

CHILDREN OF FALLEN PATRIOTS FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2015

CHILDREN OF FALLEN PATRIOTS FOUNDATION

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DECEMBER 31, 2015**

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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, 2015, 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, 2015, 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.

Bendon YYP

Certified Public Accountants

Jericho, New York
November 1, 2016

CHILDREN OF FALLEN PATRIOTS FOUNDATION

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015

ASSETS

Cash (including temporarily restricted cash of \$1,351,376)	\$ 3,050,731
Contributions receivable	738,325
Pledge receivable	110,000
Computer software (net of accumulated depreciation of \$11,402)	<u>12,348</u>
TOTAL ASSETS	<u>\$ 3,911,404</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Scholarships payable (net of discount of \$78,634)	\$ 1,272,742
Accounts payable and accrued expenses	<u>297,968</u>
TOTAL LIABILITIES	<u>1,570,710</u>

COMMITMENTS AND CONTINGENCIES

NET ASSETS:

Unrestricted	879,318
Temporarily restricted	<u>1,461,376</u>
TOTAL NET ASSETS	<u>2,340,694</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,911,404</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, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE:			
Special events (less, direct benefit to donors of \$280,954)	\$ 1,775,112	\$ -	\$ 1,775,112
Contributions	1,567,103	-	1,567,103
Grants	98,624	1,351,376	1,450,000
Interest income	<u>772</u>	<u>-</u>	<u>772</u>
TOTAL SUPPORT AND REVENUE	<u>3,441,611</u>	<u>1,351,376</u>	<u>4,792,987</u>
EXPENSES:			
Program services	2,907,688	-	2,907,688
Management and general	470,507	-	470,507
Fund-raising expenses	<u>729,032</u>	<u>-</u>	<u>729,032</u>
TOTAL EXPENSES	<u>4,107,227</u>	<u>-</u>	<u>4,107,227</u>
CHANGE IN NET ASSETS	(665,616)	1,351,376	685,760
NET ASSETS - BEGINNING OF YEAR	1,444,934	210,000	1,654,934
RELEASE OF TEMPORARILY RESTRICTED NET ASSETS	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>
NET ASSETS - END OF YEAR	<u>\$ 879,318</u>	<u>\$ 1,461,376</u>	<u>\$ 2,340,694</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, 2015

	<u>TOTAL</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUND- RAISING</u>
Tuition	\$ 2,141,236	\$ 2,141,236	\$ -	\$ -
Payroll and related	668,778	316,794	185,252	166,732
Consulting	356,354	79,314	121,703	155,337
Other special event expenses	221,884	41,805	-	180,079
Other educational services	150,869	150,869	-	-
Fund-raising expense	106,653	38,350	-	68,303
Travel	70,436	33,685	11,237	25,514
Merchant processing fees	70,221	-	50	70,171
Legal fees	57,765	-	57,765	-
Audit fees	39,338	-	39,338	-
Books	36,962	36,962	-	-
Computer consulting	27,717	5,498	295	21,924
Rent	26,964	5,597	19,214	2,153
Professional fees	22,241	-	-	22,241
Transportation	19,422	19,422	-	-
Annual filing fees	17,683	6,218	9,117	2,348
Accounting	14,061	5,964	4,723	3,374
Telephone and Internet	9,043	4,437	2,827	1,779
Supplies	6,909	2,352	3,238	1,319
Software	6,255	1,534	3,889	832
Postage	6,254	3,932	1,271	1,051
Depreciation	4,544	2,068	1,155	1,321
Office	4,201	1,259	1,364	1,578
Printing	3,748	1,705	992	1,051
Utilities	3,648	1,585	1,453	610
Photography expense	3,500	3,500	-	-
Insurance	3,386	1,238	1,949	199
Maintenance	2,274	1,046	825	403
Licenses and permits	2,000	-	2,000	-
Equipment rental	1,797	893	561	343
Bank fees	447	125	183	139
Miscellaneous	417	145	41	231
Office equipment	220	155	65	-
	<u>\$ 4,107,227</u>	<u>\$ 2,907,688</u>	<u>\$ 470,507</u>	<u>\$ 729,032</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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 685,760
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	4,544
Changes in assets and liabilities:	
(Increase) in contributions receivable	(631,863)
Decrease in pledge receivable	100,000
Increase in scholarship payable	1,272,742
Increase in accounts payable	<u>230,713</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES 1,661,896

NET INCREASE IN CASH 1,661,896

CASH - BEGINNING OF YEAR 1,388,835

CASH - END OF YEAR \$ 3,050,731

SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING ACTIVITIES:

Donated legal fees	<u>\$ 57,765</u>
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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.

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, 2015.

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 7).

(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, 2015 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 2012.

(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, 2015 is \$4,544.

(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, 2015 through November 1, 2016, 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, 2015, contributions include \$535,734 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 over five years. No restrictions were placed on the pledge by the director. Payments of \$70,000 were made in 2013 and 2014. A payment of \$100,000 was made on this pledge in 2015. The remaining pledge receivable in the amount of \$110,000 is included on the statement of financial position (Note 5).

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.

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 7).

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment - net consists of the following at December 31, 2015:

Furniture and fixtures	\$ 20,015
Computer software	<u>3,735</u>
	23,750
Less, accumulated depreciation	<u>11,402</u>
	<u>\$ 12,348</u>

CHILDREN OF FALLEN PATRIOTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - 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 (Note 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:

2016	\$ 607,626
2017	406,250
2018	<u>337,500</u>
	1,351,376
Less, discounts on scholarships payable	<u>78,634</u>
	<u>\$ 1,272,742</u>

Scholarships payable are discounted at a rate of 2% at December 31, 2015.

NOTE 8 - 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 \$26,850 for the year ended December 31, 2015. 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 February 28, 2015, however the Foundation is still utilizing this space on a month-to-month basis.

On December 30, 2015, the Foundation entered into an operating lease agreement with PBC Reston, LLC for the rental of office space for a term of four years, effective March 1, 2016 for its administrative headquarters. The following represent future lease obligations as of December 31st:

2016	\$ 117,400
2017	134,040
2018	134,040
2019	134,040
2020	<u>22,340</u>
	<u>\$ 541,860</u>

CHILDREN OF FALLEN PATRIOTS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - 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 10 - DONATED PROFESSIONAL SERVICES

Legal services are provided pro bono to the Foundation and are recorded as contribution income, and management and general expense to the Foundation in the amount of \$57,765.