

Iraq and Afghanistan Veterans of America, Inc.

For the Years Ended December 31, 2011 and 2010

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JUMP, SCUTELLARO AND COMPANY, L.L.P. CERTIFIED PUBLIC ACCOUNTANTS

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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 statements of financial position of Iraq and Afghanistan Veterans of America, Inc. as of December 31, 2011 and 2010 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Iraq and Afghanistan Veterans of America, Inc.'s management. 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 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 Iraq and Afghanistan Veterans of America, Inc. as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenses on pages 12 and 13 are presented for purposes of additional analysis and are not a required part of the basic 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.

July 10, 2012
Toms River, NJ

Jump Scutellaro & Company LLP

Iraq and Afghanistan Veterans of America, Inc.

Statements of Financial Position

December 31, 2011 and 2010

	ASSETS	
	<u>2011</u>	<u>2010</u>
Current assets:		
Cash	\$ 104,780	291,527
Investments	1,049	68,346
Accounts receivable	269,045	398,216
Prepaid expenses	1,143	42,041
Due from related party	<u>16,986</u>	<u>16,986</u>
Total current assets	<u>393,003</u>	<u>817,116</u>
Property and equipment, at cost	427,206	50,015
Less: accumulated depreciation	<u>(20,322)</u>	<u>(5,705)</u>
Net property and equipment	<u>406,884</u>	<u>44,310</u>
Other assets	<u>21,942</u>	<u>21,942</u>
	<u>\$ 821,829</u>	<u>883,368</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ <u>475,437</u>	<u>80,458</u>
Total current liabilities	<u>475,437</u>	<u>80,458</u>
Net assets:		
Unrestricted	<u>346,392</u>	<u>802,910</u>
	<u>\$ 821,829</u>	<u>883,368</u>

See accompanying notes to financial statements.

Iraq and Afghanistan Veterans of America, Inc.

Statements of Activities

For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Support and revenue:		
Contributions	\$ 4,375,804	4,394,486
Special events	1,245,322	921,395
Non-cash donation	18,985,421	49,889,800
Unrealized gain on investment	-	10,151
Interest income	<u>553</u>	<u>-</u>
Total support and revenue	<u>24,607,100</u>	<u>55,215,832</u>
Expenses:		
Management and general	665,664	496,759
Program services	23,531,237	54,210,233
Fundraising	<u>866,717</u>	<u>540,944</u>
Total expenses	<u>25,063,618</u>	<u>55,247,936</u>
Decrease in net assets	(456,518)	(32,104)
Net assets, beginning of year	<u>802,910</u>	<u>835,014</u>
Net assets, end of year	<u>\$ 346,392</u>	<u>802,910</u>

See accompanying notes to financial statements.

Iraq and Afghanistan Veterans of America, Inc.

Statements of Cash Flows

For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Cash received	\$ 6,957,870	4,900,679
Interest income	553	-
Cash paid	<u>(6,835,276)</u>	<u>(5,414,626)</u>
Cash provided by (used in) operating activities	<u>123,147</u>	<u>(513,947)</u>
Cash Flows from Investing Activities:		
Sale/(Purchase) of investments	67,297	(29,620)
Property and equipment purchases	<u>(377,191)</u>	<u>(26,161)</u>
Cash used in investing activities	<u>(309,894)</u>	<u>(55,781)</u>
Net decrease in cash and cash equivalents	<u>(186,747)</u>	<u>(569,728)</u>
Cash and cash equivalents, beginning of year	<u>291,527</u>	<u>861,255</u>
Cash and cash equivalents, end of year	<u>\$ 104,780</u>	<u>291,527</u>
Reconciliation of change in net assets to cash provided by (used in) operating activities		
Decrease in net assets	\$ (456,518)	(32,104)
Items which did not provide cash:		
Depreciation	14,617	5,705
Unrealized gain on investment	-	(10,151)
Working capital changes which provided (used) cash:		
Accounts receivable	129,171	(398,216)
Other assets	-	(19,192)
Prepaid expenses	40,898	(40,998)
Due from related party	-	(16,986)
Accounts payable	<u>394,979</u>	<u>(2,005)</u>
Net cash provided by (used in) operating activities	<u>\$ 123,147</u>	<u>(513,947)</u>

See accompanying notes to financial statements.

