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BIKES NOT BOMBS, INC.

Financial Statements

Year Ended December 31, 2013

BIKES NOT BOMBS, INC.

Financial Statements

Year Ended December 31, 2013

Table of Contents

| | |
|-------------------------------------|------|
| Independent Auditors' Report | 1-2 |
| <i>Financial Statements:</i> | |
| Statement of Financial Position | 3 |
| Statement of Activities | 4 |
| Statement of Cash Flows | 5 |
| Statement of Functional Expenses | 6 |
| Notes to Financial Statements | 7-16 |



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Independent Auditors' Report

To the Board of Directors
Bikes Not Bombs, Inc.
Jamaica Plain, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Bikes Not Bombs, Inc. (a nonprofit organization) as of December 31, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The prior year comparative information has been derived from Bikes Not Bombs, Inc.'s 2012 financial statements, which were audited by other auditors, whose report dated September 27, 2013, expressed an unqualified opinion on those 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.

Auditor's 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 auditor's 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 Bikes Not Bombs, Inc. as of December 31, 2013, 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.

NE Kelly & Associates LLC

NE Kelly & Associates, LLC
Boston, Massachusetts
April 30, 2014

BIKES NOT BOMBS, INC.
Statement of Financial Position
As of December 31, 2013

(with comparative totals as of December 31, 2012)

| | 2013 | 2012 |
|---|-------------|-------------|
| <i>Assets</i> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 424,450 | \$ 320,986 |
| Cash held for others | 3,363 | 3,363 |
| Investments | - | 27,155 |
| Accounts receivable | 7,595 | 4,927 |
| Pledges receivable, current (net of allowance of \$5,039 and \$2,992 as of December 31, 2013 and 2012, respectively) | 45,347 | 27,305 |
| Inventory | 142,844 | 149,599 |
| Prepaid expenses | 727 | 3,425 |
| Total current assets | 624,326 | 536,760 |
| Property and equipment, net | 75,834 | 106,420 |
| Security deposits | 8,148 | 8,148 |
| Pledges receivable (net of discount of \$5,057 and \$2,473, and allowance of \$15,421 and \$6,714 as of December 31, 2013 and 2012, respectively) | 81,819 | 58,652 |
| Total assets | \$ 790,127 | \$ 709,980 |
| <i>Liabilities and Net Assets</i> | | |
| Current liabilities: | | |
| Accounts payable | \$ 50,581 | \$ 52,249 |
| Accrued expenses | 54,491 | 35,695 |
| Due to others | 3,363 | 3,363 |
| Total current liabilities | 108,435 | 91,307 |
| Long-term liabilities: | | |
| Note payable, net of current portion | 30,000 | 30,000 |
| Total liabilities | 138,435 | 121,307 |
| Net assets: | | |
| Unrestricted | 504,526 | 487,716 |
| Temporarily restricted | 147,166 | 100,957 |
| Total net assets | 651,692 | 588,673 |
| Total liabilities and net assets | \$ 790,127 | \$ 709,980 |

BIKES NOT BOMBS, INC.***Statement of Activities******For the Year Ended December 31, 2013****(with summarized comparative totals for the year ended December 31, 2012)*

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>2013 Total</u> | <u>2012 Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-----------------------|-----------------------|
| Support and revenue: | | | | |
| Contributions | | | | |
| Grants | \$ 145,500 | \$ 20,000 | \$ 165,500 | \$ 51,928 |
| Contributions | 520,489 | 76,701 | 597,190 | 458,632 |
| Program service fees | | | | |
| Bike shop | 735,850 | - | 735,850 | 772,837 |
| Program fees | 45,996 | - | 45,996 | 27,825 |
| Youth Programs | 11,855 | - | 11,855 | 3,719 |
| Investment income | 142 | - | 142 | 2,658 |
| Net assets released from restrictions | 50,492 | (50,492) | - | - |
| | <u>1,510,324</u> | <u>46,209</u> | <u>1,556,533</u> | <u>1,317,599</u> |
| Total support and revenue | | | | |
| Expenses: | | | | |
| Program services | 1,290,290 | - | 1,290,290 | 1,197,894 |
| Fundraising | 68,069 | - | 68,069 | 79,401 |
| General and administration | 135,155 | - | 135,155 | 156,482 |
| | <u>1,493,514</u> | <u>-</u> | <u>1,493,514</u> | <u>1,433,777</u> |
| Total expenses | | | | |
| Change in net assets | 16,810 | 46,209 | 63,019 | (116,178) |
| Net assets at beginning of year | 487,716 | 100,957 | 588,673 | 704,851 |
| Net assets at end of year | <u>\$ 504,526</u> | <u>\$ 147,166</u> | <u>\$ 651,692</u> | <u>\$ 588,673</u> |

