

***COALITION TO SALUTE  
AMERICA'S HEROES FOUNDATION***

***FINANCIAL STATEMENTS***

***FOR THE YEAR ENDED DECEMBER 31, 2007***

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# Frank & Company, p.c.

Certified Public Accountants  
703-821-0702

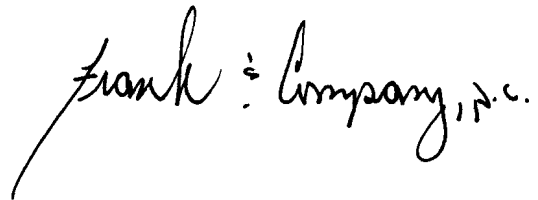
## *REPORT OF INDEPENDENT AUDITOR*

To the Board of Directors of  
Coalition to Salute America's Heroes Foundation

We have audited the accompanying balance sheet of Coalition to Salute America's Heroes Foundation as of December 31, 2007, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of Coalition to Salute America's Heroes Foundation. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coalition to Salute America's Heroes Foundation as of December 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Frank & Company, p.c." The signature is written in a cursive, flowing style.

1360 Beverly Road  
Suite 300  
McLean, Virginia 22101  
October 10, 2008

**COALITION TO SALUTE AMERICA'S HEROES FOUNDATION**

**BALANCE SHEET**

*DECEMBER 31, 2007*

**ASSETS**

Current assets:

Cash	\$ 2,155,310
Miscellaneous receivable	26,484
Inventory	13,250
Due from affiliate	94,451
Due from related party	1,539
Prepaid expenses	<u>111,017</u>

Total current assets 2,402,051

Property and equipment, less accumulated  
depreciation of \$21,395 88,600

Investments 233,862

Security deposits 19,027

Total assets \$ 2,743,540

**LIABILITIES AND NET ASSETS**

Current liabilities:

Accounts payable	\$ 1,127,990
Accounts payable - related party	21,222
Accrued expenses	123
Note payable - related party	<u>19,342</u>

Total current liabilities 1,168,677

Net assets:

Unrestricted net assets 1,574,863

Total liabilities and net assets \$ 2,743,540

See accompanying notes to financial statements.

**COALITION TO SALUTE AMERICA'S HEROES FOUNDATION**

**STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Unrestricted</u>	<u>Temporary Restricted</u>	<u>Total</u>
<b>Revenues gains and other support:</b>			
Contributions	\$ 25,573,158	\$ -	\$ 25,573,158
Gift in-kind	3,618,916	-	3,618,916
Income from sales of merchandise, net cost of goods sold \$7,204	12,790	-	12,790
Loss on investment in affiliate	(347,184)	-	(347,184)
Realized loss on sale of investments	(405)	-	(405)
Investment dividend and interest	3,181	-	3,181
Other income	21,134	-	21,134
Reclassification	<u>131,474</u>	<u>(131,474)</u>	<u>-</u>
<b>Total revenues gains and other support</b>	<u>29,013,064</u>	<u>(131,474)</u>	<u>28,881,590</u>
<b>Expenses:</b>			
<b>Program expenses:</b>			
Veteran's service awards	2,642,578	-	2,642,578
Conferences and seminars	1,590,316	-	1,590,316
Public awareness	<u>8,708,200</u>	<u>-</u>	<u>8,708,200</u>
<b>Total program expenses</b>	<u>12,941,094</u>	<u>-</u>	<u>12,941,094</u>
<b>Supporting services:</b>			
Fundraising	11,625,743	-	11,625,743
Management and general	<u>2,942,766</u>	<u>-</u>	<u>2,942,766</u>
<b>Total supporting services</b>	<u>14,568,509</u>	<u>-</u>	<u>14,568,509</u>
<b>Total expenses</b>	<u>27,509,603</u>	<u>-</u>	<u>27,509,603</u>
<b>Change in net assets</b>	1,503,461	(131,474)	1,371,987
<b>Net assets, December 31, 2006</b>	<u>71,402</u>	<u>131,474</u>	<u>202,876</u>
<b>Net assets, December 31, 2007</b>	<u>\$ 1,574,863</u>	<u>\$ -</u>	<u>\$ 1,574,863</u>

See accompanying notes to financial statements.

