

**Financial Statements
Year Ended
December 31, 2015**

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, 2015, 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, 2015, 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.

Report on Supplementary Information

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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 8, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Dalal & Company

Alexandria, Virginia
May 11, 2016

Blue Star Families, Inc.

Statement of Financial Position

December 31, 2015 (with comparative totals for 2014)

	<u>2015</u>	<u>2014</u>
Assets		
Current assets		
Cash and cash equivalents	\$1,197,464	\$ 223,507
Accounts receivable	35,000	1,000
Prepaid expenses	<u>20,922</u>	<u>10,493</u>
Total current assets	1,253,386	235,000
Property and equipment, net	66,012	83,256
Other asset		
Security deposit	<u>65</u>	<u>65</u>
Total assets	<u>\$1,319,463</u>	<u>\$ 318,321</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	<u>\$ 46,244</u>	<u>\$ 67,337</u>
Total liabilities (all current)	<u>46,244</u>	<u>67,337</u>
Net assets		
Unrestricted (deficit)	215,845	(157,678)
Temporarily restricted	<u>1,057,374</u>	<u>408,662</u>
Total net assets	<u>1,273,219</u>	<u>250,984</u>
Total liabilities and net assets	<u>\$1,319,463</u>	<u>\$ 318,321</u>

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

Blue Star Families, Inc.**Statement of Activities****Year ended December 31, 2015 (with comparative totals for 2014)**

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Total
Revenue				
Contributions	\$ 994,945	\$ 2,114,267	\$ 3,109,212	\$ 1,467,255
Contributed goods and services	341,792	385,561	727,353	417,777
Affinity program	25,000	-	25,000	50,000
Net investment income	51	-	51	4
Net assets released from restrictions	1,851,116	(1,851,116)	-	-
Total revenue	3,212,904	648,712	3,861,616	1,935,036
Expenses				
Program services	2,184,466	-	2,184,466	2,001,865
General and administrative	202,837	-	202,837	258,963
Fundraising expenses	452,078	-	452,078	191,739
Total expenses	2,839,381	-	2,839,381	2,452,567
Change in net assets	373,523	648,712	1,022,235	(517,531)
Net assets (deficit) - beginning of year	(157,678)	408,662	250,984	768,515
Net assets - end of year	\$ 215,845	\$ 1,057,374	\$ 1,273,219	\$ 250,984

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

Blue Star Families, Inc.

Statement of Cash Flows

Year Ended December 31, 2015 (with comparative totals for 2014)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$1,022,235	\$ (517,531)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	30,214	19,906
Change in:		
Accounts receivable	(34,000)	(900)
Donated book inventory	-	86,022
Prepaid expenses	(10,429)	65,171
Security deposit	-	(65)
Accounts payable and accrued expenses	(21,093)	4,442
Net cash from operating activities	<u>986,927</u>	<u>(342,955)</u>
Cash flows from investing activities		
Additions to property and equipment	<u>(12,970)</u>	<u>(46,199)</u>
Net change in cash and cash equivalents	973,957	(389,154)
Cash and cash equivalents - beginning of year	<u>223,507</u>	<u>612,661</u>
Cash and cash equivalents - end of year	<u>\$1,197,464</u>	<u>\$ 223,507</u>

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

Blue Star Families, Inc.

Notes to Financial Statements

December 31, 2015

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. Blue Star Families serves more than 1,500,000 military family members with 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 6,500 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 IV: America Joins Forces with Military Families

BSF sponsored the fourth "White Oak" conference held in March 2015. This weekend long retreat named after the White Oak Conference Center near Jacksonville, FL, where the first three White Oak conferences were held, features living room-style discussions, informal working groups and general plenary sessions held at the Bolger Center in Potomac, Maryland with 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 Arts, Museums and Theatres

Blue Star Arts is Blue Star Families' way of bringing military families all the amazing things the arts have to offer. The program encompasses Blue Star Museums and Blue Star Theatres.

Blue Star Museums is a partnership between BSF, the National Endowment for the Arts, the Department of Defense, and 2,800 museums nationwide. The program runs from Memorial Day through Labor Day. Over 800,000 military family members visited a participating "Blue Star Museum" in 2015.

Blue Star Theatres offer discounted or complimentary admissions and special programming and workshops for military families, veterans, and active duty personnel at more than 125 theatres across the country.

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 distributed over 30,000 books in 2015. The Walt Disney Company undertakes the collection, distribution and storage of the books.

Wounded Warriors

Blue Star Families hosts year-end holiday parties for all wounded warriors and their families as well as E-6 and below active duty service members and their families at locations in the Washington DC area. The parties consist of afternoons 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.

