

**CHILDREN OF FALLEN SOLDIERS
RELIEF FUND, INC.
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007**

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INDEPENDENT AUDITORS' REPORT

November 11, 2009

Board of Directors
Children of Fallen Soldiers Relief Fund, Inc.
Gaithersburg, Maryland

We have audited the accompanying statements of financial position of the *Children of Fallen Soldiers Relief Fund, Inc.* as of December 31, 2008 and 2007, and the related statements of activities, changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the *Children of Fallen Soldiers Relief Fund, Inc.'s* management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audits 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 audits provide 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 the *Children of Fallen Soldiers Relief Fund* as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rager, Lehman & Houck, P.C.

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2008 AND 2007

ASSETS

	2008	2007
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 201,732	\$ 229,164
Temporary Investments	124,879	264,881
Due from Board Members	639	1,175
TOTAL CURRENT ASSETS	<u>327,250</u>	<u>495,220</u>
PROPERTY AND EQUIPMENT		
Building	45,000	-
Computers	2,060	2,060
Equipment	1,040	-
Furniture and Fixtures	1,435	-
	<u>49,535</u>	<u>2,060</u>
Less: Accumulated Depreciation	1,084	398
TOTAL PROPERTY AND EQUIPMENT	<u>48,451</u>	<u>1,662</u>
NONCURRENT ASSETS		
Long-Term Investments	<u>390,682</u>	<u>97,000</u>
TOTAL NONCURRENT ASSETS	<u>390,682</u>	<u>97,000</u>
TOTAL ASSETS	<u>\$ 766,383</u>	<u>\$ 593,882</u>

See Accompanying Notes

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2008 AND 2007

LIABILITIES AND NET ASSETS

	2008	2007
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ -	\$ 381
Payroll Taxes Payable	33,235	1,107
TOTAL CURRENT LIABILITIES	<u>33,235</u>	<u>1,488</u>
TOTAL LIABILITIES	<u>33,235</u>	<u>1,488</u>
NET ASSETS		
UNRESTRICTED NET ASSETS		
Unrestricted	476,150	375,654
Unrestricted - Board Designated	18,120	25,900
TOTAL UNRESTRICTED NET ASSETS	<u>494,270</u>	<u>401,554</u>
TEMPORARILY RESTRICTED NET ASSETS	<u>238,878</u>	<u>190,840</u>
TOTAL NET ASSETS	<u>733,148</u>	<u>592,394</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 766,383</u>	<u>\$ 593,882</u>

See Accompanying Notes

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			
	Unrestricted	Temporarily Restricted	Total	Percent of Total Revenue
SUPPORT AND REVENUE				
PUBLIC SUPPORT				
Contributions	\$ 360,143	\$ 59,626	\$ 419,769	92.7
TOTAL PUBLIC SUPPORT	360,143	59,626	419,769	92.7
REVENUE				
Program Services Revenue	12,766	-	12,766	2.8
Interest Income	20,340	-	20,340	4.5
TOTAL REVENUE	33,106	-	33,106	7.3
TOTAL SUPPORT AND REVENUE	393,249	59,626	452,875	100.0
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of Program Restrictions	11,588	(11,588)	-	-
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	11,588	(11,588)	-	-
EXPENSES				
Program Services	214,024	-	214,024	47.3
Management and General	35,909	-	35,909	7.9
Fundraising	23,598	-	23,598	5.2
TOTAL EXPENSES	273,531	-	273,531	60.4
OTHER EXPENSES				
Unrealized Holding Loss	38,590	-	38,590	8.5
TOTAL OTHER EXPENSES	38,590	-	38,590	8.5
INCREASE IN NET ASSETS	\$ 92,716	\$ 48,038	\$ 140,754	31.1

