

Iraq and Afghanistan Veterans of America, Inc.

For the Years Ended December 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors  
Iraq and Afghanistan Veterans of America, Inc.:

We have audited the accompanying financial statements of Iraq and Afghanistan Veterans of America, Inc., (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, 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 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 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 of 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 financial statements referred to above present fairly, in all material respects, the financial position of Iraq and Afghanistan Veterans of America, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 13 and 14 are presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Toms River, NJ  
July 8, 2013

*Joseph Scutellaro & Company LLP*

Iraq and Afghanistan Veterans of America, Inc.

Statements of Financial Position

December 31, 2012 and 2011

	ASSETS	
	<u>2012</u>	<u>2011</u>
Current assets:		
Cash	\$ 720,187	104,780
Investments	1,036	1,049
Accounts receivable	564,351	269,045
Prepaid expenses	41,228	1,143
Due from related party	<u>464</u>	<u>16,986</u>
Total current assets	<u>1,327,266</u>	<u>393,003</u>
Property and equipment, at cost	440,316	427,206
Less: accumulated depreciation	<u>(75,663)</u>	<u>(20,322)</u>
Net property and equipment	<u>364,653</u>	<u>406,884</u>
Other assets	<u>21,942</u>	<u>21,942</u>
	<u>\$ 1,713,861</u>	<u>821,829</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 139,694	475,437
Deferred revenue	<u>880,530</u>	<u>-</u>
Total current liabilities	<u>1,020,224</u>	<u>475,437</u>
Net assets:		
Unrestricted	<u>693,637</u>	<u>346,392</u>
	<u>\$ 1,713,861</u>	<u>821,829</u>

See accompanying notes to financial statements.

Iraq and Afghanistan Veterans of America, Inc.

Statements of Activities

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Support and revenue:		
Contributions	\$ 4,237,459	4,375,804
Special events	1,233,193	1,245,322
Non-cash donation	12,721,461	18,985,421
Realized gain on investment	1,943	-
Interest income	<u>71</u>	<u>553</u>
Total support and revenue	<u>18,194,127</u>	<u>24,607,100</u>
Expenses:		
Management and general	631,948	665,664
Program services	16,396,545	23,531,237
Fundraising	<u>818,389</u>	<u>866,717</u>
Total expenses	<u>17,846,882</u>	<u>25,063,618</u>
Increase/(Decrease) in net assets	347,245	(456,518)
Net assets, beginning of year	<u>346,392</u>	<u>802,910</u>
Net assets, end of year	<u>\$ 693,637</u>	<u>346,392</u>

See accompanying notes to financial statements.

Iraq and Afghanistan Veterans of America, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Cash received	\$ 6,074,341	6,957,870
Interest income	71	553
Cash paid	<u>(5,445,908)</u>	<u>(6,835,276)</u>
Cash provided by operating activities	<u>628,504</u>	<u>123,147</u>
Cash Flows from Investing Activities:		
Sale/(Purchase) of investments	13	67,297
Property and equipment purchases	<u>(13,110)</u>	<u>(377,191)</u>
Cash used in investing activities	<u>(13,097)</u>	<u>(309,894)</u>
Net increase (decrease) in cash and cash equivalents	<u>615,407</u>	<u>(186,747)</u>
Cash and cash equivalents, beginning of year	<u>104,780</u>	<u>291,527</u>
Cash and cash equivalents, end of year	<u>\$ 720,187</u>	<u>104,780</u>
Reconciliation of change in net assets to cash provided by operating activities:		
Increase/(Decrease) in net assets	\$ 347,245	(456,518)
Items which did not provide cash:		
Depreciation	55,341	14,617
Working capital changes which provided (used) cash:		
Accounts receivable	(295,306)	129,171
Prepaid expenses	(40,085)	40,898
Due from related party	16,522	-
Accounts payable	(335,743)	394,979
Deferred revenue	<u>880,530</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 628,504</u>	<u>123,147</u>

See accompanying notes to financial statements.

