

**SOZO International, Inc.**

**Financial Statements**

**Years Ended December 31, 2010 and 2009**

**SOZO International, Inc.**

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December 31, 2010 and 2009

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Mountjoy  
Chilton  
Medley

## Independent Auditor's Report on Financial Statements

To the Board of Directors  
**SOZO International, Inc.**

We have audited the accompanying statements of financial position of SOZO International, Inc. ("the Organization") as of December 31, 2010 and 2009, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Organization as of December 31, 2010 and 2009, 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.

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August 22, 2011

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**SOZO International, Inc.**  
**Statements of Financial Position**  
**December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 243,900	\$ 281,961
Accounts receivable	31,830	47,782
Pledges receivable	30,000	70,000
Prepaid expenses	2,933	2,880
Restricted cash	711,221	544,045
Property and equipment, net	<u>45,936</u>	<u>65,185</u>
Total Assets	<u><u>\$ 1,065,820</u></u>	<u><u>\$ 1,011,853</u></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 9,485	\$ 34,699
Accrued expenses	5,067	6,807
Deferred revenue	<u>207,586</u>	<u>-</u>
	222,138	41,506
 Commitments and Contingencies		
<b>Net Assets</b>		
Unrestricted	310,047	356,302
Temporarily restricted	<u>533,635</u>	<u>614,045</u>
Total Net Assets	<u>843,682</u>	<u>970,347</u>
Total Liabilities and Net Assets	<u><u>\$ 1,065,820</u></u>	<u><u>\$ 1,011,853</u></u>

See accompanying notes.

**SOZO International, Inc.**  
**Statements of Activities and Changes in Net Assets**  
**Years Ended December 31, 2010 and 2009**

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenues						
Contributions and grants	\$ 252,143	\$ 520,849	\$ 772,992	\$ 453,097	\$ 407,661	\$ 860,758
Contracted Services	366,965	-	366,965	679,730	-	679,730
Kabul Guesthouse	56,690	-	56,690	41,271	-	41,271
Interest income	1,407	-	1,407	1,820	-	1,820
Net assets released from restrictions:						
Satisfaction of program restrictions	601,259	(601,259)	-	522,386	(522,386)	-
Total Support and Revenues	1,278,464	(80,410)	1,198,054	1,698,304	(114,725)	1,583,579
Expenses and Losses						
Afghanistan program services	1,098,642	-	1,098,642	1,341,751	-	1,341,751
Sri Lanka program services	37,680	-	37,680	30,893	-	30,893
Other program services	68,126	-	68,126	52,044	-	52,044
General and administrative	86,903	-	86,903	87,222	-	87,222
Fundraising	31,349	-	31,349	35,059	-	35,059
Total Expenses	1,322,700	-	1,322,700	1,546,969	-	1,546,969
Loss on disposal of property and equipment	2,019	-	2,019	450	-	450
Total Expenses and Losses	1,324,719	-	1,324,719	1,547,419	-	1,547,419
Changes in Net Assets	(46,255)	(80,410)	(126,665)	150,885	(114,725)	36,160
Net Assets at Beginning of Year	356,302	614,045	970,347	205,417	728,770	934,187
Net Assets at End of Year	\$ 310,047	\$ 533,635	\$ 843,682	\$ 356,302	\$ 614,045	\$ 970,347

See accompanying notes.

**SOZO International, Inc.**  
**Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Changes in net assets	\$ (126,665)	\$ 36,160
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	30,311	33,523
Loss on disposal of property and equipment	2,019	450
Changes in:		
Accounts receivable	15,952	(31,457)
Pledges receivable	40,000	82,200
Prepaid expenses	(53)	(855)
Accounts payable	(25,214)	28,697
Accrued expenses	(1,740)	2,900
Deferred revenue	207,586	-
	<u>142,196</u>	<u>151,618</u>
Net Cash Provided by Operating Activities	142,196	151,618
Cash Flows from Investing Activities		
Change in restricted cash	(167,176)	99,374
Purchases of property and equipment, net	<u>(13,081)</u>	<u>(10,010)</u>
	<u>(180,257)</u>	<u>89,364</u>
Cash (Used) Provided by Investing Activities	(180,257)	89,364
(Decrease) Increase in Cash and Cash Equivalents	(38,061)	240,982
Cash and Cash Equivalents at Beginning of Year	<u>281,961</u>	<u>40,979</u>
Cash and Cash Equivalents at End of Year	<u>\$ 243,900</u>	<u>\$ 281,961</u>

See accompanying notes.

**SOZO International, Inc.**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note A - Nature of Organization and Operations**

SOZO International, Inc. ("the Organization") is a non-profit organization incorporated in 2003, for the purpose of empowering the most disadvantaged individuals and communities by coordinating and implementing transformational development through three primary initiatives: health care, education, and economic. The Organization's primary area of activity is in Kabul Province, Afghanistan where it carries out community development activities such as medical clinics, feeding programs for children, health education, internally displaced peoples' rehabilitation, etc. A guesthouse is operated to provide secure accommodations to volunteers. During 2005, activities expanded into Sri Lanka as a function of disaster relief efforts, as well as the development of programs directed to re-educate and employ those impacted by the tsunami.

**Note B - Summary of Significant Accounting Policies**

1. Basis of Accounting: The financial statements for the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, entitled *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ("GAAP")*. In substance, SFAS No. 168 makes the FASB Accounting Standards Codification ("ASC") the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the ASC is considered to be non-authoritative. The ASC is effective for interim and annual reporting periods ending after September 15, 2009. The Organization adopted the ASC upon issuance, with no material impact to the financial statements.

2. Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.
3. Donor-Imposed Restrictions: The Organization records and reports its assets, liabilities, net assets, revenues, expenses, gains and losses, and other support based on the existence or absence of donor-imposed restrictions.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**SOZO International, Inc.**  
**Notes to Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note B - Summary of Significant Accounting Policies (Continued)**

3. Donor-Imposed Restrictions (Continued): Permanently restricted net assets include those contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the actions of the Organization. The Organization has no permanently restricted net assets.
4. Cash and Cash Equivalents: The Organization considers all highly liquid investments with a maturity when purchased of three months or less, which are not designated for a specific purpose, to be cash equivalents. The Organization typically maintains balances with its banks in excess of federally insured limits. The Organization also maintains accounts in foreign countries.
5. Accounts Receivable: Accounts receivable consist of reimbursements for expenses related to pass-through programs and related administration fees. No provision for doubtful accounts has been included as management considers all amounts to be fully collectible.
6. Pledges Receivable: Unconditional pledges that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected after one year are recorded at the present value of their estimated cash flows. The discounts on those amounts are computed using risk free interest rates applicable to the years in which the promise was received. Amortization of the discounts is included in contribution revenue. Pledges receivable at December 31, 2010 and 2009 are due within the following calendar year and therefore, no discount is required. No allowance for uncollectible pledges has been included as management considers all amounts to be fully collectible.
7. Restricted Cash: Restricted cash includes cash temporarily restricted for use in certain programs based on donor restrictions and deferred revenue from contractual arrangements.
8. Property and Equipment: Property and equipment are recorded at cost at the date of acquisition. Donated assets are recorded at estimated fair value at the date of acquisition. The Organization typically capitalizes items costing or valued over \$500. Depreciation is provided on property and equipment in service over the estimated useful lives of the respective assets on a straight line basis ranging from 3 to 5 years. Depreciation expense for the years ended December 31, 2010 and 2009 was \$30,311 and \$33,523, respectively.
9. Contributed Services, Supplies and Property: Certain contributed supplies, including medical supplies, services and property are recorded as support and expenses or a related asset at fair value when determinable, otherwise at values indicated by the donor. Volunteer services that neither create nor enhance nonfinancial assets nor that require specialized skills are not recognized as support in the accompanying statement of activities and changes in net assets. The Organization received contributed services and medical supplies of \$-0- and \$75,825 during the years ended December 31, 2010 and 2009, respectively.
10. Allocated Costs: The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying statements of activities and changes in net assets. During the years ended December 31, 2010 and 2009, certain costs have been allocated among the programs and supporting services benefited.

**SOZO International, Inc.**  
**Notes to Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note B - Summary of Significant Accounting Policies (Continued)**

11. Income Taxes: The Organization has received a determination letter from the Internal Revenue Service indicating that it is exempt from federal taxes under the Internal Revenue Code Section 501(c)(3) and is classified by the Internal Revenue Service as an organization that is not a private foundation.

The FASB has issued new standards, contained in the ASC, clarifying the accounting for uncertainty in taxes recognized in annual financial statements for fiscal years beginning after December 31, 2008. These standards require recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. The Organization adopted these standards at the beginning of fiscal 2009 with no material impact on its financial statements.

12. Subsequent Events: Subsequent events for the Organization have been considered through the date of the Independent Auditor's Report which represents the date which the financial statements were available to be issued.
13. Reclassifications: Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

**Note C - Property and Equipment**

Property and equipment consists of the following as of December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Furniture, fixtures and equipment	\$ 126,274	\$ 128,653
Vehicles	77,069	77,069
Leasehold improvements	<u>5,403</u>	<u>3,203</u>
	208,746	208,925
Accumulated depreciation	<u>(162,810)</u>	<u>(143,740)</u>
	<u>\$ 45,936</u>	<u>\$ 65,185</u>

**Note D - Lease Agreements**

The Organization operates out of leased facilities in Louisville and Afghanistan. In March 2008, the Organization moved locations in Afghanistan and entered into a new facilities lease through March 2011, subsequently extended to March 2014, requiring monthly rental payments of \$2,500 through February 2009 and \$3,500 through February 2014.

The Louisville lease was a one year lease that expired in May 2011. It has reverted to a month to month lease and requires monthly payments of \$1,000.

Future minimum lease payments are \$42,000 for each of the years 2011 through 2013 and \$7,000 in 2014.

Total lease expense recognized during the years ended December 31, 2010 and 2009 was \$56,002 and \$59,050, respectively.

**SOZO International, Inc.**  
**Notes to Financial Statements (Continued)**  
**December 31, 2010 and 2009**

**Note E - Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for various programs as follows:

	<u>2010</u>	<u>2009</u>
Barek Aub IDP Camp	\$ 181,179	\$ 279,578
Tsunami relief	175,271	212,951
Other projects	92,743	1,457
Micro Enterprise	54,442	50,059
Operating	<u>30,000</u>	<u>70,000</u>
	<u>\$ 533,635</u>	<u>\$ 614,045</u>

**Note F - Concentrations**

At December 31, 2010, one agency represented 100% of accounts receivable and one donor represented 100% of pledges receivable. At December 31, 2009, one agency represented 91% of accounts receivable and one donor represented 100% of pledges receivable.

The Organization received 40% of its contributions from two donors, which were also public charities, during 2010.

The Organization received 39% of its contributions from two donors, which were also public charities, during 2009. The contributions included program and administrative contributed services.