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.

Got Your 6

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.

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.

Caregivers Empowering Caregivers

BSF developed and piloted the Caregivers Empowering Caregivers (CEC) Program, along with its signature series of half-day CEC Workshops. These workshops, in partnership with the Veterans United Foundation, 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.

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.

Affinity Program

BSF has an affinity program with United Services Automobile Association (USAA) to offer a BSF MasterCard and a BSF American Express card specifically designed for Blue Star Families. See Note 12.

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.

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, 2015.

Contributed goods and services

BSF receives goods and services as non-cash and in-kind contributions. These donated goods and services are booked at their estimated fair value on the date of the contribution. BSF records book donations at fair value using discounted wholesaler publisher list values. Contributed goods and services totaled \$727,353. See Notes 5 and 6.

Property and Equipment

Acquisitions of property and equipment are recorded at cost. BSF's policy is to capitalize assets acquired with a value of \$1,000 or more. 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 2015. 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, 2012 through 2015 tax years are open for examination by federal and state taxing authorities.

Promotion and Advertising

Promotion and advertising are expensed as incurred and was \$2,703 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, 2014, from which the summarized information was derived.

Subsequent Events

In preparing these financial statements, BSF has evaluated events and transactions for potential recognition or disclosure through May 11, 2016, the date the financial statements were available to be issued.

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 was \$947,464 as of December 31, 2015.

4. Property and equipment

Property and equipment consists of the following:

	Cost	Accumulated Depreciation	Depreciation Expense	Estimated Useful Life (years)
CRM software	\$ 61,032	\$ 28,481	\$ 12,206	5
Website	59,169	25,708	18,008	3
	<u>\$ 120,201</u>	<u>\$ 54,189</u>	<u>\$ 30,214</u>	

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. The Walt Disney Company took over management of the collection, distribution and storage of the books and manages their distribution through First Book, a non profit organization. See Note 7.

6. Contributed Goods and Services

During 2015, BSF received in-kind donations of books for their Books on Bases program. All 36,190 books, valued at \$385,061 were received and distributed during the year and are included in contribution revenue and program services expense.

BSF received pro bono legal services valued at \$42,002 from law firms serving as general counsels. 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 2015, BSF received in-kind donations valued at \$207,380 in connection with their 5th anniversary gala. These donations included full page advertisements, venue rental, writing, filming, editing and producing videos, gift bags and cosmetics for all guests, public relations, media relations, event management services, equipment rental, beverages, food an preparation by five prominent nationally acclaimed local chefs, design of Blue Star Families lapel pins, photography services, accomodation for the emcee, and transportation for the emcee and honorees. The 5th anniversary gala donations are included in contribution revenue and special events expense.

BSF received hotel points from an international hotel chain valued at \$60,000. All of the points were redeemend during the year and are included in contributions and travel and conference expense.

Other in-kind donations included \$32,060 for various space rentals, which includes \$20,000 for the fair value of leases (see Note 13) and a \$850 license fee for the use of music in BSF promotional materials and and are included in contribution revenue and program expenses.

7. Temporarily Restricted Net Assets

	Beginning balance	Additions	Satisfaction of restriction	Ending balance
White Oak	\$ -	\$ 340,000	\$ 200,637	\$ 139,363
Disney - Books on Bases	107,785	567,061	566,589	108,257
Wounded Warriors	-	15,000	15,000	-
MilKidz Club	1,244	-	1,244	-
Chapter/member development	-	132,720	132,720	-
Hunt Fellowship	-	80,047	76,341	3,706
Link Fellowship	60,992	50,000	66,703	44,289
UHC Fellowship	-	45,000	18,066	26,934
UHC Foundation	-	280,000	27,700	252,300
CEC Programs Veterans United	45,787	65,000	110,787	-
Military Order of the Purple Heart	-	45,000	35,608	9,392
Survey	64,536	280,000	307,123	37,413
La Quinta Fellowship	7,344	-	7,344	-
U.S. Chamber Fellowship	36,682	-	36,682	-
McCormick Fellowship	31,850	35,000	28,803	38,047
AT&T - Blue Star Careers	52,442	-	52,442	-
AT&T - Spouse Force	-	25,000	23,603	1,397
Walmart - Spouse Force	-	190,000	47,816	142,184
Spouse Careers	-	35,000	3,150	31,850
USAA Caregivers	-	100,000	19,187	80,813
USAA Playbook	-	50,000	5,036	44,964
Disney Leadership	-	35,000	3,150	31,850
Onward to Opportunity	-	100,000	35,385	64,615
Rosalyn Carter Institute	-	30,000	30,000	-
	<u>\$ 408,662</u>	<u>\$ 2,499,828</u>	<u>\$ 1,851,116</u>	<u>\$ 1,057,374</u>

Books on Bases in-kind include contributions of books as well as cash contributions. Books donated and distributed during the year were valued at \$385,061 and included in Disney - Books on Bases above. Disney undertakes the collection, storage and distribution of books.