**COALITION TO SALUTE AMERICA'S HEROES FOUNDATION**

**STATEMENT OF FUNCTIONAL EXPENSES**

FOR THE YEAR ENDED DECEMBER 31, 2007

	Program expenses			Supporting services		Total
	Veteran's service awards	Conferences and seminars	Public awareness	Fundraising	Management and general	
Veteran assistance and gifts	\$ 1,358,717	\$ -	\$ -	\$ -	\$ -	\$ 1,358,717
Promotional events	-	-	37,353	3,912	-	41,265
Conference productions	-	887,385	-	-	-	887,385
Promotion- PSA	-	-	3,673,269	-	-	3,673,269
Toner cartridge program	-	-	45	-	-	45
Coupon books	5,615	-	-	-	-	5,615
Direct mail	-	-	4,131,439	10,907,000	1,487,319	16,525,758
Caging and escrow	-	-	-	-	277,825	277,825
Grants	547,257	8,039	19,405	1,879	46,220	622,800
Wristbands	-	-	-	39,471	-	39,471
Promotional items	-	-	-	43,113	-	43,113
Office cleaning and repairs	4,079	694	1,675	162	3,989	10,599
Rent	32,380	5,508	13,296	1,287	31,669	84,140
Conference facilities rent	-	400,000	-	-	-	400,000
Employee medical expenses	2,432	414	999	97	2,379	6,321
Administrative salaries	276,462	47,027	113,522	10,992	270,390	718,393
Payroll processing	1,313	223	539	52	1,285	3,412
Taxes	23,901	4,066	9,814	950	23,376	62,107
Utilities	20,248	3,444	8,314	805	22,224	55,035
Legal and accounting	-	-	-	-	417,545	417,545
Consulting	66,725	13,533	104,074	207,300	12,275	403,907
Office supplies	8,113	1,380	3,331	323	7,935	21,082
Printing (office)	7,540	1,283	3,096	300	7,374	19,593
Messenger services	882	150	362	35	863	2,292
Signage	784	133	322	31	766	2,036
Seminars	8,380	1,425	3,441	333	8,197	21,776
Advertising	3,794	645	1,558	151	3,712	9,860
Promotion	-	-	17,460	-	-	17,460
Fees and permits	7,995	1,360	3,283	318	7,820	20,776
Outside services	35,686	1,186	463,511	299,742	10,672	810,797
Outside maintenance	3,830	652	1,573	152	3,746	9,953
Travel expense	160,319	200,521	65,831	6,374	156,796	589,841
Postage and delivery	22,767	3,873	9,349	905	22,269	59,163
Office equipment	814	138	334	32	795	2,113
Miscellaneous expense	22,512	3,829	9,244	895	56,464	92,944
Depreciation expense	6,030	1,026	2,476	240	5,898	15,670
Dues and subscription	-	-	3,535	-	3,535	7,070
Web donation fees	-	-	-	58,239	-	58,239
Bank fees	-	-	-	40,096	29,087	69,183
Insurance	14,003	2,382	5,750	557	13,696	36,388
Interest expense	-	-	-	-	6,645	6,645
	<u>\$ 2,642,578</u>	<u>\$ 1,590,316</u>	<u>\$ 8,708,200</u>	<u>\$ 11,625,743</u>	<u>\$ 2,942,766</u>	<u>\$ 27,509,603</u>

See accompanying notes to financial statements.

