OPERATION STAND DOWN TENNESSEE

FINANCIAL STATEMENTS

December 31, 2014

OPERATION STAND DOWN TENNESSEE

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Operation Stand Down Tennessee
Nashville, Tennessee

We have audited the accompanying financial statements of Operation Stand Down Tennessee (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2014, 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 audit opinion.

Frasier, Dean & Howard, PLLC • 3310 West End Avenue, Suite 550 • Nashville, Tennessee 37203-1089 • 615.383.6592 • *fax* 615.383.7094 • www.fdhcpa.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Operation Stand Down Tennessee as of December 31, 2014, 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.

Correction of Error

As described in Note 11 to the financial statements, the Organization restated pledges receivable and temporarily restricted net assets to record an in-kind promise to give that was made in 2013. Our opinion is not modified with respect to that matter.

Fraser, Dean + Howard, PLLC

June 25, 2015
Nashville, Tennessee

OPERATION STAND DOWN TENNESSEE
STATEMENT OF FINANCIAL POSITION
December 31, 2014

Assets

Cash and cash equivalents, including $42,783 held for clients	$	639,157
Grant and contract receivables		61,656
Accounts and contributions receivable, including in-kind of $200,000		501,607
Prepaid expenses		17,093
Fixed assets, net		3,240,594
Total assets	$	4,460,107

Liabilities and Net Assets

Liabilities:		
Accounts payable	$	33,765
Accrued expenses		106,533
Tenant deposits		12,986
Client savings liability		42,783
Line of credit		15,000
Long-term debt		2,929,555
Total liabilities		3,140,622
Net assets:		
Unrestricted		724,932
Temporarily Restricted		594,553
Total net assets		1,319,485
Total liabilities and net assets	$	4,460,107

See accompanying notes.

OPERATION STAND DOWN TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2014

	Unrestricted	Temporarily Unrestricted	Total
Public support and revenue:			
Public support:			
Grants	$ 2,020,144	$ -	$ 2,020,144
Contributions (including in-kind of $235,143)	691,038	670,493	1,361,531
Fundraising event	132,700	-	132,700
United Way	25,268	-	25,268
Total public support	2,869,150	670,493	3,539,643
Revenue:			
Sales to the public	101,122	-	101,122
Rental income and other	65,339	-	65,339
Client fees	24,743	-	24,743
Annual event	5,980	-	5,980
Total revenue	197,184	-	197,184
Net assets released from restriction	345,858	(345,858)	-
Total public support and revenue	3,412,192	324,635	3,736,827
Expenses:			
Program services	2,575,155	-	2,575,155
Management and general	255,284	-	255,284
Fundraising	136,779	-	136,779
Total expenses	2,967,218	-	2,967,218
Change in net assets	444,974	324,635	769,609
Net assets at beginning of year, as restated	279,958	269,918	549,876
Net assets at end of year	$ 724,932	$ 594,553	$ 1,319,485

See accompanying notes.

OPERATION STAND DOWN TENNESSEE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2014

	Program Services	Management and General	Fundraising	Total
Compensation expense:				
Salaries	$ 1,059,206	$ 168,746	$ 82,211	$ 1,310,163
Employee benefits	14,184	2,259	1,101	17,544
Payroll taxes	86,550	13,789	6,717	107,056
Total compensation expense	1,159,940	184,794	90,029	1,434,763
Other expenses:				
Assistance to clients	662,939	-	-	662,939
Occupancy	205,386	4,583	798	210,767
Depreciation	139,669	9,253	2,312	151,234
Supplies and general	94,496	34,868	4,760	134,124
Interest	92,569	8,305	2,076	102,950
Transportation	63,374	3,004	13	66,391
Professional fees	57,196	3,557	1,239	61,992
Insurance	58,381	2,272	568	61,221
Fundraising event	-	-	34,984	34,984
Telephone	18,219	-	-	18,219
Event expense	13,954	-	-	13,954
Staff training	6,944	1,771	-	8,715
Dues and subscriptions	2,088	823	-	2,911
Miscellaneous	-	2,054	-	2,054
Total other expenses	1,415,215	70,490	46,750	1,532,455
Total expenses	$ 2,575,155	$ 255,284	$ 136,779	$ 2,967,218

See accompanying notes.