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

1. Nature of Operations

Iraq and Afghanistan Veterans of America, Inc., (the "Organization"), is a non-profit corporation organized in Washington, DC in 2004. The Organization had operated under the name Operation Truth Foundation, Inc. until July 1, 2005.

Iraq and Afghanistan Veterans of America, Inc. was created as a connection between military personnel and the public by giving our troops a voice and amplifying it. The Organization acts as a clearinghouse for veterans of Operation Iraqi Freedom and Operation Enduring Freedom, allowing them to share their stories and concerns with the public through the Internet, the news media and in person. The Organization has created a national forum where successes and failures of the current conflicts are openly discussed for the edification of all citizens, including service members.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Organization has adopted not-for-profit accounting for contributions received and made and for preparation of their financial statements. Not-for-profit accounting establishes standards for external financial reporting by not-for-profit organizations and requires the resources to be classified for accounting and reporting purposes into three net asset categories according to external (donor) imposed restrictions. Not-for-profit accounting also requires that unconditional promises to give be recorded as receivables and revenues and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. For the years ended December 31, 2012 and 2011 the Organization had net assets in only one of the net asset categories, as follows:

Unrestricted net assets - Net assets that are not subject to donor imposed restrictions.

Revenue and Support Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged. The Organization reports gifts of cash and other

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements (continued)

December 31, 2012 and 2011

2. Summary of Significant Accounting Policies (continued)

Revenue and Support Recognition (continued)

assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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.

Use of Estimates

The preparation of financial statements with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of asset and liabilities and disclosure of contingent 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.

Cash and Cash Equivalents

Cash and cash equivalents includes all cash balances and highly liquid investments with a maturity of three months or less.

Investments

The Agency has adopted accounting for not-for-profit for Certain Investments Held by Not-for-Profit Organizations. Not-for-profit accounting requires investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.



Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements (continued)

December 31, 2012 and 2011

2. Summary of Significant Accounting Policies (continued)

Fair Value Measurements

Not-for-profit accounting established a single definition of fair value and a framework for measuring fair value, that is intended to result in increased consistency and comparability in fair value measurements. Not-for-profit accounting also expands disclosures about fair value measurements and applies whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. To increase consistency and comparability in fair value measurements and related disclosures, the fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1), a secondary priority to quoted prices for similar assets or liabilities in active or inactive markets and other observable inputs from or corroborated by observable market data (Level 2) and the lowest priority to unobservable inputs using assumptions that market participants would use (Level 3).

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of temporary cash investments. The Organization places its temporary cash investments with financial institutions and limits the amount of credit risk to any one financial institution.

Advertising

The Organization expenses the costs of advertising as they are incurred. Advertising costs for the years ended December 31, 2012 and 2011 amounted to \$140,145 and \$163,084 respectively. These costs are included in program service expenses in the statement of activities.

Income Taxes

The Organization qualifies as a tax-exempt organization under Section 501 (c) (3) of the Internal Revenue Code and accordingly, is not subject to federal income tax. In addition, the Organization qualifies as a charitable organization under the State of New York, Solicitation and Collection of Funds for Charitable Purposes Article 7-A of the Executive Law effective through the Laws of 2002 and is exempt from state income taxes.

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements (continued)

December 31, 2012 and 2011

2. Summary of Significant Accounting Policies (continued)

In-kind Contributions

The Organization records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

Fixed Assets

Fixed assets are stated at cost. Depreciation is calculated using the straight-line method over estimated useful lives of five years to forty years. Expenditures for repairs and maintenance are charged directly to expenses as they are incurred. Expenditures determined to represent additions or betterments in excess of \$1,000 are capitalized.

