Consolidated Financial Statements
December 31, 2014

Folds of Honor Foundation

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors
Folds of Honor Foundation
Owasso, Oklahoma

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Folds of Honor Foundation, which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Folds of Honor 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.

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Correction of Error
As discussed in Note 11 to the consolidated financial statements, certain errors resulting in understatement of amounts previously reported for investments and overstatement of accounts receivable as of December 31, 2013, were discovered by management of the Company during the current year. Accordingly an adjustment has been made to members' equity as of December 31, 2013, to correct the error. Our opinion is not modified with respect to that matter.

Eide Bailly LLP

Tulsa, Oklahoma
January 13, 2016

	2014
Assets	
Cash and cash equivalents	$ 1,730,308
Short-term investments	11,501
Accounts receivable, net	24,449
Promises to give, net	216,200
Property and equipment, net	3,166,611
Interest in net assets of Chapters	269,271
Beneficial interest in assets held by Community Foundation	352,711
Total assets	5,771,051
Liabilities and Net Assets	
Accounts payable	3,227,506
Accrued expenses and other liabilities	364,311
Deferred revenue	17,100
Total liabilities	3,608,917
Net Assets	
Unrestricted	398,197
Temporarily restricted	1,763,937
Total net assets	2,162,134
Total liabilities and net assets	$ 5,771,051

	Unrestricted	Temporarily Restricted	Total
Revenue, Support, and Gains			
Contributions	$ 3,023,816	$ 301,925	$ 3,325,741
In-kind contributions	820,401		820,401
Gross special events revenue	8,554,075		8,554,075
Less cost of direct benefits to donors	(360,595)	-	(360,595)
Net special events revenue	8,193,480	-	8,193,480
Net investment return	(5,524)	-	(5,524)
Other revenue	6,195	-	6,195
Change in interest in net assets of Chapters		594,625	594,625
Distributions from and change in value of beneficial interests in assets held by others	11,123	-	11,123
Net assets released from restrictions	595,631	(595,631)	-
Total revenue, support, and gains	12,645,122	300,919	12,946,041
Expenses and Losses			
Program services expense	11,209,245	-	11,209,245
Supporting services expense			
Management and general	456,136	-	456,136
Fundraising and development	2,324,995	-	2,324,995
Total expenses	13,990,376	-	13,990,376
Change in Net Assets	(1,345,254)	300,919	(1,044,335)
Net Assets, Beginning of Year, as Previously Reported	1,715,405	1,579,015	3,294,420
Correction of error	28,046	(115,997)	(87,951)
Net Assets, Beginning of Year, as Restated	1,743,451	1,463,018	3,206,469
Net Assets, End of Year	$ 398,197	$ 1,763,937	$ 2,162,134

	Program Service	Management and General	Fundraising and Development	Total
Scholarships	$ 8,590,001	$ -	$ -	$ 8,590,001
Salaries and wages	1,221,830	208,667	130,613	1,561,110
Employee benefits	219,143	38,893	24,754	282,790
Payroll taxes	91,842	18,368	12,246	122,456
Professional services	2,168	1,301	867	4,336
Legal fees	974	300	225	1,499
Bank charges	-	17,231	17,231	34,462
Communications	21,734	4,347	2,898	28,979
Postage and printing	76,013	30,930	18,396	125,339
Occupancy	31,509	6,302	4,201	42,012
Security	21,058	3,510	10,529	35,097
Equipment rental and maintenance	22,928	8,000	5,333	36,261
Travel and training	220,484	-	330,725	551,209
Depreciation	71,393	42,835	28,557	142,785
Insurance	26,389	5,278	3,519	35,186
Receptions and events	-	-	1,089,580	1,089,580
Advertising	480,065	-	981,908	1,461,973
Other	111,714	70,174	24,008	205,896
	11,209,245	456,136	2,685,590	14,350,971
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(360,595)	(360,595)
Total expenses included in the expense section on the statement of activities	$ 11,209,245	$ 456,136	$ 2,324,995	$ 13,990,376

	2014
Cash Flows from Operating Activities	
Change in net assets	$ (1,044,335)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities	
Depreciation and amortization	142,785
Realized and unrealized (gain) loss on short-term investments	2,426
Change in interest net assets of chapters	(594,625)
Change in beneficial interests in assets held by others	(11,123)
Changes in operating assets and liabilities	
Accounts receivable	(22,649)
Promises to give	40,011
Accounts payable and accrued expenses	3,042,487
Deferred revenue	17,100
Net Cash from Operating Activities	1,572,077
Cash Flows from Investing Activities	
Purchases of short-term investments	(384)
Proceeds from sales of short-term investments	653,530
Contributions received from chapters	519,185
Purchases of property and equipment	(1,502,957)
Net Cash from (used for) Investing Activities	(330,626)
Net Change in Cash and Cash Equivalents	1,241,451
Cash and Cash Equivalents, Beginning of Year, As Restated	488,857
Cash and Cash Equivalents, End of Year	$ 1,730,308

