

**Financial Statements
Year Ended
December 31, 2013**

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, 2013, 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.

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 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, 2013, 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 13 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.

Report on Summarized Comparative Information

We have previously audited the Blue Star Families, Inc.'s 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 22, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dulal + Company

Alexandria, Virginia
June 6, 2014

Blue Star Families, Inc.

Statement of Financial Position

December 31, 2013 (with comparative totals for 2012)

	<u>2013</u>	<u>2012</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 612,661	\$ 531,581
Accounts receivable	100	-
Donated book inventory	86,022	176,516
Prepaid expenses	75,664	1,458
	<u>774,447</u>	<u>709,555</u>
Property and equipment, net	<u>56,963</u>	<u>-</u>
Total assets	<u>\$ 831,410</u>	<u>\$ 709,555</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 3,252	\$ 4,711
Accrued expenses	59,643	73,320
Total liabilities (all current)	<u>62,895</u>	<u>78,031</u>
Net assets		
Unrestricted (deficit)	(465,620)	(248,312)
Temporarily restricted	1,234,135	879,836
Total net assets	<u>768,515</u>	<u>631,524</u>
	<u>\$ 831,410</u>	<u>\$ 709,555</u>

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

Blue Star Families, Inc.**Statement of Activities****Year ended December 31, 2013 (with comparative totals for 2012)**

	2013			2012
	Unrestricted	Temporarily Restricted	Total	Total
Revenue				
Contributions	\$ 415,707	\$1,699,090	\$2,114,797	\$1,527,844
Net investment income	151	-	151	121
Other income	-	-	-	10
Net assets released from restrictions	1,344,791	(1,344,791)	-	-
Total revenue	1,760,649	354,299	2,114,948	1,527,975
Expenses				
Program services	1,658,369	-	1,658,369	1,138,462
General and administrative	146,483	-	146,483	134,457
Fundraising expenses	173,105	-	173,105	126,996
Total expenses	1,977,957	-	1,977,957	1,399,915
Change in net assets	(217,308)	354,299	136,991	128,060
Net assets (deficit)-beginning of year	(248,312)	879,836	631,524	503,464
Net assets (deficit)-end of year	\$ (465,620)	\$1,234,135	\$ 768,515	\$ 631,524

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

Blue Star Families, Inc.

Statement of Cash Flows

Year Ended December 31, 2013 (with comparative totals for 2012)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 136,991	\$ 128,060
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	4,069	-
Change in:		
Accounts receivable	(100)	6,427
Donated book inventory	90,494	(18,288)
Prepaid expenses	(74,206)	1,542
Accounts payable and accrued expenses	(15,136)	50,233
Net cash from operating activities	<u>142,112</u>	<u>167,974</u>
Cash flows from investing activities		
Additions to property and equipment	<u>(61,032)</u>	<u>-</u>
Net change in cash and cash equivalents	81,080	167,974
Cash and cash equivalents - beginning of year	<u>531,581</u>	<u>363,607</u>
Cash and cash equivalents - end of year	<u>\$ 612,661</u>	<u>\$ 531,581</u>

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

Blue Star Families, Inc.

Notes to Financial Statements

December 31, 2013

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. In 2013, Blue Star Families served 1,243,987 military family members with our programs, tools, and resources. BSF is supported primarily through donations from foundations, corporate partners, and the general public.

Major programs of the BSF are:

Military Lifestyle Survey:

BSF designed, conducted and analyzed an online survey with over 5100 military family respondents 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 including feelings of stress, financial readiness, spouse employment, effects of deployment, levels of communication, behavioral and mental health, well-being and civic engagement. The results provide clear insight into the unique lifestyles of modern-day military families after more than a decade of continuous war. The results of the survey were presented to government and civilian organizations including Congress, the White House, and the Department of Defense.

White Oak III: America Joins Forces with Military Families:

BSF is planning to sponsor the 3rd "White Oak" conference in February 2014. This weekend long retreat named after the White Oak Conference Center near Jacksonville, FL, where the first two White Oak conferences were held, will feature living room-style discussions, informal working groups and general plenary sessions will be held at the Bolger Center in Potomac, Maryland. 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.

Blue Star Museums:

Blue Star Museums is a partnership between BSF, the National Endowment for the Arts, and 2,178 museums nationwide. The program runs from Memorial Day through Labor Day. Over 707,000 military family members visited a participating "Blue Star Museum" in 2013.

