

CHILDREN OF FALLEN PATRIOTS FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2016

CHILDREN OF FALLEN PATRIOTS FOUNDATION

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DECEMBER 31, 2016**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Children of Fallen Patriots Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Children of Fallen Patriots Foundation, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Children of Fallen Patriots Foundation as of December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Berdon YP

Certified Public Accountants

Jericho, New York
November 13, 2017

CHILDREN OF FALLEN PATRIOTS FOUNDATION

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS

Cash (including temporarily restricted cash of \$1,767,082)	\$ 4,168,917
Pledges receivable	1,104,074
Prepaid expenses	<u>51,443</u>
TOTAL ASSETS	<u>\$ 5,324,434</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Scholarships payable (net of discount of \$122,670)	\$ 1,644,412
Accounts payable and accrued expenses	<u>139,448</u>
TOTAL LIABILITIES	<u>1,783,860</u>

COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Unrestricted	1,773,492
Temporarily restricted	<u>1,767,082</u>
TOTAL NET ASSETS	<u>3,540,574</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,324,434</u>

The accompanying notes to financial statements are an integral part of this statement.

CHILDREN OF FALLEN PATRIOTS FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE:			
Special events (less, direct benefit to donors of \$338,943)	\$ 2,887,177	\$ -	\$ 2,887,177
Contributions	1,428,931	-	1,428,931
Grants	156,808	843,192	1,000,000
Interest income	<u>2,304</u>	<u>-</u>	<u>2,304</u>
TOTAL SUPPORT AND REVENUE	<u>4,475,220</u>	<u>843,192</u>	<u>5,318,412</u>
EXPENSES:			
Program services	3,245,904	-	3,245,904
Management and general	499,160	-	499,160
Fund-raising expenses	361,493	-	361,493
Loss on disposal of fixed assets	<u>11,975</u>	<u>-</u>	<u>11,975</u>
TOTAL EXPENSES	<u>4,118,532</u>	<u>-</u>	<u>4,118,532</u>
CHANGE IN NET ASSETS	356,688	843,192	1,199,880
NET ASSETS - BEGINNING OF YEAR	879,318	1,461,376	2,340,694
RELEASE OF TEMPORARILY RESTRICTED NET ASSETS	<u>537,486</u>	<u>(537,486)</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 1,773,492</u>	<u>\$ 1,767,082</u>	<u>\$ 3,540,574</u>

The accompanying notes to financial statements are an integral part of this statement.

CHILDREN OF FALLEN PATRIOTS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>TOTAL</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUND- RAISING</u>
Tuition	\$ 2,277,164	\$ 2,277,164	\$ -	\$ -
Payroll and related	900,149	518,083	253,308	128,758
Consulting	177,310	44,719	96,775	35,816
Other special event expenses	98,885	29,702	-	69,183
Other educational services	124,990	124,990	-	-
Advertising and promotion	300	300	-	-
Fund-raising expense	44,723	19,891	2,428	22,404
Travel	82,752	29,363	39,443	13,946
Merchant processing fees	51,981	-	14,734	37,247
Legal fees	37,146	37,146	-	-
Audit fees	25,335	11,349	8,990	4,996
Books	22,515	22,515	-	-
Computer consulting	9,839	4,819	1,225	3,795
Rent	119,468	68,696	33,499	17,273
Transportation	4,867	4,867	-	-
Annual filing fees	15,768	7,027	5,228	3,513
Accounting	25,910	11,606	9,194	5,110
Telephone and Internet	4,167	765	2,872	530
Supplies	7,998	5,440	1,814	744
Software	23,216	8,110	11,594	3,512
Postage	11,498	2,591	6,677	2,230
Depreciation	373	170	95	108
Office	1,923	628	1,060	235
Printing	15,064	8,507	539	6,018
Utilities	430	94	300	36
Insurance	3,941	2,018	712	1,211
Maintenance	320	166	90	64
Licenses and permits	2,049	-	2,049	-
Bank fees	6,832	-	3,447	3,385
Miscellaneous	6,573	3,642	1,576	1,355
Office equipment	3,071	1,536	1,511	24
	<u>\$ 4,106,557</u>	<u>\$ 3,245,904</u>	<u>\$ 499,160</u>	<u>\$ 361,493</u>

The accompanying notes to financial statements are an integral part of this statement.