See Accompanying Notes

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2007			Percent of Total Revenue
	Unrestricted	Temporarily Restricted	Total	
SUPPORT AND REVENUE				
PUBLIC SUPPORT				
Contributions	\$ 417,243	\$ 90,826	\$ 508,069	97.6
TOTAL PUBLIC SUPPORT	417,243	90,826	508,069	97.6
REVENUE				
Program Services Revenue	2,055	-	2,055	0.4
Interest Income	10,442	-	10,442	2.0
TOTAL REVENUE	12,497	-	12,497	2.4
TOTAL SUPPORT AND REVENUE	429,740	90,826	520,566	100.0
NET ASSETS RELEASED FROM RESTRICTIONS				
Satisfaction of Program Restrictions	9,131	(9,131)	-	-
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	9,131	(9,131)	-	-
EXPENSES				
Program Services	169,394	-	169,394	32.5
Management and General	18,658	-	18,658	3.6
Fundraising	13,531	-	13,531	2.6
TOTAL EXPENSES	201,583	-	201,583	38.7
OTHER EXPENSES				
Unrealized Holding Loss	5,974	-	5,974	1.1
TOTAL OTHER EXPENSES	5,974	-	5,974	1.1
INCREASE IN NET ASSETS	\$ 231,314	\$ 81,695	\$ 313,009	60.1

See Accompanying Notes

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

STATEMENTS OF CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>Unrestricted</u>	<u>Board Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
NET ASSETS AT DECEMBER 31, 2006	\$ 124,080	\$ 46,160	\$ 109,145	\$ 279,385
Additions to Temporarily Restricted Net Assets	(90,826)	-	90,826	-
2007 Revenue Over Expenses	313,009	-	-	313,009
Net Assets Released From Restriction	9,131	-	(9,131)	-
Transfer from Board Designated Funds	20,260	(20,260)	-	-
NET ASSETS AT DECEMBER 31, 2007	375,654	25,900	190,840	592,394
2008 Revenue Over Expenses	81,128	-	59,626	140,754
Net Assets Released From Restriction	11,588	-	(11,588)	-
Transfer from Board Designated Funds	7,780	(7,780)	-	-
NET ASSETS AT DECEMBER 31, 2008	\$ 476,150	\$ 18,120	\$ 238,878	\$ 733,148

See Accompanying Notes

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			
	Program Services	Management and General	Fundraising	Total Expenses
FUNCTIONAL EXPENSES				
Adopt a Family Special	\$ 500	\$ -	\$ -	\$ 500
Casual Labor	7,868	-	-	7,868
College Scholarships Awarded	8,744	-	-	8,744
Depreciation	487	110	89	686
Financial Support Awarded	56,423	-	-	56,423
Freight and Postage	1,172	-	-	1,172
Gifts	31	-	-	31
Insurance	1,449	1,449	-	2,898
Miscellaneous	15	1,411	-	1,426
Office Supplies and Printing	892	892	2,676	4,460
Patriot House	11,802	-	-	11,802
Payroll Taxes	7,314	1,648	1,339	10,301
Processing Fees	1,509	-	-	1,509
Professional Fees	6,569	6,569	-	13,138
Promotions and Awards	863	863	-	1,726
Rent	2,814	634	515	3,963
Salaries	96,052	21,646	17,587	135,285
Telecommunications	3,050	687	558	4,295
Travel and Lodging	5,635	-	-	5,635
Utilities	-	-	-	-
Website Hosting and Design	835	-	834	1,669
TOTAL FUNCTIONAL EXPENSES	\$ 214,024	\$ 35,909	\$ 23,598	\$ 273,531

See Accompanying Notes

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2007			
	Program Services	Management and General	Fundraising	Total Expenses
FUNCTIONAL EXPENSES				
Adopt a Family Special	\$ 4,245	\$ -	\$ -	\$ 4,245
Casual Labor	250	-	-	250
College Scholarships Awarded	20,500	-	-	20,500
Depreciation	250	80	68	398
Financial Support Awarded	95,066	-	-	95,066
Freight and Postage	478	240	478	1,196
Gifts	249	-	-	249
Insurance	1,113	1,112	-	2,225
Miscellaneous	-	278	-	278
Office Supplies and Printing	796	796	2,389	3,981
Patriot House	-	-	-	-
Payroll Taxes	2,277	723	615	3,615
Processing Fees	2,067	-	-	2,067
Professional Fees	3,807	3,806	-	7,613
Promotions and Awards	710	709	-	1,419
Reimbursements	-	253	-	253
Rent	2,520	800	680	4,000
Salaries	29,307	9,304	7,908	46,519
Telecommunications	1,612	512	435	2,559
Travel and Lodging	3,085	-	-	3,085
Utilities	142	45	38	225
Website Hosting and Design	920	-	920	1,840
TOTAL FUNCTIONAL EXPENSES	\$ 169,394	\$ 18,658	\$ 13,531	\$ 201,583