OPERATION STAND DOWN TENNESSEE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2014

Cash flows from operating activities:	
Change in net assets	$ 769,609
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Contributions restricted for long-term purposes	(670,493)
Depreciation	151,234
Donated fixed assets	(10,180)
Changes in operating assets and liabilities:	
Grant and contract receivables	17,758
Accounts and contributions receivable	(2,693)
Prepaid expenses	17,013
Accounts payable	21,797
Accrued expenses	55,963
Tenant deposits	12,986
Client savings liability	42,783
Net cash provided by operating activities	405,777
Cash flows from investing activities:	
Purchases of fixed assets	(120,297)
Net cash used in investing activities	(120,297)
Cash flows from financing activities:	
Proceeds from contributions restricted for long-term purposes	375,704
Repayment of line of credit, net	(11,883)
Proceeds from long-term debt	57,121
Repayment of long-term debt	(197,475)
Net cash used in financing activities	223,467
Net increase in cash and cash equivalents	508,947
Cash and cash equivalents at beginning of year	130,210
Cash and cash equivalents at end of year	$ 639,157
Supplemental information:	
Cash paid for interest	$ 102,950
Schedule of non-cash investing and financing activities:	
Purchase of fixed assets through issuance of long-term debt	$ 2,482,279
Donated fixed assets	$ 10,180

See accompanying notes.

NOTE 1 – NATURE OF ACTIVITIES

Operation Stand Down Tennessee (the "Organization"), assists veterans and their families so they can be self-sustaining and better connected to the community. The Organization operates a service center providing and/or coordinating a variety of services to all honorably discharged veterans and their families with special emphasis on those who are homeless. The Organization provides employment training and counseling, technical assistance, job training, placement assistance, computer training, and job retention to honorably discharged veterans with the focus of helping them find good jobs. The Organization operates a transitional housing program for veterans providing the necessary social and support services to ensure a successful return to responsible living. The Organization coordinates events to provide supplies and social and support services to homeless veterans ("Stand Downs") with Middle Tennessee agencies. The Organization also operates a thrift store that provides a job-training program for veterans, provides clothes to veterans and their families (at no cost to them) and generates revenue to support programs in the veteran support center.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Organization are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below.

Basis of Presentation

Under accounting principles generally accepted in the United States of America, the Organization is required to report information regarding its financial position and activities according to the three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Under these provisions, net assets and revenues, expenses, gains and losses 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 – net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

> **Permanently restricted net assets –** net assets subject to donor imposed stipulations that they be maintained permanently by the Organization. Generally donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes. The Organization had no permanently restricted net assets as of December 31, 2014.

Estimates

The preparation of financial statements in conformity with the generally accepted accounting principles 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 revenues and expenses and allocation of functional expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all cash funds, cash bank accounts and highly liquid debt instruments with an original maturity when purchased of three months or less to be cash and cash equivalents. At times during the year, the Organization maintained cash balances at financial institutions in excess of federally insured limits. The Organization has not experienced any losses in such accounts. Management believes the Organization is not exposed to any significant credit risk related to cash. Cash and cash equivalent balances in excess of federally insured limits amounted to approximately $132,000 at December 31, 2014.

Restricted Cash

Cash of $42,783, as of December 31, 2014, is held by the Organization as trustee under a savings plan for the benefit of certain Organization clients.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using an interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Promises to Give (Continued)

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible. Contributions receivable are deemed to be fully collectible by management and no allowance for uncollectible contributions is considered necessary at December 31, 2014.

Accounts Receivable

Accounts receivable are reported at gross sales price less any applicable payments or adjustments. The Organization does not charge interest on past due accounts. Accounts receivable are deemed to be fully collectible by management and no allowance for bad debts is considered necessary at December 31, 2014.