CHILDREN OF FALLEN PATRIOTS FOUNDATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 1,199,880
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	373
Loss on disposal of assets	11,975
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Contributions receivable	738,325
Pledges receivable	(994,074)
Prepaid expenses	(51,443)
Increase (decrease) in:	
Scholarships payable	371,670
Accounts payable	<u>(158,520)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>1,118,186</u>
NET INCREASE IN CASH	1,118,186
CASH - BEGINNING OF YEAR	<u>3,050,731</u>
CASH - END OF YEAR	<u>\$ 4,168,917</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING ACTIVITIES:	
Donated legal fees	<u>\$ 37,146</u>

The accompanying notes to financial statements are an integral part of this statement.

CHILDREN OF FALLEN PATRIOTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND PURPOSE

Children of Fallen Patriots Foundation (the "Foundation") is a not-for-profit organization which was incorporated under the laws of the State of Delaware on August 1, 2002. The Foundation was formed for the purpose of providing college scholarships and educational counseling to the children of military personnel who are killed in the line of duty.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Financial Statements

The accompanying financial statements of the Foundation have been prepared on the accrual basis of accounting. Net assets and activities of the Foundation are classified into three categories consisting of unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions. The Foundation has not received any contributions with donor-imposed restrictions that would result in permanently restricted net assets.

(b) Support

Contributions and grants received are measured at their fair values on the dates of donation. Unless explicit donor stipulations specify how the donated assets must be used, contributions are reported as increases in unrestricted net assets.

If explicit donor stipulations are met in the same year as when the restricted contributions or grants are received, they are reported as unrestricted support in the year received. Generally, services provided to the Foundation by board members and their affiliates, for management and general functions, are not reflected in the accompanying financial statements.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals who possess those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received.

Pledges receivable represent tickets for fund-raising events and other promised donations which remain unpaid at year-end. The Foundation believes that all pledges receivable at December 31, 2016, which are scheduled to be collected during 2017, will be fully collected. Accordingly, no allowance for doubtful accounts is required.

Grants revenue represent monies awarded to and received by the Foundation for the purposes of providing scholarships to recipients over a period of up to four years. This grant is temporarily restricted to the extent that the scholarships have been provided to recipients. The Foundation has set up a scholarship payable to provide these scholarships, which will release the restrictions at the time of payment (Notes 5 and 6).

(continued)

CHILDREN OF FALLEN PATRIOTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Income Taxes

The Foundation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, and is classified as a publicly supported organization, which allows for the maximum charitable contribution deduction by donors.

Accounting principles generally accepted in the United States of America ("GAAP") require management to evaluate tax positions taken by the Foundation and recognize a tax liability or asset if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of December 31, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or asset, or disclosure in the financial statements.

The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

(d) Fixed Assets

Computer software, and furniture and fixtures are recorded at cost. Depreciation on computer software, and furniture and fixtures is provided on the straight-line method over the estimated useful lives of the assets. Depreciation for the year ended December 31, 2016 is \$373.

On retirement of property, the respective property accounts are reduced by the cost of the property retired and the accumulated depreciation thereon is eliminated, and the resulting losses are credited or charged to operations.

(e) Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies, if any, at the date of the financial statements, and revenue and expenses during the reporting period. Actual results could differ from those estimates.

(f) Subsequent Events

The Foundation has evaluated subsequent events after December 31, 2016 through November 13, 2017, the date that the financial statements were available to be issued.