**COALITION TO SALUTE AMERICA'S HEROES FOUNDATION**

**STATEMENT OF CASH FLOWS**

*FOR THE YEAR ENDED DECEMBER 31, 2007*

<b>Cash flows from operating activities:</b>	
Change in net assets	\$ 1,371,987
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	15,670
Realized loss on investments	347,589
Non-cash investment contributions	(186,200)
Decrease in receivables	104,990
Increase in receivable from related party	(1,539)
Decrease in inventory	37,326
Increase in prepaid expenses	(108,517)
Increase in accounts payable	663,754
Decrease in accounts payable - related parties	(219,793)
Decrease in accrued expenses	<u>(21,629)</u>
Net cash provided by operating activities	<u>2,003,638</u>
<b>Cash flows from investing activities:</b>	
Advance to affiliate	(76,113)
Purchase of property and equipment	(82,710)
Proceeds from sale of investments	35,795
Purchase of investments	(102,825)
Decrease in deposits	<u>2,450</u>
Net cash used in investing activities	<u>(223,403)</u>
<b>Cash flows from financing activities:</b>	
Repayments of loan from related party	<u>(157,115)</u>
Net increase in cash	1,623,120
Cash, beginning of year	<u>532,190</u>
Cash, end of year	<u>\$ 2,155,310</u>
<b>Supplemental disclosure:</b>	
Cash paid during the year for interest	<u>\$ 26,192</u>

See accompanying notes to financial statements.

# COALITION TO SALUTE AMERICA'S HEROES FOUNDATION

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007

### 1. Organization

*Organization* - The Corporate Charter was adopted in the District of Columbia. The name Coalition to Salute America's Heroes Foundation (CSAH) was adopted August 4, 2004. CSAH is a not-for-profit corporation whose purpose is providing support to wounded troops, veterans, and their families and to inform the public of the needs of wounded veterans.

Contributions are received primarily as a result of direct mail and media solicitations to individuals throughout the country. Contributions are recognized as support when received.

### 2. Summary of significant accounting policies

*Financial statement presentation* - CSAH follows Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* for financial statement presentation. Under SFAS No. 117, CSAH is required to report information regarding its financial position and activities according to three classes of net assets as follows:

*Unrestricted net assets* - Net assets 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 CSAH and/or the passage of time.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by CSAH.

CSAH records contributions in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. Under SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. CSAH reports gifts of cash and other assets as temporarily or permanently restricted revenue 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. When donor

**COALITION TO SALUTE AMERICA'S HEROES FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2007

**2. Summary of significant accounting policies (continued)**

*Veteran's service awards* - Program to assist wounded veterans (and their spouses) with direct financial aid.

*Conferences and seminars* - All expenses incurred to provide wounded veterans with conferences and seminars on educational job training, career counseling, job seeking and placement services, employment opportunities and assessing other services.

*Public awareness* - All expenses incurred to educate the general public about the country's wounded troops and veterans and their families and their community needs. Also, all expenses incurred to inform the general public to participate in CSAH's assistance programs.

*Fundraising* - All expenses incurred with the purpose of raising funds.

*Management and general* - All other operating expenses incurred by CSAH in the accomplishment of its tax exempt purposes.

*Advertising* - Advertising is expensed as incurred. For the year ended December 31, 2007, advertising expense was \$9,860.

**3. Concentration of credit risk**

Financial instruments that are exposed to concentration of credit risk consist of cash, receivables from affiliates, and investment in money market funds. CSAH performs ongoing credit evaluations of the financial condition of the affiliates and generally requires no collateral from them. The cash and investment in money market funds are held in high quality institutions. Cash and investments are based on quoted market prices. Receivables from affiliates are carried at estimated net realizable values.

The cash accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per account. The money market funds are not insured by FDIC. CSAH has not experienced any loss in such accounts. As of December 31, 2007, the uninsured balance is \$1,001,432.

**COALITION TO SALUTE AMERICA'S HEROES FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2007

**2. Summary of significant accounting policies (continued)**

restrictions are met in the same reporting period, temporarily restricted contributions are reported as unrestricted contributions.