See Accompanying Notes

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows:		
Cash Contributions Received from Public	\$ 420,305	\$ 507,340
Cash Received for Program Services	12,766	2,055
Interest Received	20,340	10,442
	453,411	519,837
Outflows:		
Payments for Program Service Expenses	111,778	135,512
Payments for Other Expenses	16,789	14,214
Payments to Employees	112,531	48,971
	241,098	198,697
NET CASH PROVIDED BY OPERATING ACTIVITIES	212,313	321,140
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows:		
Sale of Investments	161,514	-
	161,514	-
Outflows:		
Purchase of Building	45,000	-
Purchase of Equipment	2,475	2,060
Investment in Long-Term Investments	303,784	99,118
Investment in Temporary Investments	50,000	180,788
Reinvested Gains	-	5,724
	401,259	287,690
NET CASH USED BY INVESTING ACTIVITIES	(239,745)	(287,690)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(27,432)	33,450
Cash and Cash Equivalents - Beginning	229,164	195,714
CASH AND CASH EQUIVALENTS - ENDING	\$ 201,732	\$ 229,164

See Accompanying Notes

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Activities

The Children of Fallen Soldiers Relief Fund, Inc. (the “Organization”) is a 501(c)(3) not-for-profit organization dedicated to providing college and other financial support to the spouses and dependents of the men and women who died or were disabled while serving in the United States military during the Afghanistan or Iraq wars.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions are then reclassified to unrestricted net assets upon expiration of the time and/or programmatic restriction. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Contributions received as unrestricted that have been designated for a specific purpose by the board of directors are reclassified from unrestricted to unrestricted - board designated. These funds have been set aside for a designated scholarship or financial award, but are not donor restricted.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. 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 vary from the estimates that were used.

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 1. Summary of Significant Accounting Policies - continued

Cash and Cash Equivalents

The Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The carrying amount of cash equivalents approximates fair value because of the short maturity of those instruments.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified by the Internal Revenue Service as a private foundation. Therefore, no income tax provision has been included in the financial statements.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an Organization's financial statements in accordance with Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected this deferral and accordingly will be required to adopt FIN 48 in its 2010 annual financial statements. Prior to adoption of FIN 48, the Organization will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, *Accounting for Contingencies*.

SFAS No. 5 requires the Organization to accrue for losses it believes are probable and can be reasonably estimated. While management has not yet completed its analysis, it does not anticipate that the adoption of FIN 48 will have a material impact on its financial position or results of operations.

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 1. Summary of Significant Accounting Policies - continued

Functional Expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

Donated Services

The Organization generally pays for services requiring specific expertise. However, a number of individuals, including the officers of the Organization, volunteer their time and perform a variety of tasks, including the daily operating of the Organization, the value of which was not reflected in the accompanying financial statements, since the recognition criteria was not met.

Investments

Investments in marketable securities with readily determinable market values and all investments in debt securities are valued at their market values. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the following useful lives:

Building	27.5 years
Computers	3 years
Equipment	5 years
Furniture and Fixtures	5 years

The Organization capitalizes all expenditures for property and equipment in excess of \$700. Expenditures for repairs and betterments that materially prolong the useful lives of assets are capitalized. All other expenditures for repairs and betterments are expensed as incurred. The Organization incurred \$686 and \$398 of depreciation expense for 2008 and 2007, respectively.

