

Children of Fallen Patriots Foundation

Financial Statements
and Independent Auditors' Report

December 31, 2019

Children of Fallen Patriots Foundation

Financial Statements
December 31, 2019

Contents

Independent Auditors' Report.....	1-2
<i>Financial Statements</i>	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements.....	7-12

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, 2019; 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.

Auditor's Responsibility (continued)

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, 2019, 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.

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

Vienna, Virginia
March 27, 2020

Children of Fallen Patriots Foundation

Statement of Financial Position December 31, 2019

Assets	
Cash and cash equivalents	\$ 12,855,115
Pledges receivable	6,809,323
Prepaid expenses	<u>63,570</u>
Total assets	<u><u>\$ 19,728,008</u></u>
Liabilities and Net Assets	
Liabilities	
Accounts payable and accrued expenses	<u>\$ 76,230</u>
Total liabilities	<u>76,230</u>
Net Assets	
Without donor restrictions	7,868,874
With donor restrictions	<u>11,782,904</u>
Total net assets	<u>19,651,778</u>
Total liabilities and net assets	<u><u>\$ 19,728,008</u></u>

Children of Fallen Patriots Foundation

Statement of Activities For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grants and contributions	\$ 3,652,313	\$ 6,250,000	\$ 9,902,313
Interest income	208,083	-	208,083
Special events – gross receipts	5,135,884	-	5,135,884
Less: cost of direct benefits to donors	(584,677)	-	(584,677)
Net special events revenue	4,551,207	-	4,551,207
Released from restrictions	3,570,432	(3,570,432)	-
Total revenue and support	11,982,035	2,679,568	14,661,603
Expenses			
Program services	8,451,284	-	8,451,284
Supporting services:			
Management and general	469,538	-	469,538
Fundraising	895,332	-	895,332
Total supporting services	1,364,870	-	1,364,870
Total expenses	9,816,154	-	9,816,154
Change in Net Assets	2,165,881	2,679,568	4,845,449
Net Assets, beginning of year	5,702,993	9,103,336	14,806,329
Net Assets, end of year	\$ 7,868,874	\$ 11,782,904	\$ 19,651,778

See accompanying notes.

Children of Fallen Patriots Foundation

Statement of Functional Expenses For the Year Ended December 31, 2019

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Tuition	\$ 6,772,148	\$ -	\$ -	\$ 6,772,148
Payroll and related	822,223	330,058	332,710	1,484,991
Rent	169,563	43,660	41,645	254,868
Travel	124,536	4,107	63,131	191,774
Advertising and promotion	331,299	-	63,244	394,543
Other special event expenses	84,554	-	146,224	230,778
Merchant processing fees	-	-	91,456	91,456
Consulting	-	-	105,091	105,091
Legal fees	62,112	-	10,027	72,139
Accounting	-	24,404	-	24,404
Software	58,621	17,846	20,713	97,180
Other expenses	7,589	1,591	5,111	14,291
Online and social awareness	6,000	-	6,000	12,000
Supplies	1,422	4,359	486	6,267
Postage	4,014	4,225	5,350	13,589
Annual filing fee	-	13,905	-	13,905
Printing	34	-	1,352	1,386
Office equipment	-	6,558	-	6,558
Insurance	-	9,905	1,214	11,119
Telephone and internet	7,169	1,419	1,578	10,166
Bank fees	-	5,501	-	5,501
Licenses and permits	-	2,000	-	2,000
Total Expenses	\$ 8,451,284	\$ 469,538	\$ 895,332	\$ 9,816,154

Children of Fallen Patriots Foundation

Statement of Cash Flows For the Year Ended December 31, 2019

Cash Flows from Operating Activities	
Change in net assets	\$ 4,845,449
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) decrease in:	
Pledges receivable	(83,862)
Prepaid expenses	22,329
Increase (decrease) in:	
Accounts payable and accrued expenses	33,907
Scholarships payable	<u>(151,223)</u>
Net cash provided by operating activities	<u>4,649,277</u>
Net Increase in Cash and Cash Equivalents	4,649,277
Cash and Cash Equivalents, beginning of year	<u>8,205,838</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 12,855,115</u></u>

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2019

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, 2019

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, 2019, there was no established allowance as management deems the pledges to be fully collectible. No discount has been calculated as of December 31, 2019, as all pledges are expected to be collected within one year.

