

CHILDREN OF FALLEN PATRIOTS FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2014

CHILDREN OF FALLEN PATRIOTS FOUNDATION

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DECEMBER 31, 2014

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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, 2014, 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, 2014, 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.

Berden YYP

Certified Public Accountants

Jericho, New York
November 11, 2015

CHILDREN OF FALLEN PATRIOTS FOUNDATION

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

ASSETS

Cash	\$ 1,388,835
Contributions receivable	106,462
Pledge receivable	210,000
Computer software (net of accumulated depreciation of \$6,858)	<u>16,892</u>
TOTAL ASSETS	<u>\$ 1,722,189</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Accounts payable and accrued expenses	<u>\$ 67,255</u>
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COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Unrestricted	1,444,934
Temporarily restricted	<u>210,000</u>
TOTAL NET ASSETS	<u>1,654,934</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,722,189</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, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE:			
Special events (less, direct benefit to donors of \$153,209)	\$ 2,358,820	\$ -	\$ 2,358,820
Contributions	985,499	-	985,499
Interest income	343	-	343
	<u>3,344,662</u>	<u>-</u>	<u>3,344,662</u>
TOTAL SUPPORT AND REVENUE			
EXPENSES:			
Program services	2,022,253	-	2,022,253
Management and general	412,661	-	412,661
Fund-raising expenses	672,011	-	672,011
Uncollectible contributions	10,944	-	10,944
	<u>3,117,869</u>	<u>-</u>	<u>3,117,869</u>
TOTAL EXPENSES			
CHANGE IN NET ASSETS	226,793	-	226,793
NET ASSETS - BEGINNING OF YEAR	1,148,141	280,000	1,428,141
RELEASE OF TEMPORARILY RESTRICTED NET ASSETS	<u>70,000</u>	<u>(70,000)</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 1,444,934</u>	<u>\$ 210,000</u>	<u>\$ 1,654,934</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, 2014

	<u>TOTAL</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUND- RAISING</u>
Tuition	\$ 818,725	\$ 818,725	\$ -	\$ -
Payroll and related	520,728	238,746	129,237	152,745
Consulting	399,898	132,629	108,428	158,841
Other educational services	238,888	238,888	-	-
Advertising and promotion	225,021	224,841	-	180
Other special event expenses	172,595	39,467	1,461	131,667
Fund-raising expense	123,211	8,822	6,795	107,594
Accounting	111,171	58,891	44,359	7,921
Travel	82,404	46,135	6,157	30,112
Professional fees	79,339	50,000	-	29,339
Transportation	71,481	68,982	2,464	35
Legal fees	62,438	31,219	31,219	-
Books	36,483	36,483	-	-
Rent	25,650	4,453	15,226	5,971
Computer consulting	23,150	801	4,954	17,395
Annual filing fees	16,418	-	16,418	-
Merchant processing fees	11,081	-	250	10,831
Office	10,878	1,325	9,469	84
Printing	10,344	1,867	3,692	4,785
Audit fees	10,308	-	10,308	-
Supplies	10,027	2,146	6,489	1,392
Postage	8,256	1,510	2,279	4,467
Telephone and Internet	8,028	2,416	2,598	3,014
Software	7,051	3,721	1,746	1,584
Miscellaneous	6,427	5,570	657	200
Depreciation	4,395	1,950	1,144	1,301
Utilities	3,450	1,008	1,073	1,369
Insurance	2,695	786	1,818	91
Licenses and permits	2,164	84	2,080	-
Maintenance	1,424	374	549	501
Equipment rental	1,332	391	416	525
Bank fees	715	12	650	53
Office equipment	568	11	543	14
Brokerage fees	182	-	182	-
	<u>\$ 3,106,925</u>	<u>\$ 2,022,253</u>	<u>\$ 412,661</u>	<u>\$ 672,011</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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 226,793
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	4,395
Uncollectible contributions	10,944
Changes in assets and liabilities:	
Decrease in contributions receivable	73,336
Decrease in pledge receivable	70,000
(Decrease) in accounts payable	<u>(78,738)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>306,730</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment	<u>(5,465)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(5,465)</u>
NET INCREASE IN CASH	301,265
CASH - BEGINNING OF YEAR	<u>1,087,570</u>
CASH - END OF YEAR	<u>\$ 1,388,835</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING ACTIVITIES:	
Donated airtime for public service announcements	\$ 224,841
Donated legal fees	<u>62,438</u>
	<u>\$ 287,279</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 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 are received, contributions 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.

Contributions receivable represent tickets for fund-raising events and other promised donations which remain unpaid at year-end. Pledge receivable represents the balance of an unconditional promise to give from a board member at December 31, 2014.

(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.

(continued)

CHILDREN OF FALLEN PATRIOTS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014 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. Management believes it is no longer subject to income tax examinations for years prior to 2011.

(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, 2014 is \$4,388.

(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, 2014 through November 11, 2015, 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 on deposit in banks amounts 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.

NOTE 4 - RELATED PARTY TRANSACTIONS

For the year ended December 31, 2014, contributions include \$850,242 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 will be paid evenly over five years. No restrictions were placed on the pledge by the director. The first payment was made in December 2013, with another payment made in 2014. The remaining pledge receivable in the amount of \$210,000 is included on the statement of financial position.

CHILDREN OF FALLEN PATRIOTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - TEMPORARILY RESTRICTED NET ASSETS

Assets received relating to the pledge receivable from one of the directors (Note 4) are considered to be temporarily restricted until the pledge is collected. The pledge is expected to be fully collected in 2017.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment - net consist of the following at December 31, 2014:

Furniture and fixtures	\$ 20,015
Computer software	<u>3,735</u>
	23,750
Less, accumulated depreciation	<u>6,858</u>
	<u>\$ 16,892</u>

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. Beginning March 1, 2013, future minimum rent required to be paid under the noncancelable portions of the aforementioned leases, in 2015, is \$4,200. 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 may be cancelled by either party at any time.

Rent expense incurred was \$25,200 for the year ended December 31, 2014.

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.

NOTE 9 - DONATED PROFESSIONAL SERVICES

The Foundation received donated professional services for airtime for public service announcements which was used to promote involvement with the Foundation. The fair value of the contributed airtime, which was \$224,841, is recognized as contribution income and program service expense in the statement of activities and changes in net assets.

In addition, legal services are provided to the Foundation, pro bono, and are recorded as contribution income, and management and general expense to the Foundation in the amount of \$62,438.