NOTE 3 - RISKS AND UNCERTAINTIES

At various times throughout the year, the Foundation had amounts on deposit in banks in excess of the Federal Deposit Insurance Corporation insurance limits. The Foundation has not experienced any losses in such accounts, and the board of directors believes it is not exposed to any significant credit risk.

CHILDREN OF FALLEN PATRIOTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - RELATED PARTY TRANSACTIONS

For the year ended December 31, 2016, contributions include \$666,000 donated to the Foundation by members of the board of directors. This amount is in excess of management and general expenses.

In November 2013, one of the directors made a pledge to the Foundation in the amount of \$350,000, which was to be paid over five years. No restrictions were placed on the pledge by the director. The pledge receivable was fully collected in 2016.

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Assets received relating to a grant for scholarship awards have been restricted in use by the donor, to be payable to recipients for up to four years (Notes 2(b) and 6).

NOTE 6 - SCHOLARSHIPS PAYABLE

Scholarships payable consist of amounts awarded, but not paid, to scholarship recipients. These scholarships were provided through a grant from the Johnny Mac Soldiers Fund, Inc. (Notes 2(b)). The grant provided is restricted in use, and may only be used to pay these scholarships approved by the Johnny Mac Soldiers Fund, Inc and the Foundation's board of directors. Scholarship amounts are payable in installments of \$6,250 a year for up to four years. Scholarships payable are due as follows:

2017	\$	953,967
2018		543,081
2019		186,076
2020		<u>83,958</u>
		1,767,082
Less, discounts on scholarships payable		<u>122,670</u>
	\$	<u>1,644,412</u>

Scholarships payable are discounted at a rate of 1.8% at December 31, 2016.

NOTE 7 - LEASE OBLIGATIONS

The Foundation entered into an operating lease agreement with Third & Third for the rental of office space on February 15, 2013 for a term of two years. Premises in the Third & Third building are rented to various tenants under operating leases, which generally provide for fixed minimum annual rentals, electricity inclusions and additional annual rentals based on increases in real estate taxes, and defined operating expenses. Rent expense incurred was \$2,250 for the year ended December 31, 2016. After expiration of the term, the lease allows for a month-to-month agreement at 150% of the monthly rate stated in the operating lease agreement. This lease expired on February 28, 2015. However, the Foundation was still utilizing this space on a month-to-month basis through February 29, 2016.

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CHILDREN OF FALLEN PATRIOTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - LEASE OBLIGATIONS (Continued)

On December 30, 2015, the Foundation entered into an operating lease agreement with PBC Reston, LLC for the rental of office spaces for its administrative headquarters in Reston, Virginia, effective March 1, 2016 through February 28, 2020. Premises in the PBC Reston building are rented to various tenants under operating leases, which generally provide for fixed minimum annual rentals, electricity inclusions, and additional annual rentals based on increases in real estate taxes and defined operating expenses. Rent expense incurred was \$111,700 for the year ended December 31, 2016.

On July 2, 2016, the Foundation entered into an operating lease agreement with Cosmo Land Development, LLC for the rental of additional office space in Jacksonville Beach, Florida, effective July 1, 2016 through March 31, 2018. Rent expense incurred was \$4,000 for the year ended December 31, 2016.

The following represent future lease obligations as of December 31st:

2017	\$ 143,190
2018	136,440
2019	134,040
2020	<u>22,340</u>
	<u>\$ 436,010</u>

NOTE 8 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs, fund-raising, and other activities have been summarized on a functional basis in the schedule of functional expenses. Accordingly, certain costs have been allocated by management, based primarily upon estimated usage and other measurement methodologies, among the program and fund-raising activities benefited. Management and general expenses include those expenses that are not directly identifiable with any other function but provide for the overall support and direction of the Foundation.

NOTE 9 - DONATED PROFESSIONAL SERVICES

Legal services in the amount of \$37,146 are provided pro bono to the Foundation and recorded as contribution income, and management and general expense to the Foundation.