



FOLDS *of* HONOR

AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013 and 2012

WITH

INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Folds of Honor Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Folds of Honor Foundation and its affiliate, which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and cash flows for the years 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 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 and its affiliate as of December 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HoganTaylor LLP

November 14, 2014

FOLDS OF HONOR FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

	2013	2012
Assets		
Cash	\$ 527,884	596,618
Contributions receivable	341,935	2,819,174
Pledges receivable, net	225,904	290,552
Beneficial interest in investments held by Tulsa Community Foundation	941,588	801,091
Property and equipment, net	1,806,439	1,739,564
Total assets	\$ 3,843,750	\$ 6,246,999
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 549,330	\$ 372,145
Pledges payable	-	2,200,000
Total liabilities	549,330	2,572,145
Net assets:		
Unrestricted	1,715,405	2,026,379
Temporarily restricted	1,579,015	1,648,475
Total net assets	3,294,420	3,674,854
Total liabilities and net assets	\$ 3,843,750	\$ 6,246,999

FOLDS OF HONOR FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
Revenue			
Special events receipts	\$ 5,129,193	\$ -	\$ 5,129,193
Less: direct cost of special events	(775,689)	-	(775,689)
Special events income	4,353,504	-	4,353,504
Contributions raised	5,454,229	33,579	5,487,808
Less: donor designations to Tulsa Community Foundation	(144,000)	-	(144,000)
Contributions	5,310,229	33,579	5,343,808
Contributed materials and services	1,183,135	-	1,183,135
Investment gain	140,497	-	140,497
Other revenue	3,396	-	3,396
Net assets released from restrictions	103,039	(103,039)	-
Total revenue	11,093,800	(69,460)	11,024,340
Expenses			
Scholarships and other program expenses	8,863,109	-	8,863,109
Fundraising	1,812,923	-	1,812,923
General and administrative	728,742	-	728,742
Total expenses	11,404,774	-	11,404,774
Change in net assets	(310,974)	(69,460)	(380,434)
Net assets, beginning of year	2,026,379	1,648,475	3,674,854
Net assets, end of year	\$ 1,715,405	\$ 1,579,015	\$ 3,294,420

FOLDS OF HONOR FOUNDATION
CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended December 31, 2012

	Unrestricted	Temporarily Restricted	Total
Revenue			
Special events receipts	\$ 5,345,977	\$ -	\$ 5,345,977
Less: direct cost of special events	(602,199)	-	(602,199)
Special events income	4,743,778	-	4,743,778
Contributions	4,641,597	-	4,641,597
Contributed materials and services	1,424,202	-	1,424,202
Investment gain	18,799	-	18,799
Other revenue	3,891	-	3,891
Net assets released from restrictions	211,053	(211,053)	-
Total revenue	11,043,320	(211,053)	10,832,267
Expenses			
Scholarships and other program expenses	8,776,723	-	8,776,723
Fundraising	1,926,926	-	1,926,926
General and administrative	407,617	-	407,617
Total expenses	11,111,266	-	11,111,266
Change in net assets	(67,946)	(211,053)	(278,999)
Net assets, beginning of year	2,094,325	1,859,528	3,953,853
Net assets, end of year	\$ 2,026,379	\$ 1,648,475	\$ 3,674,854

FOLDS OF HONOR FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Change in net assets	\$ (380,434)	\$ (278,999)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	183,413	178,500
Unrealized gain on investments	(140,497)	(18,799)
Noncash contributions of property and equipment	(75,186)	(44,425)
Changes in assets and liabilities:		
Other receivables	-	1,500
Contributions and pledges receivable	2,541,887	(2,140,131)
Accounts payable and accrued expenses	177,185	320,702
Pledges payable	(2,200,000)	2,200,000
Net cash provided by operating activities	106,368	218,348
Cash Flows for Investing Activities		
Purchase of investments	-	(289,980)
Purchase of property and equipment	(175,102)	(14,733)
Net cash used in investing activities	(175,102)	(304,713)
Net decrease in cash	(68,734)	(86,365)
Cash, beginning of year	596,618	682,983
Cash, end of year	\$ 527,884	\$ 596,618

FOLDS OF HONOR FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013 and 2012

Note 1 – Principal Activity and Significant Accounting Policies

Principal activities

The Folds of Honor Foundation (the Foundation) was established in May 2007 to provide post-secondary educational scholarships for children and spouses of military service men and women killed or disabled while serving our great nation. As of December 31, 2013, the Foundation has awarded 5,426 scholarships to help defray educational expenses, including tuition and fees, books, instructional supplies and equipment, and room and board.

