

**Iraq and Afghanistan Veterans
of America, Inc.**

Financial Statements

December 31, 2016

Independent Auditors' Report

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. ("IAVA") which comprise the statement of financial position as of December 31, 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.

Auditors' 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 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 auditors' 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

During the year ended December 31, 2016 IAVA incurred a decrease in net assets of approximately \$1.037 million which resulted predominantly from a significant reduction in revenue and support as discussed in Note 2 to the financial statements. Management's plans to alleviate this matter are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Prior Period Financial Statements

The financial statements of Iraq and Afghanistan Veterans of America, Inc. as of December 31, 2015, were audited by other auditors whose report dated September 15, 2016, expressed an unmodified opinion on those statements. The summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent in all material respects with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

January 23, 2018

Iraq and Afghanistan Veterans of America, Inc.

Statement of Financial Position
December 31, 2016
(with comparative amounts at December 31, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 551,109	\$ 451,346
Investments	10,936	21,717
Pledges and grants receivable	319,429	1,207,230
Prepaid expenses	45,237	15,492
Property and equipment, net	112,406	157,899
Security deposits	<u>26,223</u>	<u>21,942</u>
	<u>\$ 1,065,340</u>	<u>\$ 1,875,626</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 559,911	\$ 297,725
Due to Related Parties:		
Loan payable	10,057	-
Due to others	56,869	100,000
Capital lease payable	<u>-</u>	<u>3,103</u>
Total Liabilities	<u>626,837</u>	<u>400,828</u>
Net Assets		
Unrestricted	169,654	217,457
Temporarily restricted	<u>268,849</u>	<u>1,257,341</u>
Total Net Assets	<u>438,503</u>	<u>1,474,798</u>
	<u>\$ 1,065,340</u>	<u>\$ 1,875,626</u>

See notes to financial statements

Iraq and Afghanistan Veterans of America, Inc.

Statement of Activities Year Ended December 31, 2016 (with summarized totals for the year ended December 31, 2015)

	2016			2015 Total
	Unrestricted	Temporarily Restricted	Total	
REVENUE AND SUPPORT				
Contributions	\$ 4,675,979	\$ 310,000	\$ 4,985,979	\$ 8,455,156
Special events, less costs of direct benefit to donors of \$381,718 and \$220,709	1,130,202	-	1,130,202	683,557
Donated goods and services	290,437	-	290,437	1,645,316
Realized and unrealized (loss) gain on investments	(872)	-	(872)	259
Interest income	111	-	111	169
Miscellaneous income	-	-	-	9,655
Net assets released from restriction	<u>1,298,492</u>	<u>(1,298,492)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	<u>7,394,349</u>	<u>(988,492)</u>	<u>6,405,857</u>	<u>10,794,112</u>
EXPENSES				
Program	5,283,209	-	5,283,209	7,677,804
Management and general	1,131,874	-	1,131,874	677,985
Fundraising	<u>1,027,069</u>	<u>-</u>	<u>1,027,069</u>	<u>1,149,541</u>
Total Expenses	<u>7,442,152</u>	<u>-</u>	<u>7,442,152</u>	<u>9,505,330</u>
Change in Net Assets	(47,803)	(988,492)	(1,036,295)	1,288,782
NET ASSETS				
Beginning of year	<u>217,457</u>	<u>1,257,341</u>	<u>1,474,798</u>	<u>186,016</u>
End of year	<u>\$ 169,654</u>	<u>\$ 268,849</u>	<u>\$ 438,503</u>	<u>\$ 1,474,798</u>

See notes to financial statements

Iraq and Afghanistan Veterans of America, Inc.

Statement of Functional Expenses
Year Ended December 31, 2016
(with comparative totals for the year ended December 31, 2015)

	Program	Management and General	Fundraising	2016 Total	2015 Total
Salaries	\$ 2,992,339	\$ 371,471	\$ 336,750	\$ 3,700,560	\$ 4,093,632
Employee benefits and payroll taxes	704,178	87,417	79,246	870,841	870,252
Staff development	88,592	11,488	12,142	112,222	146,164
Advertising	10,465	-	15,500	25,965	30,363
Dues and subscriptions	15,033	189	8,199	23,421	45,062
Research reports	34,007	-	-	34,007	1,800
Professional fees	144,282	359,753	53,540	557,575	543,943
Office expense	31,181	615	17,726	49,522	75,336
Supplies	18,284	1,029	1,021	20,334	25,644
Insurance	19,221	2,511	2,415	24,147	18,833
Other taxes and fees	28,496	3,723	41,543	73,762	75,711
Travel	123,775	4,301	10,549	138,625	466,115
Rental/purchases	27,480	3,590	3,452	34,522	54,506
Telecommunications	56,775	7,418	7,133	71,326	100,505
Miscellaneous	1,554	1,907	839	4,300	165,999
Web development	75,124	-	-	75,124	123,040
Software and online tools	74,546	74	125	74,745	113,496
Graphic design	-	-	-	-	21,663
Information and promotion materials	41,096	78	21,776	62,950	236,594
Donated goods and services	201,586	54,041	34,810	290,437	1,645,316
Fundraising costs	-	-	-	-	94,346
Consultants	-	-	257,290	257,290	-
Event planning	-	-	47,293	47,293	-
Outreach events	1,092	-	-	1,092	-
Depreciation	35,120	4,877	5,496	45,493	58,182
Bad debt expense	-	144,359	-	144,359	-
Rent and utilities	558,983	73,033	70,224	702,240	498,828
	<u>\$ 5,283,209</u>	<u>\$ 1,131,874</u>	<u>\$ 1,027,069</u>	<u>\$ 7,442,152</u>	<u>\$ 9,505,330</u>

See notes to financial statements

Iraq and Afghanistan Veterans of America, Inc.