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 spouse of a board member was paid consulting fees of \$1,197. Donated advertising valued at \$72,000 was provided by an organization whose officer is also a board member of BSF.

10. Retirement Plan

BSF maintains a 403(b) retirement plan with American Funds for the benefit of BSF's employees. There were no employer contributions for the year.

11. Reclassification

Certain comparative items in the 2014 financial statements have been reclassified to conform to the 2015 presentation. The reclassifications had no effect on assets, liabilities, net assets or changes in net assets for 2014.

12. Affinity Program

BSF entered into an affinity agreement with United Services Automobile Association (USAA) effective December 1, 2014 to offer certain USAA financial products and services to its members, including checking and savings bank offerings, insurance, a BSF MasterCard and a BSF American Express card specifically designed for Blue Star Families.

The agreement shall remain in effect until December 31, 2019, and will automatically renew for an additional five-year period unless either party provided the other party with its intent not to renew at least one hundred and eighty days before the initial term of the agreement expires. The agreement also provides mutual termination rights during the initial term of the agreement. BSF received a signing bonus of \$25,000 and a non-refundable advance payment of \$25,000 in December 2014, a \$25,000 payment in December 2015, with three additional \$25,000 payments to be made on December 1, 2016 through 2018. BSF will earn a fee of \$75 for each new member through BSF to be applied towards the advanced payment, and will receive additional quarterly payments if certain criteria are met.

13. Leases

BSF leased shared office space in Washinton, DC for \$1 per month under a one year lease which expired December 31, 2015 and was subsequently renewed. See note 14. Effective September 1, 2015, BSF enetered into a six-month rent free lease for office space in Arlington, Virginia. BSF has recognized the fair value of these leases as contributed goods and services of \$20,000. See Note 6.

14. Subsequent Events

In Janaury 2016, BSF renewed a lease for shared office space in Washington, DC under a one year lease for a base monthly rental of \$1 per month. The fair value of the rental is \$1,250 per month.

* * * * *

Blue Star Families, Inc.

Schedule of Functional Expenses

Year Ended December 31, 2015 (with comparative totals for 2014)

	2015					2014	
	Program Services	Support Services			Total Expenses	Total	Total
		General and Administrative	Fundraising	Total			
Contract services	\$ 206,641	\$ 14,173	\$ 74,753	\$ 88,926	\$ 295,567	\$ 342,428	
Special events	-	-	207,380	207,380	207,380	10,151	
Travel and conferences	207,646	30,230	23,363	53,593	261,239	209,467	
Books on Bases	385,061	-	-	-	385,061	488,564	
Supplies and office expense	39,255	2,011	2,363	4,374	43,629	48,419	
Communications	25,963	1,397	2,192	3,589	29,552	30,123	
Accounting fees	47,680	5,668	4,742	10,410	58,090	56,001	
Donated legal services	34,475	4,099	3,428	7,527	42,002	10,000	
Facilities and equipment	27,584	3,092	3,237	6,329	33,913	13,918	
Gifts and donations	27,578	1,077	2,982	4,059	31,637	11,237	
Printing and copying	12,303	840	1,612	2,452	14,755	15,316	
Technology expense	40,070	2,727	2,438	5,165	45,235	41,072	
Memberships	17	-	-	-	17	26	
Dues and subscriptions	-	574	719	1,293	1,293	230	
Postage	11,197	304	150	454	11,651	25,460	
Insurance	5,416	644	539	1,183	6,599	6,711	
Promotion and advertising	1,205	1,498	-	1,498	2,703	11,367	
Bank service charges	3,079	366	306	672	3,751	407	
Salaries	1,001,664	119,080	99,612	218,692	1,220,356	1,009,377	
Payroll taxes	79,038	8,555	7,774	16,329	95,367	83,819	
Employee benefits	3,361	400	334	734	4,095	827	
Volunteer expenses	-	-	-	-	-	536	
Licenses and fees	-	2,736	11,035	13,771	13,771	14,618	
Depreciation and amortization	24,800	2,948	2,466	5,414	30,214	19,906	
Miscellaneous	433	418	653	1,071	1,504	2,587	
Totals	\$ 2,184,466	\$ 202,837	\$ 452,078	\$ 654,915	\$ 2,839,381	\$ 2,452,567	

See report of independent auditors.