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Folds of Honor Foundation (the Foundation) is a nonprofit organization established in May 2007 to provide financial assistance for the education of spouses and dependent children of service men/women who are either killed or permanently disabled while serving and defending our great nation. As of December 31, 2014, the Foundation has awarded over 7,500 scholarships to help defray educational expenses, including tuition and fees, books, instructional supplies and equipment, and room and board.

Principals of Consolidation

The consolidated financial statements include the accounts of the Folds of Honor Foundation, FHF Honor Cottage, LLC (the Honor Cottage), and the Patriot Cottage, LLC, because the Foundation has both control and economic interests in the cottages. All significant intercompany accounts have been eliminated on consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as “Folds of Honor Foundation”.

Cash and Cash Equivalents

The Foundation considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for cottage rentals. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2014 no allowance was considered necessary.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2014, no allowance was considered necessary.

Property and Equipment

Property and equipment additions over $1,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to thirty-nine years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Foundation reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2014.

Beneficial Interest in Assets Held by Community Foundation

The Foundation established a reserve endowment fund (the Fund) under Tulsa Community Foundation's (the CF) Non-profit Preservation Endowment Challenge Grant program and named itself beneficiary. The Foundation granted variance power to CF which allows CF to modify any condition or restriction on its distributions for any specified charitable purpose or to any specified organization if, in the sole judgment of CF's Board of Directors, such restriction or condition becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community. The Fund is held and invested by CF for the benefit of the Foundation, and is reported at fair value in the statement of financial position, with trust distributions and changes in fair value recognized in the statement of activities.

Interest in Chapters

During 2013 and 2014, several chapters were established to raise money for the benefit of the Foundation. Since the Foundation has influence over and an ongoing economic interest in its chapters, the Foundation has recorded an interest in the net assets of the various chapters. Changes in the net assets of the chapters are recorded in the Foundation's statement of activities. Distributions received from the chapters are recorded as reductions in the interest in the net assets of chapters, and are generally used for scholarships. Since the Foundation has limited influence over the amount and timing of distributions and the chapters may impose additional restrictions on certain contributions made to chapters by donors, the net assets of chapters are reflected as temporarily restricted until the distributions are made to the Foundation.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statement of financial position. Net investment gain (loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Foundation and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Foundation's Board of Directors.

The Foundation reports contributions restricted by donors as increases in unrestricted net assets 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 contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Advance payments for Cottage rental are recorded as deferred revenue when received.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Foundation's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received.

Advertising Costs

Advertising costs are expensed as incurred, and approximated $1,196,000 for the year ended December 31, 2014, including approximately $739,000 of donated advertising.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Foundation is organized as an Oklahoma nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and (viii), and have been determined not to be a private foundation under Sections 509(a)(1) and (3), respectively. The entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purposes. The entity has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The entity believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The entity would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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 and those differences could be material.

Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from individuals and foundations supportive of the Foundation’s mission. Investments are made by diversified investment managers whose performance is monitored by management and the Investment Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Investment Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

Subsequent Events

The Foundation has evaluated subsequent events through January 13, 2016, the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements and Disclosures

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset or liability.

A portion of the Foundation's investment assets are classified within Level 1 because they are comprised of open-end mutual funds with readily determinable fair values based on daily redemption values. The fair value of the Foundation's beneficial interest in assets held by Community Foundation is based on the fair value of fund investments as reported by Community Foundation. These are considered to be Level 3 measurements.