BIKES NOT BOMBS, INC.***Statement of Cash Flows******For the Year Ended December 31, 2013****(with comparative totals for the year ended December 31, 2012)*

| | <u>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|
| <i>Cash flows from operating activities:</i> | | |
| Change in net assets | \$ 63,019 | \$ (116,178) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) activities: | | |
| Depreciation expense | 30,586 | 39,960 |
| Bad debt expense | 10,755 | 2,204 |
| Net present value discount | 2,584 | 2,474 |
| Donated investments | - | (27,155) |
| Change in: | | |
| Cash held for others | - | 8,666 |
| Accounts receivable | (2,668) | (2,784) |
| Pledges receivable | (54,548) | (24,778) |
| Prepaid expenses | 2,698 | 3,462 |
| Inventory | 6,755 | (26,615) |
| Accounts payable and accrued expenses | 17,128 | 16,643 |
| Due to others | - | (8,666) |
| Other liabilities | - | (14,078) |
| Net cash provided by (used in) operations | <u>76,309</u> | <u>(146,845)</u> |
| <i>Cash flows from investing activities:</i> | | |
| Sale of donated investments | 27,155 | 8,897 |
| Purchase of investments | - | (9,331) |
| Net cash provided by (used in) investing activities | <u>27,155</u> | <u>(434)</u> |
| <i>Cash flows from financing activities:</i> | | |
| Loan repayment | - | (10,000) |
| Net cash used in financing activities | <u>-</u> | <u>(10,000)</u> |
| Net change in cash and cash equivalents | 103,464 | (157,279) |
| Cash and cash equivalents, beginning of year | <u>320,986</u> | <u>478,265</u> |
| Cash and cash equivalents, end of year | <u>\$ 424,450</u> | <u>\$ 320,986</u> |

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

BIKES NOT BOMBS, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2013

(with summarized comparative totals for the year ended December 31, 2012)