Statement of Cash Flows
Year Ended December 31, 2016
(with summarized totals for year ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,036,295)	\$ 1,288,782
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	45,493	58,182
Bad debt expense	144,359	-
Foregiveness of debt	(100,000)	-
Realized and unrealized loss (gain) on investments	872	(259)
Loss on disposal of assets	-	163,789
Change in operating assets and liabilities		
Pledges and grants receivable	743,442	(582,884)
Prepaid expenses	(29,745)	2,506
Security deposits	(4,281)	-
Accounts payable	262,186	80,869
Deferred revenue	-	(674,911)
Net Cash from Operating Activities	<u>26,031</u>	<u>336,074</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(103,099)
Proceeds from sale of investments	82,000	-
Purchase of investments	<u>(72,091)</u>	<u>(9,860)</u>
Net Cash from Investing Activities	<u>9,909</u>	<u>(112,959)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from capital lease	-	6,573
Payments on capital lease	(3,103)	(3,470)
Proceeds from related party borrowings	<u>66,926</u>	<u>100,000</u>
Net Cash from Financing Activities	<u>63,823</u>	<u>103,103</u>
 Net Change in Cash	99,763	326,218
 CASH		
Beginning of year	<u>451,346</u>	<u>125,128</u>
 End of year	<u>\$ 551,109</u>	<u>\$ 451,346</u>

See notes to financial statements

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements
December 31, 2016

1. Organization and Tax Status

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

IAVA strives to build an empowered generation of veterans who provide sustainable leadership for the United States of America and its local communities. IAVA works toward this vision through programs in four key impact areas: supporting new veterans in health, education, employment and building a lasting community for veterans and their families. IAVA creates impact in those critical areas through assistance to veterans and their families, raising awareness about veterans' issues and advocacy for supportive policy from the federal to the local level.

IAVA is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

2. Management Plans

In response to experiencing an operating loss in 2016, the IAVA Board of Directors decided to reorganize and reduce expenditures during 2016 and 2017 and continuing into 2018.

As a result, management successfully reduced expenses by approximately \$2,300,000 in 2017 as compared to 2016, and is projecting an additional \$1,000,000 in reduced expenditures in 2018 as compared to 2017, primarily in salary and professional fee expenses. This reduction represents approximately 48% of IAVA's total operating expenses over the prior two years. To increase impact and efficiency, IAVA also continues to explore the possibilities of consolidation, merger, or acquisition with other organizations that share a similar mission focus.

IAVA has also refocused its leadership on multi-year and major commitments from donors in order to increase and diversify support and revenue. In 2017, IAVA raised in excess of \$4,900,000 and is projected to raise \$5,000,000 in 2018. IAVA's Board of Directors in 2017 remains extremely committed and personally gave or solicited approximately \$1,000,000 in support of IAVA's mission and the organization is expecting a similar amount for 2018.

3. Summary of Significant Accounting Policies

Basis of Presentation

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

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements
December 31, 2016

3. Summary of Significant Accounting Policies (*continued*)

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly actual results could differ from those estimates.

Fair Value Measurements

IAVA follows U.S. GAAP guidance on Fair Value Measurements which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investment Valuation

Investments are carried at fair value.

Dividends are recorded on the ex-dividend date, and interest is recorded when earned. Security transactions are accounted for on a trade date basis. Net realized gains or losses on sales of investments are determined on the basis of average cost.

Pledges and Grants Receivable

Unconditional pledges that are expected to be collected within one year are recorded at their net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows. All pledges and grants receivable are due within one year.

Conditional pledges are not included as support until such time as the conditions are substantially met.

An allowance for doubtful accounts is established for amounts where there exists doubt as to whether an amount will be fully collectible. The determination of this allowance is an estimate based on IAVA's historical experience, review of balances and expectations relative to collections. In the opinion of management, all receivables for which collectability is doubtful have been written off and the remaining receivables are collectible and accordingly no provision for doubtful collection is deemed necessary.

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements
December 31, 2016

3. Summary of Significant Accounting Policies *(continued)*

Property and Equipment

Property and equipment is recorded at cost, if purchased, or fair value, if donated. Expenditures for repairs and maintenance are charged directly to expense as they are incurred. IAVA capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is provided using the straight-line method over the estimated useful lives of the assets which range from 5-10 years.

