

**DISABLED VETERANS NATIONAL FOUNDATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2013**

**DISABLED VETERANS NATIONAL FOUNDATION  
FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

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**INDEPENDENT AUDITORS' REPORT**

**To the Board of Trustees  
Disabled Veterans National Foundation**

We have audited the accompanying financial statements of **Disabled Veterans National Foundation (a nonprofit organization)**, which comprise the statements of financial position as of December 31, 2013 and 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 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 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.

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, 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.

*Shapiro & Duffalo, P.C.*

November 6, 2014

**DISABLED VETERANS NATIONAL FOUNDATION  
STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2013**

	<u>Historical</u>	<u>Pro Forma</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 1,136,368	\$ 1,136,368
Accounts receivable	23,696	23,696
Prepaid expenses and other receivables	21,520	21,520
Total current assets	<u>1,181,584</u>	<u>1,181,584</u>
 Office furniture and equipment, net of accumulated depreciation of \$14,333	 <u>31,594</u>	 <u>31,594</u>
<b>Other assets:</b>		
Security deposits	<u>7,231</u>	<u>7,231</u>
 Total assets	 <u>\$ 1,220,409</u>	 <u>\$ 1,220,409</u>
<b>LIABILITIES AND NET (DEFICIT) ASSETS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 15,397,490	\$ 10,443,678
Accrued expenses	35,918	35,918
Total current liabilities	<u>15,433,408</u>	<u>10,479,596</u>
<b>Other liabilities:</b>		
Deferred rent payable	<u>6,665</u>	<u>6,665</u>
Total other liabilities	<u>6,665</u>	<u>6,665</u>
<b>Net (deficit) assets:</b>		
Unrestricted deficit	<u>(14,219,664)</u>	<u>(9,265,852)</u>
 Total liabilities and net (deficit) assets	 <u>\$ 1,220,409</u>	 <u>\$ 1,220,409</u>

See notes to financial statements.

**DISABLED VETERANS NATIONAL FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

**Unrestricted net (deficit) assets**

Public support and revenues:

Public support - contribution and bequests	\$ 23,896,616
Contribution of services and goods for distribution	5,283,439
Name rental income, net	11,528
Forgiveness of debt	<u>1,200,000</u>
Total unrestricted public support and revenues	<u>30,391,583</u>

Expenses:

Program services	5,442,887
Management and general	1,984,093
Fundraising	<u>21,143,071</u>
Total expenses	<u>28,570,051</u>

**Decrease in unrestricted net (deficit) assets** 1,821,532

**Unrestricted net (deficit) assets - January 1,** (16,041,196)

**Unrestricted net (deficit) assets - December 31,** \$ (14,219,664)

See notes to financial statements.

**DISABLED VETERANS NATIONAL FOUNDATION  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Program Services	Management and General	Fundraising	Total
<b>Expenses:</b>				
Grants - related organizations	\$ 35,000	\$ -	\$ -	\$ 35,000
Grants - outside organizations	21,000			21,000
Grants - individuals	63,678			63,678
Goods and aid supplied	4,842,619			4,842,619
Direct mail - package costs			15,216,024	15,216,024
Direct mail - postage costs		11,752	3,934,065	3,945,817
Direct mail - opening and deposit processing			1,375,471	1,375,471
Legal and other professional services	480,590	664,784	128,593	1,273,967
Advertising		441,049		441,049
Information technology and database management		290,427		290,427
Payroll, taxes and related charges		363,529		363,529
Rent		96,132		96,132
Telephone and communications		16,122		16,122
Travel		47,948	488,918	535,866
Office supplies, printing and postage		17,671		17,671
Licenses and permits		4,978		4,978
Depreciation		5,254		5,254
Insurance		24,447		24,447
<b>Total Expenses</b>	<b>\$ 5,442,887</b>	<b>\$ 1,984,093</b>	<b>\$ 2,114,307</b>	<b>\$ 28,570,051</b>

See notes to financial statements.

