income: The Organization derives most of its income from contributions from individuals, corporations, foundations, government grants, program service revenue and special events.

Basis of financial statements: In accordance with GAAP the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Cash and cash equivalents: For purposes of the statement of cash flows, cash equivalents include certificates of deposit, money market funds and all highly liquid investments with an initial maturity of three months or less.

SEEDS OF PEACE, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Estimates and assumptions: Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions effect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Inventory: Inventory of merchandise purchased by, or donated to, the Organization for sale at the camp store, or auction at one of its special events and valued at the lower of cost or market.

Property and equipment: Property and equipment are stated at cost. Depreciation is computed on the straight-line and accelerated basis over the respective assets' estimated useful lives of five to ten years. Expenditures for maintenance and repairs are charged to current operations.

Investments: All marketable debt and equity securities are reported at fair values based on quoted prices in active markets (all Level 1 Measurements) in the statements of financial position. Investment income (interest and dividends) is recognized as revenue in the period earned, and gains and losses (realized and unrealized) are recognized in the period they occur.

Revenue recognition: All contributions are considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increases in the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donated services and facilities: Significant services and facilities are donated to the Organization by various individuals and organizations. Only those items whose value can be objectively determined or meet the criteria for being recognized as contributions in accordance with GAAP, are included in the accompanied financial statements. For the year ended December 31, 2010 and 2009, \$97,275 and \$150,582, respectfully, was received and reported as contributions in-kind on the accompanying statements of activities and consisted mostly of donated labor for camp security and medical services.

SEEDS OF PEACE, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Activities and Summary of Significant Accounting Policies (continued)

Management and general expenses: The Organization classifies expenses, which are not directly related to a specific program, as Management and General expenses.

Grants receivable/due to grantors: The Organization received several grants from the U.S. Agency for International Development and U.S. Department of State for the International Camp and Follow-Up programs. In accordance with the grant provisions, the Organization either receives grant funds following the disbursement of approved expenses or is authorized to receive funds in advance of anticipated expenditures. All unreimbursed expenses as of period-end are recorded as grant receivables and all advanced funds not expended are recorded as either due to grantors or deferred income.

Functional expense allocation: The direct costs of providing programs and other activities have been summarized on a functional basis in the statements of activities and in the schedule of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The joint costs associated with the fund-raising activities are deemed negligible, and as such, have not been reported.

2. Cash and Cash Equivalents

As of December 31, 2010 and 2009, the components of cash and cash equivalents are as follows:

	<u>2010</u>	<u>2009</u>
Cash	\$1,037,121	\$ 640,683
Money Market	412,631	391,958
Certificate of Deposits	<u>30,338</u>	<u>30,101</u>
Total	<u>\$1,480,090</u>	<u>\$1,062,742</u>

SEEDS OF PEACE, INC.
NOTES TO FINANCIAL STATEMENTS

3. Property and Equipment

Property and equipment by major class consisted of the following at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Furniture and fixtures	\$ 26,562	\$ 62,838
Equipment & software	224,933	273,604
Leasehold improvements	461,895	540,502
Website design	14,958	14,958
Less: accumulated depreciation and amortization	<u>(550,633)</u>	<u>(609,058)</u>
	<u>\$ 177,715</u>	<u>\$ 282,844</u>

Depreciation and amortization expense amounted to \$79,873 and \$99,064 in 2010 and 2009, respectively.

4. Investments and Related Income

The Organization's investments are stated at fair values, based on quoted prices in active markets (all Level 1 Measurements), and consist of marketable securities. Fair values and unrealized appreciation/(depreciation) at December 31, 2010 and 2009 are summarized below as follows:

	<u>2010</u>	<u>2009</u>
Fair market values	\$ 5,297	\$ 6,226
Cost	<u>(5,335)</u>	<u>(6,183)</u>
Unrealized appreciation/ (Depreciation)	<u>\$ (38)</u>	<u>\$ 43</u>

The statements of activities summarize the investment return for the years ended December 31, 2010 and 2009, as follows:

	<u>2010</u>	<u>2009</u>
Unrestricted:		
Interest/dividend income (*)	\$ 597	\$ 5,111
Gains/(losses)	(3,111)	103
Permanently Restricted:		
Dividend income (*)	212	779
Gains/(losses)	-	-
Total Investment income	<u>\$ (2,302)</u>	<u>\$ 5,993</u>

* Includes income earned from money market funds and certificate of deposits

**SEEDS OF PEACE, INC.
NOTES TO FINANCIAL STATEMENTS**

5. Restricted Assets

As of December 31, 2010 and 2009, contributions are restricted for the following activities:

	<u>2010</u>	<u>2009</u>
Temporarily restricted:		
Fund for Arabian Understanding	\$ 39,091	\$ 39,091
Campership, Seeds and other	368,335	320,519
Language Enrichment	-	57,349
Women's Leadership	-	70,208
Scholarships, internships		
Mediation and education	<u>7,480</u>	<u>19,676</u>
Total	<u>\$ 414,906</u>	<u>\$ 506,843</u>
Permanently restricted:		
Endowment	<u>\$ 343,825</u>	<u>\$ 343,613</u>

6. Loans and Notes Payable

The Organization has a \$1,500,000 unsecured, working capital loan with a financial institution that is due on demand and guaranteed by members of the Organization's Board of Directors. Interest is to be paid monthly on the outstanding balance based on the prime rate in effect.

The Organization also has two interest free loans - \$36,000 from a Board member and \$10,000 from the New York City Grand Central Emergency Business Loan Program. The \$36,000 loan from the Board member was forgiven in 2010 and recorded as a contribution. The \$10,000 loan from New York City was repaid in equal monthly installments over a two year period beginning March 31, 2008.