*Uses of estimates* - Management uses estimates and assumptions in preparing financial statements in conformity with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

*Income Taxes* - CSAH has received a tax determination letter from the Internal Revenue Service and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

*Cash* - For purposes of the statement of cash flows, cash consists of demand deposits and money market funds held in banks.

*Investments* - Investments are reported at fair value based on quoted prices of the assets or similar assets in all markets. Investment income, which consists of interest and dividend income earned, realized gains or losses, and unrealized appreciation (depreciation) on those investments, is included in the statement of changes in net assets. Investment income reported as operating revenue consists of interest and dividend income and realized and unrealized income on investments used in operations.

*Property and equipment* - Property and equipment are stated at cost and are depreciated on a straight-line basis over their estimated useful lives of five to seven years. CSAH capitalizes property and equipment with an estimated useful life greater than one year. Property and equipment consist of furniture and equipment. For the year ended December 31, 2007, depreciation expense was \$15,670.

*Contributed materials* - Contributed materials are recorded as contributions at their estimated fair value as of the date of the donation.

*Functional expenses* - The costs of providing various program and supporting services have been summarized on a functional basis on the schedule of functional expenses. Certain costs have been allocated among program and supporting services as follows:

**COALITION TO SALUTE AMERICA'S HEROES FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2007

**4. Inventories**

Inventories which consist of wristbands, gift certificates, and envelopes, are valued at the lower of cost or market. Cost is determined on the first in, first out method. Donated inventory is stated at the lower of estimated fair value at the time of receipt or market value.

Inventories are comprised of the following as of December 31, 2007:

Gift certificates	\$ 13,100
Envelopes	<u>150</u>
	<u>\$ 13,250</u>

**5. Investments**

Investments are stated at fair value based on quoted price of similar assets in active markets and consist of the following:

	<u>Carrying Value</u>
Money market	\$ 83,862
Artwork	<u>150,000</u>
	<u>\$ 233,862</u>

Investment return for the year ended December 31, 2007 is summarized as follows:

Interest and dividend income	\$ 3,181
Loss on investment in affiliate	(347,184)
Realized loss on sale of investments	<u>(405)</u>
Total investment loss	<u>\$ (344,408)</u>

**COALITION TO SALUTE AMERICA'S HEROES FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

*DECEMBER 31, 2007*

**6. Related party transactions**

The President and founder of CSAH is also the President of Help Hospitalized Veterans, Inc. (HHV). During the year ended December 31, 2007, HHV gave a grant of \$3,042,421 to CSAH.

CSAH has a 49% ownership stake in Disabled Veterans Office Supplies (DVOS). During the year ended December 31, 2007, CSAH paid \$51,828 in legal fees and employee salaries on behalf of DVOS. The amount was recorded as investment in affiliate in the balance sheet. During 2007, DVOS became insolvent and the balance of the investment in affiliate was written off. As of December 31, 2007, loss on investment in affiliate totaled \$347,184.

The President and founder of CSAH is also the President and founder of Help Wounded Heroes Foundation (HWH). During the year ended December 31, 2007, CSAH paid \$76,114 in legal, accounting, and consulting fees on behalf of HWH. CSAH expects the amount to be repaid in full and has recorded the advance as due from affiliates in the balance sheet. As of December 31, 2007, due from affiliates totaled \$94,451.

During 2007, CSAH paid \$1,539 in legal fees in efforts to form the Make America Safe Foundation and the amount was recorded as due from related party on the balance sheet. As of December 31, 2007, due from related party totaled \$1,539.

The President and founder of CSAH has incurred expenses for his travel and other costs and that of consultants performing services for CSAH. At December 31, 2007, the payable due to the President totaled \$21,222.

