

**AMERICAN FRIENDS OF NEVE SHALOM/
WAHAT AL-SALAM, INC.**

AUDITED FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2011 AND 2010

AMERICAN FRIENDS OF NEVE SHALOM/WAHAT AL-SALAM, INC.
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
American Friends of Neve Shalom/Wahat Al-Salam, Inc.
Sherman Oaks, California

We have audited the accompanying statements of financial position of American Friends of Neve Shalom/Wahat Al-Salam, Inc. (a nonprofit organization) as of August 31, 2011 and 2010, and the related statements of activities and changes in net assets 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 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 of material misstatement. 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 American Friends of Neve Shalom/Wahat Al-Salam, Inc. as of August 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The statements of functional expenses included on page thirteen are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



James W. Vanstrom & Company
Falconer, New York

December 15, 2011

**AMERICAN FRIENDS OF NEVE SHALOM/WAHAT AL-SALAM, INC.
STATEMENTS OF FINANCIAL POSITION**

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	August 31,	
	2011	2010
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 139,076	\$ 168,341
Investments - other	717	943
Grants receivable - USAID	140,214	16,381
Promises to give	10,366	-
Prepaid expenses	500	-
Total current assets	290,873	185,665
BOARD DESIGNATED ASSETS		
Investments - board designated	595,866	649,903
DONOR RESTRICTED ASSETS		
Investments held for endowment purposes	430,917	382,401
FURNITURE AND EQUIPMENT		
Furniture and equipment	2,513	5,639
Less accumulated depreciation	(2,513)	(5,516)
	-	123
OTHER ASSETS		
Security deposits	500	1,500
Total assets	\$ 1,318,156	\$ 1,219,592
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Grants payable	\$ 77,485	\$ 31,083
Accounts payable	867	-
Total current liabilities	78,352	31,083
NET ASSETS		
Unrestricted:		
Undesignated	213,021	156,205
Board designated	595,866	649,903
Temporarily restricted	67,136	18,620
Permanently restricted	363,781	363,781
Total net assets	1,239,804	1,188,509
Total liabilities and net assets	\$ 1,318,156	\$ 1,219,592

See accompanying independent auditor's report and notes to financial statements.

**AMERICAN FRIENDS OF NEVE SHALOM/WAHAT AL-SALAM, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

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	Year Ended August 31,	
	2011	2010
UNRESTRICTED NET ASSETS		
Operating revenues and other support:		
Contributions	\$ 548,809	\$ 691,736
Federal grants	409,876	52,391
Interest and dividends, net of investment fees	5,373	1,870
Other operating revenue	937	832
	<hr/>	
Total operating revenues and other support	964,995	746,829
Operating expenses:		
Program services	836,789	636,711
Support	74,008	88,648
Fundraising	96,969	100,104
	<hr/>	
Total operating expenses	1,007,766	825,463
Operating loss	(42,771)	(78,634)
Other :		
Realized and unrealized gain on investments	45,550	34,104
	<hr/>	
Increase (decrease) in unrestricted net assets	2,779	(44,530)
 INCREASE IN TEMPORARILY RESTRICTED NET ASSETS		
Investment income from donor restricted investments	48,516	26,080
	<hr/>	
Change in net assets	51,295	(18,450)
 Net assets at beginning of year	 1,188,509	 1,206,959
	<hr/>	
Net assets at end of year	\$ 1,239,804	\$ 1,188,509
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See accompanying independent auditor's report and notes to financial statements.

**AMERICAN FRIENDS OF NEVE SHALOM/WAHAT AL-SALAM, INC.
STATEMENTS OF CASH FLOWS**

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	Year Ended August 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 51,295	\$ (18,450)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	123	373
Realized and unrealized (gain) loss on investments	(79,152)	(54,037)
Noncash contributions	(12,517)	(35,326)
Contributions restricted for long-term purposes	(16,000)	-
Interest and dividends restricted for long-term purposes, net of investment fees	(19,775)	(7,049)
(Increase) decrease in grants receivable - USAID	(123,833)	(16,381)
(Increase) decrease in promised to give	(10,366)	-
(Increase) decrease in prepaid expenses	(500)	4,627
Increase (decrease) in accounts payable	867	(797)
Increase (decrease) in grants payable	46,402	(192,110)
Increase (decrease) in deferred revenue	-	(36,010)
Net cash used in operating activities	(163,456)	(355,160)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments - other	12,517	35,326
(Increase) decrease in investments - other	163	(394)
Proceeds from investments - board designated	120,511	-
Purchases of investments - board designated	(20,860)	(902)
Purchases of investments held for endowment purposes	(14,915)	(6,147)
Decrease in security deposits	1,000	-
Net cash provided by investing activities	98,416	27,883
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from restricted contributions - board designated	16,000	-
Interest and dividends restricted for long-term purposes, net of investment fees	19,775	7,049
Net cash provided by financing activities	35,775	7,049
Net decrease in cash and cash equivalents	(29,265)	(320,228)
Cash and cash equivalents at beginning of year	168,341	488,569
Cash and cash equivalents at end of year	\$ 139,076	\$ 168,341
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ -	\$ -

