

AIR WARRIOR COURAGE FOUNDATION

FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2016

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Armstrong, Vaughan & Associates, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Air Warrior Courage Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of Air Warrior Courage Foundation, which comprise the statement of financial position as of June 30, 2016, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 qualified audit opinion.

Basis for Qualified Opinion

As discussed in Note 8, \$121,837 of the \$941,740 of the grant expenses reported in the program services could not be substantiated. We were unable to satisfy ourselves as to the accuracy of the expenditures through our auditing procedures.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Air Warrior Courage Foundation as of June 30, 2016, and the changes in net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

March 13, 2017

AIR WARRIOR COURAGE FOUNDATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Current Assets:

Unrestricted:

Cash and Cash Equivalents	\$	1,001,737
Certificate of Deposit		254,247
Investments		2,002,780
Investments - 529 Plan		127,468
Prepaid Expenses		3,233
Prepaid Wages		3,791
<i>Total Unrestricted Current Assets</i>		3,393,256

Restricted:

Cash and Cash Equivalents - Restricted		174,264
Investments - Restricted 529 Plans		106,118
<i>Total Restricted Assets</i>		280,382

<i>Total Current Assets</i>		3,673,638
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Non Current Assets:

Donated Burial Plots		17,150
Donated Vehicles		9,113
Accumulated Depreciation		(5,469)
<i>Total Non Current Assets</i>		20,794

TOTAL ASSETS	\$	3,694,432
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LIABILITIES AND NET ASSETS

Liabilities:

Accounts Payable	\$	13,013
<i>Total Liabilities</i>		13,013

Net Assets:

Unrestricted		2,473,706
Unrestricted - Board Designated		927,331
Temporarily Restricted		280,382
<i>Total Net Assets</i>		3,681,419

TOTAL LIABLILITES AND NET ASSETS	\$	3,694,432
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The accompanying notes are an integral part of these financial statements.

AIR WARRIOR COURAGE FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
SUPPORT, REVENUE AND GAINS			
<i>Support:</i>			
Combined Federal Campaign (CFC) Income	\$ 732,336	\$ -	\$ 732,336
Contributions	940,776	278,104	1,218,880
Gifts In-Kind	16,869	-	16,869
Net Assets Released from Restriction	223,615	(223,615)	-
<i>Total Support</i>	1,913,596	54,489	1,968,085
<i>Revenue:</i>			
Interest Income	34,987	-	34,987
Realized Gain (Loss) On Investments	(22,783)	-	(22,783)
Gain (Loss) - Market Value of Investments	(46,494)	12,283	(34,211)
<i>Total Revenue</i>	(34,290)	12,283	(22,007)
 TOTAL SUPPORT, REVENUE AND GAINS	 1,879,306	 66,772	 1,946,078
 EXPENSES			
Program Services	1,095,991	-	1,095,991
Supporting Services:			
Management and General	32,692	-	32,692
Fundraising	10,495	-	10,495
TOTAL EXPENSES	1,139,178	-	1,139,178
 CHANGE IN NET ASSETS	 740,128	 66,772	 806,900
 BEGINNING NET ASSETS	 2,660,909	 213,610	 2,874,519
 ENDING NET ASSETS	 \$ 3,401,037	 \$ 280,382	 \$ 3,681,419

The accompanying notes are an integral part of these financial statements.

AIR WARRIOR COURAGE FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Total Program Services	Supporting Services Management & General	Fundraising Expenses	Total Expenses
FUNCTIONAL EXPENSES				
Bank Charges	\$ 2,808	\$ 702	\$ -	\$ 3,510
Insurance	6,580	1,544	-	8,124
Licenses and Permits	-	1,605	-	1,605
Accounting	32,649	4,035	-	36,684
Website Expenses	3,280	720	-	4,000
Audit	-	4,900	-	4,900
Grants	941,740	-	-	941,740
Rent Expense	-	7,500	-	7,500
Printing and Postage	9,472	2,079	-	11,551
Travel	12,330	-	-	12,330
Depreciation	1,823	-	-	1,823
Office Supplies	1,622	2,434	-	4,056
CFC Marketing	-	-	10,495	10,495
AFA Booths	3,438	-	-	3,438
Telephone Expense	352	225	-	577
Salaries and Taxes	79,897	6,948	-	86,845
TOTAL FUNCTIONAL EXPENSES	\$ 1,095,991	\$ 32,692	\$ 10,495	\$ 1,139,178

The accompanying notes are an integral part of these financial statements.