| | <u>Youth Programs</u> | <u>International Programs</u> | <u>Vocational Training/ Bike Shop</u> | <u>Education and Outreach</u> | <u>Total Program Expenses</u> | <u>Fundraising Expenses</u> | <u>General and Administrative Expenses</u> | <u>2013 Total</u> | <u>2012 Total</u> |
|-----------------------------|-----------------------|-------------------------------|---|-------------------------------|-------------------------------|-----------------------------|--|---------------------|---------------------|
| Salaries | \$ 137,119 | \$ 62,629 | \$ 290,950 | \$ 86,184 | \$ 576,882 | \$ 46,060 | \$ 51,192 | \$ 674,134 | \$ 646,792 |
| Payroll taxes | 12,952 | 6,362 | 29,553 | 8,754 | 57,621 | 4,679 | 5,199 | 67,499 | 66,371 |
| Fringe benefits | 7,465 | 5,755 | 26,736 | 7,920 | 47,876 | 4,232 | 4,704 | 56,812 | 43,162 |
| Rents | 23,973 | 4,624 | 44,435 | 4,209 | 77,241 | 3,613 | 2,448 | 83,302 | 70,047 |
| Utilities | 1,733 | 334 | 3,495 | 304 | 5,866 | 261 | 177 | 6,304 | 6,712 |
| Repairs and maintenance | 1,171 | 226 | 417 | 206 | 2,020 | 177 | 119 | 2,316 | 2,481 |
| Interest expense | 339 | 65 | 400 | 60 | 864 | 51 | 77 | 992 | 1,825 |
| Depreciation | 18,113 | 3,493 | 1,220 | 3,180 | 26,006 | 2,730 | 1,850 | 30,586 | 39,960 |
| Office supplies | 1,059 | 817 | 1,442 | 1,124 | 4,442 | 601 | 667 | 5,710 | 5,774 |
| Telephone and internet | 960 | 740 | 2,391 | 1,019 | 5,110 | 544 | 604 | 6,258 | 5,628 |
| Postage and shipping | 600 | 463 | 749 | 2,859 | 4,671 | 340 | 378 | 5,389 | 7,267 |
| Vehicle expense | - | - | 2,756 | - | 2,756 | - | - | 2,756 | 2,954 |
| Computer expenses | 982 | 865 | 1,388 | 1,042 | 4,277 | 557 | 618 | 5,452 | 3,798 |
| Miscellaneous expense | 79 | 72 | 231 | 82 | 464 | 44 | 1,414 | 1,922 | 6,869 |
| Professional service fees | - | - | - | - | - | - | 50,350 | 50,350 | 70,571 |
| Insurance expense | 1,097 | 212 | 1,438 | 193 | 2,940 | 165 | 1,213 | 4,318 | 3,934 |
| Payroll service fees | - | - | - | - | - | - | 3,354 | 3,354 | 2,877 |
| Program supplies | 1,449 | 2,334 | 312,663 | 1,023 | 317,469 | 232 | - | 317,701 | 318,826 |
| Freight | - | 48,119 | - | - | 48,119 | - | - | 48,119 | 40,698 |
| Marketing and outreach | 16 | 70 | 50 | 2,474 | 2,610 | 208 | - | 2,818 | 4,265 |
| Activities | 429 | 3,114 | 4 | 923 | 4,470 | 587 | - | 5,057 | 2,358 |
| Tools and equipment | 445 | 7,668 | 2,158 | 668 | 10,939 | 405 | - | 11,344 | 9,729 |
| Food | 1,925 | 936 | 113 | 3,807 | 6,781 | - | 36 | 6,817 | 5,511 |
| Contract labor | 490 | 13,305 | - | 8,140 | 21,935 | 250 | - | 22,185 | 17,509 |
| Printing and copying | - | - | 667 | 10,138 | 10,805 | - | - | 10,805 | 10,541 |
| Travel | 210 | 5,883 | 51 | - | 6,144 | 17 | - | 6,161 | 6,393 |
| Credit card processing fees | - | 387 | 18,611 | 2,420 | 21,418 | 2,216 | - | 23,634 | 19,795 |
| Staff development | 615 | - | - | 543 | 1,158 | 100 | - | 1,258 | 485 |
| Other program expense | - | 3,726 | - | 5,624 | 9,350 | - | - | 9,350 | 8,441 |
| Grant expense | - | 10,056 | - | - | 10,056 | - | - | 10,056 | - |
| Bad debt expense | - | - | - | - | - | - | 10,755 | 10,755 | 2,204 |
| Total expenses | \$ 213,221 | \$ 182,255 | \$ 741,918 | \$ 152,896 | \$ 1,290,290 | \$ 68,069 | \$ 135,155 | \$ 1,493,514 | \$ 1,433,777 |

BIKES NOT BOMBS, INC.

Notes to Financial Statements

For the Year Ended December 31, 2013

(with summarized comparative totals for the year ended December 31, 2012)

Note 1 - Organization and Background.

Bikes Not Bombs, Inc. (the "Organization" or "BNB") was organized in Massachusetts on December 20, 1991, as a not-for-profit corporation under Massachusetts General Laws Chapter 180. The Organization uses the bicycle as a vehicle for social change. The Organization reclaims thousands of bicycles each year and creates local and global youth programs that provide skill development, jobs and sustainable transportation. BNB programs mobilize youth and adults to be leaders in community transformation.

Each year BNB collects roughly 5,000-6,000 used bicycles and tons of used parts from its supporters around Greater Boston and New England. BNB ships most of those bikes overseas to economic development projects through its International Programs in Africa, Latin America, and the Caribbean. Bikes that do not get shipped often land in BNB's youth Programs where teens learn bicycle safety and mechanics skills in the process of earning bikes to keep for themselves. BNB's retail Bike Shop also reconditions and sells some of the donated bikes, employing several graduates of BNB's programs. The Bike Shop's profit from the bicycle sales, parts sales, and repairs goes towards funding BNB's youth and international work.