The Foundation funds the scholarships through various special events and other fundraising activities including:

Patriot Golf Day – Patriot Golf Day is the flagship fundraiser for the Foundation. With year-round events and national TV exposure over the Labor Day weekend, golfers all over the country contribute to Folds of Honor scholarships, ranging from contributing an extra dollar with their greens fees to participating in multi-day tournaments with silent auctions. The Patriot Golf Day campaign is jointly supported by The PGA of America and the United States Golf Association.

The Patriot Cup – The Patriot Cup is an invitational golf tournament, gala and concert held Memorial Day weekend.

Corporate sponsorships – The Foundation has entered into various corporate partnerships whereby companies have agreed to promote and raise contributions on behalf of the Foundation.

The Foundation is the sole corporate member of its affiliate, FHF Honor Cottage, LLC (the Honor Cottage), a limited liability company. The Honor Cottage holds a single-family vacation property that hosts veterans and their families for two to three days at no cost for therapeutic purposes.

Basis of presentation

The accompanying consolidated financial statements include the accounts of the Foundation and the Honor Cottage and have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

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

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. 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.

Contributions received with donor imposed restrictions are recorded as unrestricted if the restrictions are met within the same time period. Contributions where restrictions are not met in the same period are recognized as temporarily restricted. All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to other legal restrictions. There were no permanently restricted net assets as of December 31, 2013 or 2012.

Beneficial interests in investments held by Tulsa Community Foundation

The Foundation recognizes a beneficial interest in investments (beneficial interest) for amounts transferred to the Tulsa Community Foundation (TCF) when the Foundation designates itself as the beneficiary. The beneficial interest is measured at fair value. Gains and losses on the beneficial interests are recorded as investment income (loss) in the statement of activities.

Amounts received from donors with explicit instruction to be transferred to TCF are deducted from contributions raised and the related transfers are excluded from expenses.

The Foundation recognizes program expenses for amounts transferred to TCF when the Foundation does not designate itself as the beneficiary and there is no explicit instruction from the donor to transfer the gift to TCF (see Note 4).

TCF has variance power over all funds held, including the beneficial interest.

Contributions and pledges receivable

Pledges receivable are recognized when the donor makes an unconditional promise to give to the Foundation. Conditional promises to give are recognized when the conditions to the gifts are substantially met.

Contributions receivable are recorded for balances not yet collected from special events and sponsorship activities conducted during the accounting period.

The Foundation uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on historical experience and management's analysis of specific promises made. Management has determined that no allowance was necessary at December 31, 2013 or 2012.

Property and equipment

The Foundation's policy is to capitalize all property and equipment additions over \$1,000. Property and equipment are stated at cost or an estimated value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Depreciable Life</u>
Buildings and improvements	39 years
Land improvements	15 - 25 years
Office equipment	5 years
Website	3 years

Income taxes

The Foundation is a nonprofit organization, exempt from income taxes under Internal Revenue Code Section 501(c)(3), and is not considered a private foundation. No provision or liability for income taxes has been included in the financial statements.

Generally, the Foundation is no longer subject to federal and state tax examinations by tax authorities for years before 2010.

Contributed services

Contributed services are recorded by the Foundation when provided if the service would otherwise have been purchased.

During the years ended December 31, 2013 and 2012, the value of contributed services meeting the requirements for recognition in the financial statements was \$1,130,489 and \$1,424,202, respectively. These services are recorded as increases in unrestricted net assets and as increases in the corresponding expense or asset. Contributed services were comprised of production and airing of public service announcements, legal consultation and development and marketing service.

Advertising costs

Advertising costs are expensed as they are incurred. The Foundation's advertising costs consist primarily of donated production and airing of television, radio, print and web-based public service announcements. The Foundation has recorded \$411,353 and \$952,710 in advertising expenses for the years ending December 31, 2013 and 2012, respectively.

Joint costs

The Foundation incurred costs related to the airing of 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 years ended December 31, 2013 and 2012.

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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Foundation has evaluated subsequent events through November 14, 2014, the date which the financial statements were available to be issued.