AIR WARRIOR COURAGE FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Changes in Net Assets	\$ 806,900
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Depreciation Expense	1,823
Unrealized (Gain) Loss on Investments	(34,211)
Changes in Operating Assets:	
Decrease (Increase) in Accrued Interest	842
Decrease (Increase) in Prepaid Expenses	1,662
Decrease (Increase) in Prepaid Wages	(3,791)
Changes in Operating Liabilities:	
Increase (Decrease) in Accounts Payable	5,799
NET CASH PROVIDED (REQUIRED) BY OPERATING ACTIVITIES	779,024

CASH FLOWS FROM INVESTING ACTIVITIES

Maturity/(Purchase) of Certificate of Deposit	(4,247)
Investment in Available for Sale Securities	(1,444,748)
Sale/Unrealized Gain/Loss in Available for Sale Securities	22,567
Purchase of 529 Plans	(19,250)
NET CASH PROVIDED (REQUIRED) BY INVESTING ACTIVITIES	(1,445,678)

NET INCREASE (DECREASE) IN CASH (666,654)

CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR

Unrestricted	1,719,621
Restricted	123,034
TOTAL CASH & CASH EQUIVALENTS AT BEGINNING OF YEAR	1,842,655

CASH & CASH EQUIVALENTS AT END OF YEAR

Unrestricted	1,001,737
Restricted	174,264
TOTAL CASH & CASH EQUIVALENTS AT END OF YEAR	\$ 1,176,001

SUPPLEMENTAL SCHEDULE OF NON-CASH AWARDS:

Property (Vehicle) Received:	
Fair Market Value of Vehicle Received from Donors	\$ 16,869
Fair Market Value of Vehicle Donated to Wounded Warriors	(16,869)
Property Capitalized on Balance Sheet	\$ -

The accompanying notes are an integral part of these financial statements.

AIR WARRIOR COURAGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 -- NATURE OF ACTIVITIES

The Air Warrior Courage Foundation is a California non-profit corporation formed in 1998. The Foundation provides programs and activities to assist disabled and needy former members of the U.S. Armed Forces, their dependents, and widows and orphans of deceased veterans facing medical-incident related expenses beyond their ability to meet.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Accounting Method*

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Accordingly, revenues are recognized when earned and expenses are recognized when they are incurred.

Net assets and revenues, expenses, gains and losses are classified based on the existence and nature or absence of donor-imposed restrictions. Accordingly, net assets of the organization 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 that are available for use, but expendable only for the purposes specified by the donor or grantor.

Permanently Restricted Net Assets – Net assets required to be maintained in perpetuity with only the income to be used for the Foundation’s activities due to donor-imposed restrictions.

B. *Income Taxes*

The Foundation is exempt from state and federal income taxes under Section 501(c)(3) of the Internal Revenue Code except to the extent it has unrelated business income. As such, no provision for income taxes has been made in the financial statements. The Foundation has been classified as a publicly supported organization that is not a private foundation under Section 509(a) of the Code. The Foundation generally is no longer subject to income tax examinations by Federal Authorities for years prior to June 30, 2012.

C. *Cash and Cash Equivalents*

For financial statement purposes, the Foundation considers all cash in banks, and cash in money market accounts to be cash and cash equivalents. All other highly liquid debt instruments with an original maturity of three months or less are also included as cash equivalents on the statement of financial position.

D. *Financial Statement Presentation*

The Foundation adopted Statement of Financial Accounting Standards (ASC) No. 958, “Financial Statements of Not-for-Profit Entities.” Under ASC No. 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. At the financial statement date, there were no permanently restricted assets.

AIR WARRIOR COURAGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2016

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

E. *Donated Services and In-Kind Support*

The Foundation may receive services, equipment and material without payment or compensation. When the value of such services meets recognition criteria, it is reflected in the accompanying financial statements as revenues and expenditures.

F. *Fair Value of Financial Instruments*

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

- Level 1 inputs – quoted prices in active markets for identical assets
- Level 2 inputs – quoted prices in active or inactive markets for the same or similar assets.
- Level 3 inputs – estimates using the best information available when there is little or no market.

The specific techniques used to measure fair value for financial statement elements are described in the notes following that relate to each element.

G. *Estimates*

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. *Property and Equipment*

It is the Foundation's policy to capitalize property and equipment over \$3,000. Lesser amounts are expensed. Property and equipment is stated at cost at date of acquisition or fair value at date of donation in the case of gifts. Property and equipment are depreciated using the straight-line method.