Youth Programs

BNB now offers six unique high-quality Youth Programs through which it has reached over 3,500 area youths. The programs make up a leadership development pathway and build on young people's fascination with bicycles to reinforce academic learning, build critical thinking skills, provide employment training, cultivate leadership, and instill a commitment to environmental and social justice. The Organization has seen over many graduates of program go on to work in bike shops, some even opening shops of their own and since 2005 have employed more than 150 program alumni through the Youth Employment Program.

- **Earn-A-Bike** ("EAB"), BNB's flagship program is a cycling and mechanics program for youth aged 12-18. BNB runs Earn-A-Bike six times a year - including twice during the summer and one girls-only session - reaching over 100 youth annually. In this class, students select a bicycle that has been donated to BNB and are taught safe riding, healthy living and bicycle mechanics skills. BNB uses this credit system to emphasize earning, and youth must participate in 35-40 hours of applied learning workshops-working with mathematical and scientific concepts, discovering the joys and benefits of healthy lifestyles, and developing safe urban riding skills-before riding away on their bicycles. More than 100 youth participated in Earn-A-Bike in 2013.
- The **Youth Employment Program**, called Pathways, provides a leadership pipeline for BNB's youths. Each year, BNB hires and trains teens to help lead all of its programs year-round. These Assistant Instructors (ages 14 and older) are EAB and Girls in Action graduates who serve as mentors to program participants while building self-confidence, developing strong interpersonal, professional and communications skills, and receiving support in setting and achieving life goals. BNB had 30 youth employees in summer 2013.
- BNB's youth organizing initiative, **Bicyclists Organizing for Community Action** (BOCA), is an initiative of the Organization's youth Employment Program that provides a venue for youths to actively engage in projects to spread BNB's message to a wider youth community. BOCA also manages Chain Reaction, city's first youth-run, after-school mobile bike shop and training program.

BIKES NOT BOMBS, INC.

Notes to Financial Statements

For the Year Ended December 31, 2013

(with summarized comparative totals for the year ended December 31, 2012)

Note 1 - Organization and Background (continued)

Bike Shop and Vocational Training

The Bike Shop, an early example of social entrepreneurship, operates year round, refurbishing and selling donated bicycles along with parts, gear and accessories. In addition to offering free trainings and open mechanics spaces throughout the year and jobs for BNB youth program alumni, the shop turns a small profit each year, which directly supports other BNB programs. The Shop is committed to hiring as many BNB youth program alumni as possible and currently half of the employees are Vocation Education graduates. Each year the shop sells about 700 refurbished bikes and it takes six hours of local skilled trade labor for a bike to go from its original state to the floor.

The Bike Shop also offers a Vocational Training Program, a training course for young apprentices offering advanced mechanics, customer service, and professionalism taught over a period of ten weeks. BNB offered this program in winter 2013. Graduates of this program have an opportunity to work in BNB's bike shop when positions are available, and many have secured jobs as mechanics at other bike shops throughout Greater Boston. Bike Shop Mechanics also offer a version of BNB's Vocational Training Program for its youth employees each winter to expand their capacity to support the youth programs.

International Development

Since its founding, BNB has shipped over 55,000 bicycles to partners in 13 countries in the Global South. The Organization partners with organizations that use bicycles to leverage larger-scale social change, in the forms of economic empowerment, leadership development, appropriate technology innovation, affordable transportation and human rights. Each of BNB's international partners is unique, and has developed out of a very specific need in their respective communities for bicycle-based development, yet all reflect and resonate the greater mission of BNB through their community-based and locally-owed programming. BNB not only ships bikes, but it also provides extensive technical assistance and support to its international partners, helping them to maximize the impacts of their work. In 2013, BNB collected almost 6,000 donated used bicycles from the New England area and shipped a total of 4,264 bikes along with spare parts, accessories, and tools in 840 foot containers to various projects in Lesser Developed Countries ("LDCs").