3. Cash and Cash Equivalents

The Organization held the following cash positions at December 31,:

	<u>2012</u>	<u>2011</u>
Checking	\$ <u>720,187</u>	\$ <u>104,780</u>
Total by Type	<u>720,187</u>	<u>104,780</u>
Unrestricted Fund	<u>720,187</u>	<u>104,780</u>
Total by Fund	\$ <u>720,187</u>	\$ <u>104,780</u>

4. Investments

The carrying amount and fair value of investments at December 31, 2012 and 2011 is as follows:

	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>	<u>Carrying Amount</u>
<u>2012</u>			
Investment securities	\$ <u>1,036</u>	<u>(28)</u>	<u>1,036</u>
<u>2011</u>			
Investment securities	\$ <u>1,049</u>	<u>-</u>	<u>1,049</u>

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements (continued)

December 31, 2012 and 2011

5. Fair Value Measurements

Fair values of assets measured on a recurring basis at December 31, 2012 and 2011 are as follows:

Fair Value Measurements at Reporting Date Using

	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>2012</u>				
Securities	1,036	1,036	-	-
Total Assets	\$ 1,036	1,036	-	-
<u>2011</u>				
Securities	1,049	1,049	-	-
Total Assets	\$ 1,049	1,049	-	-

All assets have been valued using a market approach.

6. Accounts receivable

Accounts receivable at December 31, 2012 and 2011 consists of current year donations, all of which were received in the next fiscal year.

7. Commitments

The Organization rents facilities under operating leases, which includes real estate taxes and insurance. It is expected that in the normal course of operations, leases that expire will be replaced with similar leases. Rent expense for the years ended December 31, 2012 and 2011 amounted to \$565,667 and \$570,232 respectively.

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements (continued)

December 31, 2012 and 2011

8. Property and Equipment

Property and equipment at December 31, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 184,854	177,071
Leasehold improvements	<u>255,462</u>	<u>250,135</u>
Total property and equipment	<u>440,316</u>	<u>427,206</u>
Less: accumulated depreciation	<u>(75,663)</u>	<u>(20,322)</u>
Net property and equipment	<u>\$ 364,653</u>	<u>406,884</u>

Depreciation expense totaled \$55,341 and \$14,617 for the years ended December 31, 2012 and 2011 respectively.

9. Line of Credit

The Organization has available a bank line of credit for any amount up to \$30,000. The line of credit is unsecured. Draws on the line of credit bear interest at 6.24%. Outstanding borrowings at December 31, 2012 and 2011 were \$- and \$-, respectively.

10. Non-cash Donations

During the years ended December 31, 2012 and 2011, the Organization received the following non-cash donations of materials and free use of facilities that have been reflected in the financial statements of the Organization:

	<u>2012</u>	<u>2011</u>
Free use of facilities	266,870	307,000
Advertising	11,523,900	16,617,400
Brand development services	-	149,850
Leasehold improvements	-	30,625
Travel	200,000	40,000
Veteran career training	56,055	-
Membership gift certificates	-	1,200,000
Membership experience benefits	<u>674,636</u>	<u>640,546</u>
Total non-cash donations	<u>12,721,461</u>	<u>18,985,421</u>

The use of facilities where the Organization operates were donated by a private company. Amounts have been recognized as revenues and expenses in the accompanying financial statements for the fair market value of the donated facilities. All operating and maintenance expenses for the facilities are the responsibility of the Organization.

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements (continued)

December 31, 2012 and 2011

11. Related-Party Transactions

Iraq and Afghanistan Veterans of America Action Fund, Inc. (a non-profit organization) whose purpose is to develop a connection between the American public and the troops serving in Iraq and Afghanistan, has one common board member and common management. The Organization has paid \$16,986 and \$16,986 during the years ended December 31, 2012 and 2011, respectively for expenses paid on behalf of Iraq and Afghanistan Veterans of America Action Fund, Inc. Iraq and Afghanistan Veterans of America Action Fund, Inc. owed the Organization \$464 and \$16,986 for the years ended December 31, 2012 and 2011 respectively.

12. Current Vulnerability Due to Certain Concentrations

The Organization relies heavily on contributions to fund all of its operations. Any changes in the United States political and/or military environment may have a direct result on the Organization's ability to raise funds.