Fixed Assets

Fixed assets are recorded at cost at the date of purchase or estimated fair value at the date of gift to the Organization. The Organization's policy is to capitalize acquisitions which constitute a unit of property with an estimated useful life greater than one year or improvements to buildings which significantly improve or materially extend the life of the property. Depreciation is calculated by the straight-line method over the estimated useful lives, which are as follows:

Buildings and improvements	5 to 27 years
Equipment and furniture	3 to 7 years
Vehicles	5 years

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions.

The Organization also receives grant revenue from federal agencies. Grant revenue is recognized in the period a liability is incurred for eligible expenditures under the terms of the grants.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

In-kind contributions are recorded based on their estimated value on the date of receipt. The Organization reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Revenue from sales of donated goods is recognized at the time merchandise is transferred to the customer.

Sales Taxes Collected

Sales taxes collected and remitted to governmental authorities are excluded from sales and costs and presented on a net basis in the financial statements.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements.

Program Services
Includes costs of operating the service center, providing employment training and counseling, operation of transitional housing, coordination of Stand Downs and operation of a thrift store.

Supporting Services
Management and General **–** relates to the overall direction of the Organization. These expenses are not identifiable with a particular program or event, or with fundraising, but are indispensable to the conduct of those activities and are essential to the Organization. Specific activities include organization oversight, business management, recordkeeping, budgeting, financing, and other administrative duties.

Fundraising **–** includes costs of activities directed toward appeals for financial support, including special events. Other activities include the creation and distribution of fundraising materials.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allocation of Functional Expenses

Costs of providing the various programs are summarized and reported on a functional basis. Expenses that can be directly attributed to a particular function are charged to that function. Expenses of each program include costs directly associated with the program and other indirect costs determined to benefit that program. These costs have been allocated among more than one program or activity based on estimates made by management.

Income Taxes

The Organization is exempt from federal and state income taxes under section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, no provision for income taxes has been made. The Organization pays tax on unrelated business income from certain activities. These activities and the related tax were insignificant in 2014.

The Organization follows Financial Accounting Standards Board Accounting Standards Codification guidance concerning the accounting for income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended December 31, 2011 through 2014.

Subsequent Events

The Organization evaluated subsequent events through June 25, 2015, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 3 – ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts and contributions receivable are primarily composed of unconditional promises to give and are collectible over the following periods at December 31, 2014:

Less than one year, including in-kind of $66,667	$ 297,206
One to five years, including in-kind of $133,333	197,583
Unconditional promises to give	494,789
Program receivables	6,818
Accounts and pledges receivable	$ 501,607

NOTE 4 – FIXED ASSETS

A summary of fixed assets as of December 31, 2014 is as follows:

Land	$ 1,215,650
Buildings and improvements	2,743,551
Equipment and furniture	345,434
Vehicles	90,395
	4,395,030
Accumulated depreciation	(1,154,436)
	$ 3,240,594

NOTE 5 – LINE OF CREDIT

The Organization has a $50,000 line of credit agreement with a bank bearing interest at a variable rate based on the U.S. Prime Rate, but not less than 5%. The line of credit agreement is secured by all equipment of the Organization and matures December 20, 2015. At December 31, 2014, the Organization owed $15,000 under the line of credit agreement.

NOTE 6 – LONG-TERM DEBT

On April 15, 2014, the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County issued a Revenue Bond Series 2014 (the “Bond”) in the amount $2,375,000 to provide funds for the Organization to finance the purchase of real property from which it operates. The bonds were purchased by a bank, to which all principal and interest payments are being made.

NOTE 6 – LONG-TERM DEBT (Continued)

Long-term debt as of December 31, 2014 is as follows:

Bond payable, due in monthly installments of $14,525, including interest at 4.05% through May 2034, secured by real estate with a net book value of $2,484,993 at December 31, 2014.	$ 2,328,004
Note payable to bank, due in monthly installments of $4,411, including interest at 5.25%, through September 2015, with a balloon payment of $545,222 due October, 2015, secured by real estate with a net book value of $654,735 at December 31, 2014.	565,434
Note payable to Metropolitan Development and Housing Agency ("MDHA"), non-interest bearing, forgiven on a pro rata basis over 5 years, subject to certain conditions, secured by real estate.	36,117
	$ 2,929,555

In conjunction with the purchase of its real property in 2014, the Organization obtained forgiveness of a note payable to MDHA in the original amount of $120,000 previously secured by the property.