I. *Prepaid Expense*

The Foundation recognizes revenue and expense by fiscal year. All revenue received and expenses incurred during the fiscal year that relate to the following fiscal year are deferred. Prepaid expense in the amount of \$3,233 consists of prepaid insurance expenses. Prepaid wages in the amount of \$3,791 consists of prepaid salaries.

J. *Subsequent Events*

Subsequent events were considered through March 13, 2017, which is the date the financial statements were available to be issued.

AIR WARRIOR COURAGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2016

NOTE 3 -- INVESTMENT EARNINGS

Investments consist of marketable securities considered available for sale.

Investment earnings are summarized as follows for the year ended June 30, 2016:

	<u>Cost</u>	<u>Fair Value (Level 1)</u>	<u>Cumulative Unrealized Gains (Losses)</u>
RBC Wealth Management			
Cash and Money Market	\$ 2,151	\$ 2,151	\$ -
RBC Branch Sweep Program	26,250	26,250	-
US Equities	1,191,757	1,137,385	(54,372)
International Equities	185,770	182,058	(3,712)
Other Assets	38,284	48,408	10,124
Taxable Fixed Income	47,268	48,496	1,228
American Funds Balanced 529 Plans	221,002	233,586	12,584
	<u>\$ 1,712,482</u>	<u>\$ 1,678,334</u>	<u>\$ (34,148)</u>

	<u>Cost</u>	<u>Fair Value (Level 2)</u>	<u>Cumulative Unrealized Gains (Losses)</u>
L Series Fixed & Variable Annuities	\$ 555,000	\$ 558,032	\$ 3,032

AIR WARRIOR COURAGE FOUNDATION
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 JUNE 30, 2016

NOTE 4 -- DONATED ASSETS

Property and equipment consist of the following donated assets:

Burial Plots	\$	17,150
Vehicles		9,113
Total Donated Assets	\$	<u>26,263</u>

Burial Plots are not depreciated as these items will be donated to our veterans. Vehicles are depreciated based on the estimate below:

		<u>Years</u>
Vehicles		5

Depreciation expense of \$1,823 is recorded on the Statement of Activities included in program services.

NOTE 5 -- TEMPORARILY RESTRICTED AND DESIGNATED NET ASSETS

Temporarily restricted and designated net assets consist of the following at June 30, 2016:

	<u>Temporarily Restricted</u>	<u>Board Designated</u>
CSA Individuals	\$ 3,276	\$ -
Russell Project	8,549	-
Christmas Hope	71,819	-
Kilimanjaro Climb	-	-
SAMMC	84,102	-
BAMC Scuba	6,518	
Lorentzen Endowment	-	799,862
American Funds 529 College Plans	106,118	127,469
	<u>\$ 280,382</u>	<u>\$ 927,331</u>

The Foundation invests in College America 529 plans for the benefit of qualified recipients. The Foundation is the owner of the accounts until the funds accumulate to a balance greater than \$10,000 or they are used by the recipient for qualified education expenses.

AIR WARRIOR COURAGE FOUNDATION
NOTES TO FINANCIAL STATEMENTS (CONT.)
JUNE 30, 2016

NOTE 6 -- NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes. Purpose restricted contributions released during the year ending June 30, 2016 totaled \$223,615. The following Temporarily Restricted Net Assets were released for the year ended June 30, 2016:

Christmas Hope	\$ 160,100
Children's American Funds 529 Plans	34,516
Kilimanjaro Climb	100
Russel Project	28,899
Total	<u>\$ 223,615</u>

NOTE 7-- CONCENTRATION

The Foundation received 27% of its revenue from the Lorentzen Irrevocable Trust as of June 30, 2016. If the Foundation should fail to receive contributions from this entity in the future, the ability to continue may be inhibited.

NOTE 8 – CONTINGENCY

The Foundation used a contractor on SAMCC to evaluate the needs of the soldiers and request funds on their behalf which are classified as “grants” on the Statement of Functional Expenses. That contractor was issued \$121,837 to provide grants for servicemen and servicewomen. There is not enough evidence to substantiate that all of these funds were used for the intended purpose. Additionally, the contractor is currently under investigation for mishandling these funds for the Foundation and other similar organizations. Management of the Foundation believe that if the wrongdoing is found, it is unlikely any of these funds will be recovered.

NOTE 9 -- LITIGATION

The management of the Foundation is unaware of any pending or threatened litigation.