See accompanying independent auditor's report and notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Neve Shalom/Wahat al-Salam (NS/WAS), the "Oasis of Peace" in Hebrew and Arabic, is the only community in Israel where Jews and Palestinians choose to live, work, and raise their children in equality and mutual respect. The Village started with a handful of individuals in the 1970's, and is now home to sixty families - half Jewish, half Palestinian. For more than thirty years, NS/WAS has been dedicated to dialogue, cooperation and a genuine and durable peace between Arabs and Jews, Palestinians and Israelis.

Jewish and Palestinian citizens of Israel have chosen to live and work together as equals in this community to promote trust, understanding and mutual respect well beyond its own borders. At NS/WAS, the bilingual, binational, multicultural Primary School, the School for Peace, the Pluralistic Spiritual Center, and other projects, serve the Village and beyond, reaching thousands of Jewish and Palestinian youth and adults.

The American Friends of Neve Shalom/Wahat al-Salam is a nonprofit corporation formed in 1986 under Section 501(c)(3) of the Internal Revenue Code, to provide support to the Oasis of Peace and awareness to the American public. The American Friends of Neve Shalom/Wahat Al-Salam encourages, supports, and publicizes the projects of NS/WAS. The Organization is supported primarily through donor contributions, as well as foundation grants. In addition, the Organization has been awarded certain grants from the United States Agency for International Development (USAID), as further disclosed in Note F to the financial statements.

In April 2011, as a result of its strategic planning process, the Organization's board of directors approved a plan to establish a Peace College to further support the Oasis of Peace. The Peace College's primary objectives include the development of three types of programs; a short-term training program, a Masters program in peace and conflict studies, and a teacher training program in bilingual/binational education. The board of directors subsequently approved a budget of \$160,000 for this project, with funding to be provided by donor contributions, as well as withdrawals from the Organization's board designated fund, which is further disclosed in Note C.

Display of Net Assets by Class

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements of Financial Accounting Standards Board (FASB) ASC 958, *Not-for-Profit Entities*. ASC 958 requires that resources be classified for reporting purposes into three net asset categories as temporarily restricted, permanently restricted and unrestricted net assets according to the existence or absence of donor-imposed restrictions.

Revenue Recognition

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received.

It is, normally, the Organization's policy not to accept donor-restricted contributions. Donors may request that their contributions be used for specific purposes, and the board of directors may designate the funds for use in accordance with the donor's request. However, in order to maintain discretion and control over

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

the contributions in accordance with Internal Revenue Service regulations, the board of directors reserves the right to redirect the use of such funds at any time, and the final decision on the use of such funds is made by the board of directors. Accordingly, all contributions received by the Organization are, normally, considered for unrestricted use. During the year ended August 31, 2004, the board of directors made an exception to this policy with the establishment of the Jesse Zel Lurie Endowment Fund, which is further disclosed in Note D.

Donated material, equipment and services are not recorded if their value cannot be objectively measured or valued under Financial Accounting Standards Board (FASB) ASC 958-605, *Revenue Recognition*.

Expense Allocations

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

The Organization achieves some of its programmatic goals in direct mail campaigns, education and promotion, and travel and tour activities that include requests for contributions. For the years ended August 31, 2011 and 2010, the costs of conducting those activities included a total of \$31,617 and \$38,191, respectively, of joint costs that are not directly attributable to either the program or fundraising component of the activities. Those joint costs were allocated as follows:

	<u>2011</u>	<u>2010</u>
Program services	15,986	20,214
Fundraising	15,631	17,977
	<u>\$ 31,617</u>	<u>\$ 38,191</u>

Accounting for Investments

The Organization has adopted Financial Accounting Standards Board (FASB) ASC 958-320, *Investments – Debt and Equity Securities*. ASC 958-320 requires not-for-profit organizations to record certain investments at fair value with unrealized gains and losses being recorded in the statements of activities and changes in net assets. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. The cost of specific securities sold is used to compute realized gains or losses on sales.

Investments - other consist of mutual fund investments. The funds are stated at fair value, which approximates their cost.

Investment income includes interest, dividends and realized and unrealized gains and losses on investments, net of investment fees.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Furniture and Equipment

The Organization capitalizes all expenditures for furniture and equipment in excess of \$500.

