

Children of Fallen Patriots Foundation

Financial Statements
and Independent Auditors' Report

December 31, 2017

Children of Fallen Patriots Foundation

Financial Statements
December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Children of Fallen Patriots Foundation

We have audited the accompanying financial statements of Children of Fallen Patriots Foundation ("the Foundation"), which comprise the statement of financial position as of December 31, 2017; the related statements of activities, 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 controls 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

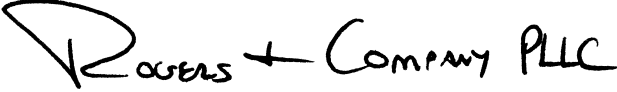
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the Foundation as of December 31, 2017, 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.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The "R" is large and stylized, with a loop that extends upwards and then down to the left. The rest of the text is written in a cursive, handwritten style.

Vienna, Virginia
April 6, 2018

Children of Fallen Patriots Foundation

Statement of Financial Position December 31, 2017

Assets	
Cash and cash equivalents	\$ 6,683,816
Pledges receivable	4,158,607
Prepaid expenses	<u>28,590</u>
Total assets	<u><u>\$ 10,871,013</u></u>
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	\$ 51,553
Scholarships payable, net	<u>818,835</u>
Total liabilities	<u>870,388</u>
Net Assets	
Unrestricted	5,009,426
Temporarily restricted	<u>4,991,199</u>
Total net assets	<u>10,000,625</u>
Total liabilities and net assets	<u><u>\$ 10,871,013</u></u>

Children of Fallen Patriots Foundation

Statement of Activities For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants and contributions	\$ 3,423,209	\$ 6,756,000	\$ 10,179,209
Interest income	2,404	-	2,404
Special events – gross receipts	2,417,551	-	2,417,551
Less: cost of direct benefits to donors	(232,484)	-	(232,484)
Net special events revenue	2,185,067	-	2,185,067
Released from restrictions	3,531,883	(3,531,883)	-
Total revenue and support	9,142,563	3,224,117	12,366,680
Expenses			
Program services	4,938,382	-	4,938,382
Supporting services:			
Management and general	351,599	-	351,599
Fundraising	616,648	-	616,648
Total supporting services	968,247	-	968,247
Total expenses	5,906,629	-	5,906,629
Change in Net Assets	3,235,934	3,224,117	6,460,051
Net Assets, beginning of year	1,773,492	1,767,082	3,540,574
Net Assets, end of year	\$ 5,009,426	\$ 4,991,199	\$ 10,000,625

See accompanying notes.

Children of Fallen Patriots Foundation

Statement of Functional Expenses For the Year Ended December 31, 2017

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Tuition	\$ 4,024,552	\$ -	\$ -	\$ 4,024,552
Payroll and related	555,752	234,475	232,058	1,022,285
Rent	92,378	29,194	28,426	149,998
Travel	30,421	19,399	95,164	144,984
Advertising and promotion	80,718	416	62,093	143,227
Other special event expenses	40,000	-	72,417	112,417
Merchant processing fees	-	415	65,284	65,699
Consulting	23,320	13,823	18,259	55,402
Legal fees	44,886	-	-	44,886
Accounting	8,511	13,124	8,511	30,146
Software	13,187	2,859	4,038	20,084
Miscellaneous	4,416	2,496	10,799	17,711
Online and social awareness	9,500	-	7,000	16,500
Supplies	580	9,160	1,539	11,279
Postage	3,712	1,339	5,719	10,770
Annual filing fee	-	8,948	400	9,348
Printing	3,184	900	3,128	7,212
Office equipment	-	5,162	318	5,480
Insurance	2,283	1,086	1,025	4,394
Telephone and internet	982	2,732	32	3,746
Bank fees	-	3,237	438	3,675
Licenses and permits	-	2,834	-	2,834
Total Expenses	\$ 4,938,382	\$ 351,599	\$ 616,648	\$ 5,906,629

Children of Fallen Patriots Foundation

Statement of Cash Flows For the Year Ended December 31, 2017

Cash Flows from Operating Activities	
Change in net assets	\$ 6,460,051
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Change in discount on scholarships payable	(105,347)
Change in operating assets and liabilities:	
(Increase) decrease in:	
Pledges receivable	(3,054,533)
Prepaid expenses	22,853
Decrease in:	
Accounts payable and accrued expenses	(87,895)
Scholarships payable	(720,230)
	<hr/>
Net cash provided by operating activities	2,514,899
	<hr/>
Net Increase in Cash and Cash Equivalents	2,514,899
Cash and Cash Equivalents, beginning of year	<hr/>
	4,168,917
	<hr/>
Cash and Cash Equivalents, end of year	<u><u>\$ 6,683,816</u></u>

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2017

1. Nature of Operations

Children of Fallen Patriots Foundation (“the Foundation”) is a not-for-profit organization that 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.

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The Foundation’s financial statements are prepared on the accrual basis of accounting. Net assets are reported based on the presence or absence of donor-imposed restrictions.

Classification of Net Assets

- *Unrestricted net assets* represent funds that are not subject to donor-imposed stipulations and are available for support of the Foundation’s operations.
- *Temporarily restricted net assets* represent funds subject to donor-imposed restrictions that are met either by actions of the Foundation or by the passage of time.