Each year, BNB provides bike aid to well-established recipient partners and works to develop new project partnerships. In 2013, BNB shipped two containers of bikes, parts, and accessories to Village Bicycle Project in Ghana ("VBP") and one to Village Bicycle Project in Sierra Leone. VBP is BNB's longest standing partner in Africa and distributes bicycles to the most rural areas in Ghana and Sierra Leone, selling them at subsidized rates while providing maintenance and repair training to the recipients and to local bike mechanics. In Sierra Leone, VPB also supports a bike to school program. BNB shipped one container to the Ability Bikes Cooperative in Ghana - a bicycle sales and repair business owned and operated by people with physical disabilities. One container was sent to Bici-Tec, an indigenous organization in Guatemala that designs, fabricates and distributes bicimaquinas, labor-saving, pedal-powered machines to people in rural areas of Guatemala. BNB also shipped a container to Centro Solvadorenno de Tecnologia Apropiada ("CESTA"), a similar project focused on sustainable transportation and technology in EI Salvador. One container was sent to Nevis Earn-A-Bike, a grassroots youth bicycle program that provides mechanics training, leadership development and bicycles to young people throughout the island of Nevis in the Eastern Caribbean.

BIKES NOT BOMBS, INC.

Notes to Financial Statements

For the Year Ended December 31, 2013

(with summarized comparative totals for the year ended December 31, 2012)

Note 1 - Organization and Background (continued)

BNB has sent a container to the Amuru Sub-county Village Health Team, a group of about 550 volunteer Village Health Workers, to implement a Health Worker Mobility Project in Amuru, Northern Uganda. This project provides bicycles, repair workshops, mechanics training and project management skills to the health workers, and develops their capacity to own and manage the project long-term.

In 2013 bikes shipped to communities in Lesser Developed Countries are as follows:

| | | |
|--------------|---------------------------|---------------------|
| Sierra Leone | Village Bicycle Project | 503 |
| Guatemala | BiciTec | 544 |
| Ghana | Village Bicycle Project | 1,118 |
| Nevis Island | Earn-A-Bike | 500 |
| El Salvador | CESTA | 547 |
| Ghana | Ability Bikes | 648 |
| Uganda | Amuru Village Health Team | <u>404</u> |
| | Total Bikes Shipped | <u><u>4,264</u></u> |

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying financial statements are presented on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The financial statements presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards, Financial Statements of Not-for-Profit Organizations. 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.

Unrestricted Net Assets - consists of assets, public support, program revenues and investment earnings which are available and used for charitable activities, operations and programs. Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Temporarily Restricted Net Assets - includes funds with donor-imposed restrictions which permit the donee Organization to expend the assets as specified and are satisfied either by the passage of time or by actions of the Organization. Resources of this nature originate from gifts, grants, bequests and investment income earned on restricted funds (Note 10).

Permanently Restricted Net Assets - includes resources which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permits the Organization to expend part or all of the income derived from the donated assets. The Organization did not have any permanently restricted net assets at December 31, 2013.

BIKES NOT BOMBS, INC.

Notes to Financial Statements

For the Year Ended December 31, 2013

(with summarized comparative totals for the year ended December 31, 2012)

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Organization considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increase in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Increases or decreases in market value are recorded as unrealized gains or losses on investments.

Property and Equipment

Property, equipment, furnishing, and improvement purchases in excess of \$1,000 are capitalized at cost, if purchased, or if donated, at fair market value at the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred; whereas major betterments are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

| | |
|-------------------------|------------|
| Leasehold improvements | 5-10 years |
| Furniture and fixtures | 3-5 years |
| Computers and equipment | 3-5 years |

Revenue Recognition

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved, when such amounts are considered material.

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, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of land, building, and equipment 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.

BIKES NOT BOMBS, INC.

Notes to Financial Statements

For the Year Ended December 31, 2013

(with summarized comparative totals for the year ended December 31, 2012)

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions

The Organization follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards, *Accounting for Contributions Received and Contributions Made*. This financial accounting standard requires that contributions be recorded as receivables and revenues and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction until restriction conditions are satisfied, at which time temporarily restricted net assets are reclassified to unrestricted net assets.

Contributed Goods and Services

The Organization records various types of in-kind support including contributed facilities and professional services. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as “in-kind revenue” are offset by amounts included in expenses or fixed assets.