On July 1, 2004, CSAH entered into a line of credit (LOC) agreement with its President. The LOC allows CSAH to borrow up to \$650,000. The note bears a fixed interest rate of 4.83%. Accrued interest is payable monthly, in arrears, on the first day of each calendar month beginning on January 1, 2006. Beginning on January 1, 2006, the principal balance is payable monthly based on a 10 year amortization. At December 31, 2006, there is a balloon payment due and the entire unpaid principal balance of the LOC and interest is due and payable in full. The CSAH shall be in default of the LOC upon failing to pay any amount when due. If in default, interest shall accrue on all amounts outstanding at 2% per annum plus the fixed interest rate of 4.83%. As of December 31, 2007, the outstanding balance of the loan was \$19,342. Interest expense totaled \$6,645 for the year ended December 31, 2007.

**COALITION TO SALUTE AMERICA'S HEROES FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

*DECEMBER 31, 2007*

**7. Contributed materials**

During 2007, CSAH produced Public Service Announcements (PSA's). In connection with the airing of the PSA's, CSAH received airtime with a fair value of \$3,436,671 for the year ended December 31, 2007. The \$3,436,671 was recognized as contribution revenue and PSA's production expense in the public awareness expense in the statement of activities.

CSAH received paintings with a fair value of \$150,000 during 2007. The paintings were recognized as contribution revenue in the statement of activities and investments in the balance sheet.

CSAH received various books, airline tickets, sporting event tickets, furniture, and miscellaneous gifts, with a fair value of \$32,245. The items were distributed to wounded veterans. The fair value of these items was recognized as contribution revenue and as veteran service awards expense in the statement of activities.

**8. Allocation of joint costs**

CSAH incurred joint costs of \$16,525,758 during the 2007 fiscal year for direct mail communication materials and activities that include fundraising appeals. During the 2007 fiscal year, \$4,131,439 was allocated to public awareness, \$10,907,000 was allocated to fundraising, and \$1,487,319 was allocated to management and general.

**9. Expense allocations**

CSAH allocates costs between program and supporting services using several methods based on management's best estimate. These estimates include how management spent their time and purpose of services.

For the year ended December 31, 2007, fundraising expense totaled \$11,625,743.

**10. Lease**

On April 11, 2007, CSAH entered into a lease for office space in Ossining, New York. The lease commenced on June 1, 2007 and expires on May 30, 2010 with an option to extend the lease an additional two years.

**COALITION TO SALUTE AMERICA'S HEROES FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2007

**10. Lease (continued)**

For the year ended December 31, 2007, rental expense was as follows:

Rent expense	\$ 93,208
Less: Sublease rental income	<u>(9,068)</u>
Total rent expense	<u>\$ 84,140</u>

Minimum rental payments under non-cancelable operating leases as of December 31, 2007, are as follows:

December 31,	
2008	\$ 90,720
2009	93,442
2010	<u>55,450</u>
Total minimum lease payments	<u>\$ 239,612</u>

**11. Subsequent event**

During the 2006 fiscal year, the Coalition recorded a gift in kind donation of 1,500,000 EZ Scorecards from EZ Scores, LLC (EZ Scores) at the estimated whole sale value of \$18,750,000. The cards were to be delivered to various organizations for distributions to active service members of the U.S. military. The Coalition received confirmations that the cards were delivered and recorded the \$18,750,000 to Veteran's service awards program expense. During the fiscal year ended December 31, 2008, the Coalition found that only 880,000 cards with an estimated wholesale value of \$13,187,500 had been delivered by EZ Scores. The Coalition recorded a prior period adjustment to record a loss from unfunded pledges and a corresponding decrease in expenses of \$5,562,500 for the year ended December 31, 2006. The correction does not affect the Coalition's net assets at the beginning of 2007.

Subsequent to the year ended December 31, 2007, CSAH entered into a grant agreement with Stand Up for Wounded Troops (SUWT). The grant agreement calls for the grant to be paid in four installments of \$250,000 totaling \$1,000,000. CSAH has made the first payment of \$250,000 on March 14, 2008.