

**Financial Statements
Year Ended
December 31, 2012**

Blue Star Families, Inc.

Blue Star Families, Inc.

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Report of Independent Auditors

Board of Directors
Blue Star Families, Inc.

We have audited the accompanying financial statements of **Blue Star Families, Inc.** (a nonprofit organization) , which comprise the statement of financial position as of December 31, 2012, and the related statements of activities 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Blue Star Families, Inc.** as of December 31, 2012, 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 Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 12 is 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.

Dalal + Company

Alexandria, Virginia
July 22, 2013

Blue Star Families, Inc.

Statement of Financial Position

December 31, 2012 (with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 531,581	\$ 363,607
Accounts receivable	-	6,427
Donated book inventory	176,516	158,228
Prepaid expenses	1,458	3,000
	<u>\$ 709,555</u>	<u>\$ 531,262</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 4,711	\$ 969
Accrued compensation and payroll taxes	73,320	26,829
Total liabilities (all current)	<u>78,031</u>	<u>27,798</u>
Net assets		
Unrestricted (deficit)	(248,312)	(42,714)
Temporarily restricted	879,836	546,178
Total net assets	<u>631,524</u>	<u>503,464</u>
	<u>\$ 709,555</u>	<u>\$ 531,262</u>

The accompanying notes are an integral part of these financial statements.

Blue Star Families, Inc.**Statement of Activities****Year ended December 31, 2012 (with comparative totals for 2011)**

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
Revenue				
Contributions	\$ 362,973	\$1,164,871	\$1,527,844	\$1,252,422
Net investment income (loss)	121	-	121	(761)
Other income	10	-	10	179
Net assets released from restrictions	831,213	(831,213)	-	-
Total revenue	1,194,317	333,658	1,527,975	1,251,840
Expenses				
Program services	1,138,462	-	1,138,462	838,116
General and administrative	134,457	-	134,457	90,415
Fundraising expenses	126,996	-	126,996	62,588
Total expenses	1,399,915	-	1,399,915	991,119
Change in net assets	(205,598)	333,658	128,060	260,721
Net assets (deficit) - beginning	(42,714)	546,178	503,464	242,743
Net assets (deficit) - ending	\$ (248,312)	\$ 879,836	\$ 631,524	\$ 503,464

The accompanying notes are an integral part of these financial statements.

Blue Star Families, Inc.

Statement of Cash Flows

Year Ended December 31, 2012 (with comparative totals for 2011)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ 128,060	\$ 260,721
Adjustments to reconcile to net cash from operating activities:		
Loss on sale of securities	-	778
Donated securities	-	(25,284)
Change in:		
Accounts receivable	6,427	(6,329)
Donated book inventory	(18,288)	(104,954)
Prepaid expenses	1,542	47,000
Accounts payable and accrued expenses	50,233	14,970
Net cash from operating activities	<u>167,974</u>	<u>186,902</u>
Cash flows from investing activities		
Proceeds from sale of securities	-	24,506
Net change in cash and cash equivalents	167,974	211,408
Cash and cash equivalents - beginning of year	<u>363,607</u>	<u>152,199</u>
Cash and cash equivalents - end of year	<u>\$ 531,581</u>	<u>\$ 363,607</u>
Supplemental disclosure of noncash investing activities		
Donated securities	\$ -	\$ 25,284

The accompanying notes are an integral part of these financial statements.

Blue Star Families, Inc.

Notes to Financial Statements

December 31, 2012

1. Organization and Nature of Activities

Blue Star Families, Inc. (BSF) is a not-for-profit corporation organized on April 24, 2009 under the laws of the State of Georgia. The BSF mission is to connect, engage and empower military families within the greater community. The organization offers support programs, especially to the families of deploying units, as well as provides a connection between America's military families and those in our government, national organizations, and local civilian communities to foster a better understanding of the unique challenges of military life. The organizational goal is to increase awareness about the needs and contributions of military families, and to promote healthier families and communities through activities in which families themselves organize and engage. BSF is supported primarily through private donations from the general public.

Major programs of the BSF are:

Military Lifestyle Survey:

BSF designed, conducted and analyzed an online survey for military family members of all ranks and services including guard and reserves from all geographic regions to determine their views and attitudes on a variety of issues affecting military families during this period of sustained conflict. The results of the survey were presented to government and civilian organizations including Congress, the White House, and the Department of Defense.