Note 2 – Pledges Receivable

Unconditional promises to give at December 31 were as follows:

	2013	2012
Receivable in less than one year	\$ 140,000	\$ 125,000
Receivable in one to five years	90,000	165,000
Receivable in more than five years	-	10,000
	<u>230,000</u>	<u>300,000</u>
Less present value discount	(4,096)	(9,448)
Pledges receivable, net	<u>\$ 225,904</u>	<u>\$ 290,552</u>

Note 3 – Property and Equipment

A summary of property and equipment as of December 31 is as follows:

	2013	2012
Land	\$ 190,000	\$ 190,000
Land improvements	167,830	167,830
Building and building improvements	1,453,005	1,211,865
Office equipment	138,176	128,998
Website	394,594	394,594
	<u>2,343,605</u>	<u>2,093,287</u>
Less accumulated depreciation and amortization	(537,166)	(353,723)
Property and equipment, net	<u>\$ 1,806,439</u>	<u>\$ 1,739,564</u>

Note 4 – Assets Held by Tulsa Community Foundation

TCF is the second largest community foundation in the United States with approximately \$3.8 billion of net assets as of December 31, 2013. The Foundation has established a reserve fund with TCF. The balance in the reserve fund at December 31, 2013 and 2012, is \$941,588 and \$801,091, respectively. The reserve fund was established for the benefit of the Foundation; however, if the Foundation ceases to exist as a qualified charitable organization, TCF will continue to hold the funds and make distributions to other similar organizations.

The Foundation also transfers amounts to TCF funds for the benefit of scholarship recipients. TCF awards scholarships from these funds in accordance with selection criteria specified in the fund agreements. For the year ended December 31, 2013 and 2012, the Foundation contributed \$6,500,000 and \$6,819,000, respectively, to the various TCF funds for the benefit of scholarship recipients. The fair value of the funds held by TCF for scholarship recipients at December 31, 2013 and 2012, was \$6,990,460 and \$8,617,340, respectively.

Note 5 – Fair Value Measurements

The fair value measurement standards establish a consistent framework for measuring fair value and establish a fair value hierarchy based on the observability of inputs used to measure fair value. These inputs are summarized in the three broad levels listed below:

- Level 1 – quoted prices in active markets for identical securities.
- Level 2 – other significant observable inputs (including quoted prices for similar securities).
- Level 3 – significant unobservable inputs (including the Foundation's own assumptions in determining the value of investments).

The inputs or methodology used for valuing securities is not necessarily an indication of the risk associated with investing in those securities.

Assets measured at fair value on a recurring basis, consist of beneficial interest in investments in the amount of \$941,588 and \$801,091 at December 31, 2013 and 2012, respectively, held by TCF. Beneficial interest is measured at fair value using Level 2 inputs. Since TCF maintains variance power for the beneficial interests it holds, there is no potential market for the beneficial interest or similar assets. Consequently, the valuation is determined by aggregating the valuation of the underlying investments of the beneficial interest. The underlying investments include cash equivalents as well as fixed income, real estate and equity mutual funds. The fair values of the underlying investments are based on quoted prices from active and inactive markets.

Note 6 – Temporarily Restricted Net Assets

At December 31, 2013 and 2012, temporarily restricted net assets were available for the following programs:

	2013	2012
Restricted real estate	\$ 1,324,884	\$ 1,357,923
Time restricted pledges receivable	225,904	290,552
Restricted for the Honor Cottage program	28,227	-
Total	<u>\$ 1,579,015</u>	<u>\$ 1,648,475</u>

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 from 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.

The following net assets were released from donor restrictions by incurring expenses satisfying the restrictions or by the occurrence of events specified by the donors:

	2013	2012
Depreciation on restricted real estate	\$ 33,039	\$ 31,073
Receipts of pledges receivable	70,000	170,000
Total	<u>\$ 103,039</u>	<u>\$ 201,073</u>

Note 7 – Concentration of Credit Risk

The Foundation's financial instruments exposed to concentrations of credit risk and market risk consist primarily of cash equivalents. The Foundation maintains its cash balances at various financial institutions. The balance at each institution is insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, the Foundation's deposits may exceed insured amounts.

Note 8 – Related Party

The Foundation's Chief Executive Officer/Founder and one of its board members are shareholders in The Patriot Golf Course (the Patriot), a privately owned golf club. The Foundation paid the Patriot a total of \$60,336 and \$29,429 for meals, entertainment, apparel, landscaping and other services for the years ending December 31, 2013 and 2012, respectively. The annual Patriot Cup golf tournament is held at the Patriot and the Foundation paid \$123,600 and \$21,362 in 2013 and 2012, respectively, to the Patriot for the use of the golf course.

Note 9 – Defined Contribution Plan

The Foundation's 403(b) defined contribution plan covers substantially all classifications of full-time employees and provides for retirement benefits base on the actual value of contributions at the time of retirement. The Foundation's contributions to the plan in 2013 and 2012, were \$75,684 and \$52,510, respectively.