

Children of Fallen Patriots Foundation

Financial Statements
and Independent Auditors' Report

December 31, 2018

Children of Fallen Patriots Foundation

Financial Statements
December 31, 2018

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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, 2018; 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

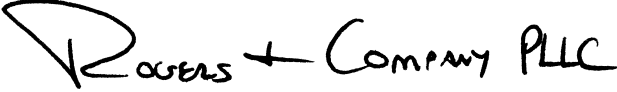
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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, 2018, 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, and the rest of the text is in a cursive-like script.

Vienna, Virginia
April 1, 2019

Children of Fallen Patriots Foundation

Statement of Financial Position December 31, 2018

Assets	
Cash and cash equivalents	\$ 8,205,838
Pledges receivable	6,725,461
Prepaid expenses	85,899
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Total assets	\$ 15,017,198
	<hr/> <hr/>
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	\$ 42,323
Scholarships payable, net	168,546
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Total liabilities	210,869
	<hr/>
Net Assets	
Without donor restrictions	5,702,993
With donor restrictions	9,103,336
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Total net assets	14,806,329
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Total liabilities and net assets	\$ 15,017,198
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Children of Fallen Patriots Foundation

Statement of Activities For the Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grants and contributions	\$ 4,343,152	\$ 6,500,000	\$ 10,843,152
Interest income	40,397	-	40,397
Special events – gross receipts	2,239,725	-	2,239,725
Less: cost of direct benefits to donors	(229,621)	-	(229,621)
Net special events revenue	2,010,104	-	2,010,104
Released from restrictions	2,387,863	(2,387,863)	-
Total revenue and support	8,781,516	4,112,137	12,893,653
Expenses			
Program services	6,750,288	-	6,750,288
Supporting services:			
Management and general	406,451	-	406,451
Fundraising	931,210	-	931,210
Total supporting services	1,337,661	-	1,337,661
Total expenses	8,087,949	-	8,087,949
Change in Net Assets	693,567	4,112,137	4,805,704
Net Assets, beginning of year	5,009,426	4,991,199	10,000,625
Net Assets, end of year	\$ 5,702,993	\$ 9,103,336	\$ 14,806,329

See accompanying notes.

Children of Fallen Patriots Foundation

Statement of Functional Expenses For the Year Ended December 31, 2018

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Tuition	\$ 5,552,581	\$ -	\$ -	\$ 5,552,581
Payroll and related	589,122	287,022	460,300	1,336,444
Rent	117,447	53,831	53,485	224,763
Travel	48,700	5,884	84,179	138,763
Advertising and promotion	186,050	-	53,260	239,310
Other special event expenses	57,620	493	53,272	111,385
Merchant processing fees	-	-	69,531	69,531
Consulting	14,718	1,123	81,283	97,124
Legal fees	98,564	-	-	98,564
Accounting	7,418	9,309	3,709	20,436
Software	54,750	18,650	34,383	107,783
Miscellaneous	3,309	1,634	6,448	11,391
Online and social awareness	6,000	-	6,000	12,000
Supplies	2,414	6,705	2,584	11,703
Postage	2,955	979	7,760	11,694
Annual filing fee	4,000	8,772	4,929	17,701
Printing	154	-	4,541	4,695
Office equipment	-	2,974	3,725	6,699
Insurance	1,629	3,393	815	5,837
Telephone and internet	2,857	1,773	1,006	5,636
Bank fees	-	1,864	-	1,864
Licenses and permits	-	2,045	-	2,045
Total Expenses	\$ 6,750,288	\$ 406,451	\$ 931,210	\$ 8,087,949

Children of Fallen Patriots Foundation

Statement of Cash Flows For the Year Ended December 31, 2018

Cash Flows from Operating Activities	
Change in net assets	\$ 4,805,704
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Change in discount on scholarships payable	(17,323)
Change in operating assets and liabilities:	
Increase in:	
Pledges receivable	(2,566,854)
Prepaid expenses	(57,309)
Decrease in:	
Accounts payable and accrued expenses	(9,230)
Scholarships payable	(632,966)
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Net cash provided by operating activities	1,522,022
	<hr/>
Net Increase in Cash and Cash Equivalents	1,522,022
Cash and Cash Equivalents, beginning of year	6,683,816
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Cash and Cash Equivalents, end of year	<u>\$ 8,205,838</u>

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2018

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.

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.

Classification of Net Assets

- *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. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

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, 2018, there was no established allowance as management deems the pledges to be fully collectible. No discount has been calculated as of December 31, 2018, as all pledges are expected to be collected within one year.

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 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. Net assets with donor restrictions are reported as net assets without donor restrictions if the restrictions are met in the same period as received.

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.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2018

2. Summary of Significant Accounting Policies (continued)

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.

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.

Change in Accounting Principle

On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented. The implementation had no impact on previously reported net assets.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through April 1, 2019, the date the financial statements were available to be issued.

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, along with short-term certificates of deposit, with a financial institution and these values, from time to time, exceed insurable limits under the Federal Deposit Insurance Corporation (FDIC).

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2018

3. Concentration of Credit Risk (continued)

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. Liquidity and Availability

The Foundation has \$14,931,299 of financial assets at the balance sheet date consisting of cash and cash equivalents, and pledges receivable. Of the financial assets available, \$9,103,336 are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The pledges receivable are subject to time and purpose restrictions, but will be collected within one year. The Foundation has a goal to maintain financial assets, which consist of cash and cash equivalents, on hand to meet 6 months of normal operating expenses, which are, on average, approximately \$1,200,000.

The table below presents financial assets available for general expenditures within one year at December 31, 2018:

Cash and cash equivalents	\$ 8,205,838
Pledges receivable due within one year	<u>6,725,461</u>
Total financial assets	14,931,299
Less: amounts not available to be used within one year:	
Cash and cash equivalents – for restricted gifts	(2,803,336)
Pledges receivable – for restricted gifts	<u>(6,300,000)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 5,827,963</u>

5. Scholarships Payable

Scholarships payable total \$168,546 and are due during the year ending December 31, 2019; therefore, there was no discount on scholarships payable at December 31, 2018.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2018

6. Related Party Transactions

For the year ended December 31, 2018, contributions include \$830,455 donated by members of the Board of Directors. Board donations covered approximately 62% of management and general, and fundraising expenses in 2018.

7. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2018, 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.

8. 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, that was effective March 1, 2016 and expired on February 28, 2019. 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 \$800, which includes a proportionate share of property taxes, common area maintenance fees, and other fees.

Future lease obligations for the year ending December 31, 2019 totaled \$22,340.

Rent expense for both leases for the year ended December 31, 2018 totaled \$190,601. During 2018, the Foundation also received donated use of facilities for new office space valued at \$34,162, which is included in grants and contributions, and rent expense in the accompanying financial statements.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2018

9. Functionalized Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization—which are allocated on a square footage basis—as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other—which are allocated on the basis of estimates of time and effort.

10. In-Kind Contributions

The Foundation receives in-kind contributions in the form of donated services and use of facilities. In-kind contributions are valued on comparable market rates, and are included in the accompanying statement of activities.

Contributions of services are recognized when services (a) create or enhance nonfinancial assets, or (b) require specialized skills, which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services total \$161,630 for the year ended December 31, 2018 and principally consist of advertising and general legal services. These amounts are included in grants and contributions in the accompanying statement of activities.

11. Retirement Plan

The Foundation has 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 (\$18,500 for calendar year 2018). 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, 2018, the Foundation did not have any contributions to the plan.

12. 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, 2018, 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.