Cash Equivalents

For the purpose of the statement of cash flows, the Foundation considers as cash equivalents all highly liquid investments, which can be converted into known amounts of cash and have a maturity period of ninety days or less at the time of purchase.

Pledges Receivable

Pledges receivable represent unconditional promises to give and are recorded at net realizable value. The Foundation provides an allowance for doubtful accounts using the allowance method, which is based on management’s judgment considering historical information. Accounts are individually analyzed for collectability and will be reserved based on individual evaluation and specific circumstances. When all collection efforts have been exhausted, the accounts are written-off against the related allowance. At December 31, 2017, there was no established allowance as management deems the pledges to be fully collectible. No discount has been calculated as of December 31, 2017, as all pledges are expected to be collected within one year.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies (continued)

Scholarships Payable

Scholarships payable represents the Foundation's commitments made to qualified recipients. These scholarships were provided through a grant from the Johnny Mac Soldiers Fund, Inc. Scholarships payable and the corresponding expenses are recognized at the net present value of the commitment when the commitment is formally approved by the Board of Directors. The net present value is based on the recipient's age and discount rate and is adjusted annually to reflect changes in various factors, most notably the recipient's age.

Revenue Recognition

Grants and contributions, including unconditional promises to give, are recognized at fair value in the period received. All grants and contributions are considered to be available for unrestricted use unless specifically restricted by the donor. The Foundation reports grants and contributions as temporarily restricted support if they are received with donor or grantor 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. However, restrictions met in the same accounting period in which the related contribution was received are treated as unrestricted.

The Foundation holds special events throughout the year as fundraising events. The gross revenues and expenses, including direct benefits to donors, from these events are presented in the statement of activities. Revenues are recognized when the donations are received or pledged.

Revenue from all other sources is recognized when earned.

Donated Services

Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills and 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.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2017

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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 accompanying notes. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*. The update requires a lessee to recognize a right-of-use asset and lease liability, initially measured at the present value of the lease payments, in its statement of financial position. The guidance also expands the required quantitative and qualitative lease disclosures. The guidance is effective beginning in 2020.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The update changes the manner by which nonprofit organizations classify net assets as well as improves information presented in financial statements and notes about nonprofit organization liquidity, financial performance, and cash flows. The guidance is effective beginning in 2018.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 6, 2018, the date the financial statements were available to be issued.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2017

3. Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist of cash and cash equivalents. The Foundation maintains cash deposit and transaction accounts with a financial institution and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC). The Foundation has not experienced any credit losses on its cash and cash equivalents to date as it relates to FDIC insurance limits. Management periodically assesses the financial condition of the financial institution and believes that the risk of any credit loss is minimal.

4. Scholarships Payable

Scholarships payable are due as follows for the years ending December 31:

2018	\$	479,908
2019		281,250
2020		75,000
2021		-
2022		-
		<hr/>
Total scholarships payable		836,158
Less: discount to present value (1.8%)		<u>(17,323)</u>
Scholarships payable, net	\$	<u><u>818,835</u></u>

5. Related Party Transactions

For the year ended December 31, 2017, contributions include \$803,050 donated by members of the Board of Directors. Board donations covered approximately 83% of management and general, and fundraising expenses in 2017.

6. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017, are restricted for the purpose of providing college scholarships to the children of military personnel who were killed in the line of duty.

Children of Fallen Patriots Foundation

Notes to Financial Statements
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7. Commitments – Operating Lease

On December 30, 2015, the Foundation entered into an operating lease agreement with PBC Reston, LLC for the rental of office space for its administrative headquarters in Reston, Virginia, effective March 1, 2016 and set to expire on February 28, 2020. Premises in the PBC Reston, LLC 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. The terms of the lease call for base rentals of \$11,170, payable monthly, with no annual escalations.

In addition, 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, which went into effect on July 1, 2016 and expired on March 31, 2018. After March 31, 2018 the Foundation exercised the option to continue renting the space on a month-to-month basis. The lease calls for monthly rental payments of \$750, which includes a proportionate share of property taxes, CAM fees, and other fees.

The following represents future lease obligations for the years ending December 31:

2018	\$	136,440
2019		134,040
2020		<u>22,340</u>
Total future minimum lease payments	\$	<u><u>292,820</u></u>

Rent expense for both leases for the year ended December 31, 2017 totaled \$149,998.

8. In-Kind Contributions

Legal services in the amount of \$44,886 were provided pro bono to the Foundation during the year ended December 31, 2017 and were recorded as contribution income and program expenses.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2017

9. Retirement Plan

403(b) Plan

During 2017, the Foundation established a tax-deferred annuity plan that meets the requirements of Section 403(b) of the Internal Revenue Code (IRC). All employees who work more than 20 hours per week may contribute to the plan, up to applicable limits set by law (\$18,000 for calendar year 2017). At the completion of twelve months of service, employees become eligible for matching and nonelective employer contributions. These employer contributions are 100% vested after 3 years of service. For the year ended December 31, 2017, the Foundation did not have any contributions to the plan.

10. Income Taxes

The Foundation is exempt from payment of taxes on income other than net unrelated business income under IRC Section 501(c)(3). For the year ended December 31, 2017, there was no unrelated business income and, accordingly, no federal or state income taxes have been recorded. Contributions to the Foundation are deductible as provided in IRC Section 170(b)(1)(A)(vi). Management has evaluated the Foundation's tax positions and concluded that the financial statements do not include any uncertain tax positions.