

Children of Fallen Patriots Foundation

Financial Statements
and Independent Auditor's Report

December 31, 2022

Children of Fallen Patriots Foundation

Financial Statements
December 31, 2022

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INDEPENDENT AUDITOR’S 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, 2022; 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, 2022, 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 22, 2023

Children of Fallen Patriots Foundation

Statement of Financial Position December 31, 2022

Assets

Cash and cash equivalents	\$ 16,473,277
Investments	32,829
Grants and contributions receivable	1,590,632
Prepaid expenses and other assets	168,022

Total assets \$ 18,264,760

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	<u>\$ 189,190</u>
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Total liabilities 189,190

Net Assets

Without donor restrictions	13,929,907
With donor restrictions	<u>4,145,663</u>

Total net assets 18,075,570

Total liabilities and net assets \$ 18,264,760

Children of Fallen Patriots Foundation

Statement of Activities For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Grants and contributions	\$ 7,207,298	\$ 693,750	\$ 7,901,048
Contributions and revenue from special events, net:			
Contributions	4,307,909	-	4,307,909
Special event revenue	1,469,166	-	1,469,166
Less: cost of direct benefit to donors	(670,693)	-	(670,693)
 Total contributions and revenue from special events, net	 5,106,382	 -	 5,106,382
In-kind contributions	398,802	-	398,802
Investment return	73,819	-	73,819
Released from restrictions	3,160,674	(3,160,674)	-
 Total revenue and support	 15,946,975	 (2,466,924)	 13,480,051
 Expenses			
Program services	12,283,743	-	12,283,743
Supporting services:			
Management and general	634,884	-	634,884
Fundraising	1,495,013	-	1,495,013
 Total supporting services	 2,129,897	 -	 2,129,897
 Total expenses	 14,413,640	 -	 14,413,640
 Change in Net Assets	 1,533,335	 (2,466,924)	 (933,589)
 Net Assets, beginning of year	 12,396,572	 6,612,587	 19,009,159
 Net Assets, end of year	 \$ 13,929,907	 \$ 4,145,663	 \$ 18,075,570

See accompanying notes.

Children of Fallen Patriots Foundation

Statement of Functional Expenses For the Year Ended December 31, 2022

	Supporting Services				Total Expenses
	Program Services	Management and General	Fundraising	Total Supporting Services	
Grants to students	\$ 9,746,920	\$ -	\$ -	\$ -	\$ 9,746,920
Payroll and related	1,662,575	467,403	827,555	1,294,958	2,957,533
Advertising and promotion	415,402	3,321	99,132	102,453	517,855
Other special event expenses	82,644	-	216,765	216,765	299,409
Travel and meeting	107,200	4,736	77,211	81,947	189,147
Computer and software	71,287	43,360	54,756	98,116	169,403
Rent	89,530	20,601	23,944	44,545	134,075
Contract services fees	53,545	28,807	37,036	65,843	119,388
Merchant processing fees	-	-	118,670	118,670	118,670
Office equipment	23,741	10,972	5,410	16,382	40,123
Postage and shipping	11,795	2,777	11,787	14,564	26,359
Annual filing fees	-	24,948	-	24,948	24,948
Staff meals	7,964	1,764	11,200	12,964	20,928
Printing and copying	7,225	1,200	4,567	5,767	12,992
Insurance	-	10,880	-	10,880	10,880
Supplies	1,652	3,438	5,267	8,705	10,357
Membership dues	216	1,698	1,473	3,171	3,387
Licenses and permits	-	3,254	-	3,254	3,254
Bank fees	-	3,171	-	3,171	3,171
Staff and Board development	-	2,550	-	2,550	2,550
Telephone and internet	2,047	4	240	244	2,291
Total Expenses	\$ 12,283,743	\$ 634,884	\$ 1,495,013	\$ 2,129,897	\$ 14,413,640

See accompanying notes.