**DISABLED VETERANS NATIONAL FOUNDATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2013**

<b>Cash flows from operating activities</b>	
Decrease in net (deficit) assets	\$ <u>1,821,532</u>
Adjustments to reconcile decrease in net (deficit) assets to net cash provided by operating activities:	
Depreciation	5,254
Deferred rent	3,937
Forgiveness of debt	(1,200,000)
Changes in operating assets and liabilities	
(Increase) decrease in:	
Accounts receivable	57,873
Prepaid expenses and other receivable	16,055
Increase (decrease) in:	
Accounts payable	(211,833)
Accrued expenses	8,679
Total adjustments	<u>(1,320,035)</u>
Net cash provided by operating activities	<u>501,497</u>
 <b>Cash flows from investing activities</b>	
Purchase of office equipment	<u>(3,598)</u>
Net cash used in investing activities	<u>(3,598)</u>
 <b>Net increase in cash</b>	497,899
 <b>Cash - beginning of year</b>	<u>638,469</u>
 <b>Cash - end of year</b>	<u><u>\$ 1,136,368</u></u>

See notes to financial statements.

**DISABLED VETERANS NATIONAL FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2013**

**Note 1 - Summary of Significant Accounting Policies**

*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.

*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).

*Financial Statement Presentation.*

The classification of the Foundation's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets -permanently restricted, temporarily restricted and unrestricted- be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

*Permanently restricted* - net assets resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation.

*Temporary restricted* - net assets resulting from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets.

*Unrestricted* - the part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.



**DISABLED VETERANS NATIONAL FOUNDATION**  
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*Income Tax Status.*

The Foundation has received an advanced ruling determination by the Internal Revenue Service (IRS). The IRS has determined the Foundation is to be recognized as a non-profit organization exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code (IRC) during the advance ruling period ending December 31, 2011. Furthermore, the Foundation will be treated as a public charity and not a private foundation under Section 509(a) of the IRC, and donations made to the Foundation will qualify for a charitable contribution deduction by individual donors, as stated in Section 170 of the IRC. Based upon the advanced ruling determination letter received from the IRS, and the Foundation's position that all support received is substantially related to its exempt purpose, the Foundation has taken the position that it is not subject to any federal or state income taxes. Accordingly, these financial statements reflect no income tax expense or provision for income taxes.

It is the Foundation's policy to provide for uncertain tax provisions and any related interest or penalties based upon management's assessment of whether a tax benefit is more-likely-than-not to be sustained upon examination by taxing authorities. Therefore, the Foundation's has not accrued any tax expense or provision for income taxes in the financial statements. The tax periods that are currently open to audit are 2011 to 2013 by various taxing authorities. In evaluating the tax provisions, management believes their interpretation of current tax laws, their non-tax status is appropriate based upon current facts and circumstances.

*Use of Estimates.*

In preparing the Foundation's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Accounts Receivable.*

Management closely monitors outstanding accounts receivable and charges off to expense any balances that are determined to be uncollectible. At December 31, 2013, the Foundation considered all remaining accounts receivable to be fully collectible. Accordingly, there was no allowance for doubtful accounts.

*Depreciation.*

Office furniture and equipment are recorded at cost and depreciated over their estimated useful lives by use of the straight-line method over 3 to 10 years.

*Contributions and Bequests.*

Contributions and bequests are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the donor intent, if any.

The Foundation classifies contributions received with restrictions where the restrictions are satisfied in the same reporting period as unrestricted contributions.

**DISABLED VETERANS NATIONAL FOUNDATION**  
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*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.

*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 principal market.

GIK expenses are recorded when the goods are shipped for program use.

*Advertising.*

Advertising costs are expensed as incurred and were \$441,049 for December 31, 2013.

*Functional Allocation of Expenses.*

The costs of providing the Foundation's various programs have been summarized on a functional basis in the statement of activities. Accordingly, certain costs may have been allocated among the programs benefited.

**Note 2 - Concentration of Credit Risk**

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. At year end December 31, 2013, the total payable to this production vendor and its service providers amounts to approximately \$14,440,000. 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 and its ability to continue as a going concern.

**Note 3 - Cash**

As of December 31, 2013, the Foundation's bank accounts were all non-interest bearing and fully insured regardless of the account balance by the Federal Deposit Insurance Corporation.