Purchased furniture and equipment are carried at cost. Donated furniture and equipment are carried at the approximate fair value at the date of donation.

Depreciation is recorded using the straight-line method over the useful lives of the assets, and amounted to \$123 and \$373 for the years ended August 31, 2011 and 2010, respectively.

Income Taxes

American Friends of Neve Shalom/Wahat Al-Salam, Inc. has been granted tax-exempt status by the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code, and is registered as a charity in all states in which it solicits contributions. Accordingly, no provision has been made for federal, state, or local income taxes.

The Organization has adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, as of September 1, 2009. The adoption of this standard did not result in a change in the Organization's net assets at September 1, 2009.

The Organization files U.S. federal, as well as various state exempt organization returns. The returns for 2007 – 2010 are still open to review.

Grants Payable

Grants payable consist of grants approved by the board of directors as of year end, to be paid in subsequent years.

Estimates

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

Subsequent Events

The Organization has evaluated events and transactions that occurred between September 1, 2011 and December 15, 2011, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

NOTE B - CASH AND CASH EQUIVALENTS

At August 31, 2011 and 2010, cash and cash equivalents consisted of the following:

	<u>2011</u>		<u>2010</u>
Checking accounts	\$ 87,915	\$	107,670
Money market funds	51,161		60,671
	<u>\$ 139,076</u>	<u>\$</u>	<u>168,341</u>

Cash held by financial institutions is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Cash held in money market funds is not insured by the FDIC.

NOTE C – BOARD DESIGNATED ASSETS

The board of directors has determined that certain funds should remain in segregated board designated accounts. Such funds and the interest earned thereon are to be restricted for use, as approved by the Organization's board of directors, for certain projects at NS/WAS. The principal is to be preserved, with grants allowed primarily from the income.

For the years ended August 31, 2011 and 2010, activities related to board designated investments were as follows:

	<u>2011</u>		<u>2010</u>
Beginning balance	\$ 649,903	\$	614,451
Interest and dividend income earned	14,197		9,299
Realized gains (losses)	(9,690)		(45,811)
Unrealized gains (losses)	55,304		80,361
Investment fees	(9,337)		(8,397)
Contributions	16,000		-
Withdrawals	(120,511)		-
Ending balance	<u>\$ 595,866</u>	<u>\$</u>	<u>649,903</u>

NOTE C – BOARD DESIGNATED ASSETS (CONTINUED)

As of August 31, 2011 and 2010, board designated investments, which are stated at fair value, consisted of the following:

	<u>2011</u>	
	<u>Fair Value</u>	<u>Cost</u>
Equities and mutual funds	\$ 445,249	478,556
Bonds	144,637	143,425
Cash and cash equivalents	5,980	5,980
	<u>\$ 595,866</u>	<u>\$ 627,961</u>

	<u>2010</u>	
	<u>Fair Value</u>	<u>Cost</u>
Equities and mutual funds	\$ 413,579	506,158
Bonds	139,572	134,392
Cash and cash equivalents	96,752	96,752
	<u>\$ 649,903</u>	<u>\$ 737,302</u>

NOTE D – DONOR RESTRICTED ASSETS

Donor restricted assets consist of the Jesse Zel Lurie Endowment Fund, which was established in May 2004. The agreement with the donor directs that the principal of the endowment remain intact. Investment earnings from the endowment are expendable annually, first, to pay the salary and benefits of one or more school teachers at the Primary School and/or Secondary School in NS/WAS, Israel, and, if there are additional funds available in any year, for any other use identified by the Schools. The agreement also states that in extraordinary or emergency circumstances, the Organization may expend the principal of the endowment, but only upon the majority vote of the board of directors.

For the years ended August 31, 2011 and 2010, activities related to investments held for endowment purposes were as follows:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 382,401	\$ 356,321
Interest and dividend income earned	14,915	6,147
Realized gains (losses)	(5,550)	(33,189)
Unrealized gains (losses)	39,151	53,122
Grant expenses	-	-
Ending balance	<u>\$ 430,917</u>	<u>\$ 382,401</u>

NOTE D – DONOR RESTRICTED ASSETS (CONTINUED)

As of August 31, 2011 and 2010, investments held for endowment purposes, which are stated at fair value, consisted of the following:

	2011	
	Fair Value	Cost
Equities and mutual funds	\$ 347,883	341,448
Bonds	74,876	74,598
Cash and cash equivalents	8,158	8,158
	<u>\$ 430,917</u>	<u>\$ 424,204</u>

	2010	
	Fair Value	Cost
Equities and mutual funds	\$ 308,418	\$ 341,812
Bonds	69,575	68,618
Cash and cash equivalents	4,408	4,408
	<u>\$ 382,401</u>	<u>\$ 414,838</u>