Additionally, the Organization may receive amounts of skilled, contributed time, which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Contract and Grant Revenue

The Organization derives revenues through grants received from government agencies and from various private foundations and grantor agencies. Accordingly, the Organization is subject to the regulations and reporting requirements of the applicable governmental and grantor agencies. Contract and grant revenue is recorded in accordance with the provisions of the applicable award amounts, including the recognition of any purpose or time restriction on the use of the proceeds.

Allowance for Doubtful Accounts

When necessary, the Organization provides an allowance for doubtful accounts equal to estimated bad debt losses. The estimated losses are based on historical collection experience together with a review of the current status of the existing receivables.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

BIKES NOT BOMBS, INC.

Notes to Financial Statements

For the Year Ended December 31, 2013

(with summarized comparative totals for the year ended December 31, 2012)

Note 2 - Summary of Significant Accounting Policies (Continued)

Advertising

Advertising costs are expensed as incurred. Advertising costs incurred for the year ended December 31, 2013 and 2012 was \$2,818 and \$4,265, respectively.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an Organization that is not a private foundation under Section 509(a)(1). The Organization is also exempt from Massachusetts state taxes.

The Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements, and no interest and penalties have been recorded in the accompanying financial statements related to uncertain tax positions.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses are allocated among program and supporting services directly or on the basis of time records and utilization estimates made by the Organization's management. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Center. Expenses that can be identified with a specific program and/or support service are allocated directly according to their natural expenditure classification.

Promises To Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Fair Value of Financial Instruments

The Organization determines the fair value of financial instruments and includes such information in the notes to the financial statements when the fair value is materially different than the carrying amount of these financial instruments.

Note 3 - Investments

Investments are presented in the financial statements at fair market value. Bikes Not Bombs, Inc. maintains an investment account in order to receive stock donations. Donated stock is sold shortly after it is received. There was no investment held by the Organization at December 31, 2013. Investments held for sale at December 31, 2012 was \$27,155.

BIKES NOT BOMBS, INC.

Notes to Financial Statements

For the Year Ended December 31, 2013

(with summarized comparative totals for the year ended December 31, 2012)

Note 4 - Fair Value Measurements

The Organization has adopted FASB ASC 820-10, *Fair Value Measurements and Disclosures*, as amended by FASB Accounting Standards Update No. 2010-06, which defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Organization considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

FASB ASC 820-10 also establishes a fair value hierarchy that requires the Organization to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The categorization of each investment type within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. FASB ASC 820-10 establishes three levels of inputs that may be used to measure fair value:

- Level 1: quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2: inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or
- Level 3: unobservable inputs that are supported by little or no market activity and that reflect the Organization's own assumptions about market participants and investment prices.

The following is a description of the valuation methodologies used for assets measured at fair value:

- *Stock investments:* Stock investments are recorded at quoted market price.

The fair values of financial instruments included within the accompanying statements of financial position have the following valuation approaches as defined by FASB ASC 820-10 hierarchy:

- Assets utilizing Level 1 inputs include stock investments. The fair value of these investments at December 31, 2013 and 2012 was \$0 and \$27,155, respectively. There are no liabilities utilizing Level 1 inputs.
- There are no assets or liabilities utilizing Level 2 or level 3 inputs.

Note 5 - Concentrations of Credit Risk

The Organization maintains its cash balances in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on its cash and cash equivalents.

Management monitors and evaluates the allowance for doubtful accounts to ensure that receivables are stated at their net realizable value. Management believes that the remaining receivable balances do not represent any significant credit risk to the Organization.

BIKES NOT BOMBS, INC.

Notes to Financial Statements

For the Year Ended December 31, 2013

(with summarized comparative totals for the year ended December 31, 2012)

Note 6 - Cash Held For Others

In 2010, the Organization entered into an agency agreement with On My Two Wheels (“the Project”), a documentary film project, to serve as the Project’s fiscal agent, and perform certain bookkeeping and administrative functions on its behalf. As of December 31, 2013 and 2012 the Organization had \$3,363 in cash held on behalf of the Project. The Organization has recorded corresponding liabilities for the amounts due to the Project, which are included in Due to others on the accompanying statement of position.