White Oak II: America Joins Forces with Military Families:

BSF hosted a weekend of living room-style discussions, informal working groups and general plenary sessions at the Howard Gillman Foundation's White Oak Conference Center in northern Florida from February 24-26, 2012. The weekend brought together leaders from the public and private sectors, including the White House, Department of Defense, Veterans Affairs, Labor and Education, Congress, state and local governments, health care and education organizations, and military family and veteran service organizations. Future sessions are planned. The Consortium, an outgrowth of the White Oak II conference and the follow-on Corporate Roundtable and Technology Roundtable will become a major BSF-led initiative of non-profit organizations dedicated to the military family space.

Blue Star Museums:

Blue Star Museums is a partnership between BSF, the National Endowment for the Arts, and 1,894 museums nationwide. The program runs from Memorial Day through Labor Day. Over 475,000 military family members visited a participating "Blue Star Museum" in 2012.

Books on Bases:

The program facilitates the collection and distribution of new books to military children across the country as well as military impacted schools and libraries. With the support of generous partners, BSF has distributed over 101,000 books through this program since inception.

This Country Cares:

To make our military families and veterans aware that there is help and hope, BSF is producing a second series of Suicide Prevention Announcements featuring country music celebrities. The

Campaign's message to the military community is simple: "Your family needs you, we need you. Thank you for your service."

Operation Honor Card:

The goal of the Operation Honor Card initiative is to create an atmosphere of 'shared service' and a WWII sense of 'all give some' by encouraging Americans to perform community service in honor of military families and veterans. In 2012 the program collected over 24 million hours pledged and over 23 million hours of volunteer service completed.

Operation Appreciation:

This program allows members of the community to support our military families by sending cards to them expressing heartfelt thanks, solidarity, and good old fashioned encouragement bridging the gap between civilian and military communities. By the end of 2012 over 33,000 letters of thanks were received from school children, civic organizations, and local businesses and distributed to the military, veterans and their families.

Wounded Warriors:

Blue Star Families hosted a year-end holiday party for all wounded warriors and their families at Walter Reed National Military Medical Center in Bethesda, Maryland. BSF organized an entire afternoon with activities for the families and kids including face painting, building ginger bread houses, arts and crafts, singing, story time, while also providing food, beverages, and holiday gifts to all who joined us. This program will be expanded in the future with a Wounded Warrior summer barbecue scheduled for the summer of 2013.

MilKidz Club:

Military children face a unique set of challenges that differ from their civilian counterparts. This program allows military kids to formalize their input, have a voice in decision making, and create their own pathway to solutions by structuring attention around issues they deem to be important. The development of a MilKidz Club is our way to empower military children everywhere. This Club includes social, volunteer, educational, and support opportunities for the children of all ranks and branches of military – including representation from Guard and Reserve families.

Blue Star Theatres

Since this program debuted in September 2012, more than 55 theatres across the country are offering discounted tickets and special programming and workshops for military families, veterans, and active duty personnel.

Got Your 6

Effective June 2012, BSF is the lead activation partner for the military families pillar of Got Your 6, a campaign led by the entertainment industry with the goal of creating a new conversation about military families and veterans, working to bridge the civilian-military divide.

The Reintegration Toolkit

This program is undergoing a revision and, in partnership with DCoE, HealthNet and NBC Publishing, is expected to reach millions of service members families as a downloadable e-book.

The Blue Star Families Fellowship

This program is a partnership with corporations that provides military spouses with a paid position, serving both the Sponsor Corporation and BSF. Through this partnership, the fellows will acquire valuable leadership and volunteer management skills to assist in their role as a BSF Chapter Director as well as gain professional development opportunities via the sponsor corporation. The program is being developed to help address the widening unemployment gap amongst military

spouses as identified by our Blue Star Families' Military Lifestyle Survey.

Blue Star Families University

The University is the organization's training and professional development infrastructure for our paid and volunteer staff. The University includes three key components: streamlining our on boarding process for all new hires (both paid and volunteer), providing professional development opportunities for all Chapter Directors, and hosting an annual all-staff summit.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation

Unless specifically restricted by the donor, all contributions are considered to be available for general use.

BSF classifies its resources for accounting and reporting purposes into three net asset categories according to the existence or absence of donor-imposed restrictions. The financial statements report separately by class of net assets as follows:

Unrestricted net assets include revenue and expenses associated with the principal mission of BSF that are not restricted by donor stipulation.

