

DISABLED VETERANS NATIONAL FOUNDATION

**Financial Statements
and
Independent Auditor's Report**

Year Ended December 31, 2014

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
<u>Financial Statements</u>	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7



Abrams
Foster
Nole &
Williams, P.A.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Disabled Veterans National Foundation
Washington, DC

We have audited the accompanying financial statements of Disabled Veterans National Foundation (a nonprofit organization), which comprise the statement of financial position as December 31, 2014 and the related statements of activities and changes in net assets (deficit), functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility of 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.

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 of 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.

Certified Public Accountants & Business Advisors

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 Disabled Veterans National Foundation as of December 31, 2014, 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.



Abrams, Foster, Nole & Williams, P.A.
Certified Public Accountants
Baltimore, Maryland

September 10, 2015

DISABLED VETERANS NATIONAL FOUNDATION
Statement of Financial Position
December 31, 2014

ASSETS

Current Assets	
Cash	\$ 2,496,481
Accounts receivable	518,465
Prepaid expenses	34,020
Total current assets	<u>3,048,966</u>
Property and Equipment	
Office furniture and equipment	53,319
Less: accumulated depreciation	<u>(39,177)</u>
Net property and equipment	<u>14,142</u>
Noncurrent Assets	
Security deposit	<u>7,231</u>
Total Assets	<u><u>\$ 3,070,339</u></u>

LIABILITIES AND NET ASSETS (DEFICIT)

Liabilities	
Accounts payable	4,543,763
Accrued salaries and related liabilities	65,252
Total liabilities	<u>4,609,015</u>
Net Assets (Deficit)	
Unrestricted net assets (deficit)	(1,583,297)
Temporarily restricted net assets	44,621
Total net assets (deficit)	<u>(1,538,676)</u>
Total Liabilities and Net Assets (Deficit)	<u><u>\$ 3,070,339</u></u>

“See Accompanying Notes”

DISABLED VETERANS NATIONAL FOUNDATION
Statement of Activities and Changes in Net Assets (Deficit)
Year Ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014</u>
Support and Revenue			
Public support	\$ 21,026,932	\$ 94,621	\$ 21,121,553
In-kind contributions	2,576,278	-	2,576,278
Name rental revenue	81,064	-	81,064
Forgiveness of debt	13,944,661	-	13,944,661
Total unrestricted support and revenue	<u>37,628,935</u>	<u>94,621</u>	<u>\$37,723,556</u>
Net assets released from restrictions	<u>50,000</u>	<u>(50,000)</u>	<u>-</u>
Total support and revenue	<u>37,678,935</u>	<u>44,621</u>	<u>\$37,723,556</u>
Expenses			
Program services	5,729,561	-	5,729,561
Management and general	2,904,636	-	2,904,636
Fundraising	16,408,371	-	16,408,371
Total expenses	<u>25,042,568</u>	<u>-</u>	<u>25,042,568</u>
Increase in unrestricted net assets	12,636,367	44,621	12,680,988
Net assets (deficit) at beginning of year	<u>(14,219,664)</u>	<u>-</u>	<u>(14,219,664)</u>
Net Assets (Deficit) at End of Year	<u>\$ (1,583,297)</u>	<u>\$ 44,621</u>	<u>\$ (1,538,676)</u>

“See Accompanying Notes”

DISABLED VETERANS NATIONAL FOUNDATION
Statement of Functional Expenses
Year Ended December 31, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Goods and aid supplied	\$ 2,466,447	\$ -	\$ -	\$ 2,466,447
Grants - individuals	119,432	-	-	119,432
Grants - outside organizations	112,403	-	-	112,403
Grants - related organizations	30,000	-	-	30,000
Direct mail - package costs	1,698,547	424,637	12,309,573	14,432,757
Direct mail - postage costs	419,129	104,782	2,968,829	3,492,740
Direct mail - caging	98,030	24,507	694,380	816,917
Advertising	423,345	-	-	423,345
Bank fees	-	133,895	-	133,895
Depreciation	-	24,844	-	24,844
IT and database management	58,647	120,620	362,878	542,145
Insurance	-	35,944	-	35,944
Legal and professional fees	9,756	1,000,035	69,104	1,078,895
License & permits	-	6,952	-	6,952
List management fees	109,745	-	-	109,745
Office expense	-	48,187	-	48,187
Payroll and related expenses	183,571	515,340	-	698,911
Rent	-	88,158	-	88,158
Telephone & communication	509	301,223	3,607	305,339
Travel	-	75,512	-	75,512
Total	<u>\$ 5,729,561</u>	<u>\$ 2,904,636</u>	<u>\$16,408,371</u>	<u>\$25,042,568</u>