Presentation of Net Assets

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

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

Temporarily restricted net assets represent net assets subject to donor-imposed restrictions that expire by the passage of time, or actions of IAVA. When a donor's time-restriction expires or a purpose-restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statement of activities as "net assets released from restrictions."

Permanently restricted net assets represent net assets restricted by donors to be maintained by IAVA in perpetuity. IAVA had no permanently restricted net assets as of December 31, 2016 and 2015.

Contributions and Special Events

Contributions and special events are recognized as revenue when they are received or unconditionally pledged. IAVA reports gifts of cash and other 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.

Donated Goods and Services

Contributions of noncash assets are recorded at their fair values in the period received. Donated contributions of services that create or enhance nonfinancial assets or that require specialized skills, provided by individuals possessing those skills, and that would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. There was approximately \$290,000 and \$1,645,000 of noncash assets recognized for the years ended December 31, 2016 and 2015.

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements
December 31, 2016

3. Summary of Significant Accounting Policies (*continued*)

Advertising Costs

IAVA expenses the costs of advertising as they are incurred. Advertising costs for the years ended December 31, 2016 and 2015 amounted to \$25,965 and \$30,363. These costs are included in program expenses in the statement of activities.

Functional Expense Allocations

The costs of providing the various program services and supporting services of the IAVA have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited based on estimates made by management.

Accounting for Uncertainty in Income Taxes

IAVA recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Management has determined that the IAVA had no uncertain tax positions that would require financial statement recognition or disclosure. IAVA is no longer subject to audits by the applicable taxing jurisdictions for the periods prior to December 31, 2013.

Summarized Prior-Year Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with IAVA's financial statements for the year ended December 31, 2015 from which the summarized information was derived.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is January 23, 2018.

4. Concentration of Credit Risk and Other

IAVA's financial instruments that are potentially exposed to concentrations of credit risk consist principally of receivables, which are expected to be collected in the normal course of business, and cash. IAVA maintains its cash in bank deposits in one financial institution. At times, these accounts may exceed the federal insurance limits, and subject IAVA to a concentration of credit risk. IAVA has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on uninsured cash.

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements
December 31, 2016

5. Investments

Investments consist of equities as of December 31, 2016 and 2015, and were valued using Level 1 inputs under the fair value hierarchy.

6. Property and Equipment

Property and equipment consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 293,537	\$ 293,537
Leasehold improvements	<u>19,674</u>	<u>19,674</u>
	313,211	313,211
Less: accumulated depreciation	<u>(200,805)</u>	<u>(155,312)</u>
	<u>\$ 112,406</u>	<u>\$ 157,899</u>

7. Related Party Transactions

During 2016 and 2015 contributions from certain members of the Board totaled \$1,299,576 and \$565,000. There were no outstanding receivables from these Board Members as of December 31, 2016 and 2015.

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. IAVA owed Iraq and Afghanistan Veterans of America Action Fund, Inc. approximately \$57,000 and \$100,000 as of December 31, 2016 and 2015, respectively. The amount owed as of December 31, 2015 was forgiven in 2016.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Member services	\$ 218,849	\$ 1,066,716
Awareness	-	187,500
Time restricted	<u>50,000</u>	<u>3,125</u>
	<u>\$ 268,849</u>	<u>\$ 1,257,341</u>

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements
December 31, 2016

8. Temporarily Restricted Net Assets (continued)

Temporarily restricted net assets were released from restrictions for the following during the years ended December 31:

	2016	2015
Member services	\$ 1,097,867	\$ -
Awareness	187,500	-
Other	13,125	-
	\$ 1,298,492	\$ -

9. Non-cash Donations

During the years ended December 31, 2016 and 2015, IAVA received the following non-cash donations of materials and free use of facilities that have been reflected in the financial statements of IAVA:

	2016	2015
Awareness	\$ 160,000	\$ -
Professional fees - legal	46,951	-
Member services	41,586	-
Event items/fundraising	34,810	-
Storage and other	7,090	2,500
Free use of facilities	-	249,916
Advertising/promotional services	-	1,288,500
Travel	-	104,400
Total Non-cash Donations	\$ 290,437	\$ 1,645,316

10. Commitments

IAVA rented facilities under an operating lease in New York City through December 2017. In December 2017, IAVA received a judgment for payment of an amount up to \$438,000 resulting from a default on its rental payments under the lease. IAVA is no longer obligated under this lease, and is currently operating at another facility in New York City through the receipt of donated space.

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements
December 31, 2016

10. Commitments (continued)

IAVA currently rents another facility in Washington, D.C. Approximate future annual minimum lease commitments under the Washington, D.C. lease are as follows for the years ending December 31:

2017	\$ 157,000
2018	<u>164,000</u>
	<u>\$ 321,000</u>

These leases include real estate taxes and insurance. Rent expense for the years ended December 31, 2016 and 2015 amounted to approximately \$676,000 and \$411,000 and is included in rent and utilities.

11. Current Vulnerability Due to Certain Concentrations

IAVA 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 IAVA's ability to raise funds.

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