Future principal maturities of long-term debt are as follows:

Year ending December 31,	
2015	$ 654,796
2016	92,724
2017	96,225
2018	99,870
2019	100,383
Thereafter	1,885,557
	$ 2,929,555

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2014 consist of $374,576 restricted for the Organization's Preserving the Promise capital campaign and $219,977 of contributions receivable (including $200,000 of in-kind).

NOTE 8 – SIGNIFICANT FUNDING SOURCES

The Organization receives a significant portion of its funds from federal grants and contracts and from independent agencies for the conduct of its programs. A major reduction of funds from one of the grantor agencies, should this occur, would have a material effect on the programs and the financial position of the Organization.

NOTE 9 – LEASES AND COMMITMENTS

The Organization operates a veteran service center in Nashville, Tennessee that was leased under an operating lease until the Organization purchased the property in April 2014. The Organization's use of its building is subject to certain property use restrictions. The Organization was in compliance with these restrictions at December 31, 2014. The Organization also leases office space in Clarksville, Tennessee under an operating lease agreement expiring in July 2016. Rent expense related to these facilities amounted to $42,047 during 2014. Future minimum rental commitments as of December 31, 2014 are as follows:

Year ending December 31,	
2015	$ 14,400
2016	8,400
	$ 22,800

In conjunction with the property purchase in April 2014, the Organization assumed two tenant leases for a portion of the purchased property. The first lease requires minimum monthly rental payments of $2,745, including additional rent for real estate taxes and other shared expenses, through December 2016. The second lease requires minimum monthly rental payments ranging from $4,303 to $4,898, including additional rent for real estate taxes and other shared expenses, through April 2019. Rental income for the year ended December 31, 2014 totaled $63,672. Future rental income is as follows:

Year ending December 31,	
2015	$ 86,844
2016	88,257
2017	56,771
2018	58,269
2019	19,591
	$ 309,732

NOTE 10 – DONATED GOODS AND SERVICES

The Organization is the recipient of numerous donated goods and services, which play a vital role in the Organization's operations and in the sustaining of certain programs and activities.

The donation of various items of used clothing and furniture resulted in the ability to sell goods to the public for approximately $101,000, which was used to assist in sustaining the Organization's job training program. In addition, approximately 4,100 articles of clothing were given at no cost to more than 400 needy veterans.

The use of storage space valued at approximately $39,000 and specialized services valued at approximately $30,000 were received during 2014. In addition, approximately $166,000 of goods were received and used in various functions of the Organization, including $10,180 of donated fixed assets.

NOTE 11 – CORRECTION OF ERROR

In previously issued financial statements, the Organization did not record a promise to give for the fair value of an in-kind contribution made in 2013 of three years of network support and cloud storage services. The value of the promise to give was approximately $200,000. Accounting standards require that the contribution of services over several years be recorded as temporarily restricted revenue in the period promised. The promise is reflected as temporarily restricted net assets due to the time restriction, and measured at the fair value of the services to be provided to the Organization.

As the time restrictions are met, an amount is reclassified from temporarily restricted net assets to unrestricted net assets. The Organization has determined that the promise to give should have been recorded and the contribution should have been recognized as temporarily restricted revenue and net assets when the Organization was notified of the promise to give. Correcting this error created a contribution receivable and increased temporarily restricted contributions and net assets by $200,000 as of and for the year ended December 31, 2013.

The correction resulted in the following restatement of net assets in the statement of financial position for December 31, 2013.

	Unrestricted	Temporarily Restricted	Total
Balance, December 31, 2013, as previously stated	$ 279,958	$ 69,918	$ 349,876
Record the value of promise to give	-	200,000	200,000
Balance, December 31, 2013, as restated	$ 279,958	$ 269,918	$ 549,876