Revenue Recognition

Grants and contributions are recorded as revenue when received or promised and are recorded net of any current year allowance or discount activity. The Foundation reports gifts of cash and other assets as restricted support if they are received or promised with donor stipulations that limit the use of the donated assets to one of the Foundation's programs or to a future year. 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 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. 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.

The Foundation holds special events throughout the year as fundraising events. The Foundation records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference.

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, 2019

2. Summary of Significant Accounting Policies (continued)

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 expenses that are allocated include rent expense—which is 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.

Change in Accounting Principle

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended, supersedes or replaces nearly all revenue recognition guidance under accounting principles generally accepted in the United States of America. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The Foundation has implemented Topic 606 and has adjusted, if applicable, the presentation in these financial statements accordingly. The amendments have been applied retrospectively to all periods presented. The implementation had no impact on the previously reported net assets.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The Foundation has implemented the provisions of ASU 2018-08, applicable to both contributions received and to contributions made, in these financial statements under a modified prospective basis. The implementation had no impact on the previously reported net assets.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through March 27, 2020, the date the financial statements were available to be issued.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2019

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). 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

Financial assets, available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position comprise of the following at December 31, 2019:

Cash and cash equivalents	\$ 12,855,115
Pledges receivable due within one year	<u>6,809,323</u>
Total financial assets	19,664,438
Less: amounts not available to be used within one year:	
Cash and cash equivalents – for restricted gifts	(5,532,910)
Pledges receivable – for restricted gifts	<u>(6,250,000)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 7,881,528</u></u>

5. Related Party Transactions

For the year ended December 31, 2019, contributions include \$1,154,020 donated by members of the Board of Directors. Board donations covered approximately 85% of management and general, and fundraising expenses in 2019.

6. Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2019, 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.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2019

7. Revenue from Contracts with Customers

The Foundation's membership dues include monthly journal and other membership benefits, such as access to the members-only section of the website, webinars, and discounts on certain services and events. The promises to deliver all of the performance obligations included in the membership dues, other than the journal subscription, are distinct; however, the Foundation has determined that each individual benefit is not material in the context of the membership agreement and should be accounted for as a single performance obligation. All the membership benefits are received simultaneously and the membership performance obligation is satisfied over time. Accordingly, membership benefits are recognized ratably over the membership period.

The performance obligation for each monthly journal is satisfied at a point in time, and revenue is recognized when control of the journal has been transferred to the customer. The Foundation determined that control of the journal transfers to the customer upon shipment or becoming available online.

8. Commitments – Operating Leases

The Foundation rented office space in Reston, VA under the terms of an operating lease that expired on February 28, 2019. The terms of the lease called for base rentals of \$11,170, payable monthly, with no annual escalations.

In 2019, the Foundation moved its office to Dulles, VA where it entered into an agreement to lease office space free of charge. The value of the donated office space totaled \$102,426 for the year ended December 31, 2019, and is included in grants and contributions, and rent expense in the accompanying financial statements.

In addition, the Foundation leased office space in Jacksonville, FL on a month-to-month basis that expired in May 2019. The lease called for monthly rental payments of \$800, which included a proportionate share of property taxes, common area maintenance fees, and other fees. Once this lease ended, a new agreement was signed for office space in Fleming Island, FL that is set to expire on May 31, 2020. The terms of this lease call for monthly rental payments of \$575 with no annual escalations.

Lastly, during 2019, the Foundation entered into an operating lease agreement for the rental of office space in New York, NY, which went into effect on October 1, 2019 and is set to expire on September 30, 2020. This lease calls for rental payments of \$1,105, payable monthly.

Children of Fallen Patriots Foundation

Notes to Financial Statements

December 31, 2019

8. Commitments – Operating Leases (continued)

Future minimum lease payments for all of the aforementioned leases for the year ending December 31, 2020 total \$12,280.

Rent expense, including the value of the donated office space for the year ended December 31, 2019 totaled \$152,442.

9. In-Kind Contributions

The Foundation receives in-kind contributions in the form of donated services and use of facilities. See Note 8 for further information on the donated 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 \$295,726 for the year ended December 31, 2019. Donated amounts are included in grants and contributions in the accompanying statement of activities.

10. 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 (\$19,000 for calendar year 2019). 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, 2019, the Foundation did not have any 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, 2019, 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.