

CHILDREN OF FALLEN PATRIOTS FOUNDATION

FINANCIAL STATEMENTS

DECEMBER 31, 2013

CHILDREN OF FALLEN PATRIOTS FOUNDATION

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DECEMBER 31, 2013**

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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, 2013, and the related statements of activities and changes in net assets, 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, 2013, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in Schedule 1 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Bendon YYP

Certified Public Accountants

Jericho, New York
December 5, 2014

CHILDREN OF FALLEN PATRIOTS FOUNDATION

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013

ASSETS	
Cash	\$ 1,087,570
Contributions receivable	190,742
Pledge receivable	280,000
Computer software (net of accumulated depreciation of \$2,463)	<u>15,822</u>
TOTAL ASSETS	<u>\$ 1,574,134</u>
 LIABILITIES AND NET ASSETS	
LIABILITIES:	
Accounts payable	\$ <u>145,993</u>
 COMMITMENTS AND CONTINGENCIES	
NET ASSETS:	
Unrestricted	1,148,141
Temporarily restricted	<u>280,000</u>
TOTAL NET ASSETS	<u>1,428,141</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,574,134</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, 2013

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
SUPPORT AND REVENUE:			
Special events (net of special event fund-raising expenses of \$378,334)	\$ 2,127,764	\$ 280,000	\$ 2,407,764
Contributions	721,970	-	721,970
Interest income	<u>730</u>	<u>-</u>	<u>730</u>
TOTAL SUPPORT AND REVENUE	<u>2,850,464</u>	<u>280,000</u>	<u>3,130,464</u>
EXPENSES:			
Program services	2,269,451	-	2,269,451
Management and general	271,983	-	271,983
Fund-raising expenses	<u>316,467</u>	<u>-</u>	<u>316,467</u>
TOTAL EXPENSES	<u>2,857,901</u>	<u>-</u>	<u>2,857,901</u>
CHANGE IN NET ASSETS	(7,437)	280,000	272,563
NET ASSETS - BEGINNING OF YEAR	<u>1,155,578</u>	<u>-</u>	<u>1,155,578</u>
NET ASSETS - END OF YEAR	<u>\$ 1,148,141</u>	<u>\$ 280,000</u>	<u>\$ 1,428,141</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 272,563
Adjustments to reconcile change in net assets to net cash (used in) operating activities:	
Depreciation	2,463
Changes in assets and liabilities:	
(Increase) in contributions receivable	(171,492)
(Increase) in pledge receivable	(280,000)
Increase in accounts payable	139,104
(Decrease) in payroll liabilities	<u>(8,719)</u>
NET CASH (USED IN) OPERATING ACTIVITIES	<u>(46,081)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment	<u>(18,285)</u>
NET CASH (USED IN) INVESTING ACTIVITIES	<u>(18,285)</u>
NET (DECREASE) IN CASH	(64,366)
CASH - BEGINNING OF YEAR	<u>1,151,936</u>
CASH - END OF YEAR	<u>\$ 1,087,570</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH OPERATING ACTIVITIES:	
Donated airtime for public service announcements	<u>\$ 172,249</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 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 date 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 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 which 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 which remain unpaid at year-end. Pledge receivable represents the balance of an unconditional promise to give from a board member at December 31, 2013.

(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, 2013 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 2010.

(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, 2013 is \$2,463.

(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, 2013 through December 5, 2014, 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 FDIC 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, 2013, contributions include \$1,051,790 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. The remaining pledge receivable in the amount of \$280,000 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, 2013:

Furniture and fixtures	\$ 17,750
Computer software	<u>535</u>
Total property and equipment	18,285
Less, accumulated depreciation	<u>2,463</u>
	<u>\$ 15,822</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 rents required to be paid under the noncancelable portions of the aforementioned leases, in each of the following years, are summarized as follows:

2014	\$ 25,200
2015	<u>4,200</u>
	<u>\$ 29,400</u>

Rent expense incurred was \$21,000 for the year ending December 31, 2013.

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 air time for public service announcements which was used to promote involvement with the Foundation. The fair value of the contributed air time, which was \$172,249, is recognized as contribution income and program service expense in the statement of activities.

SUPPLEMENTARY FINANCIAL INFORMATION

CHILDREN OF FALLEN PATRIOTS FOUNDATION

FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>TOTAL</u>	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUND- RAISING</u>
Tuition	\$ 1,420,031	\$ 1,420,031	\$ -	\$ -
Payroll and related	419,387	170,766	88,417	160,204
Other educational services	327,555	327,555	-	-
Consulting	189,759	67,709	62,333	59,717
Advertising and promotion	172,249	172,249	-	-
Accounting	49,683	11,444	38,239	-
Travel	46,507	18,013	12,035	16,459
Books	29,109	29,109	-	-
Fund-raising expense	27,207	-	105	27,102
Computer consulting	27,012	1,181	17,924	7,907
Transportation	26,606	26,606	-	-
Rent	25,568	7,517	7,977	10,074
Supplies	18,551	4,737	10,023	3,791
Professional fees	15,005	-	5,747	9,258
Postage	12,363	4,032	3,457	4,874
Printing	9,366	3,171	3,250	2,945
Annual filing fees	5,697	-	5,697	-
Telephone and internet	5,197	1,693	2,874	630
Merchant processing fees	5,196	-	48	5,148
Utilities	3,293	989	1,014	1,290
Office equipment	3,039	649	2,200	190
Depreciation	2,463	-	2,463	-
Other special event expenses	2,208	-	-	2,208
Licenses and permits	2,025	-	2,025	-
Video	2,000	-	-	2,000
Software	1,796	-	1,796	-
Equipment rental	1,777	537	545	695
Maintenance	1,668	490	521	657
Photography expense	1,290	-	40	1,250
Miscellaneous	1,278	778	500	-
Office	1,042	133	841	68
Insurance	995	-	995	-
Bank fees	979	62	917	-
	<u>\$ 2,857,901</u>	<u>\$ 2,269,451</u>	<u>\$ 271,983</u>	<u>\$ 316,467</u>

The accompanying notes to financial statements and independent auditors' report should be read in conjunction with this supplementary schedule.