Children of Fallen Patriots Foundation

Statement of Cash Flows For the Year Ended December 31, 2022

Cash Flows from Operating Activities	
Change in net assets	\$ (933,589)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Realized loss on investments	493
Donated stocks	(89,242)
Change in operating assets and liabilities:	
Increase in:	
Grants and contributions receivable	107,866
Prepaid expenses and other assets	38,912
Decrease in:	
Accounts payable and accrued expenses	<u>(7,876)</u>
Net cash used in operating activities	<u>(883,436)</u>
Cash Flows from Investing Activities	
Reinvested interest on investments	(21)
Proceeds from sales of investments	<u>250,000</u>
Net cash provided by investing activities	<u>249,979</u>
Net Decrease in Cash and Cash Equivalents	(633,457)
Cash and Cash Equivalents, beginning of year	<u>17,106,734</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 16,473,277</u></u>

See accompanying notes.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2022

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.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2022

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are recorded at fair value based on quoted market prices. Realized and unrealized gains and losses are reported in investment return in the accompanying statement of activities. 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, 2022, there was no established allowance as management deems all receivables to be fully collectible. No discount has been calculated as of December 31, 2022, 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, 2022.

Leases

The Foundation records a right-of-use asset and lease liability for its operating lease at the lease commencement date. Right-of-use asset is amortized over the shorter of the lease term or the economic life of the leased asset. Lease liability is the net present value of the future amounts due under the lease, calculated using a risk-free rate of return selected based on the term of the lease. The Foundation does not apply the recognition requirements under Accounting Standards Codification (ASC) Topic 842, *Leases*, to short-term leases.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2022

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Revenue Accounted for in Accordance with Contribution Accounting

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.

Revenue Accounted for as Contracts with Customers

Revenue is recognized when the Foundation satisfies a performance obligation by transferring a promised good to, or performing a service for, a customer. The amount of revenue recognized reflects the consideration the Foundation expects to receive in exchange for satisfying distinct performance obligations. If a performance obligation does not meet the criteria to be considered distinct, the Foundation combines it with other performance obligations until a distinct bundle of goods or services exists. Fees or amounts received in advance of satisfying contractual performance obligations are reflected as deferred revenue in the statement of financial position. Revenue is recognized either over time or at the point in time that contractual obligations are met.

Specifically, for the various types of contracts, the Foundation recognizes revenue as follows:

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

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 totaled \$398,802 for the year ended December 31, 2022, which consist of donated office space of \$95,002 and donated services of \$303,800 that benefit both program and supporting services.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2022

2. Summary of Significant Accounting Policies (continued)

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.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through March 22, 2023, 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 and cash equivalents balance as necessary.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2022

3. Liquidity and Availability (continued)

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 the following at December 31, 2022:

Cash and cash equivalents	\$ 16,473,277
Investments	32,829
Grants and contributions receivable	<u>1,590,632</u>
Total financial assets	18,096,738
Less: net assets with donor restrictions	<u>(4,145,663)</u>
Total available for general expenditures	<u><u>\$ 13,951,075</u></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.

5. Investments and Fair Value Measurements

The Foundation follows Financial Accounting Standards Board ASC 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.

Children of Fallen Patriots Foundation

Notes to Financial Statements
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5. Investments and Fair Value Measurements (continued)

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 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, 2022:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 32,829	\$ -	\$ -	\$ 32,829
Total investments	\$ 32,829	\$ -	\$ -	\$ 32,829

Net investment return consists of the following for the year ended December 31, 2022:

Interest and dividends	\$ 74,312
Realized loss	(493)
Total investment return	\$ 73,819

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.

Children of Fallen Patriots Foundation

Notes to Financial Statements
December 31, 2022

7. Related Party Transactions

For the year ended December 31, 2022, contributions include \$1,574,475 donated by members of the Board of Directors. Board donations covered approximately 74% of management and general, and fundraising expenses in 2022.

8. Commitments and Contingencies

Office Space

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 \$95,002 for the year ended December 31, 2022, and is included in in-kind contributions in 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, 2022 totaled \$134,075.

9. 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 (\$20,500 for calendar year 2022). 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, 2022, the Foundation did not make any employer 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, 2022, 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.