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**NOTES TO FINANCIAL STATEMENTS**  
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**Note 4 – Name Rental Income, net**

Revenue generated from the use of the Foundation’s donor list by other charities is recorded in these financial statements net of the associated brokerage and other administrative costs. The details of the program are as follows:

Name rental income	\$ 44,602
Less: Direct costs	<u>33,074</u>
Net name rental income	<u>\$ 11,528</u>

**Note 5 – Office Furniture and Equipment**

Office furniture and equipment at December 31, 2013 consists of the following:

Furniture and fixtures	\$ 39,212
Office equipment	<u>6,714</u>
	45,926
Less accumulated depreciation	<u>( 14,332)</u>
	<u>\$ 31,594</u>

**Note 6 – Deferred Rent**

In accordance with Financial Accounting Standards Board Statement (FASB) Accounting Standards Codification (ASC) 840.20, operating lease agreements that provide for rent holidays and uneven annual payments are to be amortized on a straight-line basis over the life of the noncancellable lease terms. The effect on this statement is an increase in the rent expense by \$3,937 during the year ended December 31, 2013 over the amounts of actual rent payments disbursed.

**Note 7 - Related Party Transactions**

During 2013, the Foundation provided unrestricted direct support to the National Association of State Women Veterans Coordinators, Inc. in the amount of \$35,000. There were no related entity receivables or payables at December 31, 2013.

The Foundation's Chief Administrative Officer (CAO) resigned from her position on August 31, 2012. On August 30, 2012, a consulting firm, of which she is a principal, entered into an Administrative support contract with the Foundation. The purpose of the consulting services agreement was to aid the Foundation during a transitional period until a new CAO could be hired. The Foundation made payments totaling \$43,612 to this former officer's consulting firm (3NConcepts, LLC) during the year ended December 31, 2013. As of the audit report date, this consulting services contract has been terminated by the Foundation.

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**Note 8 – Rental Commitment**

The Foundation is currently leasing office space under a noncancelable operating lease that expires in May 2017. 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</u> <u>December 31,</u>	<u>Amount</u>
2014	\$ 90,935
2015	93,663
2016	96,472
2017	<u>40,691</u>
	<u>\$ 321,761</u>

Rent expense which includes operating and tax escalations amounted to \$94,392 for the year ended December 31, 2013.

**Note 9 – Pension Plan.**

The Foundation sponsors an IRA-based plan that gives small employers simplified method to make contributions toward their employees' retirement and their own 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 (IRA) 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 in 2012. For the year ending December 31, 2013 there was a \$2,400 employer matching contributions made by the Foundation.

**Note 10 – Noncash Transactions.**

For purposes of the cash flows statement non-cash public support and expenditures for 2013 amounted to \$5,283,439.

**Note 11 – Legal Investigation**

On June 11, 2014, the Foundation settled their legal investigation matter with the Office of the Attorney General (OAG) of New York State relating to fundraising misconduct by the Foundation. The major stipulations in the settlement agreement were that certain members of the Foundation's Board of Directors must resign by a specific date and the Foundation would receive financial relief in the form of forgiveness of debt from their major production vendor in the amount of \$13,800,000. The Foundation in settling this investigation with the OAG neither admitted nor denied their findings but has agreed to monitoring process by them through July 15, 2019.

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**NOTES TO FINANCIAL STATEMENTS**  
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**Note 12 – Forgiveness of Debt**

On December 31, 2013, the Foundation's major production vendor forgave \$1,200,000 of their debt.

**Note 13 – Statement of Financial Position – Pro Forma**

The Statement of Financial Position pro forma reflects the unrecognized subsequent event portion of the 2013 forgiveness of debt stipulated in the investigation settlement by the AOG which amounted to \$4,953,812 of the required \$13,800,000.

**Note 14 – Subsequent Events**

The Foundation evaluated its December 31, 2013, financial statements for subsequent events through November 6, 2014, the date the financial statements were available to be issued. The Foundation is not aware of any subsequent events that would require recognition or disclosure in the accompanying financial statements.