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 148,800 books through this program since inception.

This Country Cares:

To make our military families and veterans aware that there is help and hope, BSF produced 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 Corps:

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. Over the past several years 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 2013 over 2,500 letters were sent out to the military community, which were distributed to active duty service members, 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 was expanded in 2013 to include a summer barbecue for the Wounded Warriors and their families.

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 105 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 became the co-lead activation partner with the Military Child Education Coalition (MCEC) 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. In 2013 BSF kicked off an ambitious initiative as part of the Clinton Global Initiative to reach 300,000 military family members with the 2nd generation of the reintegration toolkit titled "Everyone Serves".

The Reintegration Toolkit

In 2009, Blue Star Families (BSF) first partnered with PBS, Vulcan Productions and the U.S. Department of Defense Centers of Excellence for Psychological Health and Traumatic Brain Injury (DCoE) to create a Reintegration Toolkit. The initial Toolkit was developed as part of the PBS series "This Emotional Life" a program that highlighted ways to help family and friends of service members manage the stresses of deployment and build resiliency long after deployment is over.

Due to the overwhelming success of the first edition and the continuing need for reintegration tools

among military families, BSF made the commitment to develop an updated edition of the Toolkit. Working with our original collaborators, BSF expanded the Toolkit's contents and made the new edition more accessible for military families across the country by creating an e-book format of the Toolkit.

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.

Caregivers Empowering Caregivers

In 2013, BSF developed and piloted the Caregivers Empowering Caregivers (CEC) Program, along with its signature series of half-day CEC Workshops. BSF selected (7) locations and developed content for the program's half-day CEC Workshops. These workshops, offered a private, forum-style experience for caregivers of wounded service members. These intimate sessions provided direct peer-to-peer connection for caregivers to discuss the caregiving lifestyle, educate one another, and seek advice. The goal of the program is to empower caregivers and offer an unparalleled opportunity to bond within local communities, share stories, and return home with positive reinforcement and a network of necessary, neighborly peer support.

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 June 6, 2014, 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 was no valuation allowance for uncollectible accounts as of December 31, 2013.

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.

Property and Equipment

Acquisitions of property and equipment are recorded at cost. Depreciation and amortization expense is provided using the straight line method over the estimated useful service lives of the respective assets.

Prepaid expenses

Prepaid expenses include initial payments against the development of a new website, prepaid insurance, prepaid payroll expense, and prepaid conference expenses.

Accrued Expenses

Accrued expenses include accrued payroll and bonuses and operating expenses incurred but not billed as of the year-end.

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 2013. 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, 2010 through 2013 tax years are open for examination by federal and state taxing authorities.

Promotion and Advertising

Promotion and advertising are expensed as incurred and was \$2,310 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, 2012, 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 are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The uninsured balance as of December 31, 2013 was \$374,843.

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. The mutual fund has a par value of \$1 per share and is treated as a cash equivalent in these financial statements.

4. Property and equipment

Property and equipment consists of the following:

	Cost	Accumulated Depreciation	Depreciation Expense	Estimated Useful Life (years)
CRM software	\$ 61,032	\$ 4,069	\$ 4,069	5

5. 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, 2013 BSF has books valued at \$86,022.

6. Donated Goods and Services

During 2013, BSF received in-kind donations of books for their Books on Bases program. Those books were valued at \$126,418 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 \$1,000 from a law firm and attorney serving as general counsel and a board member. 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.

Other in-kind donations totaled \$6,264 and are included in contribution revenue and program expenses.