Temporarily restricted net assets are grants or gifts which have been stipulated by donors for specific operating purposes or for the acquisition of property or equipment. 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.

Permanently restricted net assets are grants or gifts that require, by donor restriction, that the corpus be invested in perpetuity, and only the income is available for program operations in accordance with donor restriction. BSF has no permanently restricted net assets.

Subsequent Events

In preparing these financial statements, BSF has evaluated events and transactions for potential recognition or disclosure through July 22, 2013, the date the financial statements were available to be issued.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Cash and Cash Equivalents

For purposes of reporting on the statement of cash flows, BSF considers all highly liquid securities with a purchased maturity of three months or less to be cash equivalents. Money market funds seek

to preserve the daily net asset value of the investment at \$1 per share as quoted in an active market while providing maximum current income.

Accounts Receivable

BSF classifies all receivables as current assets, and provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Receivables deemed uncollectible are expensed based on credit evaluation and the specific circumstances of the parties involved. There we no accounts receivable and no valuation allowance for uncollectible accounts as of December 31, 2012.

Donated Book Inventory

Undistributed books are stated at the donated value which approximates market value. New books are valued at the average cost of adult and children hardback and paperback books sold at Wal-Mart. Gently used books are valued at the average cost of adult and children hardback and paperback books sold at used book stores.

Income Taxes

BSF is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, except on unrelated business income. The Organization had no unrelated business income during 2012. The State of Georgia has recognized BSF's tax-exempt status. BSF believes that it has appropriate support for any tax positions taken, and therefore, does not have any uncertain tax positions that are material to the financial statements. At a minimum, the December 31, 2009 through 2012 tax years are open for examination by federal and state taxing authorities.

Promotion and Advertising

Promotion and advertising are expensed as incurred and was \$90 for the year.

Allocation of Expenses

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

Prior year information

These 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with BSF's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

3. Concentration of Credit Risk

BSF maintains cash in bank accounts which, at times, may exceed federally insured limits. BSF has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash. Bank accounts were insured up to \$250,000 for interest bearing accounts by the Federal Deposit Insurance Corporation (FDIC), and without limit for non-interest bearing accounts as of December 31, 2012. There were no uninsured balances as of December 31, 2012.

Effective January 1, 2013, bank deposits in non-interest bearing accounts no longer receive unlimited deposit insurance coverage but are insured to the maximum of \$250,000 per depositor at each chartered FDIC member financial institution. Under these new provisions, \$131,460 of BSF's bank balance would not have been insured as of December 31, 2012.

Investments in mutual funds held in brokerage accounts are not insured by the FDIC. BSF's brokerage account is covered by the Securities Investor Protection Corporation (SIPC). The SIPC protects the clients of its member firms against loss of the securities in the event of its broker member's insolvency and liquidation. Each client is insured up to a maximum of \$500,000 (including \$250,000 for claims for cash). The SIPC does not insure the quality of the investment or protect against losses from fluctuating market value.

4. Donated Book Inventory

As part of its mission BSF receives donations of books, and then donates these books to military impacted school and libraries for the benefit of children of military families. As of December 31, 2012 BSF has books valued at \$176,516.

5. Donated Goods and Services

During 2012, BSF received in-kind donations of books for their Books on Bases program. Those books were valued at \$120,855 and are included in contribution revenue.

The books are stored in 500 square feet of donated warehouse space. The rental value is approximately \$3,500 per year and is included in contribution revenue and facilities and equipment expense.

BSF received pro bono legal services valued at \$20,000 from a law firm and attorney serving as general counsel. These services included assistance with drafting commercial agreements, employment law matters, and corporate governance. The pro bono legal services are included in contribution revenue and donated legal services expense. During 2012, the attorney providing the pro bono legal services became a board member.