As of December 31, 2010 and 2009, the balance of all outstanding loans is \$1,200,000 and 1,536,833, respectively.

7. Permanently Restricted Endowment

The Organization's endowment is comprised of funds for future program support. Its endowment includes only donor-restricted funds. The fund currently consists of money market funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

SEEDS OF PEACE, INC.
NOTES TO FINANCIAL STATEMENTS

7. Permanently Restricted Endowment (continued)

The Board of Directors of the Organization has interpreted the New York Prudent Management of Institutional Funds Act (NYPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of the investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the Board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income, with acceptable levels of risk.

Endowment assets are invested in money market funds. This asset mix is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution, if appropriate, while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 1% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed in order not to expose the fund to unacceptable levels of risk.

**SEEDS OF PEACE, INC.
NOTES TO FINANCIAL STATEMENTS**

7. Permanently Restricted Endowment (continued)

Spending Policy. The donor restriction states that interest and dividend income must be reinvested until the endowment fund reaches \$3,000,000. After that interest and dividend income may be used to support program activities. In establishing these policies, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 1% annually, which is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Changes in permanently restricted net assets for the years ended December 31, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Endowment net assets, beginning of year	\$ 343,613	\$ 342,834
Investment return:		
Investment income	212	779
Net gains and losses	-	-
Total investment return	<u>212</u>	<u>779</u>
Endowment net assets, end of year	<u>\$ 343,825</u>	<u>\$ 343,613</u>

8. Commitments and Contingencies

Office lease: The Organization leases office space at 370 Lexington Avenue, NY, NY, under a 10 year non-cancelable lease that was extended until October 31, 2013. In accordance with the lease agreement, the Organization has outstanding an irrevocable letter of credit with a bank in the amount of \$29,125. As security for such letter of credit, the Organization has a certificate of deposit, covering this amount, with the bank.

Camp lease: The Organization leases property located in Pleasant Lake, Otisfield, Maine, under a 10 year non-cancelable lease that was extended and set to expire on March 31, 2011. Management is currently in negotiations regarding future rentals. In lieu of rent payments, the Lessor had agreed to accept up to \$200,000 in leasehold improvements made by the Organization during the term of the lease. As of September 30, 2001 the Organization exceeded \$200,000 in capital improvements and accordingly was not required to pay the \$50,000 annual rent. During the 2002 fiscal year, the Lessor agreed to forgo receiving all future rent as long as the Organization continues to maintain and make capital improvements on the property. The Organization expects to continue making capital improvements on the property and therefore does not expect to make any future rent payment.

SEEDS OF PEACE, INC.
NOTES TO FINANCIAL STATEMENTS

8. Commitments and Contingencies (continued)

Regional leases: The Organization has several non-cancelable leases for office space in the Mideast and South Asia. The term of these leases range in length from one to three years.

Equipment leases: The Organization has several non-cancelable operating leases for office equipment.

As of December 31, 2010, the minimum aggregate annual rentals for all existing leases are as follows:

Year ended December 31,	
2011 -	\$ 151,666
2012 -	136,070
2013 -	<u>113,973</u>
Total	<u>\$ 401,709</u>

Total rent expense charged to operations for the years ended December 31, 2010 and 2009 was \$208,950 and \$310,107, respectively.

Insurance coverage: The Organization maintains its bank accounts, money market funds, marketable securities and certificate of deposits with financial institutions. The combined balances that exceed the Federal Deposit Insurance Corporation's (FDIC), Security Investor Protection Corporation's (SIPC) and other insurance coverage are summarized for the years ended December 31, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Institutional balances	\$1,359,025	\$ 967,012
Less: amounts covered	<u>(970,918)</u>	<u>(325,315)</u>
Uninsured amounts	<u>\$ 388,107</u>	<u>\$ 641,697</u>

Legal Claim: The Organization received a gift of stock from an insurance company whose legality is being contested by the Pennsylvania Insurance Department. The Organization has been advised by legal counsel that the gift is legal and no liability will result from the lawsuit. As such, no provision for any losses is deemed necessary.

9. Pension Plan

On February 1, 2002 the Organization adopted a salary reduction, 401(K) retirement plan that is funded by voluntary employee contributions and discretionary employer contributions. Organization contributions to the plan amounted to \$0 and \$6,860, for the years ended December 31, 2010 and 2009, respectively.

SEEDS OF PEACE, INC.
NOTES TO FINANCIAL STATEMENTS

10. Promises to Give

Promises to give are unconditional and are due as follows: \$634,048 in 2010. Long term pledge receivables are discounted at an annual rate of 6%. As of December 31, 2010 and 2009, the unamortized discount is \$7,076 and \$20,826, respectively. No provision for uncollectable pledges has been made since the amount is estimated to be negligible.

11. Loss on Disposal of Assets

In 2010 there was a loss on the disposal of assets due to the relocation of the New York office to a smaller space. The loss amounted to \$36,019.

12. Subsequent Events

Management has evaluated subsequent events through April 10, 2011, the date the financial statements were available to be issued, to evaluate whether any such events warrant adjustment to any reported amounts or inclusion of additional disclosures. No such adjustments or disclosures were judged to be necessary.



Skody Scot & Company, CPAs, P.C.

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To: The Board of Directors of
Seeds of Peace, Inc.

We have audited the financial statements of Seeds of Peace, Inc. as of and for the years ended December 31, 2010 and 2009, and our report thereon date April 10, 2011, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Skody Scot & Company, CPAs, P.C.

April 10, 2011