“See Accompanying Notes”

DISABLED VETERANS NATIONAL FOUNDATION
Statement of Cash Flows
Year Ended December 31, 2014

Cash Flows from Operating Activities	
Change in net assets	\$ 12,680,988
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	24,844
Changes in operating assets and liabilities	
(Increase) decrease in assets	
Accounts receivable	(494,769)
Prepaid expenses	(12,500)
Increase (decrease) in liabilities	
Accounts payable	(10,853,727)
Deferred rent payable	(6,665)
Accrued salaries and related expenses	29,334
Total adjustments	<u>(11,313,483)</u>
Net cash provided (used) by operating activities	<u>1,367,505</u>
 Cash Flow from Investing Activities	
Purchase of property and equipment	(7,392)
Net cash (used) by investing activities	<u>(7,392)</u>
Net increase in cash	1,360,113
Cash at beginning of year	<u>1,136,368</u>
Cash at End of Year	<u><u>\$ 2,496,481</u></u>

“See Accompanying Notes”

DISABLED VETERANS NATIONAL FOUNDATION
Notes to Financial Statements
December 31, 2014

1. BACKGROUND

Foundation

Disabled Veterans National Foundation (the Foundation) is a not-for-profit corporation with the aim to celebrate, commemorate, promote and recognize the contributions and work of both men and women in service in the military in the past and present by promoting the service of future generations. This is accomplished by the exchanging of ideas and information to facilitate the training of reciprocal service for both men and women veterans and to secure uniformity, equality and effectiveness in providing these services to veterans whether disabled or not; furthermore to identify issues of concern to all veterans by appropriate means and develop recommendations to address those goals through legislative, programmatic, and outreach activities. Additionally, the Foundation provides support directly and indirectly to veterans and their families in need.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America (GAAP).

B. Financial Statement Presentation

The Foundation reports net assets based on the existence or absence of donor-imposed restrictions. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets whose restrictions are met in the year received are recorded in the financial statements as unrestricted assets. Permanently restricted net assets are subject to donor-imposed stipulations that may be maintained permanently by the Foundation. As of December 31, 2014, the Foundation has \$44,621 in temporarily restricted net assets and \$0 in permanently restricted net assets.

C. Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less at the date of acquisition to be cash equivalents.

DISABLED VETERANS NATIONAL FOUNDATION
Notes to Financial Statements
December 31, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Functional Allocation of Expenses

Costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are allocated between program services, management and general and fundraising based on evaluations of the related activities. Management and general expenses include expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Foundation.

E. Income Tax Status

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, with the exception of unrelated business income. Accordingly, no provision for income taxes has been made in the accompanying financial statements. An informational return Form 990 is filed annually. The IRS has authority to request an audit of any previous three years tax filings. The Foundation is no longer subject to federal tax examination by tax authorities for years prior to 2011. The Foundation has not taken any questionable tax positions.

F. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

G. Property and Equipment

Furniture and equipment with a cost of \$1,500 or more are capitalized at cost. Depreciation is provided on a straight-line basis over the estimated useful life of the capitalized assets as follows:

<u>Category</u>	<u>Life in Years</u>
Office Furniture & Equipment	5-7

Depreciation expense was \$24,844 for the year ended December 31, 2014.

DISABLED VETERANS NATIONAL FOUNDATION
Notes to Financial Statements
December 31, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenue Recognition

Contributions are recognized when received and are recorded as unrestricted, temporarily, and permanently restricted support depending on the existence or nature of any donor restrictions.

I. Donated Services

Contributed services are recognized as contributions at their estimated fair value, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Foundation. Services provided by volunteers throughout the year are not recognized as contributions in the financial statements since these services are not susceptible to objective measurement or valuation.

J. Gifts-In-Kind

Gifts-in-kind (GIK) received through private donations are recorded and valued as revenue at their estimated fair value based upon the Foundation's estimate of the wholesale values that would be received for selling the goods in their principle market. GIK expenses are recorded when the goods are shipped for program use. GIK received through a Google grant is recorded as revenue and advertising expense on a monthly basis based upon the amount of usage.

K. Advertising

Advertising costs are expensed as incurred and were \$423,345 for the year ended December 31, 2014, which included GIK expense of \$422,229.