6. Temporarily Restricted Net Assets

	Beginning balance	Additions	Satisfaction of restriction	Ending balance
Military Lifestyle Survey	\$ 42,233	\$ 45,000	\$ 87,233	\$ -
White Oak II	83,342	95,200	104,772	73,770
Suicide Prevention PSA	44,074	-	637	43,437
Blue Star Museums	14,708	100,000	95,588	19,120
Books on Bases	158,228	297,171	198,300	257,099
This Country Cares	33,856	-	3,100	30,756
Operation Honor Card	82,646	-	36,147	46,499
Corporate Roundtable	-	35,000	219	34,781
Technology Roundtable	-	20,000	10,826	9,174
The Reintegration Toolkit	-	145,000	64,786	80,214
Wounded Warriors	21,828	37,500	12,456	46,872
MilKidz Club	8,069	-	8,069	-
Program activities support	1,537	-	1,537	-
Chapter development	55,657	25,000	80,657	-
Blue Star University	-	50,000	-	50,000
Blue Star Fellowship	-	70,000	17,219	52,781
Blue Star Theatres	-	115,000	62,432	52,568
Consortium	-	30,000	-	30,000
Program Evaluation	-	35,000	3,916	31,084
Spouse Employment	-	65,000	43,319	21,681
	<u>\$ 546,178</u>	<u>\$ 1,164,871</u>	<u>\$ 831,213</u>	<u>\$ 879,836</u>

Books on Bases include in-kind contributions of books. The beginning balance of donated books was \$158,228. Books donated were valued at \$120,855, and books distributed were valued at \$102,567 during the year. The ending inventory balance of donated books was \$176,516 at December 31, 2012. Books on Bases include donated warehouse rent and the related rent expense of \$3,500. Cash contributions of \$172,816 were received and \$92,233 was spent to operate the program.

7. Risks and Uncertainties

Inherent in BSF's activities are various risks and uncertainties, including general economic conditions, dependence on certain key employees and continued support from donors and grantors.

8. Related Party Transactions

During the year, a member of the Board of Directors' spouse was paid \$23,000 for contract services.

9. Rent

During 2012, BSF temporarily subleased office space in Washington DC for a period of three months. Rent paid totaled \$1,500. The sublease expired and was not renewed.

10. Re-granting

BSF re-granted \$50,000 to the Theatre Communications Group under the Blue Star's Theatres pilot during the year under an agreement with the MetLife Foundation.

11. Reclassification

Certain comparative items in the 2011 financial statements have been reclassified to conform to the 2012 presentation. The reclassifications had no effect on assets, liabilities, net assets or changes in net assets for 2011.

12. Subsequent Events

On June 10, 2013, the board approved the adoption of a 403(b) retirement plan with American Funds for the benefit of BSF's employees. The plan is expected to be effective in the latter half of 2013.

During 2013, BSF in conjunction with an implementing partner will launch an on-line job platform for military spouses who are looking for contractual positions in a wide variety of occupational fields.

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Blue Star Families, Inc.

Schedule of Functional Expenses

Year Ended December 31, 2012 (with comparative totals for 2011)

	2012				2011	
	Program Services	Support Services		Total Expenses	Total	Total
		General and Administrative	Fundraising			
Contract services	\$ 157,375	\$ 2,364	\$ 14,036	\$ 16,400	\$ 173,775	\$ 551,450
Special events	-	-	2,960	2,960	2,960	2,169
Travel and conferences	176,645	8,243	24,453	32,696	209,341	82,658
Books on Bases	102,567	-	-	-	102,567	102,207
Supplies and office expense	35,159	2,481	1,860	4,341	39,500	15,812
Communications	14,698	1,465	2,048	3,513	18,211	81
Accounting fees	-	39,839	-	39,839	39,839	22,548
Legal fees	-	3,491	-	3,491	3,491	275
Donated legal services	-	20,000	-	20,000	20,000	25,000
Facilities and equipment	3,500	1,500	-	1,500	5,000	3,500
Gifts and donations	16,765	-	1,860	1,860	18,625	7,759
Re-granting	50,000	-	-	-	50,000	-
Printing and copying	20,494	1,452	2,219	3,671	24,165	9,595
Technology expense	3,566	10,453	61	10,514	14,080	5,296
Memberships	150	-	-	-	150	100
Professional development	1,450	-	-	-	1,450	-
Postage	14,265	608	463	1,071	15,336	10,043
Insurance	-	4,712	-	4,712	4,712	3,237
Promotion and advertising	90	-	-	-	90	19,577
Bank service charges	2	219	-	219	221	242
Salaries	503,471	34,578	67,135	101,713	605,184	120,000
Payroll taxes	36,405	2,620	4,712	7,332	43,737	9,520
Volunteer expenses	628	-	-	-	628	-
Licenses and fees	-	349	5,020	5,369	5,369	50
Miscellaneous	1,232	83	169	252	1,484	-
Totals	\$ 1,138,462	\$ 134,457	\$ 126,996	\$ 261,453	\$ 1,399,915	\$ 991,119

See report of independent auditors.