

Children of Fallen Patriots Foundation

Financial Statements
and Independent Auditors' Report

December 31, 2021

Children of Fallen Patriots Foundation

Financial Statements
December 31, 2021

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Children of Fallen Patriots Foundation

Opinion

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, 2021; the related statements of activities, functional expenses, and cash flows for the year then ended; and the related notes to the financial statements.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Responsibilities of Management for the Financial Statements (continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Handwritten signature in black ink that reads "Rogers + Company PLLC". The signature is written in a cursive, slightly stylized font.

Vienna, Virginia
March 31, 2022

Children of Fallen Patriots Foundation

Statement of Financial Position December 31, 2021

Assets

Cash and cash equivalents	\$ 17,106,734
Investments	194,059
Grants and contributions receivable	1,698,498
Prepaid expenses and other assets	<u>206,934</u>

Total assets \$ 19,206,225

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	<u>\$ 197,066</u>
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Total liabilities 197,066

Net Assets

Without donor restrictions	12,396,572
With donor restrictions	<u>6,612,587</u>

Total net assets 19,009,159

Total liabilities and net assets \$ 19,206,225

Children of Fallen Patriots Foundation

Statement of Activities For the Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grants and contributions	\$ 6,934,877	\$ 402,314	\$ 7,337,191
Contributions and revenue from special events, net:			
Contributions	2,853,277	-	2,853,277
Special event revenue	573,805	-	573,805
Less: cost of direct benefit to donors	<u>(271,330)</u>	<u>-</u>	<u>(271,330)</u>
Total contributions and revenue from special events, net	3,155,752	-	3,155,752
Grant – Paycheck Protection Program	305,100	-	305,100
In-kind contributions	463,381	-	463,381
Investment return, net	4,776	-	4,776
Released from restrictions	<u>2,539,706</u>	<u>(2,539,706)</u>	<u>-</u>
Total revenue and support	<u>13,403,592</u>	<u>(2,137,392)</u>	<u>11,266,200</u>
Expenses			
Program services	8,229,477	-	8,229,477
Supporting services:			
Management and general	577,235	-	577,235
Fundraising	<u>1,270,950</u>	<u>-</u>	<u>1,270,950</u>
Total supporting services	<u>1,848,185</u>	<u>-</u>	<u>1,848,185</u>
Total expenses	<u>10,077,662</u>	<u>-</u>	<u>10,077,662</u>
Change in Net Assets	3,325,930	(2,137,392)	1,188,538
Net Assets, beginning of year	<u>9,070,642</u>	<u>8,749,979</u>	<u>17,820,621</u>
Net Assets, end of year	<u>\$ 12,396,572</u>	<u>\$ 6,612,587</u>	<u>\$ 19,009,159</u>

See accompanying notes.

Children of Fallen Patriots Foundation

Statement of Functional Expenses For the Year Ended December 31, 2021

	Supporting Services				Total Expenses
	Program Services	Management and General	Fundraising	Total Supporting Services	
Grants to students	\$ 6,446,661	\$ -	\$ -	\$ -	\$ 6,446,661
Payroll and related	1,161,760	437,799	696,571	1,134,370	2,296,130
Contract services fees	18,522	26,074	58,920	84,994	103,516
Rent	128,507	27,929	31,370	59,299	187,806
Travel and meeting	46,696	284	52,007	52,291	98,987
Advertising and promotion	361,170	6,544	58,292	64,836	426,006
Computer and software	32,185	32,390	74,729	107,119	139,304
Merchant processing fees	-	-	117,957	117,957	117,957
Annual filing fees	-	15,855	-	15,855	15,855
Telephone and internet	15,462	2,021	2,021	4,042	19,504
Insurance	-	9,370	-	9,370	9,370
Other special event expenses	-	175	156,864	157,039	157,039
Postage and shipping	5,624	21	7,697	7,718	13,342
Online and social awareness	472	-	1,819	1,819	2,291
Office equipment	4,455	4,822	1,101	5,923	10,378
Supplies	1,614	982	1,847	2,829	4,443
Staff and Board development	-	460	2,100	2,560	2,560
Membership dues	-	2,726	-	2,726	2,726
Licenses and permits	-	4,750	-	4,750	4,750
Staff meals	6,349	1,516	7,655	9,171	15,520
Bank fees	-	3,517	-	3,517	3,517
Total Expenses	\$ 8,229,477	\$ 577,235	\$ 1,270,950	\$ 1,848,185	\$ 10,077,662

See accompanying notes.