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 2. Reconciliation of Increase in Net Assets to Net Cash Provided by Operating Activities

	<u>2008</u>	<u>2007</u>
Increase in Net Assets	\$140,754	\$313,009
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	686	398
Unrealized on Loss	38,590	5,974
(Increase) Decrease in:		
Accounts Receivable	536	(729)
Inventory	-	1,000
Increase (Decrease) in:		
Accounts Payable	(381)	381
Payroll Taxes Payable	<u>32,128</u>	<u>1,107</u>
Net Cash Provided by Operating Activities	<u>\$212,313</u>	<u>\$321,140</u>

Note 3. Concentration of Contributions

The Organization relies entirely on public and private donations as well as significant donated services to operate.

Note 4. Concentration of Credit Risk

The Organization's financial instruments that are exposed to concentration of credit risk consist primarily of cash, bonds and certificates of deposit. The Organization maintains its cash, bonds and certificates of deposit balances at four separate financial institutions.

As of December 31, 2008, all interest-bearing balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. In addition, through December 31, 2009, non-interest bearing transaction accounts are fully insured by the FDIC under its Transaction Guarantee Program. As of December 31, 2007, balances were insured up to \$100,000.

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 5. Investments

At December 31, 2008 and 2007, the Organization held investments that were classified as held to maturity and consisted of the following:

	2008		
	Estimated Fair <u>Value</u>	Unrecognized Historical <u>Cost</u>	Holding <u>Losses</u>
Certificates of Deposit	\$ 60,492	\$ 60,492	\$ -
Mutual Fund	64,387	95,754	(31,367)
Long-Term Corporate Bond	<u>390,682</u>	<u>403,879</u>	<u>(13,197)</u>
Total held-to maturity investments	<u>\$515,561</u>	<u>\$560,125</u>	<u>\$(44,564)</u>
	2007		
	Estimated Fair <u>Value</u>	Unrecognized Historical <u>Cost</u>	Holding <u>Losses</u>
Certificates of Deposit	\$217,855	\$217,855	\$ -
Mutual Fund	47,026	50,000	(2,974)
Long-Term Corporate Bond	<u>97,000</u>	<u>100,000</u>	<u>(3,000)</u>
Total held-to maturity investments	<u>\$361,881</u>	<u>\$367,855</u>	<u>\$(5,974)</u>

The Organization's mutual fund and corporate bond investments are held by a broker who is a member of the Securities Investor Protection Corporation (SIPC). SIPC insures the cash and securities in each investor's account up to \$500,000 against loss in the case of a failed brokerage firm or misappropriation of assets by the broker. The investments held at the Organization's broker are fully insured by the SIPC in the event such failure or misappropriation occurs.

Note 6. Fair Value Measurements

The Organization adopted FASB Statement No. 157, *Fair Value Measurements*, on January 1, 2008 which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

CHILDREN OF FALLEN SOLDIERS RELIEF FUND, INC.

NOTES TO FINANCIAL STATEMENTS - continued

Note 6. Fair Value Measurements - continued

The three levels of the fair value hierarchy under FASB Statement No. 157 are described as follows:

Level 1- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 - Inputs to the valuation methodology for assets and liabilities that have no active market in the same assets, but do have parallel markets or alternative means to estimate fair value using observable information inputs, such as the value placed on similar assets or liabilities that were recently traded or transferred between external entities (i.e. market participants).

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

All investments held by the Organization at December 31, 2008 were valued using Level 1 inputs.

Note 7. Restricted Net Assets

The board has designated \$18,120 and \$25,900 of unrestricted funds as specific scholarship and financial award funds as of December 31, 2008 and 2007, respectively. These funds will be remitted to the designated beneficiary in future years.

Within temporarily restricted funds are two main funding purposes:

	<u>2008</u>	<u>2007</u>
Funding for Educational Grants or Sundry Families	\$ 188,490	\$175,190
Funding for Educational Grants	<u>50,388</u>	<u>15,650</u>
	<u>\$ 238,878</u>	<u>\$190,840</u>