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements

December 31, 2011 and 2010

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, 2011 and 2010 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, 2011 and 2010

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, 2011 and 2010

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, 2011 and 2010 amounted to \$163,084 and \$259,476 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, 2011 and 2010

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>2011</u>	<u>2010</u>
Checking	\$ <u>104,780</u>	\$ <u>291,527</u>
Total by Type	<u>104,780</u>	<u>291,527</u>
Unrestricted Fund	<u>104,780</u>	<u>291,527</u>
Total by Fund	\$ <u>104,780</u>	\$ <u>291,527</u>

4. Investments

The carrying amount and fair value of investments at December 31, 2011 and 2010 is as follows:

	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>	<u>Carrying Amount</u>
<u>2011</u>			
Investment securities	\$ <u>1,049</u>	<u>-</u>	<u>1,049</u>
<u>2010</u>			
Investment securities	\$ <u>68,346</u>	<u>10,151</u>	<u>68,346</u>

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements (continued)

December 31, 2011 and 2010

5. Fair Value Measurements

Fair values of assets measured on a recurring basis at December 31, 2011 and 2010 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>2011</u>				
Securities	1,049	1,049	-	-
Total Assets	\$ 1,049	1,049	-	-
<u>2010</u>				
Securities	68,346	68,346	-	-
Total Assets	\$ 68,346	68,346	-	-

All assets have been valued using a market approach.

6. Accounts receivable

Accounts receivable at December 31, 2011 and 2010 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, 2011 and 2010 amounted to \$570,232 and \$461,671 respectively.

Iraq and Afghanistan Veterans of America, Inc.

Notes to Financial Statements (continued)

December 31, 2011 and 2010

8. Property and Equipment

Property and equipment at December 31, 2011 and 2010 consisted of the following:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 177,071	50,015
Leasehold improvements	<u>250,135</u>	<u>-</u>
Total property and equipment	<u>427,206</u>	<u>50,015</u>
Less: accumulated depreciation	<u>(20,322)</u>	<u>(5,705)</u>
Net property and equipment	<u>\$ 406,884</u>	<u>44,310</u>

Depreciation expense totaled \$14,617 and \$5,705 for the years ended December 31, 2011 and 2010 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, 2011 and 2010 were \$- and \$-, respectively.

10. Non-cash Donations

During the years ended December 31, 2011 and 2010, 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>2011</u>	<u>2010</u>
Free use of facilities	307,000	350,000
Advertising	16,617,400	49,226,800
Brand development services	149,850	-
Leasehold improvements	30,625	-
Travel	40,000	-
Membership gift certificates	1,200,000	-
Membership experience benefits	<u>640,546</u>	<u>313,000</u>
Total non-cash donations	<u>18,985,421</u>	<u>49,889,800</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, 2011 and 2010

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 \$33,971 and \$8,296 during the years ended December 31, 2011 and 2010, 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 \$16,986 and \$16,986 for the years ended December 31, 2011 and 2010 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. Concentration of Revenue Sources

Approximately 20% of the Organization's revenue is derived from one grantor. The current level of the Organization's operations and program services may be impacted if the funding from the grantor ceased to exist.

14. 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, 2008.

15. Subsequent Events

Management has evaluated subsequent events through May 15, 2012, 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, 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
Special events	-	-	353,514	353,514
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	-	-	39,846	39,846
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.

Iraq and Afghanistan Veterans of America, Inc.

Schedule of Functional Expenses

For the Year Ended December 30, 2010

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total 2010</u>
Salaries	\$ 1,974,366	232,279	116,139	2,322,784
Payroll taxes	146,828	17,274	8,637	172,739
Employee benefits	210,518	24,767	12,383	247,668
Staff development	132,213	15,555	7,777	155,545
Advertising	251,692	-	7,784	259,476
PSA donated media	49,226,800	-	-	49,226,800
Research reports	35,925	-	-	35,925
Professional fees	61,864	15,466	-	77,330
Office expense	65,568	7,714	3,857	77,139
Supplies	71,466	8,408	4,204	84,078
Insurance	2,520	297	148	2,965
Other taxes and fees	6,719	1,680	-	8,399
Travel	406,467	47,819	23,910	478,196
Grants	22,802	-	-	22,802
Special events	-	-	289,168	289,168
Dues and subscriptions	16,167	4,042	-	20,209
Utilities	168,610	19,837	9,918	198,365
Miscellaneous	1,206	301	-	1,507
Web hosting	71,376	8,397	4,199	83,972
Web and graphic development	221,783	26,092	13,046	260,921
Information technology	127,152	14,959	7,480	149,591
Outreach events	200,447	-	-	200,447
Additional membership experience benefits	313,000	-	-	313,000
Fundraising costs	-	-	9,210	9,210
Outside services	82,324	-	-	82,324
Depreciation expense	-	5,705	-	5,705
Rent	<u>392,420</u>	<u>46,167</u>	<u>23,084</u>	<u>461,671</u>
	<u>\$54,210,233</u>	<u>496,759</u>	<u>540,944</u>	<u>55,247,936</u>

See independent auditor's report.