Children of Fallen Patriots Foundation

Statement of Cash Flows For the Year Ended December 31, 2021

Cash Flows from Operating Activities	
Change in net assets	\$ 1,188,538
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Forgiveness of loan – Paycheck Protection Program	(305,100)
Unrealized gain on investments	(232)
Donated stocks	(185,965)
Change in operating assets and liabilities:	
Decrease in:	
Grants and contributions receivable	(352,498)
Prepaid expenses and other assets	(9,789)
Increase in:	
Accounts payable and accrued expenses	79,605
	<hr/>
Net cash provided by operating activities	414,559
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Cash Flows from Financing Activity	
Proceeds from loan – Paycheck Protection Program	305,100
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Net cash provided by financing activity	305,100
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Net Increase in Cash and Cash Equivalents	719,659
Cash and Cash Equivalents, beginning of year	16,387,075
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Cash and Cash Equivalents, end of year	<u><u>\$ 17,106,734</u></u>

See accompanying notes.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2021

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 military children who have lost a parent 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, as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* – Net assets subject to donor- (or certain grantor-) imposed restrictions. The Foundation reports grants and contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted grants and contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash Equivalents

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 90 days or less at the time of purchase. Excluded from this definition of cash equivalents are amounts held for investments.

Investments

Investments are recorded at fair value based on quoted market prices. Realized and unrealized gains and losses, net of investment fees, are reported as a component of net investment return in the accompanying statement of activities.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2021

2. Summary of Significant Accounting Policies (continued)

Investments (continued)

Money market and short-term investment funds, held as a portion of the Foundation's investment portfolio, are not considered to be cash equivalents for purposes of cash flows.

Grants and Contributions Receivable

Grants and contributions receivable represent unconditional amounts committed to the Foundation. Grants and contributions receivable are reflected at either net realizable value, or at net present value based on projected cash flows. 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, 2021, there was no established allowance as management deems all receivables to be fully collectible. No discount has been calculated as of December 31, 2021, as all receivables are expected to be collected within one year.

Property and Equipment

Property and equipment acquisitions with a cost in excess of \$2,500 and a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Expenditures for repairs and maintenance are expensed as incurred. The Foundation did not have any property and equipment at December 31, 2021.

Revenue Recognition

The Foundation recognizes grants and contributions when cash, securities, or other assets, or an unconditional promise to give, is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Special event revenue is recognized at the time the event takes place, which is when the sole performance obligation is satisfied.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2021

2. Summary of Significant Accounting Policies (continued)

In-Kind Contributions

The value of contributions that enhance a nonfinancial asset, which are considered specialized and can be estimated, and would have been purchased if not donated, are reflected in the accompanying statement of activities as in-kind contributions. In-kind contributions are recognized as revenue and expense in the accompanying statement of activities at their estimated fair value, as provided by the donor, at the date of receipt, or calculated fair value of use of property in the period the property is used. In-kind contributions consist of donated office space and services that benefit both program and supporting services and totaled \$463,381 for the year ended December 31, 2021.

Grants to Students

Grants to students represents scholarships and awards to students that are unconditional in nature and are recognized at the time the recipient is notified.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses require allocation on a reasonable basis that is consistently applied. The majority of expenses are recorded directly to specific programs and functions, using the direct allocation method. Expenses that are allocated include payroll and related expenses, which are allocated on the basis of estimates of time and effort, and rent expense, which is allocated on a square footage basis.

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.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2021

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through March 31, 2022, the date the financial statements were available to be issued.

3. Liquidity and Availability

The Foundation strives to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Management periodically reviews the Foundation's liquid asset needs and adjusts the cash balance as necessary.