As of August 31, 2011 and 2010, investments held for endowment purposes were classified as follows:

	2011	2010
Temporarily restricted	\$ 67,136	\$ 18,620
Permanently restricted	363,781	363,781
	<u>\$ 430,917</u>	<u>\$ 382,401</u>

NOTE E – FAIR VALUE MEASUREMENTS

The Organization has adopted the provisions of Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurement*. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

NOTE E – FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Fair values of assets measured on a recurring basis as of August 31, 2011 and 2010 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 31, 2011:				
Investments, including endowment funds	\$ 1,027,500	\$ 1,027,500	\$ -	\$ -
August 31, 2010:				
Investments, including endowment funds	\$ 1,033,247	\$ 1,033,247	\$ -	\$ -

Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions.

NOTE F - FEDERAL GRANTS

The Organization is the recipient of certain grants from the United States Agency for International Development (USAID) to provide conflict management training for leaders of Israeli and Palestinian civilian society. The grants are considered to be exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred.

The current agreement with USAID has an effective date of June 25, 2010, with an estimated completion date of June 25, 2013. The total program cost for the program is \$1,115,254 with \$1,000,000 to be funded by USAID, and \$115,254 from American Friends of Neve Shalom/Wahat Al-Salam, Inc. Since the effective date of the contract and through August 31, 2011, revenues associated with this grant have amounted to \$426,257.

NOTE G - INVESTMENT INCOME (LOSS)

Investment income (loss) for the years ended August 31, 2011 and 2010 consisted of the following:

	2011	2010
Interest and dividends	\$ 29,624	\$ 16,414
Realized gains (losses)	(15,240)	(79,311)
Unrealized gains (losses)	94,392	133,348
Investment fees	(9,337)	(8,397)
	<u>\$ 99,439</u>	<u>\$ 62,054</u>

NOTE H - GRANTS FOR NS/WAS PROJECTS

Funds are granted to NS/WAS by the board of directors in response to specific proposals submitted by the directors of NS/WAS in Israel. During the years ended August 31, 2011 and 2010, approved grants included funding for primary school general support and special projects, School for Peace workshops, library equipment, Youth Club project support, humanitarian aid projects, and Peace College development. For the years ended August 31, 2011 and 2010, grant expenses for NS/WAS projects totaled \$661,103 and \$469,665, respectively, and are included in program services expenses.

NOTE I - RENTAL ARRANGEMENTS

The following summarizes the Organization's rental arrangements as of August 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Office space in Sherman Oaks, California. Monthly rent as of August 31, 2011 is \$500 under the terms of a one year lease which expires April 2012. (prior to May 2011 - \$1,500).	\$ 14,000	\$ 18,000

NOTE J - COMMITMENTS AND CONTINGENCIES

The Organization has received grants, as further disclosed in Note F, which are subject to audit by agencies of the federal government. Such audits may result in disallowances and a request for return of funds. The Organization believes disallowances, if any, will not be material.

AMERICAN FRIENDS OF NEVE SHALOM/WAHAT AL-SALAM, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended August 31, 2011 and 2010

	Program Services	Support	Fundraising	Total 2011	Total 2010
Bank and credit card charges	\$ -	\$ 1,107	\$ 2,247	\$ 3,354	\$ 2,819
Computer expense	695	695	716	2,106	1,809
Depreciation	31	61	31	123	373
Direct mail	7,746	-	12,745	20,491	22,997
Employee benefits	20,029	7,647	8,740	36,416	34,763
Fundraising costs	-	-	22	22	644
Grants for NS/WAS projects	661,103	-	-	661,103	469,665
Insurance	-	2,687	-	2,687	2,941
Miscellaneous	963	666	614	2,243	2,650
Networking expense	8	1	8	17	192
Office expense	1,643	822	822	3,287	3,499
Other program expenses	1,360	-	-	1,360	1,207
Payroll	108,938	42,462	46,700	198,100	201,988
Payroll taxes	9,013	3,441	3,933	16,387	16,404
Postage and messenger	913	593	776	2,282	3,332
Printing and copying	890	222	371	1,483	1,943
Professional services	4,827	8,178	7,651	20,656	12,173
Rent	7,000	3,500	3,500	14,000	18,000
State registration fees	-	-	3,423	3,423	3,903
Telephone and facsimile	3,390	1,926	1,784	7,100	8,967
Travel and tour	8,240	-	2,886	11,126	15,194
Total operating expenses	\$ 836,789	\$ 74,008	\$ 96,969	\$ 1,007,766	\$ 825,463

See accompanying independent auditor's report.