The following table presents assets and liabilities measured at fair value on a recurring basis, except those measured at cost as identified below, at December 31, 2014:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Short-term investments				
Equity funds	$ 11,501	$ 11,501	$ -	$ -
Beneficial interests in assets held by Community Foundation	$ 352,711	$ -	$ -	$ 352,711

Below is a reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2014:

	Beneficial Interest in Assets Held by Community Foundation
Balance at December 31, 2013	$ 941,588
Net realized and unrealized gain	8,409
Interest and dividends	5,630
Investment management fees	(2,916)
Distributions	(600,000)
Balance at December 31, 2014	$ 352,711

Note 3 - Net Investment Return

Net investment return consists of the following for the year ended December 31, 2014:

Short-term investments	
Interest and dividends	$ 6,014
Net realized and unrealized gain (loss)	2,426
Less investment management fees	(2,916)
	$ 5,524

Note 4 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at December 31, 2014:

Within one year	$ 140,296
In one to five years	80,000
	220,296
Less discount to net present value	(4,096)
	$ 216,200

At December 31, 2014, three donors accounted for 99% of total promises to give, respectively. The Foundation recognizes promises to give at their estimated carrying value at the time of donation. In subsequent years, the promises to give are recorded at the net present value of expected future cash flows. Carrying value is determined by calculating the present value of the estimated future cash flows. The discount rate used in determining the net present value of promises to give was five percent.

Note 5 - Property and Equipment

Property and equipment consists of the following at December 31, 2014:

Land	$ 390,000
Land improvements	171,130
Buildings and improvements	2,575,290
Office equipment	40,530
Furniture and fixtures	661,495
	3,838,445
Less accumulated depreciation	(671,834)
	$ 3,166,611

Note 6 - Restricted Net Assets

Temporarily restricted net assets at December 31, 2014, consist of:

Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	$ 216,200
Other time-based, general purpose restrictions:	
Interest in net assets of chapters	269,271
Restricted real estate	1,259,743
Restricted for Honor cottage program	18,723
	$ 1,763,937

Land was donated during the year ended December 31, 2009, for the express purpose of building the Foundation's headquarters. The headquarters must be used for a nonprofit purpose for 20 years for the date of donation or the land will revert to the donor. Due to the nature of the restriction, the land and all assets constructed and affixed to it are reported as temporarily restricted real estate.

Net assets were released from restrictions as follows during the years ended December 31, 2014:

Expiration of time restrictions	$ 1,800
Distributions from chapters	519,185
Depreciation of restricted real estate	65,141
Releases for Honor cottage program	9,505
	$ 595,631

Note 7 - Donated Advertising and Materials

The Foundation received donated materials and advertising during the year ended December 31, 2014 totaling $820,401. Donated advertising consists primarily of donated production and airing of television, radio, print, and web-based public service announcements.

Note 8 - Joint Costs of Activities that Include a Fund-Raising Appeal

The Foundation incurred costs related to airing the Patriot Cup golf tournament on the Golf Channel. As the purpose of airing the Patriot Cup was both to solicit contributions and recruit eligible scholarship applicants, the costs were allocated between program and fundraising expense. The Foundation allocated $243,750 and $81,250 to program and fundraising expenses, respectively, for the year ended December 31, 2014.

Note 9 - Employee Benefits

The Foundation sponsors a tax-deferred annuity plan (the Plan) qualified under Section 403(b) of the Internal Revenue Code covering substantially all full-time employees. The plan provides that employees who have attained the age of 21 can voluntarily contribute a percentage of their earnings to the Plan, up to the maximum contribution allowed by the IRS. Employer contributions are discretionary and are determined and authorized by the Board of Directors each plan year. During the year ended December 31, 2014, the Foundation contributed $81,926 to the plan.

Note 10 - Related Party Transactions

During the year ended December 31, 2014, the Foundation received distributions from various chapters of Folds of Honor totaling $519,185.

During the year ended December 31, 2014, the Foundation paid expenses for the Patriot Cup to the Patriot Golf Course, an entity related through common management, totaling $120,000. In addition, the Foundation paid the Patriot Golf course $65,960 for security services, maintenance, grill, and promotional materials.

Note 11 - Restatements

During 2014, the Organization identified certain misstatements within the 2013 financial statements related to the items discussed below. Beginning net assets was restated to correct these misstatements, which increased (decreased) unrestricted net assets, temporarily restricted, and total net assets at January 1, 2013 by $28,046, $(115,997), and $(87,951), respectively.

Promises to give were overstated, some of which was due to contributions that had been recorded twice. The effect of this misstatement was a decrease in temporarily restricted net assets at December 31, 2013 of $309,828.

The 2013 statement of financial position understated investments by $67,073 for an investment account not recorded on the Organization’s books. The effect of this misstatement was an increase in unrestricted net assets at December 31, 2013 by $67,073.

Prior to 2014, the Organization did not record interests in the net assets of its affiliated chapters, but rather consolidated only those chapters that did not have their own 501(c)(3) exemption at the balance sheet date. The effect of this misstatement was an increase in temporarily restricted net assets at December 31, 2013 by $193,831, and a decrease in unrestricted net assets and cash and cash equivalents at December 31, 2013 by $39,027.