7. Temporarily Restricted Net Assets

	Beginning balance	Additions	Satisfaction of restriction	Ending balance
White Oak II	\$ 73,770	\$ 60,000	\$ 30,568	\$ 103,202
Suicide Prevention PSA	43,437	-	-	43,437
Blue Star Museums	19,120	100,070	100,126	19,064
Books on Bases	80,583	10,000	90,583	-
Books on Bases - in-kind	176,516	129,918	220,412	86,022
Disney - Books on Bases	-	126,000	64,020	61,980
This Country Cares	30,756	-	1,352	29,404
Operation Honor Card	46,499	-	15,255	31,244
Corporate Roundtable	34,781	-	5,524	29,257
Technology Roundtable	9,174	-	1,367	7,807
The Reintegration Toolkit	80,214	-	41,798	38,416
Wounded Warriors	46,872	12,500	29,067	30,305
MilKidz Club	-	33,320	33,320	-
Chapter/member development	-	50,000	50,000	-
Blue Star University	50,000	-	2,639	47,361
Blue Star Fellowship	52,781	-	44,889	7,892
Blue Star Theatres	52,568	150,000	102,143	100,425
Consortium	30,000	13,000	20,353	22,647
Program Evaluation	31,084	-	900	30,184
Spouse Employment	21,681	80,000	69,761	31,920
Hunt Fellowship	-	45,262	45,262	-
Link Fellowship	-	50,783	5,346	45,437
UHC Fellowship	-	57,349	46,283	11,066
Blue Star Arts	-	250,000	16,200	233,800
CEC Programs Veterans United	-	100,000	65,742	34,258
Got Your 6	-	230,888	51,631	179,257
Sales Force	-	100,000	99,241	759
Newman's Own	-	10,000	1,009	8,991
Survey	-	90,000	90,000	-
	<u>\$ 879,836</u>	<u>\$ 1,699,090</u>	<u>\$ 1,344,791</u>	<u>\$ 1,234,135</u>

Books on Bases in-kind include contributions of books and donated warehouse rent. The beginning balance of donated books was \$176,516. Books donated were valued at \$126,418 and books distributed were valued at \$216,912 during the year. The ending inventory balance of donated books was \$86,022 at December 31, 2013. Donated warehouse rent and the related rent expense was \$3,500.

8. 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.

9. Related Party Transactions

During the year, a member of the executive management team's spouse was paid \$12,000 for contract services, and a spouse of a board member was paid a salary of \$26,500.

10. Re-granting

BSF re-granted \$70,000 to the Theatre Communications Group under the Blue Star's Theatres pilot during the year under an agreement with the MetLife Foundation.

11. Retirement Plan

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. There were no employer contributions during the year.

12. Reclassification

Certain comparative items in the 2012 financial statements have been reclassified to conform to the 2013 presentation. The reclassifications had no effect on assets, liabilities, net assets or changes in net assets for 2012.

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Blue Star Families, Inc.

Schedule of Functional Expenses

Year Ended December 31, 2013 (with comparative totals for 2012)

	2013				2012	
	Program Services	Support Services		Total Expenses	Total	Total
		General and Administrative	Fundraising			
Contract services	\$ 279,017	\$ 20,092	\$ 9,588	\$ 29,680	\$ 308,697	\$ 173,775
Special events	19,021	-	540	540	19,561	2,960
Travel and conferences	151,557	11,823	35,746	47,569	199,126	209,341
Books on Bases	218,013	-	-	-	218,013	102,567
Supplies and office expense	43,882	1,328	62	1,390	45,272	39,500
Communications	21,790	2,498	2,960	5,458	27,248	18,211
Accounting fees	722	53,083	-	53,083	53,805	39,839
Legal fees	-	-	-	-	-	3,491
Donated legal services	-	1,000	-	1,000	1,000	20,000
Facilities and equipment	10,691	-	-	-	10,691	5,000
Gifts and donations	20,017	127	405	532	20,549	18,625
Re-granting	70,000	-	-	-	70,000	50,000
Printing and copying	21,285	160	-	160	21,445	24,165
Technology expense	28,399	455	37	492	28,891	14,080
Memberships	675	-	-	-	675	150
Dues and subscriptions	68	-	-	-	68	-
Professional development	-	-	-	-	-	1,450
Postage	16,932	1,396	204	1,600	18,532	15,336
Insurance	-	4,960	-	4,960	4,960	4,712
Promotion and advertising	2,240	-	70	70	2,310	90
Bank service charges	52	785	-	785	837	221
Salaries	693,232	38,086	107,737	145,823	839,055	605,184
Payroll taxes	55,924	3,544	7,959	11,503	67,427	43,737
Employee benefits	800	200	-	200	1,000	-
Volunteer expenses	107	-	-	-	107	628
Licenses and fees	-	2,797	7,414	10,211	10,211	5,369
Depreciation and amortization	-	4,069	-	4,069	4,069	-
Miscellaneous	3,945	80	383	463	4,408	1,484
Totals	\$ 1,658,369	\$ 146,483	\$ 173,105	\$ 319,588	\$ 1,977,957	\$ 1,399,915

See report of independent auditors.