3. CONCENTRATION OF CREDIT RISK

The Foundation maintains its cash in bank deposit accounts that exceed the \$250,000 federally insured limit by \$2,245,944. The Foundation has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk related to cash.

The Foundation utilizes the services of one production vendor for virtually all of its direct mail fundraising initiatives. This production vendor also has a controlling interest in the mail caging service provider, as well as the donor database and fulfillment service providers the Foundation utilizes.

DISABLED VETERANS NATIONAL FOUNDATION
Notes to Financial Statements
December 31, 2014

3. CONCENTRATION OF CREDIT RISK (Continued)

At year end December 31, 2014, the total payable to this production vendor and its service providers was \$3,583,048. While there has been no indication that this production vendor or its service providers will stop providing credit, limit or reduce the credit facility provided to the Foundation, any reduction in credit could have a material impact on the financial condition of the Foundation.

4. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2014 consist of the following:

Contributions	\$ 413,706
Name Rental	104,759
Total	<u>\$ 518,465</u>

Management considers all receivables collectible, therefore, no allowance for uncollectible accounts have been recorded.

5. NAME RENTAL REVENUE

Revenue generated from the use of the Foundation's donor list by other charities is recorded in these financial statements at gross. Associated brokerage and other administrative fees are recorded as expenses in the statement of activities.

6. UNRESTRICTED NET ASSETS (DEFICIT)

Unrestricted net assets (deficit) consist of unrestricted revenue received without donor-imposed restrictions net of expenses. These net assets are available for the operation of the Foundation and include both internally-designated and undesignated resources. The balance of unrestricted net assets was negative (\$1,538,676) at December 31, 2014.

7. RELATED PARTY TRANSACTIONS

During 2014, the Foundation provided unrestricted direct support to the National Association of State Women Veterans Coordinators, Inc., a related party, in the amount of \$30,000. There were no other related party receivables or payables at December 31, 2014.

DISABLED VETERANS NATIONAL FOUNDATION
Notes to Financial Statements
December 31, 2014

8. LEASE COMMITMENT

The Foundation leases office space under a monthly operating lease agreement for the amount of \$7,671.

The following is a schedule of future minimum rental payments under the lease and does not include operating and tax escalations that are adjusted on a periodic basis.

<u>Year Ending December 31,</u>	<u>Amount</u>
2015	\$ 93,662
2016	96,471
2017	<u>40,690</u>
Total	<u>\$230,823</u>

Rent expense which includes operating and tax escalations amounted to \$88,158 for the year ended December 31, 2014.

9. PENSION PLAN

The Foundation sponsors an Individual Retirement Account (IRA) based plan that gives small employers a simplified method to make contributions toward their employees' retirement. Under a SIMPLE IRA plan, employees may choose to make salary reduction contributions and the employer makes matching or non-elective contributions. All contributions are made directly to an Individual Retirement Account or Individual Retirement Annuity set up for each employee (a SIMPLE IRA). SIMPLE IRA plans are maintained on a calendar year basis.

The SIMPLE IRA plan was established to cover all full-time employees who elect to participate in the plan. The Foundation elected to make matching contributions up to three percent of total compensation for eligible participants. Pension expense for the year ended December 31, 2014 was \$1,837.

DISABLED VETERANS NATIONAL FOUNDATION
Notes to Financial Statements
December 31, 2014

10. ALLOCATION OF JOINT COSTS

The Foundation conducted direct mail campaign activities which included requests for contributions, as well as program and management and general components. The costs of conducting the direct mail campaign activities for the year ended December 31, 2014 was \$19,671,197. These joint costs were allocated as follows:

Fundraising	\$ 16,408,371
Program	2,284,618
Management and general	<u>978,208</u>
Total	<u>\$ 19,671,197</u>

11. INQUIRY CONCLUDED/DEBT RELIEF

An inquiry by the Office of the Attorney General of the State of New York was concluded on June 14, 2014, with entry into an Assurance of Discontinuance. Under the terms of the Assurance, then current board members were required to resign, and new policies for fundraising were adopted. A new board and management team were installed. The State of New York will monitor the Foundation through July 15, 2019. The Foundation received as part of the resolution financial relief in the form of forgiveness of debt from major vendors in the amount of \$13.8 million dollars.

Total forgiveness of debt by vendors for the year ended December 31, 2014 was \$13,944,661.

12. SUSEQUENT EVENTS

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification ASC-855, the Foundation has evaluated subsequent events through September 10, 2015 the date the financial statements were available to be issued. No events require recognition in the financial statements or disclosures of the Foundation.