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise of the following at December 31, 2021:

Cash and cash equivalents	\$ 17,106,734
Investments	194,059
Grants and contributions receivable	<u>1,698,498</u>
Total financial assets	18,999,291
Less: net assets with donor restrictions	<u>(6,612,587)</u>
Total available for general expenditures	<u>\$ 12,386,704</u>

4. Concentration of Credit Risk

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

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2021

5. Investments and Fair Value Measurements

The Foundation follows Financial Accounting Standards Board Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, for its financial assets. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value measurement standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or other valuation techniques) to determine fair value. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the entity's perceived risk of that instrument.

The inputs used in measuring fair value are categorized into three levels. Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 is based upon observable inputs other than quoted market prices, and Level 3 is based on unobservable inputs. The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

In general, and where applicable, the Foundation uses quoted prices in active markets for identical assets to determine fair value. This pricing methodology applies to Level 1 investments.

Money market funds and equities are classified as Level 1 investments as they are actively traded and are valued using the market approach.

The following table presents the Foundation's fair value hierarchy for those assets measured on a recurring basis as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 180,826	\$ -	\$ -	\$ 180,826
Equities	13,233	-	-	13,233
Total investments	\$ 194,059	\$ -	\$ -	\$ 194,059

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2021

5. Investments and Fair Value Measurements (continued)

Net investment return consists of the following for the year ended December 31, 2021:

Interest and dividends	\$	4,619
Unrealized gain		232
Less: investment fees		<u>(75)</u>
Total investment return, net	\$	<u>4,776</u>

6. Net Assets With Donor Restrictions

All net assets with donor restrictions are restricted for the purpose of providing college scholarships and educational counseling to military children who have lost a parent in the line of duty.

7. Paycheck Protection Program

The Foundation applied for a loan under the Paycheck Protection Program (PPP) pursuant to Division A, Title 1 of the CARES Act, which was enacted on March 27, 2020. The PPP is a loan designed to provide a direct incentive for small businesses to keep their workers on the payroll through the COVID-19 pandemic, for which the Foundation qualified. After the loans are granted, the Small Business Administration (SBA) will forgive loans if all employee retention criteria are met, and the funds are used for eligible expenses (which primarily consist of payroll costs, costs used to continue group healthcare benefits, rent, and utilities). The Paycheck Protection Program Flexibility Act of 2020 was enacted on June 5, 2020, and amends the PPP to give borrowers more freedom in how and when loan funds are spent while retaining the possibility of full forgiveness.

The Foundation applied for a first loan under the PPP in 2020 in the amount of \$251,200, which was fully forgiven by the SBA. The Foundation applied for a second loan under the PPP on February 17, 2021 in the amount of \$305,100. During the year ended December 31, 2021, the entire loan amount was used for qualifying expenses in order to apply for full forgiveness. On November 1, 2021, the loan was fully forgiven by the SBA. The Foundation reduced the liability by the amount forgiven and recorded it as a grant in the statement of activities under the terms of the PPP.

Children of Fallen Patriots Foundation

Notes to Financial Statements
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8. Related Party Transactions

For the year ended December 31, 2021, contributions include \$1,242,195 donated by members of the Board of Directors. Board donations covered approximately 67% of management and general, and fundraising expenses in 2021.

9. Commitments and Contingencies

Operating Lease

The Foundation maintains a service agreement for donated office space in Dulles, Virginia, which commenced on September 1, 2018 and automatically renews for successive periods of one month unless terminated by either party in writing upon 60 days' prior written notice. The value of the donated office space totaled \$102,426 for the year ended December 31, 2021, and is included in-kind contributions on the accompanying statement of activities. The landlord also forgave \$52,920 in monthly service fees related to the use of their phone system, internet, food service, etc. for the year ended December 31, 2021, and is included in in-kind contributions on the accompanying statement of activities.

Rent expense, including the value of the donated office space and monthly service fees, for the year ended December 31, 2021 totaled \$187,806.

10. Retirement Plan

The Foundation maintains 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 (\$19,500 for calendar year 2021). At the completion of 12 months of service, employees become eligible for matching and nonelective employer contributions. These employer contributions are 100% vested after three years of service. For the year ended December 31, 2021, the Foundation did not make any employer contributions to the plan.

11. 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, 2021, 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.