Note 7 - Fixed Assets

Fixed assets consisted of the following as of December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------|------------------|-------------------|
| Equipments and furniture | \$ - | \$ 8,430 |
| Leasehold improvements | <u>301,394</u> | <u>406,999</u> |
| | 301,394 | 415,429 |
| Less accumulated depreciation | <u>(225,560)</u> | <u>(309,009)</u> |
| | <u>\$ 75,834</u> | <u>\$ 106,420</u> |

Depreciation expense was \$30,586 and \$39,960 for the years ended December 31, 2013 and 2012, respectively. Fully depreciated fixed assets totaling \$114,035 and related accumulated depreciation were removed from the Organization’s books as of December 31, 2013.

Note 8 - Inventory

Inventory consists of new and refurbished bicycles, and bicycle parts and supplies available for sale at the Organization’s Bike Shop and Training Center and is stated at the lower of cost or market determined by the first-in first-out method.

Inventory is comprised of the following as of December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|----------------------------|-------------------|-------------------|
| Purchased bicycles | \$ 46,782 | \$ 36,523 |
| Refurbished bicycles | 36,065 | 45,150 |
| Bicycle parts and supplies | <u>59,997</u> | <u>67,926</u> |
| Total inventory | <u>\$ 142,844</u> | <u>\$ 149,599</u> |

BIKES NOT BOMBS, INC.

Notes to Financial Statements

For the Year Ended December 31, 2013

(with summarized comparative totals for the year ended December 31, 2012)

Note 9 - Pledges Receivable

Pledges receivable represents unconditional promises to give. Unconditional promises to give are recorded as receivables and revenue when received. The Organization distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows.

Pledges are expected to be realized in the following periods:

| | <u>2013</u> | <u>2012</u> |
|-------------------------------------|-------------------|------------------|
| In one year or less | \$ 50,386 | \$ 30,297 |
| Between one year and five years | <u>102,297</u> | <u>67,839</u> |
| | 152,683 | 98,136 |
| Less: | | |
| Allowance for uncollectible pledges | (20,460) | (9,706) |
| Net present value discount, at 3% | <u>(5,057)</u> | <u>(2,473)</u> |
| | <u>\$ 127,166</u> | <u>\$ 85,957</u> |

Note 10 - Temporarily Restricted Net assets

Temporarily restricted net assets of \$147,166 at December 31, 2013 consisted of \$127,166 in pledges receivable with time related restrictions, and \$20,000 in funds received to be used for the Organization's youth programs. Temporarily restricted net assets at December 31, 2012 was \$100,957 and consisted of \$85,957 in pledges receivable with time related restrictions, and \$15,000 in funding for the Organization's international programs.

Note 11 - Note Payable

In December 2006 the Organization entered into a long-term note payable agreement with an individual supporter in the original amount of \$100,000, for funds to be used for working capital and construction projects. The loan requires interest only payments at 3% per annum, payable monthly. The loan, as amended, has a maturity of December 12, 2016. Outstanding balance at December 31, 2013 was \$30,000.

Note 12 - Additional Disclosure of Cash Flows Information

Cash paid for interest amounted to \$992 and \$1,825 for the years ended December 31, 2013 and 2012, respectively.

Note 13 - Related Party Transactions

During 2013, a former board member became an employee of the Organization and was paid wages totaling \$29,217. Also, a former employee of the Organization became a board member in 2013. Total compensation received during 2013 while an employee was \$9,277.

BIKES NOT BOMBS, INC.

Notes to Financial Statements

For the Year Ended December 31, 2013

(with summarized comparative totals for the year ended December 31, 2012)

Note 14 - Leases Commitments

The Organization leases offices and facilities space under operating leases expiring at various dates through 2016, including:

- Program and office space: expiring April 2016, monthly payments of \$2,506 with 2% increase each May.
- Bike shop: expiring October 2014, monthly payments of \$2,907
- Storage: expiring December 2014, monthly payments of \$801

Future minimum lease payments under non-cancellable operating lease obligations for the next five years are as follows:

| Year ending December 31, | |
|--------------------------|-----------|
| 2014 | \$ 40,576 |
| 2015 | 41,436 |
| 2016 | 20,624 |

Note 15 – Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the current year presentation.

Note 16 - Subsequent Events

Subsequent events have been evaluated through April 30, 2014, which is the date the financial statements were available to be issued.