13. Uncertain Tax Positions

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization does not have business activities currently subject to tax on unrelated business income. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization has no open tax years prior to December 31, 2009.

14. Subsequent Events

Management has evaluated subsequent events through July 8, 2013, the date the financial statements were available to be issued.

Iraq and Afghanistan Veterans of America, Inc.

Schedule of Functional Expenses

For the Year Ended December 31, 2012

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2012</u>
Salaries	\$ 2,043,951	379,570	277,336	2,700,857
Payroll taxes	191,191	35,219	25,157	251,567
Employee benefits	220,147	40,554	28,967	289,668
Staff development	25,243	2,970	1,485	29,698
Advertising	140,145	-	-	140,145
PSA donated media	11,523,900	-	-	11,523,900
Research reports	26,689	-	-	26,689
Professional fees	25,088	6,272	-	31,360
Office expense	30,221	3,555	1,778	35,554
Supplies	12,218	1,437	719	14,374
Insurance	11,673	1,373	687	13,733
Other taxes and fees	18,694	2,199	1,100	21,993
Travel	357,371	18,809	5,721	381,901
Grants	35,000	-	-	35,000
Special events	-	-	294,185	294,185
Dues and subscriptions	34,948	1,942	1,942	38,832
Utilities	138,051	16,241	8,121	162,413
Unrealized loss	-	28	-	28
Web and email hosting	28,623	1,590	1,590	31,803
Web and graphic development	22,582	-	1,189	23,771
Information technology	70,385	8,281	4,140	82,806
CRM development and maintenance	157,221	-	8,275	165,496
Outreach events	71,696	-	-	71,696
Membership experience benefits	674,636	-	-	674,636
Veteran career training	56,055	-	-	56,055
Fundraising costs	-	-	127,714	127,714
Depreciation expense	-	55,341	-	55,341
Rent	480,817	56,567	28,283	565,667
	<u>\$16,396,545</u>	<u>631,948</u>	<u>818,389</u>	<u>17,846,882</u>

See independent auditor's report.

Iraq and Afghanistan Veterans of America, Inc.

Schedule of Functional Expenses

For the Year Ended December 31, 2011

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2011</u>
Salaries	\$ 2,089,177	387,901	283,286	2,760,364
Payroll taxes	166,162	30,609	21,863	218,634
Employee benefits	224,589	41,372	29,551	295,512
Staff development	168,285	19,798	9,899	197,982
Advertising	163,084	-	-	163,084
Brand development services	149,850	-	-	149,850
PSA donated media	16,617,400	-	-	16,617,400
Research reports	33,297	-	-	33,297
Professional fees	141,881	35,470	-	177,351
Office expense	44,294	5,211	2,606	52,111
Supplies	26,088	3,069	1,535	30,692
Insurance	9,895	1,164	582	11,641
Other taxes and fees	7,654	900	450	9,004
Travel	561,866	12,770	63,849	638,485
Grants	2,151	-	-	2,151
Dues and subscriptions	48,649	2,702	2,703	54,054
Utilities	169,621	19,955	9,978	199,554
Realized loss	-	10,431	-	10,431
Miscellaneous	560	66	33	659
Web and email hosting	71,168	3,954	3,954	79,076
Web and graphic development	99,377	-	5,230	104,607
Information technology	158,541	18,652	9,326	186,519
CRM development and maintenance	105,641	-	-	105,641
Outreach events	146,764	-	-	146,764
Membership experience benefits	640,546	-	-	640,546
Membership gift certificates	1,200,000	-	-	1,200,000
Fundraising costs	-	-	393,360	393,360
Depreciation expense	-	14,617	-	14,617
Rent	<u>484,697</u>	<u>57,023</u>	<u>28,512</u>	<u>570,232</u>
	<u>\$23,531,237</u>	<u>665,664</u>	<u>866,717</u>	<u>25,063,618</u>

See independent auditor's report.